



Atlas Copco



Atlas Copco
Annual report
2020

Atlas Copco is the home of industrial ideas. Our innovative products, solutions, and services are demanded by every type of industry. They enable everything from industrial automation to reliable medical air solutions.

This annual report reflects Atlas Copco's mission of creating sustainable, profitable growth. It integrates financial, sustainability, and governance information to describe the Group in a comprehensive and cohesive manner.

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The audited annual accounts and consolidated accounts can be found on pages 13–38, 44–48 and 61–122, excluding the quarterly data on page 79. The corporate governance report examined by the auditors can be found on pages 51–60.

Sustainability information that has been reviewed by the auditors can be found on pages 5–12, 23, 26, 29, 32, 34–43 and 127–138.



Industrial ideas drive development

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

Cover image:

Electric tightening tool from Atlas Copco used at a robot automated station in the electronics industry.

GRI Standards and external review

Atlas Copco reports on its sustainability work for 2020 according to GRI Standards, Global Reporting Initiative's reporting guidelines, level Core, which also constitutes Atlas Copco's statutory sustainability report. Ernst & Young has expressed an opinion that a statutory sustainability report has been prepared according to the Swedish Annual Accounts Act, and has performed a limited review of the sustainability report according to GRI Standards, core option, see page 139. More information can be found at: www.atlascopcogroup.com.

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.

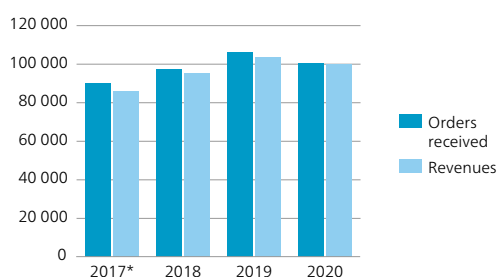
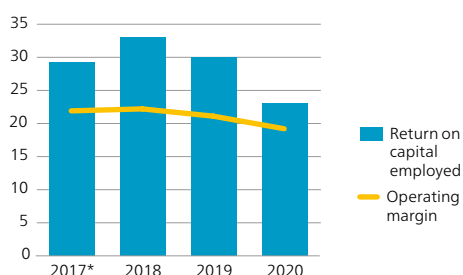
Forward-looking statements

Some statements in this report are forward looking, and the actual outcomes could be materially different. In addition to the factors explicitly discussed, others 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 and pricing of competing products, product development, commercialization and technological difficulties, supply-chain interruptions, and major customer credit losses.

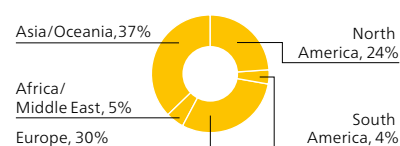
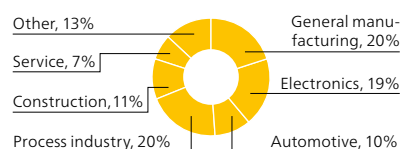
Atlas Copco AB is a public company. Atlas Copco AB and its subsidiaries are sometimes referred to as the Atlas Copco Group, the Group, or Atlas Copco. Atlas Copco AB is also sometimes referred to as Atlas Copco. Any mentioning of the Board of Directors or the Board refers to the Board of Directors of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

Atlas Copco 2020

– a year of challenges and reduced demand, but also with emerging opportunities

Revenues: **MSEK 99 787** (–4%)Operating margin: **19.2%**Return on capital employed: **23%****Orders received and revenues, MSEK****Return on capital employed and operating margin, %**

* Figures for 2017 are restated for IFRS 15 and refer to continuing operations after the distribution of Epiroc in 2018.

Revenues by region**Share of revenues****Orders received by customer category****Key financial data, MSEK**

	2020	2019	2018	2017*
Orders received	100 554	106 104	97 132	90 132
Revenues	99 787	103 756	95 363	85 653
EBITDA	24 335	26 597	24 510	22 383
– in % of revenues	24.4	25.6	25.7	26.1
Operating profit	19 146	21 897	21 187	18 748
– in % of revenues	19.2	21.1	22.2	21.9
Adjusted operating profit	19 998	22 677	21 135	18 824
– in % of revenues	20.0	21.9	22.2	22.0
Profit before tax	18 825	21 572	20 844	17 591
– in % of revenues	18.9	20.8	21.9	20.5
Profit for the year	14 783	16 543	16 336	16 674
Basic earnings per share, SEK	12.16	13.60	13.45	13.72
Diluted earnings per share, SEK	12.14	13.59	13.43	13.61

* Figures for 2017 are restated for IFRS 15 and refer to continuing operations after the distribution of Epiroc in 2018.

A decentralized group with four business areas

The Atlas Copco Group is a world-leading provider of sustainable productivity solutions, demanded by all types of industries, enabling everything from industrial automation to reliable medical air solutions. The Group offers innovative compressors, air treatment systems, vacuum solutions, industrial power tools and assembly systems, machine vision, and power and flow solutions. Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics, supported by insights from connected products. The company was founded in 1873, is based in Nacka, Sweden, and has a global reach spanning more than 180 countries. In 2020, Atlas Copco had about 40 000 employees at year end.

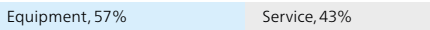
Compressor Technique 2020



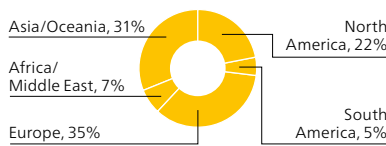
Orders received: MSEK 47 401
Revenues: MSEK 47 329
Operating margin: 22.5%

The Compressor Technique business area provides compressed air solutions; industrial compressors, gas and process compressors and expanders, air and gas treatment equipment, air management systems, and service through a global network.

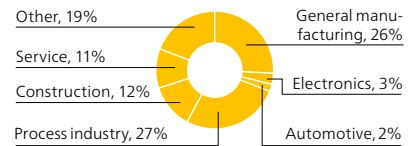
Share of revenues:



Revenues by region



Orders received by customer category



[Read more on page 22](#)

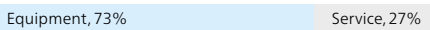
Vacuum Technique 2020



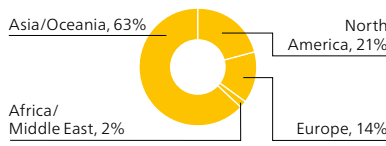
Orders received: MSEK 25 583
Revenues: MSEK 24 685
Operating margin: 22.4%

The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products, and service through a global network.

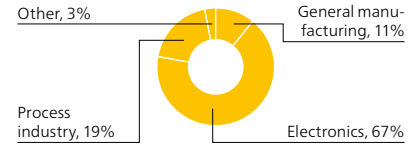
Share of revenues:



Revenues by region



Orders received by customer category



[Read more on page 25](#)

Industrial Technique 2020



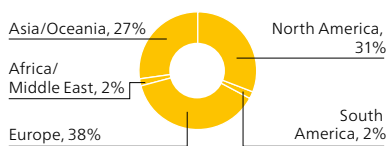
Orders received: MSEK 16 254
Revenues: MSEK 16 176
Operating margin: 15.0%

The Industrial Technique business area provides industrial power tools, assembly and machine vision solutions, quality assurance products, software, and service through a global network.

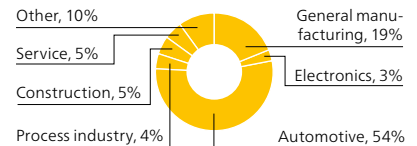
Share of revenues:



Revenues by region



Orders received by customer category



[Read more on page 28](#)

Power Technique 2020



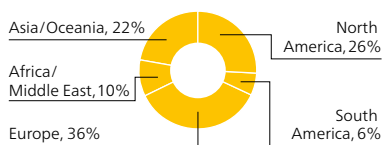
Orders received: MSEK 11 810
Revenues: MSEK 12 106
Operating margin: 13.2%

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 global network.

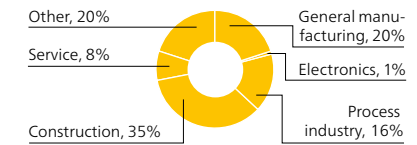
Share of revenues:



Revenues by region



Orders received by customer category



[Read more on page 31](#)

Overcoming challenges and building for the future

In last year's annual report I wrote that we will continuously monitor our strategies and targets, and reassess them when necessary to continue to deliver the best customer value in the most sustainable way. Little did I know that 2020 would be a year that would transform the way we live, work and do business, and that our organization would be challenged in completely new ways. Our set-up and agile teams have made it possible to cope with the challenges and our efforts and focus made it possible to deliver solid performance despite the market conditions.

Our first and foremost priority has been safety. Despite lockdowns and other restrictions due to the Covid-19 pandemic, we were able to ensure that our most critical production flows and services could stay up and running. We have cooperated closely with local unions to make sure that we comply with regional regulations by adjusting manufacturing and office spaces to ensure social distancing. I am very proud of how we have come together during these unprecedented times to support our customers, and how hard we have worked to keep operations up and running, while at the same time safeguarding our people.

Maintaining our strategic priorities

The core of the way we do things and our strategy have not changed. The importance of understanding our customers, their challenges, products and applications is just as critical now as one year ago.

We often state that the one closest to the problem is the one closest to the solution. During this crisis we have seen the value of strong local leadership, local decision-making and the importance of knowing your market. I am also proud of the many initiatives to support local communities that have been initiated during the pandemic.

During the year demand deteriorated due to the effects of the pandemic. We have adjusted capacity and costs where needed and intensified initiatives to secure our long-term competitiveness through acquisitions, R&D investments, competence development and digitalization. Despite the downturn we were able to present a strong financial result. Our service business supported our resilience, and during the year, service accounted for 36% of total revenues. With digital tools we have been able to continue to support our customers when we haven't been able to visit them in person.

For some of us the distinction between home and work have become blurred. Interaction now often takes place from home in front of screens and we have shifted production in some of our sites to equipment that is critical in fighting the pandemic such as ventilators and masks.

Many are asking when we will return to normal. The devastating effects of the pandemic have made us challenge many old truths. It has also made it clear how fast changes can be implemented when needed. Some of the new ways of working that we have implemented can be leveraged going forward to increase our efficiency and cooperation.

Investing for the future

We know that we need to continue to invest in innovation and effective manufacturing to come out stronger. This year we have maintained our R&D spending, despite the deteriorating business climate. This will add long-term value to our customers, owners and to society at large. Energy-efficiency, lowered emissions and industrial automation are becoming increasingly important and we aim to drive our customers' development through our solutions for sustainable productivity.

During 2020 we made great progress in achieving our goal for reducing emissions of CO₂ from energy in operations and transport



of goods in relation to cost of sales. Compared with 2019, we managed to achieve a reduction of 12% and compared with the base year 2018, the reduction is 28%. Our goal is to reduce the emissions by 50% by 2030 and the results show how the organization has responded to the need of reducing the climate impact and increase resource efficiency in the Group's own operations. We know that for us the impact from our own operations and transports is relatively low in comparison with the value chain as a whole. We will continue to offer the most energy-efficient solutions and the next step will be to support our customers in finding alternatives to increase their share of renewable energy.

Our strong financial position also made it possible to continue to grow through acquisitions. During 2020 we completed 12 acquisitions. Two of the companies, ISRA VISION and Perceptron, form the new Machine Vision Solutions division within the Industrial Technique business area. Flexible automation and in-line quality control on the production line are two strong trends where we want to support our customers in their transition towards smart manufacturing. A side-effect of increased local manufacturing due to the pandemic could be that automation accelerates even further when production in higher-cost countries increases. We see this as a platform for further growth for Atlas Copco within this interesting segment.

We have also focused on maintaining and developing our digital presence and seen that our previous investments in connectivity and digitalization have been very valuable. To ensure our long-term competitiveness, we need to give our stakeholders easy access through digital channels and the opportunity to interact with us remotely. I am very positive about how well almost all types of meetings have worked using digital channels. Through a virtual product launch we can reach hundreds of employees, customers and distributors and give everyone the same information at the same time.



Our industrial ideas contribute to the next generation of electrical transport, lead to advances in computer engineering and groundbreaking scientific and medical research.

I believe that physical meetings bring a different energy than virtual ones. They help us get to know each other, enforce our culture and drive development together. In the future I see us combining the best of these worlds to ensure that we are available to our customers when they need us, in the channel or at the place where we can best support them.

The balance act between global and local

We believe in free trade. It benefits our societies and drives growth. As a global company we see the positive effects brought by mobility of ideas, services and goods across countries and continents every day. But with closed borders and disruptions in logistics we have learned how vulnerable global supply chains are and the importance of having production close to the customers. We have also seen how the transition from globalization to localization, that started with increased protectionism, accelerated during the year.

A large share of our components are sourced externally and we need to stay First in Mind—First in Choice with our suppliers as well as with our customers. Our previous efforts to secure multiple sources for critical components have made these challenges easier to overcome.

We have a geographically diverse base of customers and operations and for a long time we have had the ambition to stay close to our customers. This helps us meet our goal of reducing emissions from transport of goods. But it is also an advantage since different markets have different needs and regulations. One size simply doesn't fit all and, in a time when consumer products are being increasingly customized and tailored to personal preferences, we have no reason to believe that industrial customers do not expect the same.

Focus on the customer and the results will follow

Our ability to maintain our performance, even in times of turmoil, is often highlighted as something that makes us stand out. And sometimes I am asked how we manage to achieve this. I could explain all about the specific features of our products; the ergonomic wrenches, the electric compressors used at construction sites, our low-pressure vacuum pumps used in the food industry, the integrally geared centrifugal compressors and expanders that do not require annual shut-down for maintenance or replacement of wearing parts, or even the vacuum pumps that were used in the laboratory of this year's Nobel Prize winner in physics. But instead I would like to highlight our ability to enable our customers all over the world to improve the quality of everyday life. Our industrial ideas contribute to the next generation of electrical transport, lead to advances in computer engineering and groundbreaking scientific and medical research.

Building for the future

We take great pride in our financial results. They are the result of our employees' constant focus on our customers.

I have always been very proud to represent Atlas Copco, but never as much as this past year. I want to thank all my colleagues for their efforts and engagement.

In the coming years, we will continue to improve both our own, and our customers', technologies and processes. And we will do it in a way that not only enables our customers to drive development forward, but to do so in a sustainable way. Because we learn from the past, but we build for the future.

*Mats Rahmström, President and CEO
Nacka, Sweden, January 2021*

Our industrial ideas empower our customers to grow and drive society forward. This is how we create a better tomorrow.

This is Atlas Copco – Home of Industrial Ideas

Our vision is to become and remain First in Mind—First in Choice of our customers and other stakeholders. Our mission is to achieve sustainable, profitable growth. By that, we are creating lasting value, while safeguarding people, profit, and the planet.

STRATEGY AND FUNDAMENTALS FOR GROWTH

DIVERSIFIED

- Diverse customer base
- Sales in Asia, Americas, and EMEA
- Production in Europe, Asia and America

AGILE

- Outsourced production model, 75% of production cost of equipment is purchased components
- Flexible workforce
- Continuous scenario planning
- Leadership model with clear accountability
- Transparent organization with strong follow up

RESILIENT

- 36% of sales is service business
- Asset-light operations

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

PEOPLE

Attract and develop qualified and passionate people, and provide fair opportunities to grow and develop with a strong focus on performance.

INNOVATION

Invest in research and development, work closely with customers and continuously launch products and services that increase customers' productivity and uptime.

PRESENCE

Increase market presence and penetration, and expand the product and service offering in selected market segments.

OPERATIONAL EXCELLENCE

Continuously strive for improved operational performance with efficient and responsible use of resources – human, natural and capital.

SERVICE

Increase the service offer, perform service on a larger share of the products we sell, leverage digital opportunities, and thus generate more value for customers.

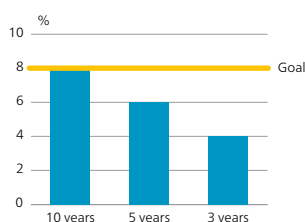
Our goals

Atlas Copco sets ambitious goals to deliver sustainable, profitable growth. The goals have different time horizons: annual, three-year, over a business cycle, and by 2030 for the longer-term ambitions. Sustainability plays an important role in Atlas Copco's vision and is an integral part of the Group's mission. An integrated sustainable strategy, backed by ambitious goals, helps the company deliver greater value to all stakeholders in a way that is economically, environmentally and socially responsible.

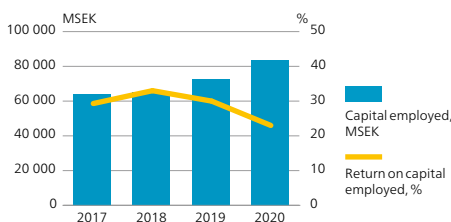
FINANCIAL

Revenue growth measured over a business cycle	Goal: 8% per annum
Sustained high return on capital employed by constantly striving for operational excellence and generating growth	
Earnings as dividends to shareholders	Goal: about 50%

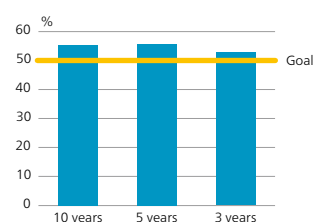
Annual revenue growth rate, average ¹⁾



Capital employed and return ¹⁾



Dividend/earnings per share, average ²⁾ including discontinued operations



¹⁾ Figures for the years between 2011 and 2017 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

²⁾ Dividend for the fiscal year 2020 is based on the proposal from the Board of Directors.

PEOPLE, KPI

	2020	2019	2018	Goal*
The degree to which Atlas Copco employees agree there is opportunity to learn and grow should be above the global benchmark and continuously increase	Survey every two years	71	Survey every two years	>70
The degree to which Atlas Copco employees agree we have a work culture of respect, fairness and openness should be above the global benchmark and continuously increase	Survey every two years	74	Survey every two years	>74
Share of female employees (year end). Goal by 2030.	20.0%	19.8%	19.1%	30%

ETHICS, KPI

	2020	2019	2018	Goal*
Employees sign the Business Code of Practice	99%	98%	First disclosed 2019	100%
Employees are trained in the Business Code of Practice	99%	94%	First disclosed 2019	100%
Managers in risk countries lead trainings in the Business Code of Practice	99%	91%	First disclosed 2019	100%
Significant suppliers sign the Business Code of Practice	93%	90%	86%	100%
Significant distributors sign the Business Code of Practice	84%	59%	First disclosed 2019	100%

PRODUCTS & SERVICE, KPI

	2020	2019	2018	Goal*
Projects for new or redesigned products with goals for reduced environmental impact by 2021	Reported in 2021	Reported in 2021	Reported in 2021	100%
Projects for new or redesigned products that will achieve a significantly reduced environmental impact, i.e. 5% or lower carbon footprint over the product's life cycle				Divisions set their own goals

SAFETY & WELL-BEING, KPI

	2020	2019	2018	Goal*
The degree to which Atlas Copco employees agree that the company takes a genuine interest in employees' well-being should continuously increase	Survey every two years	69	Survey every two years	Increase
Balanced safety pyramid, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported	Yes	Yes	First disclosed 2019	Yes

ENVIRONMENT, KPI

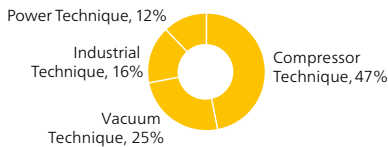
	2020	2019	2018	Goal*
CO ₂ emissions from energy in operations and transport (tonnes) in relation to cost of sales. Goal by 2030. Base year: 2018.	3.8	4.3	5.3	-50%
Waste (kg) in relation to cost of sales	581	597	667	Decrease
Water consumption (m ³) in relation to cost of sales	7.2	7.2	8.7	Decrease
Significant direct suppliers with an approved environmental management system	30%	28%	First disclosed 2019	Increase

* For more information about the sustainability focus areas, goals and processes, see pages 34–43 and the sustainability notes on pages 127–138.

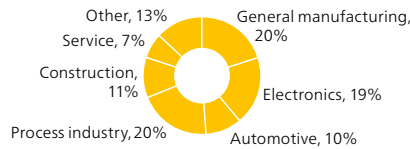
This is how we do business

Atlas Copco is characterized by focused businesses in a decentralized organization, global presence, a stable service business, professional people, and an asset-light and flexible manufacturing setup. By providing professional service, technical competence, application knowledge and digital capabilities the Group builds close customer relationships through direct and indirect channels.

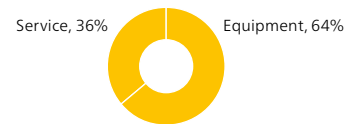
Share of revenues by business area



Orders received by customer category



Share of revenues



Sales and service

Customer focus is a guiding principle for Atlas Copco. The ambition is to build close relationships with customers and help them increase their productivity in a sustainable way. Customer engagement, sales and service take place through direct and indirect channels (mainly distributors), online as well as offline, to maximize market presence. Digital interaction becomes increasingly important and creates opportunities. Atlas Copco aims at always being available to customers when they need us, wherever we can best support them. The Group has a global reach with sales in more than 180 countries.

Sales of equipment is performed by engi-

neers 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 Group's offer. Service is the responsibility of dedicated divisions in each business area. This includes the development of service products, sales and marketing, technical support, and service delivery and follow-up, all supported by data analysis from connected equipment.

Stable service business

36% of revenues are generated from service (spare parts, maintenance, repairs, consumables, accessories, and specialty rental).

These revenues are more stable than equipment sales and provide a strong base for the business.

Increase customer loyalty

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

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



Global reach

Atlas Copco has a global reach with sales in more than 180 countries. Sales and service is performed by employees with strong application and process knowledge.

Agility

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

75%

About 75% of the production cost of equipment represents purchased components.

Manufacturing and logistics

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

Equipment represents about 64% of revenues and Atlas Copco has organized its manufacturing and logistics to be able to quickly adapt to changes in 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, and we take responsibility for the products' functionality and quality. 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 and 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 of greatest impor-

tance and products are designed internally. A key activity is to design new or improved products that provide sustainable and 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 flow and utilization of assets and information. Innovation will improve customer satisfaction and contribute to strengthening customer relations, the brand, as well as financial performance. Overcapacities and inefficiencies must always be challenged.

Investments in fixed assets and working capital

The need for investments in property, plant and equipment are moderate due to the manufacturing philosophy and can be adapted to short and medium-term 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 Group's working capital requirements are affected by the relatively 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.

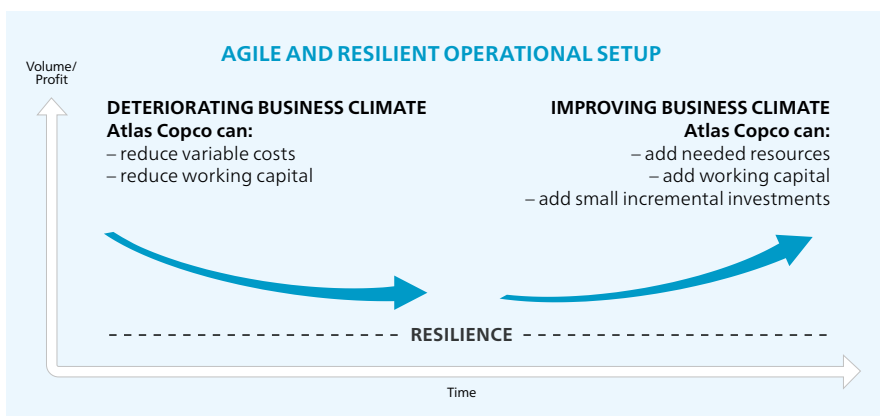
Acquisitions

Acquisitions are primarily made in, or very close to, existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and that may offer tangible synergies to existing businesses. All acquired businesses are expected to contribute positively to economic value added.

Leadership and human capital

In Atlas Copco, leadership is defined as the ability to create lasting results. Atlas Copco believes that competent and committed leaders are crucial to achieve sustainable profitable growth. All managers are entitled to a mission statement from their manager, outlining the long-term expectations and goals in both quantitative and qualitative terms. The timeframe of a mission is typically three to five years. Based on the mission statement, the manager is expected to develop a vision, clarifying how the mission will be achieved, including the strategies, the organization and the people needed to make it happen.

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



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

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

STRUCTURE AND GOVERNANCE

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

The Board of Directors is responsible for the organization and management of the Group, regularly assessing the Group’s financial situa-

tion and financial, legal, social and environmental risks, and ensuring that the organization is designed for satisfactory control.

The President and CEO is responsible for the daily 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 President and CEO leads the Group Management, which also consists of the business area presidents and four functional heads.

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 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.

Regional holding functions are established world-wide to support the divisional structure of the Group and to represent Group Management.

As of January 1, 2021

BOARD OF DIRECTORS

PRESIDENT AND CEO

GROUP MANAGEMENT

COMPRESSOR TECHNIQUE

Divisions

Compressor Technique Service
Industrial Air
Oil-free Air
Professional Air
Gas and Process
Medical Gas Solutions
Airtec

VACUUM TECHNIQUE

Divisions

Vacuum Technique Service
Semiconductor Service
Semiconductor
Semiconductor Chamber Solutions
Scientific Vacuum
Industrial Vacuum

INDUSTRIAL TECHNIQUE

Divisions

Industrial Technique Service
MVI Tools and Assembly Systems
General Industry Tools and Assembly Systems
Chicago Pneumatic Tools
Industrial Assembly Solutions
Machine Vision Solutions

POWER TECHNIQUE

Divisions

Power Technique Service
Specialty Rental
Portable Air
Power and Flow

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

The Atlas Copco Group is unified and strengthened through:

The corporate culture and the core values: interaction, commitment, and innovation

A shared vision and a common identity

Shared goals and strategic pillars for growth

An internal job market

A common leadership model

The sharing of resources and infrastructure/ service providers

One Group Treasury

The sharing of brand names and trademarks

Common processes and shared best practices collected in the handbook of policies and guidelines *The Way We Do Things*

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



INTERACTION

We interact and develop close relationships with customers, internally and externally, as well as with other stakeholders. This takes place in many different ways: physically, online or indirectly through business partners. We always look for what is best for the specific target group.

INNOVATION

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

COMMITMENT

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

PEOPLE

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

PROCESSES

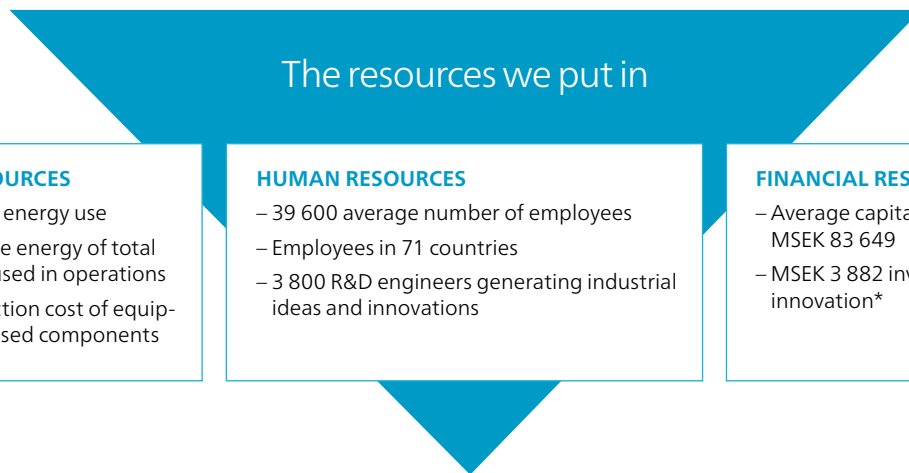
Group-wide strategies, processes, principles, guidelines, and shared best practices are gathered in the handbook of policies and guidelines *The Way We Do Things*. The handbook is available to all employees. It covers governance, safety, health, environment and quality, accounting and business control,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

THE BUSINESS CODE OF PRACTICE

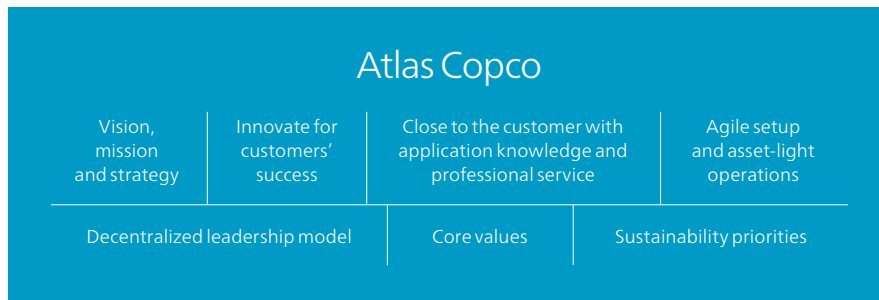
Internal policy documents related to business ethics and social and environmental performance are summarized in the Group's Business Code of Practice. All employees in Group companies, as well as business partners, are expected to adhere to these policies. All employees are also required to take annual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

Creating lasting value for all stakeholders

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



<p>NATURAL RESOURCES</p> <ul style="list-style-type: none"> – 351 GWh total energy use – 44% renewable energy of total MWh energy used in operations – 75% of production cost of equipment is purchased components 	<p>HUMAN RESOURCES</p> <ul style="list-style-type: none"> – 39 600 average number of employees – Employees in 71 countries – 3 800 R&D engineers generating industrial ideas and innovations 	<p>FINANCIAL RESOURCES</p> <ul style="list-style-type: none"> – Average capital employed MSEK 83 649 – MSEK 3 882 investments in innovation*
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<p>CUSTOMERS</p> <ul style="list-style-type: none"> – Increased productivity – Increased safety and ergonomics in working environment – Energy savings – Decreased total cost of ownership 	<p>EMPLOYEES</p> <ul style="list-style-type: none"> – Employees agree there is opportunity to learn and grow in the company – Employees agree Atlas Copco has a work culture of respect, fairness and openness 	<p>BUSINESS PARTNERS</p> <ul style="list-style-type: none"> – More than 5 000 significant suppliers – Leverage competence – Market access – Long-term reliable partner – Over 600 suppliers audited on safety, health, environment and ethics 	<p>SHAREHOLDERS</p> <ul style="list-style-type: none"> – 23% return on capital employed – MSEK 18 910 operating cash flow – 16% annual total return A-share, 10 year 	<p>SOCIETY/ENVIRONMENT</p> <ul style="list-style-type: none"> – 99% of employees have signed the Business Code of Practice – 99% of employees were trained in the Business Code of Practice – 13% reduced CO₂ emissions from energy in operations and transport of goods – Employment for 40 000 employees in 71 countries at year end
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* Investments in product development, including capitalized expenditures.

Contributing to the UN Sustainable Development Goals

Atlas Copco’s focus areas for sustainability are implemented in the daily operations, supported by policies, training material and monitoring tools. Concrete goals and key performance indicators are used to continuously measure performance in relation to the goals set in these areas. Progress in relation to the KPIs contributes to the achievement of the UN Sustainable Development Goals.

SDG 16 – Peace, justice and strong institutions

Zero tolerance for corruption

This is clearly communicated in the Business Code of Practice, which Atlas Copco requires all employees and business partners to comply with. Required trainings in handling ethical dilemmas are available in more than 30 languages, and 99% of employees took these trainings in 2020. During the year, 93% of significant suppliers confirmed compliance with the criteria.

Page 39

SDG 12 – Responsible consumption and production

Making production as efficient as possible and reducing waste

Atlas Copco seeks to decrease the total waste generated and almost all waste is recycled or reused. Chemical handling follows strict protocols. Components containing conflict minerals are not accepted and Atlas Copco monitors and screens its supply chain.

Page 35, 41

SDG 9 – Industry, innovation and infrastructure

Continuously increasing the energy efficiency of products and service

The energy efficiency of our products and service is a key selling point for Atlas Copco. The main environmental impact occurs when our customers use our products. All projects for new and redesigned products must assess the product’s environmental impact. Products are developed with a life-cycle perspective.

Page 35, 41

SDG 8 – Decent work and economic growth

Focusing on ethics, safety and well-being – for employees and business partners

Atlas Copco requires all business partners to comply with the Business Code of Practice. Child labor or forced labor is not tolerated and compliance is assessed and audited. Atlas Copco ensures the right to collective bargaining and we expect the same from our business partners. In 2020, 93% of our significant suppliers confirmed their commitment to our Business Code of Practice. During the year, Atlas Copco’s safety pyramid was balanced, meaning that more near misses than minor injuries, and more minor injuries than recordable (major) injuries were reported.

Page 38–40

SDG 5 – Gender equality

Increasing diversity and ensuring inclusion

Atlas Copco promotes inclusion and diversity and strives to improve gender balance at all levels in the Group. The percentage of women in the organization was 20.0% at year end. The President and CEO has established and chairs a Diversity and Inclusion Council. Each business area has its own related task force and the operational entities have designated diversity and inclusion ambassadors.

Page 36–37

SDG 6 – Clean water and sanitation

Working to reduce water consumption

The operational entities implement their own strategies to reduce water consumption. The consumption of water decreased by 3% in 2020. Since it started in 1984, the employee-driven initiative “Water for All” has provided more than 2 million people with access to clean water and improved sanitation.

Page 43

SDG 7 – Affordable and clean energy

Reducing CO₂ emissions from our operations and transport

Atlas Copco undertakes a range of activities to reduce CO₂ emissions from energy in operations and transport of goods, such as installing solar panels, buying renewable electricity and avoiding air freight. In 2020, CO₂ emissions from energy in operations and transport of goods in relation to cost of sales decreased by 12%.

Page 41–42



The year in review

Market review and demand development

The year 2020 started with a high level of demand for Atlas Copco's products and services, but the business climate began to deteriorate already during the first quarter due to the Covid-19 pandemic. The demand for most product groups decreased significantly, and increasingly so during the second quarter. During the second half of the year, market conditions gradually improved, as the direct effects of the pandemic eased. The semiconductor business within Vacuum Technique was an exception from the above, as the increased demand for data chips lead to increased factory utilization and investments in that customer segment.

The Group's total order intake decreased 5% to MSEK 100 554 (106 104), same as the organic decline. Acquisitions contributed with 3%, but this was offset by less favorable exchange rates which had a negative effect of 3%.

The service business showed more resilience than the equipment business but was negatively affected by the lockdowns in the first part of the year and the resulting limitations to conducting field services, as well as by the lower economic activity in most segments. The high activity level in the semiconductor industry lead to an increase in order intake for Vacuum Technique service, while service orders decreased for Industrial Technique and Power Technique and were essentially unchanged for Compressor Technique.

Similar to service, orders for vacuum equipment increased, mainly due to increased demand from semiconductor customers in Asia and Europe. Equipment orders in the other business areas decreased, e.g. for industrial compressors, gas and process compressors, industrial tools and assembly solutions, portable compressors, generators and pumps. The exception was medical equipment, which saw an increase in demand. More information can be found in the business area sections on pages 20–33.

North America

Orders received in North America decreased 10% in local currencies. Order volumes decreased for most types of compressors, power equipment, and for industrial tools and assembly solutions. The order intake for vacuum equipment to the semiconductor industry did not reach previous year's high level while order volumes for vacuum equipment to other industries increased. Order volumes for service increased in Compressor Technique, decreased in Industrial Technique and Power Technique, while they were essentially unchanged in Vacuum Technique. North America accounted for 23% (25) of orders received.

South America

Orders received in South America increased 6% in local currencies. The growth was primarily driven by increased demand for industrial and portable compressors in the biggest market Brazil, while the demand for industrial tools and assembly solutions decreased. Growth was achieved for the service business, mainly due to increased demand for compressor service. In total, South America accounted for 4% (4) of orders received.

Europe

Orders received in Europe decreased 3% in local currencies. The order intake for equipment decreased in all business areas except Vacuum Technique where order volumes grew due to increased demand from the semiconductor industry. The overall order decline for equipment was most evident for power equipment, and for industrial tools and

assembly solutions. Order volumes for service increased in Compressor Technique, but decreased in all other business areas. In total, Europe accounted for 30% (30) of orders received.

Africa/Middle East

Orders received decreased 3% in Africa/Middle East in local currencies. The order intake increased for gas and process compressors, smaller sized industrial compressors and vacuum equipment, but decreased for other equipment types. Order volumes for the service business remained basically unchanged for Compressor Technique, increased for Vacuum Technique, but decreased for Industrial Technique and Power Technique. In total, Africa/Middle East accounted for 5% (6) of orders received.

Asia/Oceania

Order intake in local currencies in Asia/Oceania increased by 4%. Order volumes increased for vacuum equipment, which grew significantly, primarily due to increased demand from the semiconductor industry. All other types of equipment decreased. The order intake for compressors decreased, most significantly for gas and process compressors. Order volumes for industrial tools and assembly solutions and power equipment also decreased, particularly in the first half of the year. The order intake for service increased in Vacuum Technique, driven by the high activity level in the semiconductor industry. Order intake for service in the other business areas decreased. In total, Asia/Oceania accounted for 38% (35) of orders received.

Market presence

Atlas Copco had own customer centers in 71 (71) countries and production facilities in 21 (19) countries. Revenues were reported in 184 (182) countries.

Structural changes and recognitions

Acquisitions and divestments

The Group completed 12 acquisitions during the year. In total, the acquisitions added net revenues of approximately MSEK 2 800.

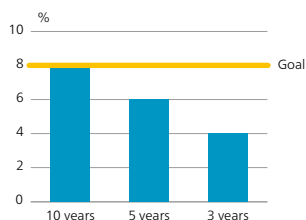
In February 2020, it was announced that Atlas Copco will partner with the global machine vision specialist ISRA VISION AG through a voluntary public takeover offer. All offer conditions were fulfilled during the second quarter 2020. The settlement of the offer was completed in June and in connection with that a payment of MSEK 9 028 (EUR 860) was made to ISRA VISION's shareholders. Together with payments made for previous share purchases of EUR 150, Atlas Copco has paid MSEK 10 604 (EUR 1 010) for 92.19% of ISRA VISION. After the settlement a new division was created in the Industrial Technique business area. In August, it was announced that Atlas Copco has requested a squeeze out of minority shareholders in ISRA VISION AG. On December 15, 2020, the shareholders' meeting of ISRA VISION AG resolved on a squeeze out. The squeeze out procedure is expected to be finalized by the end of the second quarter 2021. See also note 2 and the business area sections on pages 20–33.

Recognitions

In 2020, Atlas Copco received a rating of AA in the MSCI ESG Ratings assessment, and was reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe and the Ethibel Sustainability Index (ESI) Excellence Global. Atlas Copco remains a constituent of the FTSE4Good Index Series.

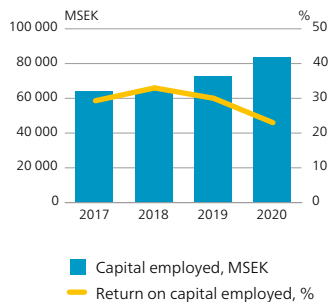
Financial goals – growth and return development

Annual revenue growth rate, average (FX adjusted) ¹⁾



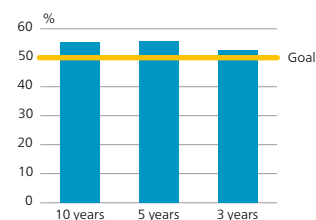
The Group's goal for annual revenue growth is 8%, measured over a business cycle. At the same time the ambition is to grow faster than the most important competitors. Growth should primarily be organic, supported by selective acquisitions.

Capital employed and return ¹⁾



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

Dividend/earnings per share, average ²⁾ 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.

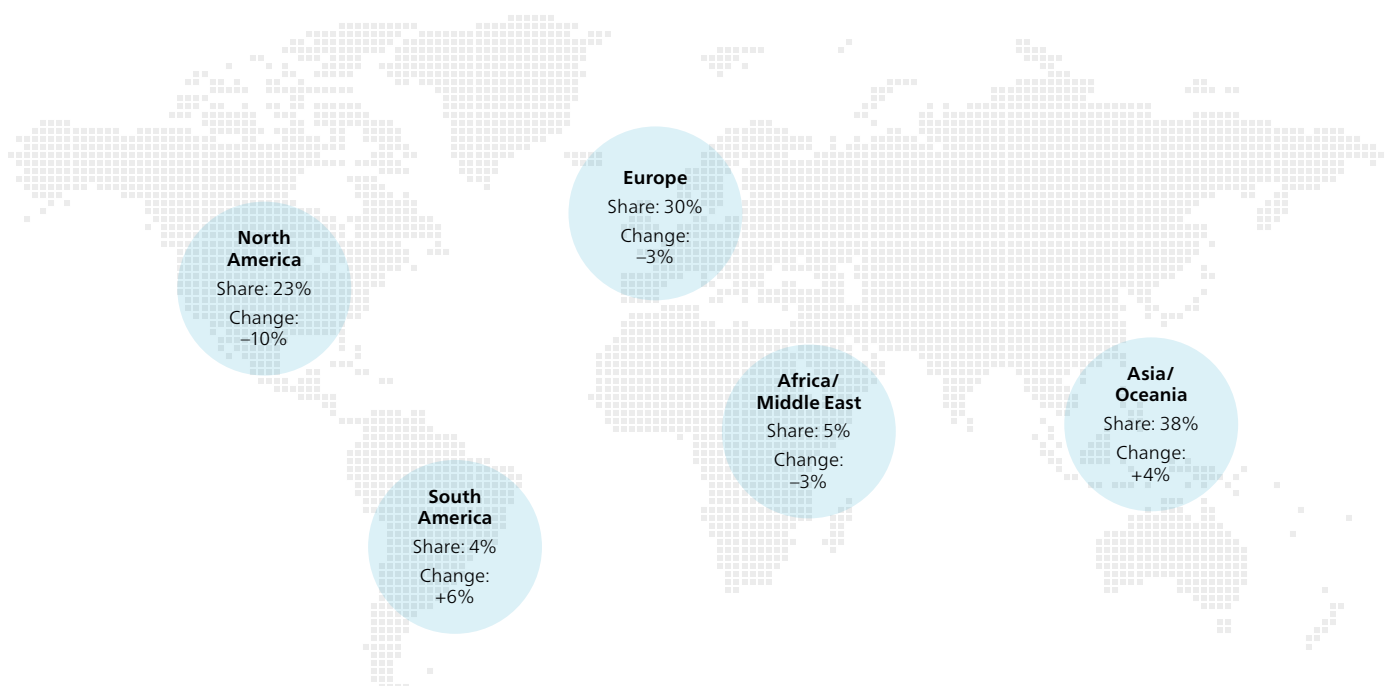
¹⁾ Figures for the years between 2011 and 2017 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

Dividend policy history

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

²⁾ Dividend for the fiscal year 2020 is based on the proposal from the Board of Directors.

Orders received by region and order development in local currency



Revenues and return

Revenues

The Group's revenues decreased 4% to MSEK 99 787 (103 756) in total, an organic decline of 3%. Currency had a negative effect of 4%, while acquisitions contributed with 3% during the year. Revenues for the business areas Compressor Technique and Vacuum Technique increased organically by 1% and 3% respectively, while revenues for Industrial Technique decreased 18% and for Power Technique by 10%, both organically.

The Group's goal is to achieve an annual revenue growth of 8% over a business cycle. For the period 2011–2020, the average annual revenue growth has been 8%*.

Operating profit

The operating profit decreased to MSEK 19 146 (21 897), corresponding to a margin of 19.2% (21.1). Items affecting comparability were MSEK –852 (–780), whereof –312 in change of provision for share-related long-term incentive programs, –210 increased provision for prior years' pension liability, and –330 in various restructuring projects. The adjusted operating margin was 20.0% (21.9). See the sales and profit bridge below and business area sections on pages 20–33.

To a varying degree, all business areas suffered a negative impact on the operating profit and the operating profit margin from the Covid-19 pandemic, but it is difficult to assess the magnitude of this impact.

* Currency adjusted. Figures for the years 2011–2016 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

Sales bridge, Atlas Copco Group		
	Orders received	Revenues
2019, MSEK	106 104	103 756
Structural change, %	+3	+3
Currency, %	–3	–4
Organic*, %	–5	–3
Total, %	–5	–4
2020, MSEK	100 554	99 787

* Volume, price and mix

Sales bridge	Compressor Technique		Vacuum Technique		Industrial Technique		Power Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2019, MSEK	50 654	48 286	23 876	23 570	18 267	18 712	13 954	13 915
Structural change, %	+1	+1	+3	+4	+8	+7	+1	+1
Currency, %	–4	–4	–2	–2	–3	–3	–4	–4
Organic*, %	–3	+1	+6	+3	–16	–18	–12	–10
Total, %	–6	–2	+7	+5	–11	–14	–15	–13
2020, MSEK	47 401	47 329	25 583	24 685	16 254	16 176	11 810	12 106

* Volume, price and mix

Bridge – revenues and operating profit, MSEK	2020	Volume, price, mix and other	Currency	Acquisitions	Items affecting comparability	Share-based long-term incentive programs	2019
Revenues	99 787	–3 314	–3 475	2 820	–	–	103 756
Operating profit	19 146	–1 797	–880	–	–425	351	21 897
Effect on margin, %	19.2						21.1

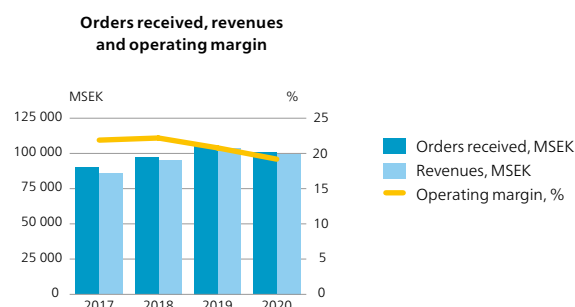
For the Compressor Technique business area, operating profit decreased 5% to MSEK 10 658 (11 198), corresponding to a margin of 22.5% (23.2). The margin was negatively affected by sales mix and dilution from acquisitions.

The operating profit for the Vacuum Technique business area decreased 5% to MSEK 5 519 (5 792), and includes items affecting comparability of MSEK –300, including costs for the above mentioned pension liability from prior years and restructuring. The operating margin was 22.4% (24.6), and the adjusted operating margin was 23.6% (24.6%). Recent acquisitions had a dilutive impact on the margin.

The operating profit for the Industrial Technique business area decreased 40% to MSEK 2 422 (4 069), and includes items affecting comparability of MSEK –190, related to restructuring costs. The operating margin was 15.0% (21.7). The adjusted operating margin was 16.1% (22.4), negatively affected by significantly lower revenue volumes, dilutions from acquisitions and currency.

The operating profit for the Power Technique business area decreased 31% to MSEK 1 594 (2 308), including items affecting comparability of MSEK –50, related to restructuring costs. The operating margin was 13.2% (16.6). The adjusted operating margin was 13.6% (16.6), negatively affected primarily by lower revenue volumes and sales mix.

Net costs for common Group items and eliminations were MSEK –1 047 (–1 470). The decrease was primarily due to a lower provision for share-related long-term incentive programs of MSEK –312 (–663) than previous year.



Depreciation and EBITDA

Depreciation MSEK 3 203, amortization MSEK 1 960, and impairment cost MSEK 26 were MSEK 5 189 (4 700) in total, and earnings before depreciation and amortization, EBITDA, reached MSEK 24 335 (26 597), corresponding to a margin of 24.4% (25.6).

Net financial items

The Group's net financial items totaled MSEK –321 (–325). The net interest expense decreased to MSEK –245 (–359). Other financial items were MSEK –76 (34). See notes 8 and 27.

Profit before tax

Profit before tax decreased 13% to MSEK 18 825 (21 572). Excluding items affecting comparability, profit before tax was MSEK 19 677 (22 352), corresponding to margin of 19.7% (21.5).

Taxes

Taxes for the year amounted to MSEK 4 042 (5 029), corresponding to an effective tax rate of 21.5% (23.3) in relation to profit before tax. The lower tax rate was mainly due to a reduction of some countries' corporate tax rates and to a reduction of provision for withholding taxes on dividend. See note 9.

Profit and earnings per share

Profit for the year decreased 11% to MSEK 14 783 (16 543). This corresponds to basic and diluted earnings per share of SEK 12.16 (13.60) and SEK 12.14 (13.59) respectively.

Depreciation, amortization and impairment, MSEK	2020	2019
Rental equipment	735	727
Other property, plant and equipment	1 314	1 295
Right-of-use assets	1 164	1 050
Intangible assets	1 976	1 628
Total	5 189	4 700

Key financial data, MSEK	2020	2019	Change, %
Orders received	100 554	106 104	–5
Revenues	99 787	103 756	–4
EBITDA	24 335	26 597	–9
– in % of revenues	24.4	25.6	
Operating profit	19 146	21 897	–13
– in % of revenues	19.2	21.1	
Adjusted operating profit	19 998	22 676	–12
– in % of revenues	20.0	21.9	
Profit before tax	18 825	21 572	–13
– in % of revenues	18.9	20.8	
Profit for the year	14 783	16 543	–11
Basic earnings per share, SEK	12.16	13.60	
Diluted earnings per share, SEK	12.14	13.59	

Revenues and operating profit, MSEK

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets ¹⁾	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Compressor Technique	47 329	48 286	10 658	11 198	22.5	23.2	79	87	577	860
Vacuum Technique	24 685	23 570	5 519	5 792	22.4	24.6	19	22	540	404
Industrial Technique	16 176	18 712	2 422	4 069	15.0	21.7	13	35	223	247
Power Technique	12 106	13 915	1 594	2 308	13.2	16.6	18	28	580	1 303
Common Group functions/eliminations	–509	–727	–1 047	–1 471					25	–12
Total Group	99 787	103 756	19 146	21 896	19.2	21.1	23	30	1 945	2 802

¹⁾ Excluding assets leased

Balance sheet

The Group's total assets increased 1.5% to MSEK 113 366 (111 722). Cash, cash equivalents and other current financial assets decreased to MSEK 11 713 (15 130), as a net effect of strong operational cash generation (see next page), dividend to shareholders MSEK – 8 506, and acquisitions MSEK –13 583.

Working capital ratios

The ratio of inventories to revenues at year end decreased to 13.5% (14.0), and trade receivables to 18.8% (19.8). Trade payables decreased to 11.2% (11.5).

Capital turnover

The capital turnover ratio was 0.86 (0.98) and the capital employed turnover ratio was 1.19 (1.43).

Equity

At year end, Group equity including non-controlling interests was MSEK 53 534 (53 290), corresponding to 47% (48) of total assets. Equity per share was SEK 44 (44). Atlas Copco's market capitalization at year end was BSEK 497 (440), an increase of 13%. The information related to public takeover bids is the same as for the Parent Company and described on page 19.

Total comprehensive income for the year was MSEK 8 948 (17 475). The relatively large difference to reported profit for the year and versus previous year, is related to translation differences on the value of foreign operations (see page 62 and note 10). Shareholders' transactions include dividends totaling MSEK –8 506 (–7 663), sales and repurchases of own shares of net MSEK –274 (1 287), and share-based payments of net MSEK –42 (–281). See page 64 and note 20.

Return on capital employed and return on equity

Return on capital employed reached 23% (30) and the return on equity was 27% (35). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

Balance sheet in summary, MSEK	Dec 31, 2020	Dec 31, 2019
Intangible assets	45 840	36 549
Rental equipment	2 241	2 858
Other property, plant and equipment	7 889	8 021
Right-of-use assets	3 261	3 557
Other fixed assets	3 190	3 244
Inventories	13 450	14 501
Receivables	25 777	27 861
Current financial assets	58	125
Cash and cash equivalents	11 655	15 005
Assets classified as held for sale	5	1
Total assets	113 366	111 722
Total equity	53 534	53 290
Interest-bearing liabilities	28 134	27 143
Non-interest-bearing liabilities	31 698	31 289
Total equity and liabilities	113 366	111 722

Equity, MSEK	2020	2019
Opening balance	53 290	42 472
Profit for the year	14 783	16 543
Other comprehensive income for the year	–5 835	932
Shareholders' transactions	–8 822	–6 657
Closing balance	53 534	53 290
Equity attributable to		
– owners of the parent	53 215	53 231
– non-controlling interests	319	59

Interest-bearing debt and net indebtedness

Total interest-bearing debt was MSEK 28 134 (27 143), whereof post-employment benefits MSEK 3 488 (3 488). The Group has an average maturity of 4.8 years on interest-bearing liabilities. See notes 21 and 23 for additional information. The Group's net indebtedness, amounted to MSEK 16 421 (12 013) at year end. The net debt/EBITDA ratio was 0.7 (0.5) and the debt/equity ratio was 31% (23).

Credit rating

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

Operating cash flow and investments

Operating cash surplus was MSEK 25 081 (26 696). Cash flows from financial items were MSEK 244 (–610) where the change is primarily due to non-operational cash flows from currency hedges of loans of MSEK 591 (–451). In those transactions an offsetting cash flow from the loans occurs in the future. Net pension funding and payments were MSEK –340 (–376). The working capital decreased by MSEK 2 166 (increase of 2 971), a result of the lower revenues and focused efforts to reduce the risk in outstanding receivables and inventories. Net investments in rental equipment were reduced to MSEK 416 (1 087).

Gross investments in property, plant and equipment decreased to MSEK 1 459 (1 662) and cash received from sale of property, plant and equipment were MSEK 39 (718). Previous year's sale of property, plant and equipment included proceeds from a sale and lease back transaction in the U.S. of approximately MSEK 600.

Notable investments in 2020 were made by Compressor Technique in production machinery in its facilities in Belgium, and in a data

analytics center in India. Vacuum Technique invested in a new fully automated machining center in its manufacturing facility in Germany, a capacity extension for production of industrial vacuum equipment in China, innovation centers in Japan and China, and new distribution centers in the United States and China. Investments were made by Industrial Technique in a demo center for machine vision solutions in the United States, and by Power Technique in a new depot for the specialty rental business in the United States.

Net investments in intangible assets, mainly related to capitalization of product development expenditures, were MSEK 1 337 (1 016). Net investments in other assets were MSEK +54 (–18).

In total, the operating cash flow increased 29% to MSEK 18 910 (14 625).

Cash flow from structural changes

The net cash flow from structural changes, i.e. acquisitions and divestments, amounted to MSEK –13 583 (–7 706). See also note 2.

Cash flow from financing

Dividends paid amounted to MSEK –8 506 (–7 663). Sales and repurchases of own shares resulted in a net of MSEK –274 (1 287), all related to hedging or deliveries of shares for the long-term incentive plans described on page 91. Change in interest-bearing liabilities was MSEK 444 (–1 648).

Employees

In 2020, the average number of employees in the Group increased by 1 801 to 39 606. At year end, the number of employees was 40 160 (38 774) and the number of consultants/external workforce was 2 907 (3 225). For comparable units, the total workforce decreased by 944. See also note 5.

Calculation of operating cash flow, MSEK	2020	2019
Operating cash surplus	25 081	26 696
Net financial items	244	–610
Taxes paid	–4 531	–5 501
Pension funding	–340	–376
Change in working capital	2 166	–2 971
Increase in rental equipment, net	–416	–1 087
Cash flows from operating activities	22 204	16 151
Investments of property, plant & equipment, net	–1 420	–944
Other investments, net	–1 283	–1 033
Cash flow from investments	–2 703	–1 977
Adjustment for currency hedges of loans	–591	451
Operating cash flow	18 910	14 625

Average number of employees	2020	2019
Atlas Copco Group	39 606	37 805
– Sweden	1 447	1 414
– Outside Sweden	38 160	36 391
Business areas		
– Compressor Technique	18 212	17 937
– Vacuum Technique	8 226	7 509
– Industrial Technique	8 308	7 586
– Power Technique	4 059	3 989
– Common Group functions	801	784

Parent Company

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden.

Earnings

Profit before tax amounted to MSEK 11 040 (11 374) and profit for the year amounted to MSEK 11 111 (11 341).

Financing

The total assets of the Parent Company were MSEK 178 591 (174 923). At year end 2020, cash and cash equivalents amounted to MSEK 8 (36) and interest-bearing liabilities amounted to MSEK 25 351 (23 949), whereof the main part is Group-internal loans. Equity represented 85% (86) of total assets and the non-restricted equity totaled MSEK 146 504 (144 215).

Employees

The average number of employees in the Parent Company was 107 (102).

Remuneration

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

Financial risks, risks and factors of uncertainty

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

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting 2021 that a dividend of SEK 7.30 (7.00) per share be paid for the 2020 fiscal year. Excluding shares currently held by the Company, the proposed dividend corresponds to a total of MSEK 8 878 (8 519).

In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 29, 2021 and the second with record date October 25, 2021.

SEK

Retained earnings including reserve for fair value	136 572 924 616
Profit for the year	11 110 645 915

The Board of Directors proposes that these earnings be appropriated as follows:

To the shareholders, a dividend of SEK 7.30 per share	8 878 206 367
To be retained in the business	137 625 773 148
Total	146 503 979 515

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 13 420 451 class A shares and 0 class B shares held by Atlas Copco, 1 216 192 653 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 2020, Investor AB held a total of 207 754 141 shares, representing 22.3% of the votes and 16.9% of the capital.

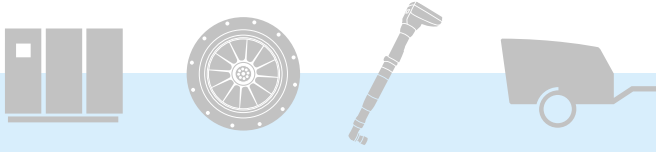
There are no restrictions which prohibit the right to transfer shares of the Company nor is the Company aware of any such agreements. In addition, the Company is not party to any material agreement that enters into force or is changed or ceases to be valid if the control of the Company is changed as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

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

Statutory sustainability report

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

Business areas



The Atlas Copco Group is a world-leading provider of sustainable productivity solutions. The Group offers customers innovative compressors, air treatment systems, vacuum solutions, industrial power tools and assembly systems, machine vision, and power and flow solutions.

Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics, supported by insights from connected equipment.

The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries. In 2020, Atlas Copco had revenues of BSEK 100 (BEUR 10) and about 40 000 employees at year end.

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.

Key figures, MSEK	2020	2019	Change, %
Orders received	100 554	106 104	-5%
Revenues	99 787	103 756	-4%
Operating profit	19 146	21 896	-13%
Operating margin, %	19.2	21.1	
Return on capital employed, %	23	30	
Investments	1 945	2 802	
Average number of employees	39 606	37 805	

Compressor Technique, page 22



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 mainly for the manufacturing and process industries.

Key figures, MSEK	2020	2019	Change, %
Orders received	47 401	50 654	-6%
Revenues	47 329	48 286	-2%
Operating profit	10 658	11 198	-5%
Operating margin, %	22.5	23.2	
Return on capital employed, %	79	87	
Investments	577	860	
Average number of employees	18 212	17 937	

Vacuum Technique, page 25



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.

Key figures, MSEK	2020	2019	Change, %
Orders received	25 583	23 876	7%
Revenues	24 685	23 570	5%
Operating profit	5 519	5 792	-5%
Operating margin, %	22.4	24.6	
Return on capital employed, %	19	22	
Investments	540	404	
Average number of employees	8 226	7 509	

Industrial Technique, page 28



The Industrial Technique business area provides industrial power tools, assembly and machine vision 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.

Key figures, MSEK	2020	2019	Change, %
Orders received	16 254	18 267	-11%
Revenues	16 176	18 712	-14%
Operating profit	2 422	4 069	-40%
Operating margin, %	15.0	21.7	
Return on capital employed, %	13	35	
Investments	223	247	
Average number of employees	8 308	7 586	

Power Technique, page 31



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

Key figures, MSEK	2020	2019	Change, %
Orders received	11 810	13 954	-15%
Revenues	12 106	13 915	-13%
Operating profit	1 594	2 308	-31%
Operating margin, %	13.2	16.6	
Return on capital employed, %	18	28	
Investments	580	1 303	
Average number of employees	4 059	3 989	

Vacuum Technique:
Dry vacuum pump for analysis applications and research laboratories



Industrial Technique:
Handheld battery tool for assembly applications



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



Power Technique:
Portable medium-pressure oil-free compressor

Compressor Technique



Order volumes for equipment decreased while the service business showed more resilience with order intake at about the same level as the previous year. In total, the order intake decreased in all major regions. The business area completed six acquisitions and continued to invest in product development, digital interaction with customers, and connectivity.

Market development

The year started with solid demand for the business area’s products and services. However, the Covid-19 pandemic affected demand negatively already during the first quarter and continued to have a dampening effect on the business climate throughout the year. In total, the order intake decreased 3% organically.

The service business showed resilience despite the challenging market conditions, and the order intake remained at about the same level as the previous year. Growth was achieved in North America and Europe but decreased slightly in Asia.

Order volumes for equipment decreased in all major regions, particularly in North America.

Demand for industrial compressors decreased with a more evident effect on the order volumes for larger compressors than for small and medium-sized compressors. The demand for gas and process compressors was significantly lower than the previous year’s high level. Order volumes decreased in all regions except Africa/Middle East, where the order intake increased, supported by improved demand in the latter part of the year.

Market presence and organizational development

The business area continued to invest in innovation during the year. Several new products were introduced to the market to strengthen the product offer, such as medical air solutions, dryers, industrial compressors, and gas and process compressors. At the same time, costs in other areas were adjusted to adapt to the changing business climate.

Despite changing market conditions due to the Covid-19 pandemic, the business area managed to handle the business well thanks to the resilient business model, the capability to rapidly adjust operations, and utilizing digital sales processes to a greater extent. Within sales and marketing, the focus on digital channels increased to improve lead generation and digital marketing. To further develop the service business, the data monitoring program SMARTLINK 2.0 was released during the year. The business area also invested in production machinery in its facilities in Antwerp, Belgium, and in a data analytic center in Pune, India.

The efforts to reduce the environmental footprint continued with an increased number of factories utilizing solar power as an energy source. Through selected acquisitions, the business area increased its presence in targeted markets and customer segments.

Acquisitions

The business area made six acquisitions in 2020:

- The operating business of Purification Solutions LLC, a US-based manufacturer of air treatment and nitrogen generators. The company has 60 employees and had a revenue of MUSD 26 (MSEK 242) in 2019.
- MEDGAS-Technik GmbH, a German mechanical contractor for the medical industry, with 80 employees and a turnover of MSEK 126 in 2019.
- THN Druckluft und Produktions GmbH & Co. KG, a German distributor of compressed air and service solutions with 15 employees.
- Ovity Air Comprimé, a French distributor of industrial compressors and compressed air solutions with 8 employees.
- Dr. Gustav Gail Drucklufttechnik GmbH, a German distributor of industrial compressors and services with 10 employees.
- Hydra Flow West, a US-based distributor of compressor parts with 7 employees.

Revenues, profits and returns

Revenues reached MSEK 47 329 (48 286), an organic increase of 1%. The operating profit decreased 5% to MSEK 10 658 (11 198), corresponding to a margin of 22.5% (23.2). The margin was negatively affected by sales mix and dilution from acquisitions. Return on capital employed was 79% (87).

REVENUES, MSEK

47 329

2019: 48 286

OPERATING PROFIT MARGIN

22.5%

2019: 23.2%

RETURN ON CAPITAL EMPLOYED

79%

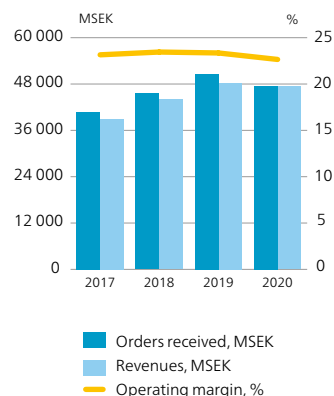
2019: 87%

SALES BRIDGE

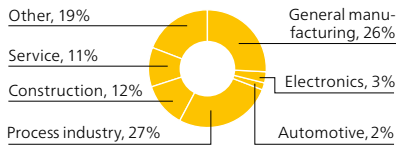
	Orders received	Revenues
2019, MSEK	50 654	48 286
Structural change, %	+1	+1
Currency, %	-4	-4
Organic*, %	-3	+1
Total, %	-6	-2
2020, MSEK	47 401	47 329

* Volume, price and mix

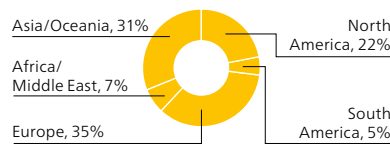
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



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 request 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. the food, pharmaceutical, electronics, and textile industries. Compressed air is also used to power industrial tools, in robots, and in applications as diversified as hospitals, snow making, fish farming, and in high-speed trains. Blowers are used in applications where a consistent flow of low-pressure air is needed, for example in 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, energy recovery, and the reduction of CO₂ emissions
- Focus on total solution and total life-cycle cost
- The combination of cloud technology, big data and machine learning increases the demand for data-driven service solutions
- New applications for compressed air

Demand drivers

- Industrial production
- Investments in machinery
- Energy costs
- Need for decreased CO₂ emissions drives demand for more energy-efficient machinery

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

Strategic activities

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

Competition

Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll Rand, Kaeser, Hitachi, 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.

Next generation piston compressors

23 520 metric tonnes of CO₂ avoided annually which corresponds to:

5 081 internal combustion engine passenger cars driven for one year

Energy savings: **10%**

The A49B piston compressor range is the new generation of the 2 stage 3-5HP piston compressors, replacing the current generation. It is designed to be more compact and energy efficient. This results in a reduced CO₂ footprint of more than 10% for the complete life-cycle compared to the previous

generation of the compressor. This product range is designed for a variety of manufacturing or industrial application processes that require compressed air versatility. The compressors can be found in various practical applications such as in service stations for pumping car tires, spray painting or wood work.

The replacement of the previous technology is done gradually. In 2020, customers using the A49B piston compressor range would save up to 5 693 metric tonnes of CO₂ per year compared to the previous generation of the compressor. When the replacement is completed, the new generation of 2 stage 3-5HP piston compressors could save up to 23 520 CO₂ metric tonnes annually, based on the 2020 sales figures.

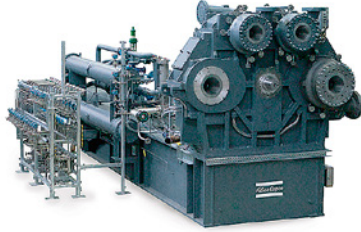


Products and applications

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



Oil-free medical air system

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 in wastewater treatment and conveying.

Oil-free centrifugal compressors

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

Gas and process compressors

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

Air and gas treatment equipment and medical air solutions

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

Principal product development and manufacturing units are located in:

Belgium, the United States, China, India, Germany and Italy.

Innovations during 2020

Several new products were introduced during the year, including:

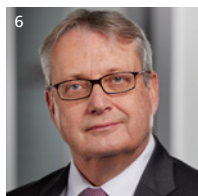
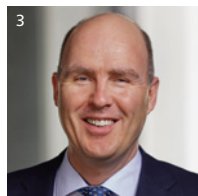
MED71+, a new energy-efficient medical air purifier for stringent requirements with up to 35% space savings compared to previous models.

GA 30+-45+, a new range of oil-injected screw compressors with leading performance and a 32% lower footprint than previous models.

CD+ 20-335, the first compressed air dryer with solid desiccant, providing reduced energy consumption compared to conventional dryers as well as health and environmental benefits.

A new **oil-free gas screw compressor for marine propulsion** that supports the transition of combustion of heavy fuel oil with the more environmentally friendly LNG for cargo transports at sea.

MANAGEMENT Compressor Technique, January 1, 2021



BUSINESS AREA PRESIDENT: Vagner Rego

DIVISIONS:

1. Compressor Technique Service

President Dirk Beyts

2. Industrial Air

President Joeri Ooms

3. Oil-free Air

President Philippe Ernens

4. Professional Air

President Alain Lefranc

5. Medical Gas Solutions

President Ben Van Hove

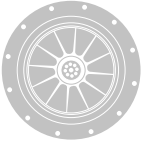
6. Gas and Process

President Robert Radimeczky

7. Airtec

President Wouter Ceulemans

Vacuum Technique



The order intake for vacuum equipment and service increased, primarily driven by increased demand from the semiconductor industry in Asia and Europe. The business area intensified its focus on innovation and digital interaction with customers, made investments in production, and completed three acquisitions during the year.

Market development

The demand for vacuum equipment and related services remained on a high level despite the Covid-19 pandemic, and the order intake increased in total by 6% organically.

The service business grew, mainly supported by high factory utilization in the semiconductor industry. Order volumes increased in Asia but remained essentially unchanged in Europe and North America.

Order volumes for equipment also increased, mainly due to increased demand for vacuum equipment to the semiconductor industry. The order intake increased in Asia and Europe but decreased in North America. The overall growth was primarily driven by customers' investments in new production technology and, to a certain extent, by investments in production capacity.

Order volumes for equipment to industrial and scientific vacuum applications were basically unchanged. The order intake increased in Asia and North America but decreased in Europe.

Market presence and organizational development

The business area strengthened its focus on innovation with increased investments in research and development. Several new innovative products were introduced, targeting both the semiconductor and flat panel display market, and the industrial and scientific vacuum market.

Investments were made in market presence, particularly for the service business, and increased digital capabilities through additional development of CRM systems, e-commerce and digital marketing. Despite challenges caused by the Covid-19 pandemic, the business area succeeded in managing its logistics chain. Part of this work, which also helped to reduce the environmental impact, was the successful replacement of air freight and sea transport by rail transport from Europe to China.

During the year, the business area invested in a new fully automated machining center in its manufacturing facility in Cologne, Germany, a capacity extension for production of industrial vacuum equipment in Qingdao, China, innovation centers in Japan and China, and new distribution centers in the United States and China.

Acquisitions

The business area completed three acquisitions in 2020:

- M.C. Schroeder Equipment Co., Inc., a distributor of vacuum equipment and service solutions in the US, with 8 employees.
- Dekker Vacuum Technologies, Inc., a US-based supplier of industrial vacuum equipment and service solutions with 70 employees and revenues of approximately MUSD 23 (MSEK 217) in 2019.
- The technology and operating assets of iTrap, an ion trap mass spectrometer instrument for gas analysis used for diagnostics or process control in the semiconductor industry.

Revenues, profits and returns

Revenues increased 5% to MSEK 24 685 (23 570), corresponding to a 3% organic increase. The operating profit decreased 5% to MSEK 5 519 (5 792), and includes items affecting comparability of MSEK –300, whereof MSEK –210 related to provisions for pension liability from prior years, and MSEK –90 related to restructuring costs. The operating margin was 22.4% (24.6), and the adjusted operating margin was 23.6% (24.6). Recent acquisitions had a dilutive effect on the margin. Return on capital employed was 19% (22).

REVENUES, MSEK

24 685

2019: 23 570

OPERATING PROFIT MARGIN

22.4%

2019: 24.6%

RETURN ON CAPITAL EMPLOYED

19%

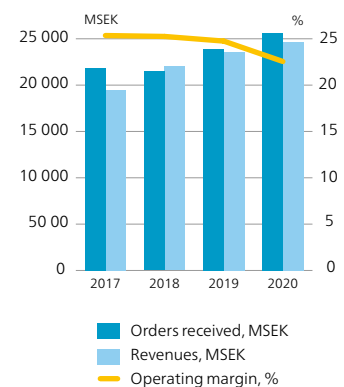
2019: 22%

SALES BRIDGE

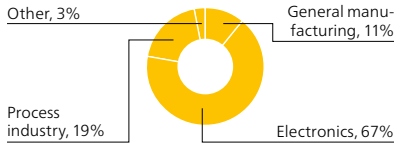
	Orders received	Revenues
2019, MSEK	23 876	23 570
Structural change, %	+3	+4
Currency, %	–2	–2
Organic*, %	+6	+3
Total, %	+7	+5
2020, MSEK	25 583	24 685

* Volume, price and mix

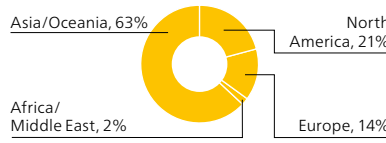
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



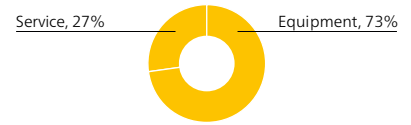
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

Vacuum and abatement solutions are required in a number of industrial applications where the pressure needs 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 into semiconductor, industrial vacuum and scientific vacuum. However, each of these sectors contains several sub-sectors and specific applications.

Vacuum products include a broad range of dry pumps, turbomolecular pumps and other vacuum pumps. They are used to create highly-controlled, low-pressure, particle-free environments in 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 extreme working temperatures in processes for semiconductor and industrial production
- Focus on energy-efficiency savings
- Continued trend towards companies being compliant to strict regulatory emission standards
- Increased demand for digitally supported service offers
- 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-efficient vacuum pumps
- Increase in vacuum requirements to support new production processes

Vision and strategy

The vision is to be First in Mind—First in Choice for vacuum and abatement solutions. The strategy focuses on technology leadership, market leadership and agility, to support growth drivers. This is done by focusing on product research and development programs together with deployment of highly innovative products and services. Continued execution of market leadership will be done by an organization focused on agility, growing market share in our traditional heartlands and further expansion of the geographical footprint.

Additionally, the business area has a strong focus on developing the service business and an efficient and flexible global operations footprint.

Strategic activities

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

Competition

Vacuum Technique’s principal competitors are:

Semiconductor market:

DAS Environmental Expert, Ebara, Kashiya, Pfeiffer Vacuum, Shimadzu Corporation

Industrial and scientific market:

Ingersoll Rand, Pfeiffer Vacuum and Busch

Market position

A global market leader for vacuum and abatement solutions.

Liquid ring pumps used in industrial applications

1 160 metric tonnes of CO₂ avoided annually which corresponds to:

250 internal combustion engine passenger cars driven for one year

Energy savings: **40%**

The Atlas Copco LRP VSD+ line of intelligent liquid ring pumps designed for the industrial vacuum market is a unique blend of vacuum technology and market leading VSD control. The range boasts nine patent pending innovations and in variable applications, significant energy savings of up to 40% compared with previous fixed speed installa-

tions; championing process optimization in applications with high levels of vapor and liquids.

Customers can also experience substantial water savings using this technology. By exchanging existing single pass liquid ring pumps with the enclosed recirculation system, water savings can exceed 90%. Made possible by the unique auto-flush feature, the LRP VSD+ can prevent build-up of contaminants in the water system by running a scheduled purge and refill, without interrupting the customer’s production.

Since its launch, based on the units that have been placed into the market, Atlas Copco customers have saved an estimated 1 250 000 kWh in electricity and 259 000 m³ of water in comparison with previous fixed speed installations. This amounts to

a global reduction in CO₂ emissions of 1 160 tonnes or the equivalent of CO₂ from 250 passenger cars driven for one year.



Products and applications

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



Dry vacuum pump for analysis applications and research laboratories



Dry screw vacuum pump used in chemical and other industrial applications



Integrated abatement system used in the semiconductor industry



Cryogenic chiller

Oil-sealed rotary vane vacuum pumps

The latest generation of oil-sealed rotary vane pumps has been refined to produce a better quality of vacuum while extending the pressure range over which the pump can operate. They are used in a wide variety of industrial, and research and development applications.

Dry vacuum pumps

Dry pumps are oil-free pumping mechanisms to create vacuum environments. They use no lubricants within the pumping mechanism and have a series of available monitoring and control options. Dry pumps are used extensively in many semiconductor applications, as well as in 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 a turbo pump is the high rotational speed. These pumps are typically used in conjunction with primary wet or dry pumps. They are commonly used in semiconductor applications and research and development, industrial applications and high energy physics.

Liquid ring vacuum pumps

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

Abatement and integrated systems

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

Cryogenic pumps

Cryogenic pumps create vacuum by condensing (freezing) gas onto special arrays of cryogenically cooled surfaces within the pump envelope. The temperature of the surfaces can be below 20K / -250°C to enable the capture of most gas species. Cryogenic pumps are used in a spectrum of high-technology research applications as well as in manufacturing of semiconductor, flat panel and optical devices.

Innovations during 2020

Several new products were introduced during the year, including:

nXLi100D – a new abatement system with superior emission performance and module design for optimized service and production uptime.

A new range of **Atlas abatement systems** with improved performance to help customers reduce their greenhouse gas emissions.

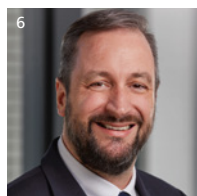
nEXT730 and **EXT930 turbomolecular pumps** offering customers high pumping speed, flexible installation and intelligent monitoring and control options.

MaxCool 2000, a new cryogenic chiller offering increased productivity, advanced communication options, and reduced environmental impact of about 25% versus comparable products.

Principal product development and manufacturing units are located in:

The United States, Mexico, United Kingdom, Czech Republic, Germany, South Korea, China and Japan.

MANAGEMENT Vacuum Technique, January 1, 2021



BUSINESS AREA PRESIDENT: Geert Follens

DIVISIONS:

1. Vacuum Technique Service

President Eckart Roettger

2. Semiconductor Service

President Troy Metcalf

3. Semiconductor

President Kate Wilson

4. Semiconductor Chamber Solutions

President Martin Tollner

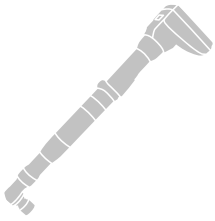
5. Scientific Vacuum

President Carl Brockmeyer

6. Industrial Vacuum

President Koen Lauwers

Industrial Technique



Order volumes for equipment and service decreased due to significantly weaker demand from customers in the automotive and general industry. The reduced order intake was evident in all regions. Despite challenging market conditions, the business area continued to invest in innovation and digitalization. Machine vision and automated metrology were added to the product offering through acquisitions.

Market development

The demand for equipment and services weakened significantly from customers in both the automotive and general industry. In total, the order intake decreased 16% organically.

The service business was negatively affected by customers' reduced production levels and limitations to conducting field service due to the Covid-19 pandemic. Order volumes declined with decreased order intake in all regions except North America, where order volumes remained unchanged.

The ongoing pandemic and customers' hesitation to invest affected demand for advanced industrial tools and assembly solutions to the automotive industry. Even though key accounts invested in long-term strategic projects, order volumes decreased in all regions.

The demand for industrial power tools from the general industry also weakened significantly with reduced order volumes in all regions and most end-customer segments.

Market presence and organizational development

The business area continued to invest in innovation and further strengthened its product portfolio by introducing several new products to the market during the year. At the same time, numerous actions were taken to adapt costs in other areas, such as sales, marketing and production, to the deteriorated business

climate. However, investments were made in enhancing digital customer interaction with a new e-commerce platform and virtual product demo tools as examples. ALTURE: Maintain, a cloud-based data-driven service solution helping customers to optimize their maintenance process, was also launched during the year.

The focus on reducing the environmental footprint continued, for example with the investment in LED lighting in one of the major plants in the United States.

New technology, machine vision and automated metrology, was added to the product offering through acquisitions, and a new division was created.

The business area invested in a demo center for machine vision solutions in the United States during the year.

Acquisitions

The business area made three acquisitions in 2020:

- Scheugenpflug AG, a German supplier of dispensing solutions, specialized in highly-automated system solutions such as dispensing cells and vacuum potting chambers, was acquired in January. The company had 600 employees and a revenue of about MEUR 80 (MSEK 850).
- ISRA VISION AG, a global machine vision specialist headquartered in Darmstadt, Germany, with more than 800 employees and revenues of approximately MEUR 154

(MSEK 1 619) in the fiscal year 2018/19, was acquired through a voluntary public takeover offer. The settlement of the offer was completed on June 24 and in connection with that a payment of MSEK 9 028 (MEUR 860) was made to ISRA VISION's shareholders. Together with payments made for previous share purchases of MEUR 150, Atlas Copco has paid MSEK 10 604 (MEUR 1 010) for 92.19% of ISRA VISION. On August 3, it was announced that Atlas Copco requested a squeeze out of minority shareholders in ISRA VISION AG. On December 15, 2020, the shareholders' meeting of ISRA VISION AG resolved on a squeeze out, which is expected to be finalized by the end of the second quarter 2021.

- Perceptron, a US-based company specialized in automated metrology with 300 employees and revenues of MUSD 62.3 (MSEK 516) in the fiscal year 2020, ending June 30.

Revenues, profits and returns

Revenues decreased 14% to MSEK 16 176 (18 712), corresponding to a 18% organic decline. The operating profit decreased 40% to MSEK 2 422 (4 069), and includes items affecting comparability of MSEK -190, related to restructuring costs. The operating margin was 15.0% (21.7). The adjusted operating margin was 16.1% (22.4), negatively affected by significantly lower revenue volumes, dilutions from acquisitions and currency. Return on capital employed was 13% (35).

REVENUES, MSEK

16 176

2019: 18 712

OPERATING PROFIT MARGIN

15.0%

2019: 21.7%

RETURN ON CAPITAL EMPLOYED

13%

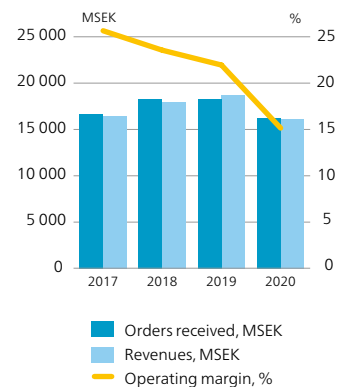
2019: 35%

SALES BRIDGE

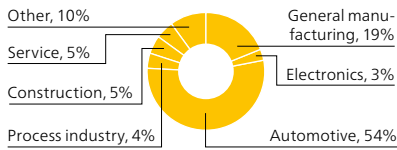
	Orders received	Revenues
2019, MSEK	18 267	18 712
Structural change, %	+8	+7
Currency, %	-3	-3
Organic*, %	-16	-18
Total, %	-11	-14
2020, MSEK	16 254	16 176

* Volume, price and mix

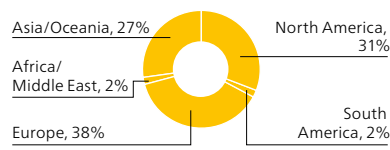
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



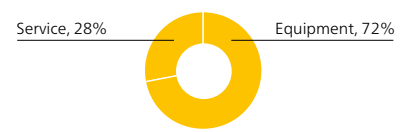
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

The automotive industry, including sub suppliers, is a key customer segment, and the applications served are primarily assembly operations. The automotive 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 includes a wide offering of quality assurance and quality improvement solutions. With increasing demand for electric cars and increased use of lighter materials, the automotive industry is looking to alternative assembly solutions. The market demands new assembly technologies such as dispensing equipment for adhesives and sealants as well as self-pierce riveting equipment and rivets to cater these needs.

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

The business area offers machine vision solutions that are used in discrete production, such as the automotive industry, and in continuous process production applications, such as metal and paper production, advanced material manufacturing, and solar panels.

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

Market trends

- Automation in customers' production
- Digitalization and demand for connectivity in production
- Increased demand for electric vehicles
- Higher requirements for quality, productivity, flexibility and ergonomics, and increased demand for inline quality control
- Increased focus on renewable energy and storage
- Use of light-weight material in transportation-related industries

Demand drivers

- Industrial production
- Capital expenditure in the automotive industry
- Changes in manufacturing methods and higher requirements, e.g. quality assurance and flexibility

Vision and strategy

The vision is to be First in Mind—First in Choice as a supplier of assembly solutions, machine vision, quality assurance products, software, material removal products, and services to customers in the automotive and general industries. The strategy is to continue to grow the business profitably by building on technological leadership and continuously offering products and services that improve customers' productivity, flexibility, quality, safety and ergonomics. Key strategic initiatives include adjusting the product offer to meet increased automation in customers' production processes, and providing additional service, know-how and training.

The business area is also increasing its presence in targeted geographical markets. The presence is enhanced by 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 innovative products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Further increased focus on automation and digitalization, through connected products and solutions, to support customers' productivity and flexibility
- Extend the product and service offering at current customers and adjacent segments and applications
- Increase share of proactive services and the share of service on the installed base
- Increase operational efficiency
- Invest in competence development
- Acquire complementary businesses and integrate them successfully

Competition

Industrial Technique's principal competitors are:

Industrial tools business:

Apex Tool Group, Ingersoll Rand, Stanley Black & Decker, Uryu, Bosch as well as several local and regional competitors

Adhesive and sealant equipment:

Nordson, Graco, and Dürr

Self-pierce riveting:

Stanley Black & Decker, and Böllhoff

Machine vision:

Zeiss, VMT, and Inos

Market position

A leading market position globally in most of its operations.

Magazine for battery manufacturing in the automotive industry

181 metric tonnes of CO₂ avoided annually which corresponds to:

39 internal combustion engine passenger cars driven for one year

Energy savings: **64%**

By supplying screws uninterrupted, the HLX 70 magazine supports the automotive industry to reduce the consumption of compressed air used when fastening the lid of the battery tray, which is a costly resource in production. It also increases productivity by realizing shorter cycle times. Every second of the automotive-battery lids assembly uses flow-drill fastening. When connecting the battery cover with the tray, large quantities of screws need to be processed, within short cycle times. In order to ensure secure joints and serviceability of the battery, a reliable but also removable fastening is needed. The K-Flow HLX 70 magazine enables a fast application with its capacity of up to 70 screws,

without interruption within the process.

In a typical battery-cover process, the magazine solution can achieve up to one-third faster cycle times and reduce up to 64% of the energy consumption, for feeding one screw compared to a standard blow-feed system.

Using the K-Flow HLX 70 magazine can save an equivalent to 181 metric tonnes of CO₂ emissions yearly compared to the standard system. This corresponds to emissions from 39 passenger cars driven for one year based on the estimated use of the magazine for 2.2 million sold electrical vehicles in 2019.



Products and applications

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



Handheld battery tool for assembly applications



Sensors for machine vision solutions



Self-pierce riveting system



Dispensing unit for application of adhesives and sealants

Industrial assembly tools and solutions

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

Self-pierce riveting solutions, adhesive dispensing and flow drill fastening equipment

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

Material removal tools, drills and other pneumatic products

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

Machine vision solutions

Machine vision is one of the key technologies for industrial automation and digital manufacturing. The core competence involves the development of surface inspection systems and 3D machine vision products. The combination of high-performance cameras and illumination units, specialized software and business intelligence architecture allows for detailed analysis of production flows and quality assurance in a wide range of industries.

Principal product development and manufacturing units are located in:

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

Innovations during 2020

Several new products were introduced during the year, including:

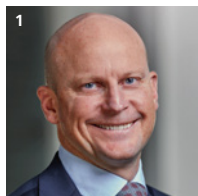
QA Station MT, a new portable quality assurance station for assembly tools allowing quick and easy torque checks and guidance for improved process quality in customers' production.

Tensor ICB, a new handheld battery tool for assembly applications offering improved flexibility, accessibility and ergonomics.

Smart.Adjust, a new product that combines visual bead inspection and industrial dispensing, optimizing the dispensing application in battery production.

The EFBC, an electric wireless assembly tool for robot applications, particularly designed for cobot integration.

MANAGEMENT Industrial Technique, January 1, 2021



BUSINESS AREA PRESIDENT: Henrik Elmin

Divisions:

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

Power Technique



The order intake for equipment, service, and specialty rental solutions decreased significantly due to lower demand in most regions. Order volumes for equipment in North America, in particular, did not reach the previous year’s high level. Costs were adjusted to align with the changing business climate while the focus on innovation remained.

Market development

The demand for equipment, service, and specialty rental solutions decreased, particularly in the middle of the year and as a result of the Covid-19 pandemic. In total, the order intake decreased 12% organically.

Order volumes for the specialty rental business were on a high level at the beginning of the year. However, the order intake decreased sharply after the first quarter as customers’ projects and investments were postponed. The order intake decreased in all regions except South America.

The demand for service also weakened with decreased order intake in all major regions except Europe, where order volumes were essentially unchanged.

Equipment demand for portable compressors, construction and demolition tools, power and flow equipment, such as generators and pumps, declined significantly. The order intake decreased in all regions, especially in North America where large orders from equipment rental companies were not repeated, and in Africa/Middle East.

Market presence and organizational development

The business area maintained its focus on innovation and continued to invest in product development. Several new products, such as portable compressors, generators, light towers, and energy-storage equipment, were introduced during the year.

Costs within several areas were adjusted to deal with the deteriorated business climate, and the agile business model proved to be efficient. The business area’s overall strategy remained unchanged, but more digital initiatives were initiated both in operations and in customer interactions. Investments were made in digital market presence, for example virtual product launches, customer webinars, and digital marketing.

In operations, investments were made in a new depot for the specialty rental business in Texas, United States.

The work to reduce the environmental footprint progressed, for example by converting to renewable energy when testing combustion engine-driven compressors.

Revenues, profits and returns

Revenues decreased 13% to MSEK 12 106 (13 915), corresponding to a 10% organic decline. Operating profit decreased 31% to MSEK 1 594 (2 308), including items affecting comparability of MSEK –50, related to restructuring costs. The operating margin was 13.2% (16.6). The adjusted operating margin was 13.6% (16.6), negatively affected primarily by lower revenue volumes and sales mix. Return on capital employed was 18% (28).

REVENUES, MSEK

12 106

2019: 13 915

OPERATING PROFIT MARGIN

13.2%

2019: 16.6%

RETURN ON CAPITAL EMPLOYED

18%

2019: 28%

SALES BRIDGE

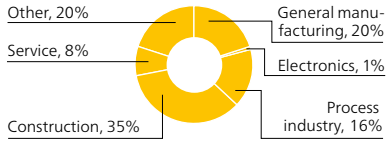
	Orders received	Revenues
2019, MSEK	13 954	13 915
Structural change, %	+1	+1
Currency, %	-4	-4
Organic*, %	-12	-10
Total, %	-15	-13
2020, MSEK	11 810	12 106

* Volume, price and mix

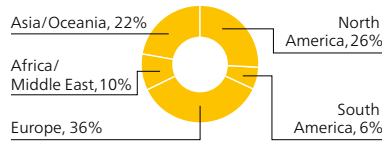
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

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

Multiple segments are served by the business area's offering. General and civil engineering contractors, often involved in infrastructure projects, demand light construction tools. Mobile compressors, generators, light towers and pumps provide reliable power sources for tools and applications in the construction sector and numerous industrial applications.

Contractors and 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
- Equipment connectivity
- Increased demand for service support/contracts

Demand drivers

- Infrastructure growth
- Industrial production
- 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 the service business; increasing revenues by offering more services to more 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
- 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, and Sullair. 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.

Efficient light tower used at construction sites, events and mine sites

572 metric tonnes of CO₂ avoided annually which corresponds to:

124 internal combustion engine passenger cars driven for one year

Energy savings: **40%**

The HiLight H6+ light tower, which is used to illuminate construction sites, events and mine sites, comes with Atlas Copco's innovative HardHat® body, made of medium-density polyethylene rather than metal to protect the working operation underneath from the elements as HardHat® is rust-free and more robust. The HiLight H6+ features a new generation of LED floodlights that provide

optimal light distribution up to a 6 000 m² area, 15% brighter than the market average. The light tower has a dimming function to provide the right luminosity at each moment, delivering up to 40% CO₂ savings compared to similar light towers and extending the number of hours the machine can operate without replacing the fuel to over 300. The control panel has a dedicated side-door to improve accessibility. The LED lighting units have a lifespan of 50 000 hours as compared with 30 000 which is standard in the industry. In addition, the HiLight H6+ delivers a significant reduction in noise levels.

Based on the total sales forecast of the unit for 2021, customers can reduce CO₂ emissions by around 572 metric tonnes per year, compared to the predecessor model, which translates to 124 passenger cars driven for one year.



Products and applications

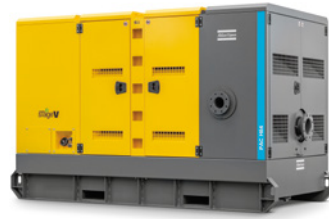
The Power Technique business area offers a range of products for selected applications in civil engineering, construction and demolition.



Portable medium-pressure compressor



Generator



Surface pump



Handheld pneumatic breaker

Portable compressors

Portable oil-injected compressors are primarily used in construction applications where 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. Electric portable air compressors generate less noise compared to compressors with combustion engines, and are ideal for low noise and emission zones or indoor 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

Lighting towers provide light for safe operations 24/7.

Pumps

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

Construction and demolition tools

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

Principal product development and manufacturing units are located in:

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

Innovations during 2020

Several new products were introduced during the year, including:

A new range of EU-stage V compliant generators with variable speed motors offering about 5% lower fuel consumption than the industry average and a 20% smaller footprint than comparable products.

XAS 188, a new portable compressor with improved efficiency, a new controller for ease of use, dual tool capability, and a spillage free frame to protect the environment from contamination.

HiLight H6+, a new light tower with the lowest noise level on the market, and next generation LED lights to ensure low operational costs for the customer.

Several new models of the **XAS** range portable compressor with low weight, lowered emission levels, digital control and the ability to run various applications with different pressure levels.

MANAGEMENT Power Technique, January 1, 2021



BUSINESS AREA PRESIDENT: Andrew Walker

DIVISIONS:

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

Delivering lasting value in a sustainable way

At Atlas Copco, we are committed to being part of the solution for a better tomorrow. Our mission is to achieve sustainable, profitable growth. This means innovating with a life-cycle perspective and supporting our customers to meet their sustainability ambitions. It means minimizing environmental impact from our operations and products. It means making sure that our employees are safe and healthy and that our company stays lean and efficient. It also includes growing in a way that is ethical, with respect for human rights and zero tolerance for corruption throughout the value chain.

To deliver lasting value for customers and all stakeholders, Atlas Copco focuses on the following areas for sustainability: products and service, people, safety and well-being, ethics, and the environment. We regard them, along with profitability and growth, as necessary to achieve long-term success. Atlas Copco’s Board of Directors approves these focus areas, as well as the related key performance indicators (KPIs) and goals. Progress in relation to the Group KPIs is monitored quarterly by Group Management. Most of the implementation is handled by

the divisions, which set targets that support the achievement of the Group’s goals. Divisions and business area management continuously monitor the progress. Progress in relation to the goals in these areas is part of the variable compensation for Group Management as well as for other employees. Our drive to innovate supports the continuous development of highly energy- and resource-efficient products with low environmental impact. As we regard our employees as our most valuable asset, we prioritize healthy and safe working condi-

tions and fair development opportunities. We live by the highest ethical standards and demand the same from our business partners. This ensures the safety and well-being of our colleagues, safeguards our culture, protects the business from risk, enables growth and promotes ethical behavior in society. Through our operations, values and processes, Atlas Copco contributes to the achievement of the UN Sustainable Development Goals and its targets. For more information, see pages 35–43.



“ Our drive to innovate supports the continuous development of highly energy- and resource-efficient products with low environmental impact

Focus areas	Products and service	People	Safety and well-being	Ethics	The environment
Material issues	<ul style="list-style-type: none"> – Product eco-efficiency – Life-cycle perspective – Product innovation – Product quality and safety 	<ul style="list-style-type: none"> – Employee satisfaction and engagement – Diversity and non-discrimination 	<ul style="list-style-type: none"> – Occupational health, safety and well-being 	<ul style="list-style-type: none"> – Business ethics and integrity – Human rights – Transparency and accountability – Responsible supply chain 	<ul style="list-style-type: none"> – Climate change – Energy use and efficiency – Waste – Water use
Read more	Page 35	Pages 36–37	Page 38	Pages 39–40	Pages 41–43

Bringing value to customers through an innovative mindset

Atlas Copco is a leader in the technological development to optimize customers’ productivity, energy efficiency and safety. Our high-quality service offerings ensure that customers get the most out of every investment.

PRODUCTS AND SERVICE



Vision: Our products create lasting value and make a positive impact

Action: We take a life-cycle approach to innovation

Atlas Copco has a strong innovative spirit and continuously launches new products that set new industry standards. Currently, the Group has 6 400 patents, linked to around 2 100 inventions.

We have strong relationships with customers in leading positions in their industries. A deep understanding of these customers’ applications and needs is fundamental to maintaining Atlas Copco’s leading position.

A life-cycle approach

Atlas Copco takes a life-cycle approach to innovation. In 2020, we adopted a Group-standard life-cycle design method for calculating a product’s carbon footprint during the design phase. The Product Carbon Footprinting tool includes the carbon impact of all aspects of the product’s life cycle, from choice of materials to product use, recycling and disposal.

All design projects for new or redesigned commercial products must set targets for reduced carbon impact. The divisions set their own target for the percentage of projects for new or redesigned commercial products that will achieve a significant carbon impact reduction. A significant reduction is defined as a 5% or lower carbon footprint over the product’s life cycle, compared to the most comparable Atlas Copco product.

Strong service offerings and smart product design help minimize waste and maximize the value of customers’ investments. Atlas Copco

has several service divisions, which ensure the repair and reuse of used products, extending their useful life and minimizing waste. Products such as stationary compressors, vacuum products and industrial tools are designed so that they can be returned, refurbished and resold as used equipment. A worldwide network of service technology centers repair and remanufacture used products to as-new standards. Such used equipment meet the same high standards as when they were new in terms of quality, performance and energy efficiency, contributing to increased circularity. Further, certain Atlas Copco units take contaminated products, which otherwise would need to be disposed of as hazardous waste, and return them to full operation.

Modular design can support sustainability as it enables easy disassembly of a product and recycling of materials. In this way, parts can more easily be replaced, which prolongs the life of the product and contributes to avoiding waste generation.

Efficiency, productivity and safety

Today’s environmental and societal challenges present business opportunities for a company like Atlas Copco. Customers request equipment and service that increase productivity and that are resource- and energy-efficient, safe and ergonomic, and contribute to the customers’ sustainability ambitions.

One of the Group’s most well-known and groundbreaking innovations is the VSD (variable speed drive) technology in compressors. This is an example of an innovative technology which helps customers increase their energy efficiency, reduce carbon-dioxide (CO₂) emissions and at the same time reduces cost. The technology is now available in generators, pumps and stationary as well as in portable compressors. Read more about how Atlas Copco’s innovative products save energy, contribute to lower CO₂ emissions and support customers on pages 22–33.

Digitalization enables sustainability

Digitalization is a key enabler for sustainable solutions in many industries. Digital solutions may lead to better use of materials and less need for transportation, thereby contributing to both customers’ and our own sustainability ambitions. Increased connectivity and big data can be harnessed to transform the efficiency of industrial processes. An increasing share of Atlas Copco’s engineers work on product development projects where software development, connectivity and big data are important parts.

Increasingly, digital and data-driven service and products are part of the offer. Digitalization brings value to our customers in almost all parts of their operations and processes and several products are directly linked to increased digitalization. As the manufacturing industry is becoming increasingly digitalized, Atlas Copco also works with customers to increase the uptime of products, thus increasing customers’ competitiveness and resource efficiency. One example is the SmartLink data-monitoring system for compressors. A growing number of compressors are connected globally, enabling continuous monitoring of their status as well as predictive maintenance.

Atlas Copco contributes to the following Sustainable Development Goals:

- 9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.
- 12.5** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.



KEY PERFORMANCE INDICATORS

	Goal	2020	2019	2018	Comment
Projects for new or redesigned products with goals for reduced environmental impact by 2021	100%	-	-	-	Reported in 2021
Projects for new or redesigned products that will achieve a significantly reduced environmental impact, i.e. 5% or lower carbon footprint over the product’s life cycle.	Divisions set their own targets	-	-	-	

Passionate people create exceptional things

Atlas Copco’s ambition is to be the most attractive industrial company in our target markets. To make this happen, we must safeguard our strong values and enable the full potential of our colleagues so they can deliver world-class solutions to customers every day.

PEOPLE



Vision: Our culture of collaboration and inclusion drives our success
Action: We help each other grow and thrive

As a world-leading provider of innovative productivity solutions, Atlas Copco is dependent on all of its talented, committed and passionate employees. One of the Group’s primary focus areas is to attract, develop and retain passionate people, all to be First in Mind—First in Choice as an employer and to achieve sustainable business success.

A framework to align people success with business success

Atlas Copco’s talent framework consists of a common set of competencies aligned

with our core values and beliefs. The five competencies apply to all colleagues and have been identified as the most critical to our business success. The framework is designed to link all core people practices together and it aligns the Group’s people strategy to our business strategy.

The talent framework breaks down key competencies into behaviors that drive employee performance. It also emphasizes the belief that every employee, regardless of position, has a critical role in driving the Group’s success.

The ability to attract talent

To stay competitive in a changing business climate, we seek to attract new kinds of talent and ensure that we explore the entire talent pool when doing so. Targeted employer branding activities on a local level and the Group’s internal job market help us secure a healthy internal and external talent pipeline. A structured and uniform competence-based recruitment process ensures cultural fit and diversity. As an employer, Atlas Copco stands

out through a strong company culture, combined with a global reach, focus on innovation, and a mission-driven mindset.

Developing passionate people

We have a strong culture of growing talent by encouraging employees to take accountability for their own career and learning journey. By being curious and open to challenges and opportunities, the employee drives her own development, with continuous feedback and coaching from her closest manager.

Another key component is Atlas Copco’s learning culture. We offer tools and targeted learning content to promote professional and personal development. Atlas Copco’s learning management system provides all employees with an extensive library of digital and classroom courses and programs, that are relevant across the business or packaged for a specific subject, function or role.

Developing future-ready leaders is another key pillar of the Group’s people philosophy. In 2020, we designed a new leadership portfolio initially targeting our top 350 leaders. The portfolio offers personalized learning through a flexible, modular set-up, giving leaders the opportunity to craft and drive their own learning journey.

Covid-19 and dealing with uncertainty

Covid-19 has exposed the whole organization to a new and different reality with increased focus on safety and well-being. To support both managers and employees during these difficult times, Atlas Copco has launched toolkits covering support material and learning on topics such as leading from a distance, maintaining emotional well-being, as well as building resilience in times of change and uncertainty. To build awareness and transparency around the topic of physical and psychological well-being, the toolkits also include a podcast episode focusing



KEY PERFORMANCE INDICATORS	Goal	2020	2019	2018	Comment
Degree to which employees agree there is opportunity to learn and grow in the company*	Above benchmark (70)	–	71	–	The employment engagement survey is conducted every two years.
Degree to which employees agree we have a work culture of respect, fairness and openness*	Above benchmark (74)	–	74	–	
Share of female employees at year end 2030	30%	20.0%	19.8%	19.1%	

* Scores based on scale 0–100 where 0 is “strongly disagree” and 100 is “strongly agree”.

Diversity and inclusion drive business success

on the Covid-19 crisis and its impact on the human mind and body. The manager toolkit also includes a pulse survey for instant feedback about the state of well-being in each local team and to stimulate an open dialogue about the results.

Diversity drives business success

We believe that diversity and inclusion are critical to the success of our people and our business. It fosters innovation, strengthens employee engagement and satisfaction and that it leads to better decision making and customer solutions. We want both male and female role models in leadership positions, we look to employ the best talent, and to do so we explore the entire talent pool.

With a goal of 30% women in the organization by year-end 2030, the Group addresses the issue of gender balance being the biggest gap in the area of diversity. In 2020, progress was made towards better gender balance with 20.0% women in the workforce (19.8) at year end.

The Diversity and Inclusion Council, chaired by President and CEO Mats Rahmström, includes representatives of all business areas who meet regularly to follow up on action plans and results in the operations. The work is mainly driven by business area task forces and ambassadors in each operational entity. The council has established

guiding principles for diversity and inclusion based on best practices in the Group. The operational entities are closely following up on development regarding the percentage of women in production and sales and service, as many of our leadership roles require experience in these areas. Local diversity and inclusion ambassadors are facilitating trainings, in topics such as bias awareness, that can increase inclusion and a sense of belonging. Diversity and inclusion trainings and learning playlists, available to all employees through our learning management system, improve understanding of how our biases are relevant and come into play in our day-to-day interactions, in recruitment and in competence development decision making.

Safeguarding company culture

Atlas Copco's company culture is an important asset and a variety of activities are in place to support and develop it. Recurring workshops for employees on company values, strategy and guidelines are carried out to develop the culture. A common denominator for both values and practice is helping each other as colleagues and supporting learning at work.

Atlas Copco's global engagement survey, which is conducted every two years, brings important insights in four focus areas: employee engagement, Group culture, safety, and innovation. The insights are used to promote discussions regarding leadership and culture, and shape actions that drive development. The next survey will be conducted in March 2021.

MASTER IN MARKET AND SALES PROGRAM

During 2020, the Compressor Technique business area conducted a 12-month trainee program, the Master in Marketing & Sales Program, that secures a flow of talented and qualified sales and marketing professionals. The program is focused on enabling women already working for Atlas Copco to move into this career path.

The program, which started in 2012, reflects and promotes the Group's cultural diversity. The 2019–2020 cohort included 14 participants from 12 countries, and 10 were women. More than half of the participants took on new career challenges after graduation in early 2020.

The Master in Marketing & Sales Program targets employees currently working in other functional areas. Participants receive training within marketing, sales and finance, as well as in company strategy, personal leadership and communications, in combination with the assigned sales role or marketing project. Moreover, participants benefit from personalized coaching and mentorship from senior divisional management. Following its success, the program has expanded from a divisional to a Compressor Technique business area program. This gives more employees the opportunity to participate and gives Atlas Copco a competitive advantage in attracting, developing and keeping tomorrow's talent.

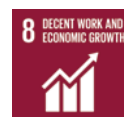
DEVELOPING FUTURE-READY LEADERS

The world changes rapidly and so does the skills and competencies required by our leaders. In 2020, Atlas Copco has designed and successfully piloted a modular and flexible portfolio of learning programs starting with our top 350 leaders as target group. Atlas Copco partners with business schools and global consultancy firms by leveraging each partner's core competence in design and delivery of learning module(s) supported by expert faculty. The modular setup allows us to reach a larger number of leaders through more modern learning methods, enabling them to design their own learning journey. The new portfolio is mapped against the five talent framework competencies, focusing on the key behaviors we would like to see and develop in all employees. The leadership portfolio will support and complement programs run on a business area, divisional and regional/country level.



Atlas Copco contributes to the following Sustainable Development Goals:

- 5.1 End all forms of discrimination against all women and girls everywhere.
- 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making.
- 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.



Committed to safety and well-being

We are committed to ensuring that our employees, additional workforce and others affected by our operations work in a way that contributes to their overall safety and well-being. We encourage awareness and safe behavior to prevent injuries in the workforce.

SAFETY AND WELL-BEING



Vision: The way we work contributes to our safety and well-being
Action: We look after each other’s well-being

Safety and well-being is a core priority at Atlas Copco. We pursue this by engaging everyone in eliminating hazards, reducing occupational health and safety risks in all operations and promoting the immediate reporting of near-misses and incidents.

Robust safety standards in place

We are committed to providing a safe and healthy working environment for all our employees in all operations. The global Safety, Health and Environmental policy ensures that there are robust standards for safety and well-being in the workplace. We seek to reinforce a culture and behavior that contribute to the safety and well-being of employees and others affected by our operations, including contractors. Actions include risk assessment and safety procedures, good environment within and around the workplace, appropriate follow-up procedures, transparent reporting and related training. The Group’s Safety, Health, Environment and Quality council oversees the work and supports the organization with the development of policies, processes and sharing of best practices in this area.

All divisions set targets and make action plans to enhance awareness and improve behavior, policies and processes. Group

companies are required to have an Atlas Copco verified Safety, Health, Environment and Quality management system which is documented, implemented and maintained on an ongoing basis. Annual Safety Days have been arranged in the Group since 2014.

Measuring progress

Progress is measured in safety reporting and follow-up, and in the employee engagement survey every two years. Through the survey, employees’ experience of the Group’s commitment to their well-being is measured. The goal is that an increasing part of our employees agree that Atlas Copco takes a genuine interest in their well-being.

To further strengthen the safety work and to encourage a culture of increased transparency, Atlas Copco uses a safety pyramid to measure progress. The safety-related KPI is to have a balanced safety pyramid, which means that more near-misses than minor injuries, and more minor injuries than recordable injuries are reported. The pyramid model supports transparent reporting, risk awareness and encourages safe behavior to decrease risks and ultimately prevent injuries in the workforce. The result in 2020 was in line with the Group’s goal of a balanced pyramid. For more details about the model, definitions and the results, see page 131.

Atlas Copco is highly decentralized and regional and local policies and practices complement Group processes, consistent with our vision and values.

Reaching for triple certification

Atlas Copco strives for all major operating units to be triple-certified according to ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001. All production units with more than ten employees and all customer companies and rental companies with more than

70 employees are to be triple-certified. The OHSAS 18001/ISO 45001 certifications involve regular risk assessments and follow-up on conditions and safety-related processes of both our own workplaces and those of our contractors. See page 131.

IMPROVING SAFETY

In 2018, the Atlas Copco production facility in Rock Hill, the U.S., introduced new safety initiatives that have paid off. The facility has gone two years without an incident or accident.

General Manager Frederic Genestout introduced the program ‘See it, Say it, Fix it’, which is communicated via many channels: banners, trainings, safety talks, displays, awards, monthly feedback, and intranet team sites. The displays show examples of employee suggestions for improvement, with before and after photos and a description of the results. The plant has eight safety teams focusing on a specific aspect of safety, each headed by a management team member. There is also an emergency response team of employees and an employee well-being committee.

Atlas Copco contributes to the following Sustainable Development Goal:

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.



KEY PERFORMANCE INDICATORS	Goal	2020	2019	2018	Comment
A balanced safety pyramid	Yes	Yes	Yes	–	The employee engagement survey is conducted every two years.
Degree to which employees agree that the company takes a genuine interest in their well-being*	Continuous increase	–	69	–	

* Scores based on scale 0–100 where 0 is “strongly disagree” and 100 is “strongly agree”.

Integrity, fairness and respect in all our interactions

How we conduct ourselves globally is more than just a matter of upholding regulations, policy and law; it's a reflection of our core values. We have an unwavering commitment to the highest ethical behavior, including zero tolerance for human rights abuse, bribery and corruption.

ETHICS



Vision: We are known for ethical behavior, openness and respect

Action: We act with honesty and integrity

Atlas Copco aims to earn the trust of everyone impacted by our operations, demonstrating our commitment to ethical behavior and human rights through our words and actions. We expect the same high standards of our business partners and work continuously with our value chain to reduce risks and achieve positive results for all stakeholders.

Our ability to ensure that the highest ethical standards are applied depends on the values and behavior of our people and business partners. Significant weight is therefore put on communication, training and monitoring to make sure that the values are known and followed.

We assess the potential risks for breaches of the Business Code of Practice and train all employees in its practical implementation. Yearly e-learnings, which are mandatory for all employees, and classroom trainings lead by managers in risk countries, are Group KPIs. The annual signing of the Business Code of Practice, together with training, support employees to identify and handle ethical dilemmas and strengthen the awareness of our values and guidelines. This process reinforces our high expectations on our interactions with each other, our customers, and all stakeholders in the communities we serve.

A responsible value-chain approach

Working with business partners who share our high standards regarding quality,

business ethics, the environment and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain.

The Business Code of Practice is the backbone of the responsible value-chain process, reinforced by signed commitment to follow it, screening and audits, customer sustainability assessment and targeted training. See page 132.

Responsible sourcing practices

Atlas Copco has a large international supplier base, which presents significant challenges. Purchased components represent about 75% of the product cost.

We use a risk-based approach and prioritize following-up significant suppliers who represent the bulk of the purchase value or who operate in markets with high corruption or human-rights risk.

Significant suppliers are evaluated on parameters including price, quality and reliability as well as key environmental, social and ethical concerns. The parameters are 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. See page 132.

The Business Partner Criteria document translates the Business Code of Practice into practical requirements and is available in more than 30 languages on our corporate website. All significant business partners are required to state their compliance to the Business Code by signing the document.

Distributors and agents

A Group goal requires that all significant distributors sign the Business Partner Criteria document. Distributors who represent the bulk of the sales value or who operate in high-risk markets are prioritized.

Sales compliance process

General managers, and ultimately the divisional presidents, are responsible for the implementation of the Group's policies and guidelines and to make sales decisions. The Head of Group Compliance supports the organization on trade compliance related matters, including sanctions and export control.

When relevant, we partner with customers to address human-rights risks in the value chain. The customer assessment tool is used to investigate potential environmental, labor, human rights and corruption risks. In-depth dialogue and field visits complement this tool. Atlas Copco's Compliance Board oversees the implementation of and compliance with the Business Code of Practice.

Zero tolerance against corruption

Atlas Copco does not tolerate bribery such as the offering, promising, giving, accepting or soliciting of an advantage, or corruption in any form, whether direct or through third parties, including facilitation payments. Firm actions will be taken on any violation. This rule applies to all employees as well as the Board of Directors and to all business dealings and transactions in all countries where Atlas Copco operates. The Board has explicitly stated that corruption or facilitation payments are never acceptable in order to secure a sale. This rule strengthens the brand and contributes to fair market competition.

There are no negative consequences, such as demotion or other reprisals, for refusing to receive or pay bribes or for reporting violations. The Group's misconduct reporting system can be used by any stakeholder to report perceived violations of laws or the Business Code of Practice. The system is provided by a third-party actor and reporting is anonymous.

KEY PERFORMANCE INDICATORS

	Goal	2020	2019	2018	Comment
Employees sign the Business Code of Practice	100%	99%	98%	–	All KPIs except 'Significant suppliers sign the Business Code' were first disclosed in 2019.
Employees trained in the Business Code of Practice	100%	99%	94%	–	
Managers in risk countries lead trainings in the Business Code of Practice	100%	99%	91%	–	
Significant suppliers sign the Business Code of Practice	100%	93%	90%	86%	
Significant distributors sign the Business Code of Practice	100%	84%	59%	–	

HUMAN RIGHTS IN THE VALUE CHAIN

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

Business partners	Atlas Copco’s own operations	Customers	Community
HUMAN RIGHTS RISKS Business partners not complying with labor standards, including working hours, forced/bonded or under-age labor and the freedom of association. Occurrence of conflict minerals in sourced products.	HUMAN RIGHTS RISKS Risks of violations including poor working conditions and discrimination in the workforce. Operations in countries with high risks of human rights abuse, including corruption and limited freedom of association.	HUMAN RIGHTS RISKS Environmental impact and un-safe use of products, including substances with potential health impact, and risks of mismanaging customer integrity. Risks related to local communities, such as land rights.	HUMAN RIGHTS RISKS Risks of corruption and unethical tax planning, impeding fair competition and depriving people of their rights to critical societal functions such as healthcare and education.
POLICIES Atlas Copco has integrated the UN Global Compact principles into business partner evaluation and management. Read more on page 132.	POLICIES Group goals and policies aim to create safe, healthy and fair working environments. The Human Rights Policy and Business Code of Practice. Read more on page 129 and 131.	POLICIES Product safety and environmental standards. The Group is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more on page 129 and 131.	POLICIES The Business Code of Practice is the main policy document on anti-corruption. The Group’s tax policy is available on the corporate website.
ACTIVITIES Prohibiting child labor and forced labor, promoting adherence to international guidelines on working conditions, environmental management and freedom of association. Responsible sourcing practices, which covers the occurrence of conflict minerals.	ACTIVITIES Ensuring fair labor conditions, non-discrimination in the workplace and the right to join trade unions. Training for all employees in the Business Code of Practice, including issues of working conditions, labor rights and discrimination.	ACTIVITIES Product safety, minimizing environmental impact through usage of products, security concerns and issues related to community relocation. Customer assessment tool and Compliance Board oversight of policy implementation.	ACTIVITIES Community engagement activities increases access to health, education and safe development of children and vulnerable groups, as well as disaster relief. Training for all employees in the Business Code of Practice, including on corruption.

Training for employees worldwide

All new employees receive the Business Code of Practice and are required to take an annual e-learning and sign their compliance with the Business Code. Both digital and classroom training is provided globally to all Atlas Copco employees, including the additional workforce.

The trainings are based on ethical dilemmas inspired by actual cases from the organization. Managers in countries with higher risk of corruption, human rights violations or environmental risks are required to lead annual in-depth classroom training with their employees.

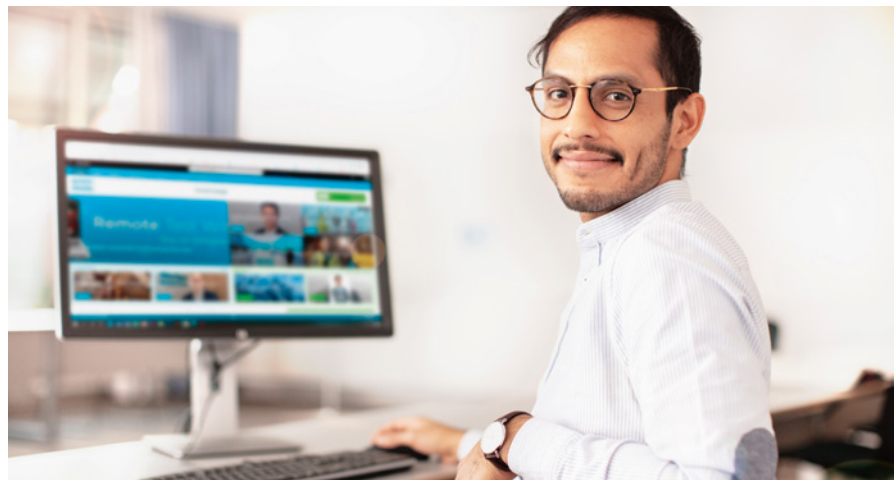
Approach to human rights

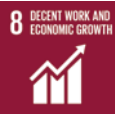

Atlas Copco is committed to the UN Guiding Principles for Business and Human Rights and have an ongoing process to identify, prevent and mitigate the impact on human rights related to our business. Atlas Copco’s Compliance Board oversees the implementation of and compliance with the Business Code of Practice and our commitment to the UN Guiding Principles.

The fight against corruption is a central aspect to working with human rights, since corruption can cripple the governmental bodies and processes needed to address the issues. Lacking legal and political infrastructure in some markets is a potential challenge. Bilateral engagement with for instance civil society is crucial to successfully escalate issues in such markets. Through

memberships in local business associations and in cooperation with others, we collaborate to further the Group’s values.

Atlas Copco works throughout the value chain covering the human rights of individuals and groups who may be impacted by our activities or business relationships, see the table above.



Atlas Copco contributes to the following Sustainable Development Goals:

- 8.7** Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour.
- 8.8** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.
- 16.5** Substantially reduce corruption and bribery in all their forms.

ETHICAL DILEMMA TRAININGS

The dilemmas are based mainly on real cases from the organization. The topics include discrimination, environment, harassment, working conditions, conflicts of interest, and bribery. Employees are presented with a challenging situation to discuss, and should choose one of three options on how to handle the situation. The answer explains the reasoning for the best course of action and the connection to Atlas Copco’s policies or guidelines. Managers are provided with a facilitator guide to help them lead the discussion.

Minimizing our environmental impact

We strive to minimize our impact from water, energy and material consumption and to reduce greenhouse-gas emissions. We want to take an active part in combating climate change while seizing the business opportunities related to this global concern.

THE ENVIRONMENT



Vision: Our processes minimize our impact on the environment

Action: We use resources responsibly

Atlas Copco focuses on developing new products with a lower carbon footprint over their entire life cycle, on reducing the CO₂ emissions from our goods transport and energy in operations, reducing water consumption as well as the waste we generate while maintaining high levels of recycling and reuse of waste. Major production units have switched to renewable energy sources, including investments in onsite solar power. We keep track of the various kinds of waste created in the production process, including regulated or hazardous waste. Scrap metal constitutes most of our waste, and nearly all of it is either reused or recycled. Our innovative products support customers to reduce their energy use and carbon footprint.

The effects of climate change presents enormous challenges to society as a whole. We want to be part of the solution and take responsibility for our impact. We reduce the climate impact and increase resource efficiency in our own operations. Most of the CO₂ emissions of our products occur when the products are used by the customer.

The transformations needed to combat climate change also bring opportunities. Customers request energy-efficient products and solutions to decrease their carbon footprint. Our ambition to meet these needs is high, and energy efficiency is at the core

of the innovations for many of our products. This has a positive effect on greenhouse-gas emissions from the use of the products. With the support we give our customers for the optimal use of our products and with our service offer, even higher energy efficiency gains are possible. The abatement systems that remove highly potent greenhouse gases in the semi-conductor industry is an example of an Atlas Copco product with positive environmental effects in industrial processes.

Use of renewable energy

To reduce climate impact from our operations, we strive to reduce our energy consumption and to increase the share of renewable energy. In 2020, the percentage of renewable energy used in our operations increased to 44% (41). In some markets, renewable energy may not be readily available, or is only a minor component of the country's energy mix. This is a challenge for our ability to meet our goal of reducing CO₂ emissions from energy in operations. Since a majority of our products use electricity, national energy mixes also affect the impact from the use-phase of products, and thereby our value-chain footprint.

Reducing impact from operations and transportation of goods

Atlas Copco's ambition is to reduce the CO₂ emissions from energy in operations and transport of goods by half in relation to cost of sales by 2030. To achieve this, we undertake a wide range of actions. Buying renewable electricity from the grid, installing solar panels, switching to bio-fuels in tests of compressors, and implementing energy-conservation measures are some examples. To reduce CO₂ from transportation of goods, collaboration with freight forwarders and

a restrictive use of airfreight are examples of actions undertaken and planned. However, the nature of the business makes avoiding airfreight complicated. Collaboration with transport partners, and to some extent technical developments, are key enablers to achieve our ambitious goal in this area.

In 2020, the CO₂ emissions from energy in operations and transport of goods in relation to cost of sales decreased by 12%. The decrease in absolute numbers was 13%. The main driver was lower production volumes, as well as actions to reduce the use of airfreight, and increased use of renewable electricity. Compared with the 2018 baseline, CO₂ from energy in operations and transport of goods in relation to cost of sales has decreased by 28%.

Reducing waste from operations

Reducing the volume of waste is an important way to decrease the total environmental impact from production and increasing circularity. Atlas Copco has successfully increased the amount of reused, recycled and recovered waste, and the level has been consistently high for several years. Therefore, focus is on decreasing the total volume of waste. As of 2019, the total volume of waste in relation to cost of sales is a Group KPI. In 2020, it decreased by 3%, mainly due to a decrease in production volume.

Water management

Water is an increasingly scarce resource in many parts of the world and access to clean water is key to a sustainable development. Atlas Copco's overall water consumption is relatively low due to our focus on assembly rather than other resource-intensive activities. Nevertheless, Atlas Copco seeks to decrease the usage of water and to increase its reuse

KEY PERFORMANCE INDICATORS	Goal	2020	2019	2018	Comment
Carbon dioxide emissions from energy in operations and transport of goods (tonnes)/COS. Base year 2018.	-50% by 2030	3.8	4.3	5.3	Suppliers with an Environmental Management System was first disclosed in 2019.
Waste (kg)/COS	Continuous decrease	581	597	667	
Water consumption (m ³)/COS	Continuous decrease	7.2	7.2	8.7	
Significant direct suppliers with an approved Environmental Management System	Continuous increase	30%	28%	-	

and circulation. Innovative product design and improved processes, such as liquid ring pumps, also reduce water use for customers.

Atlas Copco has a KPI measuring consolidated water consumption in relation to cost of sales. In 2020, the consumption of water in relation to cost of sales was the same as in 2019. The consumption in absolute numbers decreased by 3%, mainly due to lower production and one-time events such as the fixing of leakages.

Environmental risks in the supply chain

We recognize the importance of managing environmental risks in the value chain. Atlas Copco works with tier-one suppliers using the business partner criteria and jointly develop action plans. Smelters and

other resource-intensive activities are often tier-two suppliers, or further down the value chain.

Suppliers’ commitment to the business partner criteria means that they take responsibility to minimize the environmental impact of products and services during manufacturing, distribution and usage, as well as after disposal. Screening and audits are part of the Group’s supplier management system.

To further reduce our impact along the value chain, we measure the percentage of significant direct suppliers that have an approved environmental management system. In 2020, 30% of these suppliers met this requirement. Read more about the Group’s environmental impact and results on page 130.



POWERED BY THE SUN

Atlas Copco in Antwerp, Belgium, and Power Technique’s product company in Rock Hill, U.S., have both installed solar energy to help power the plants. The investments have brought both financial and environmental benefits. In Antwerp, energy production started in October 2019, and has so far resulted in savings of about 460 tonnes CO₂. In Rock Hill, savings amounted to just over 500 tonnes of CO₂ emissions in 2020.



-28% Emissions of CO₂ from energy in operations and transport of goods (tonnes)/cost of sales compared with baseline of 2018



Atlas Copco contributes to the following Sustainable Development Goals:

- 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater.
- 7.2** By 2030, increase substantially the share of renewable energy in the global energy mix.
- 7.3** By 2030, double the global rate of improvement in energy efficiency.
- 12.2** By 2030, achieve the sustainable management and efficient use of natural resources.
- 12.4** By 2030, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, and significantly reduce their release to air, water and soil.

WATER FOR ALL: EMPLOYEE COMMUNITY ENGAGEMENT

Water for All is Atlas Copco's main community engagement initiative. Through the dedicated and passionate work of volunteering employees, Water for All funds projects which empower people through access to clean drinking water, sanitation and hygiene, thereby contributing to healthy societies, free from conflict and poverty. Women and young girls are particularly affected by the lack of water and sanitation, and all projects supported by Water for All thus aim to positively impact the lives of especially women and girls. All employee donations are matched with twice as much by Atlas Copco.

In 2020, more than 60 water and sanitation projects were implemented with Water for All funding in 34 countries, in total reaching more than 220 000 people. In response to the Covid-19 pandemic, Water for All organizations in 11 countries joined forces with the Peter Wallenberg Water for All Foundation to support Syrian refugees living in tent settlements in Lebanon, preventing the spread of the virus by providing water, sanitation and hygiene.



Atlas Copco employees contribute to the following Sustainable Development Goal:

6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.

Water for All is the main community engagement initiative of both Atlas Copco and Epiroc. The numbers convey Water for All's global achievements in 2020 including both companies.



CLIMATE-RELATED INFORMATION

There are a growing number of voluntary reporting standards, initiatives and regulations concerning climate. Atlas Copco follows the development closely, takes inspiration from these reporting guidelines and seeks to address major areas of information sought. Our reporting on climate-related risks and opportunities is a continuous improvement project and the efforts to understand, report and act upon climate topics is developing in a good pace.

Governance

Climate-related issues concern several functions and areas of expertise in the organization. The Board of Directors is responsible for the overall strategy, organization, administration and management of Atlas Copco. This also includes climate-related topics. At an operational level risks and opportunities are governed by the Group Management and the divisional presidents. Read more about our corporate governance on pages 51–54.

Strategy

Atlas Copco assesses climate-related risks and opportunities with an actual and potential impact on the company's business and strategy. The process for identification of risks and opportunities is centered at the divisions. Market, regulatory and physical risks related to climate change are part of the risks identified and assessed.

Metrics and targets

Atlas Copco has targets for reducing the carbon impact from our operations, transport and products. There are KPIs for reducing the lifecycle carbon impact from new and re-designed products, carbon emission reduction targets for energy in own operations and from the transport of goods, and for environmental management in the supply chain. Read more about the targets and the progress made on pages 41 and 130.

Market risks

Market shifts toward a low-carbon economy may impact the viability of certain sectors and products. Atlas Copco's continuous work to increase the energy efficiency of our products helps mitigate these risks. This shift also represents a market opportunity to continue developing highly energy-efficient products and may give rise to new businesses and business models. For instance, increased generation of renewable energy, such as solar panels and wind mills, and the surge in production of electrical vehicles, present both existing and future business opportunities to provide products and services to these industries.

Regulatory risks

Climate and energy policy in the coming decades will gradually be sharpened and favor companies that deliver energy-efficient products and comply with sustainable practices. Among the risks are increased energy prices and taxes, and regulations related to CO₂ or other greenhouse-gas emissions. Through investment in innovative products via research and development, more strict regulations will likely offer opportunities for Atlas Copco.

Physical risks

Changing weather patterns may pose a physical risk to operational units or suppliers in areas in risk of rising sea levels, water scarcity or violent storms that could result in disruptions in the production or logistics chain. The physical risk is assessed at site level and safety measures are taken if needed, as a part of the loss prevention program. Atlas Copco has a global network of suppliers, which provides resilience to local or regional disruptions.

Risk management

Climate-related risks, such as physical risks for operational entities or market risks connected to products, are assessed at the divisional level and are, if deemed relevant, included in the annual Enterprise Risk Management process. An aggregated analysis of the identified risks are presented to the Group Management annually. Read more about the risk management process on page 44.

Risks, risk management and opportunities

All business activities involve risks, therefore there is a need for a structured and proactive approach to manage the company’s risks, both locally and centrally within the organization. Well-managed risks can create opportunities and add value to the business while risks that are not well-managed can cause incidents and losses.

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

The Group’s risk management approach follows the decentralized structure of Atlas Copco. Local companies are responsible for their own risk management, which is monitored and followed up regularly e.g. at local business board meetings. Group functions for legal, insurance, sustainability, treasury, tax, controlling and accounting provide policies, guidelines and instructions regarding risk management. This is regularly audited by internal and external audits. Examples of risks and how they are handled in Atlas Copco are shown in the table in this section.

The Covid-19 pandemic has been handled as a crisis, resulting in the activation of local, regional and central crisis committees, in line with the established structure for crisis management. The crisis organization has enabled reporting and the exchange of information and experience within the Group and contributed to decisions to ensure safe and efficient handling of the situation and new challenges. The risk management processes have also been adapted to the circumstances, activities have been digitized and temporary adjustments have been made so that the processes can continue and contribute to increased risk awareness and a focus on risk management.

Insurance

The Group Insurance Program is provided by the in-house insurance company Industria Insurance Company Ltd. which retains part of the risk exposure for the following insurance lines; property damage, business interruption, transport, and general and product liability. Financial lines insurance and business travel insurance are managed by the Group’s Insurance and Risk Management department. 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 where required.

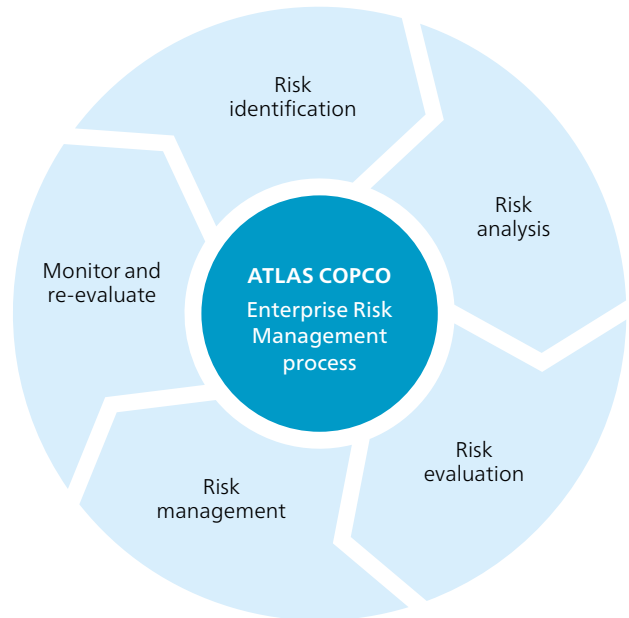
Loss prevention

The main purpose of Atlas Copco’s loss prevention process is to prevent potential property losses and business interruptions. Atlas Copco’s Loss Prevention Standard stipulates Group requirements in regards of loss prevention for product companies and distribution centers, including areas like: construction, safety systems, loss prevention procedures and plans that need to be prepared. To ensure align-

ment with the standard and to support sites’ understanding of how the standard applies to each site, around 25 risk surveys are performed annually. The results from the risk surveys are consolidated and reported to Group Management.

Enterprise risk management

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



Risk process

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

Examples of risks and how they are handled by Atlas Copco

RISK	CONTEXT	MITIGATING ACTIVITIES	OPPORTUNITIES
LEGAL	Atlas Copco's business operations are affected by numerous laws, regulations and trade sanctions as well as commercial and financial agreements with customers, suppliers and other counterparties, and also by licenses, patents and other intangible property rights.	<ul style="list-style-type: none"> Inhouse lawyers on five continents support Group companies with advice on laws and regulations including compliance as well as support with contract reviews. Proactive training is also done. A yearly legal risk survey of all companies in the Group is performed in addition to continuous follow-up of the legal risk exposure. The result of the survey is compiled, analyzed and reported to the Board and the auditors. A separate central function, Group Compliance, is in place. It is responsible for aligning and coordinating the compliance organization which, in line with Atlas Copco's decentralized structure, is hosted in the business areas/divisions. 	<ul style="list-style-type: none"> → Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Atlas Copco's reputation. It also develops reliable partnerships and improves business stability. → The ability to trade on all markets, in compliance with applicable trade sanctions, increases revenue and lowers risk.
FINANCIAL	<p>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).</p> <p>Atlas Copco's net interest cost is affected by changes in market interest rates.</p> <p>Funding risk refers to the risk that the Group and its subsidiaries do not have access to financing on acceptable terms.</p> <p>As in any business, there can be a credit risk linked to our customers' abilities to pay.</p>	<ul style="list-style-type: none"> A Financial Risk Management Committee meets regularly to manage financial risks. Atlas Copco Financial Solutions is responsible for these risks and supports Group companies to implement financial policies and guidelines. The Group's operations continuously monitor relevant exchange rates and try to offset negative changes by adjusting sales prices and costs. Translation risks are partially hedged by borrowings in foreign currency and financial derivatives. The Group's Financial Risk Policy stipulates that a minimum amount of stand-by credit facilities should exist and that a minimum average time to maturity for the external debt is set. 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. 	<ul style="list-style-type: none"> → Working proactively with financial risks improves the profit margin and creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco.
REPORTING (INCLUDING TAX)	<p>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.</p> <p>Reporting errors could result in management drawing the wrong conclusions. However, with many small entities, the material impact is low.</p> <p>Taxes is an area with increased focus, especially transfer pricing risks but also new tax rules and regulations.</p> <p>Estimations sometimes form a portion of the sustainability data which is reported, and thus by its nature the numbers presented may not be representations of the Group's impact.</p>	<ul style="list-style-type: none"> 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 monitors and ensures compliance with local tax rules. Transfer pricing policies and agreements are implemented in operations and regularly updated. Quarterly updates on tax are presented to the Board and Group Management. Atlas Copco reports sustainability information according to GRI Standards and works with training to improve reporting practices. 	<ul style="list-style-type: none"> → Integrated reporting provides a better understanding of business risks and opportunities which in turn allows for improved decision making. It also allows the company to identify opportunities for business synergies. → Addressing reporting risks increases transparency and improves the potential to represent the business fairly and accurately. → Improved reporting results in improved business insights and risk management, especially when the data has been integrated to highlight interdependencies. → Efficient and consistent reporting based on clear standards and principles creates transparency, supports decision making and drawing the right conclusions. → Increased reporting requirements on taxes improves transparency.
CORRUPTION AND FRAUD	<p>Corruption and bribery exist in many markets where Atlas Copco conducts business.</p> <p>Fraud or criminal deception intended to result in financial or personal gain, is always present in global operations.</p>	<ul style="list-style-type: none"> Zero-tolerance policy on bribery and corruption, including facilitation payments. Internal control routines 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 and signing compliance to the Code for all employees and significant business partners. The global Group misconduct reporting system to report violations confidentially. The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. 	<ul style="list-style-type: none"> → By fighting against corruption and fraud, Atlas Copco has the opportunity to work with industry peers to influence international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in society and in markets where the Group operates. → Working against corruption and fraud improves Atlas Copco's credibility and transparency and creates more ways to improve stakeholder relations.

Examples of risks and how they are handled by Atlas Copco, continued

RISK	CONTEXT	MITIGATING ACTIVITIES	OPPORTUNITIES
HUMAN RIGHTS	<p>Atlas Copco operates also in countries with high risk of human rights abuse, including child labor, forced or compulsory labor, poor working conditions, limitations of the freedom of association and discrimination.</p> <p>Atlas Copco encounters customers who are exposed to human rights issues.</p> <p>Risks to the Group’s reputation may arise from relationships with business suppliers who do not comply with internationally accepted ethical, social and environmental standards.</p>	<ul style="list-style-type: none"> • Guidance by interaction with well-established non-governmental organizations to identify and mitigate risks. • Policies and procedures corresponding to the UN Guiding Principles on Business and Human Rights, which Atlas Copco has committed to since 2011. • Due diligence process and integration of internal controls for human rights violations in relevant processes. • The Group customer sustainability assessment tool. • Regular supplier evaluations in accordance with the UN Global Compact. 	<ul style="list-style-type: none"> → Following the UN Guiding Principles on Business and Human Rights to respect human rights reduces risks and costs. → Strong business ethics help promote societal prosperity and a more stable market place. → Working with human rights positively impacts both the Atlas Copco brand and stakeholder relations.
SAFETY AND HEALTH	<p>Poor physical and mental health and too much stress among employees affect the individual and can cause sick leave and disturbances in the production.</p> <p>Accidents or incidents at the workplace due to lack of proper safety measures harm employees and can negatively affect Atlas Copco’s productivity and brand.</p> <p>Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees.</p>	<ul style="list-style-type: none"> • The Group regularly assesses and manages safety and health risks in operations. • Training is held regularly. • The ambition is to certify all major units in accordance with the OHSAS 18001 standards. • Workplace wellness programs to reduce the impact of pandemic HIV/AIDS are in place in Sub-Saharan Africa. • Atlas Copco’s business partners are trained in Group policies including the approach to health and safety. 	<ul style="list-style-type: none"> → Improved safety and well-being among employees increases employee satisfaction and engagement, productivity and strengthens the brand. → Improving working conditions for customers and business partners benefit their employees and local societies and can enhance long-lasting relationships that result in repeat orders.
ENVIRONMENTAL AND CLIMATE (EXTERNAL)	<p>The primary drivers for external environmental risk are physical changes in climate and natural resources, changes in regulations, taxes and resource prices.</p> <p>Natural disasters as a consequence of climate change can disrupt own operations or impact the supply chain.</p> <p>Increased fuel/energy taxes increase operational costs.</p> <p>Regulations and requirements related to carbon-dioxide emissions from products and industrial processes are gradually increasing.</p> <p>Changes in mean precipitation can affect all of Atlas Copco’s operations and negatively affect operations either directly or by disrupting the supply chain.</p> <p>Market shifts toward a low-carbon economy can impact the viability of certain sectors.</p>	<ul style="list-style-type: none"> • Atlas Copco consistently develops products with improved energy efficiency, reduced emissions and lower environmental footprint. • Atlas Copco has several key performance indicators (KPIs) that address resource and energy usage in order to reduce carbon-dioxide emissions. • Strict handling processes for hazardous waste and chemicals are implemented in all operational units. Compliance is audited regularly and awareness reinforced by training. • All cooling agents 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). 	<ul style="list-style-type: none"> → 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/scarcity, water-efficient or water-recycling products can have a strong customer appeal. 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 consumers’ habits and behavior. As a result of climate events, Atlas Copco’s customers can become more risk averse and demand sustainable products from the Group. New businesses and business models that are being served by Atlas Copco arise. For instance, increased renewable energy generation and the surge in production of electrical vehicles present opportunities to provide products to the industries.
MARKET	<p>A widespread financial crisis and economic downturn would not only affect the Group negatively but 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.</p> <p>In developing markets, new smaller competitors continuously appear which may affect Atlas Copco negatively.</p>	<ul style="list-style-type: none"> • Well-diversified sales to customers in multiple countries and industries. Sales of spare parts and service are relatively stable in comparison to equipment sales. • Monthly follow-up of market and sales development enables quick actions. • Agile manufacturing set-up makes it possible to quickly adapt to changes in equipment demand. • Leading position in most market segments provides economies of scale. 	<ul style="list-style-type: none"> → A significant competitive advantage as a result of a strong global presence, including growth markets. → Opportunities to positively impact both 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.
REPUTATION	<p>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.</p> <p>Unsatisfied employees may potentially detract the Atlas Copco brand.</p>	<ul style="list-style-type: none"> • All Atlas Copco products are tested and quality assured. Product labeling is monitored and there are regular communications trainings. • The Group actively engages in stakeholder dialogue. • Compulsory training in the Business Code of Practice include the yearly signing of a compliance statement. • A clear and well known corporate identity and brand management. • An employee survey is carried out every two years and followed up actively. 	<ul style="list-style-type: none"> → Brand positioning. → Stakeholder engagement not only mitigates reputational risks in certain cases but it also presents opportunities to increase awareness and credibility of Atlas Copco’s brand through improvements and innovations. → Delivering tested and quality-assured products improves customer satisfaction and promotes repeat business. → Attract and develop employees who adhere to the Business Code of Practice.

Examples of risks and how they are handled by Atlas Copco, continued

RISK	CONTEXT	MITIGATING ACTIVITIES	OPPORTUNITIES
PRODUCTION	<p>Core component manufacturing is concentrated to 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.</p> <p>Production facilities could also have a risk of damaging the environment through operations, e.g. through hazardous waste and emissions.</p> <p>Atlas Copco is directly and indirectly exposed to raw material prices.</p> <p>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.</p> <p>Some sales are made indirectly through distributors and rental companies and their performance may have a negative effect on sales.</p> <p>The distribution of products results in CO₂ emissions from transport.</p>	<ul style="list-style-type: none"> • Manufacturing units continuously monitor the production process, test the safety and quality of products, make risk assessments, and train employees. • Atlas Copco has an internal Loss Prevention Standard to ensure high level of protection. • Production units have developed business continuity plans. • Ambition to certify all manufacturing units in accordance with the ISO 14001 standard. • Physical distribution of products is concentrated to a number of distribution centers and their delivery efficiency 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 total emissions per transport. 	<ul style="list-style-type: none"> → Continued opportunities to extensively promote operational excellence to streamline production, minimize inefficiencies and maintain a high flexibility in the production process. → Continue to strengthen the relationship with customers through timely deliveries of products and services. → Transport efficiencies and safe transports can save the customers 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	<p>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.</p> <p>The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may affect deliveries.</p> <p>Using a large number of suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. the use of hazardous substances or electronic components containing conflict minerals.</p>	<ul style="list-style-type: none"> • Business partners are selected and evaluated based on objective factors including quality, delivery, price, and reliability, as well as on their commitment to environmental and social performance. • The presence of conflict minerals in Atlas Copco's value chain is investigated and eradicated. • Establishment of a global network of sub-suppliers, to prevent supplier dependency. • E-learning for business partners (suppliers and distributors) to raise awareness of the Business Code of Practice, including signing a compliance statement. • Atlas Copco maintains lists of substances that are prohibited or restricted due to their potential negative impact on health or the environment. Compliance with these lists is part of the business partner criteria. 	<ul style="list-style-type: none"> → 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. → Strengthen customer relationships by supporting customers impacted by the Dodd Frank legislation on conflict minerals. → Promote human rights and work towards improving labor conditions, reducing corruption and conflicts.
EMPLOYEE	<p>Atlas Copco must have access to and attract skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.</p>	<ul style="list-style-type: none"> • The competence mapping and plan secure access to people with the right expertise at the right time. Recruitment can be both external and internal. 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. 	<ul style="list-style-type: none"> → Motivated and skilled employees and managers are crucial to achieve or exceed business goals and objectives.
INFORMATION TECHNOLOGY (IT)	<p>Atlas Copco relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production.</p> <p>Errors in the handling of financial systems can affect the company's reporting of results.</p> <p>Theft or modification of intellectual property constitutes a risk to our products and future business success.</p> <p>Cyber security risks are increasing in importance and can have a major impact on Atlas Copco operations.</p> <p>The General Data Protection Regulation (GDPR) has an impact on the handling of personal data. Failure to comply may result in substantial fines and reputational damage.</p>	<ul style="list-style-type: none"> • Atlas Copco has a global IT security policy, including quality-assurance procedures that govern IT operations. Information security is monitored through IT Security audits. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. The system landscape is based on well-proven products. • IT Security tracks globally major downloads of files. Screening of business partners/consultants working in our systems. • Cyber security is regularly discussed, addressed and invested in by the IT Security function. Awareness of cyber security risks increases the readiness to quickly address any attacks. • A GDPR project group assumed the essential activities to ensure compliance with the regulation. The necessary organizational changes are being executed to incorporate the compliance requirements into daily operations. 	<ul style="list-style-type: none"> → Stable IT systems, secure IT environment and standardized processes increase efficiencies and reduce costs. → Quick action on major download of product development files minimizes the potential damage. → Quick action to address a cyber-attack gives opportunity to stable work environment and business continuity. → As the approach has been global, Atlas Copco is well prepared to face future data privacy initiatives in all regions or continents.

Examples of risks and how they are handled by Atlas Copco, continued

RISK	CONTEXT	MITIGATING ACTIVITIES	OPPORTUNITIES
ACQUISITIONS AND DIVESTMENTS	<p>When making acquisitions, there are risks related to the selection and valuation of the potential targets as well as the process of acquiring them. Integrating acquired businesses can also be a complex and demanding process. There is no guarantee for an acquisition to be successful even if all steps are done properly.</p> <p>Annual impairment tests are made on acquired goodwill. If the carrying values are not deemed justified in such tests, it can result in a write-down, affecting the Group's result.</p> <p>Acquisitions and divestments can impact local communities and/or the environment, directly or indirectly.</p>	<ul style="list-style-type: none"> • The Group's Acquisitions Process Council has established a process for acquisitions. The process is continually updated and improved to address and mitigate risks. The Council also provides training and supports all business units prior to, during and after an acquisition. Before any acquisition is completed, a detailed due diligence will be performed in order to evaluate the 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 completed. 	<ul style="list-style-type: none"> → Acquisitions bring possibilities to enter new markets, segments, new technologies, new clients, increase revenues, etc. → Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or teambuilding exercises. This would not only result in a smoother process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become even more productive and efficient.
PRODUCT DEVELOPMENT	<p>One of the challenges for Atlas Copco's long-term growth and profitability is to continuously develop innovative, sustainable products that consume less resources over the entire life cycle. Atlas Copco's product offering is also affected by national and regional legislation on issues such as emissions, noise, vibrations, recycling, etc. However, there may be increased risk of competition in emerging markets where low-cost products are not affected to the same extent by these rules.</p>	<ul style="list-style-type: none"> • 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 in each division. • Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements. 	<ul style="list-style-type: none"> → Substantial opportunities to strengthen the competitive edge by innovating high-quality, sustainable products and creating an integrated value proposition for customers.

The Atlas Copco share

Share price development and returns

In 2020, the price of the A share increased 12.7% to SEK 421.1 (373.6) and the B share increased 13.3% to SEK 368.3 (325.2). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the change in the share price, including the distribution of Epiroc AB, was on average 16% for the past ten years and 24% for the past five years. The corresponding total return for Nasdaq Stockholm was 11% and 12%, respectively.

Trading and market capitalization

The Atlas Copco shares are listed on Nasdaq Stockholm, which represented 29.3% of the total trading of the A share (37.3% of the B share) in 2020. Other markets, so called Multilateral Trading Facilities (MTF), e.g. CBOE and Turquoise accounted for some 31.1% (23.2% of the B share), and the remaining 39.2% (39.5% of the B share) were traded outside public markets, for example through over-the-counter trading.

The market capitalization at year end 2020 was MSEK 497 187 (440 497) and the company represented 5.7% (5.7) of the total market value of Nasdaq Stockholm. Atlas Copco was the second (first) most traded share in 2020 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 depository bank is Citibank N.A. At year end 2020, there were 27 854 337 ADRs outstanding, of which 26 757 226 represented A shares and 1 097 111 B shares.

Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the Annual General Meeting 2021 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, 2020 appears in the table below.

Dividend

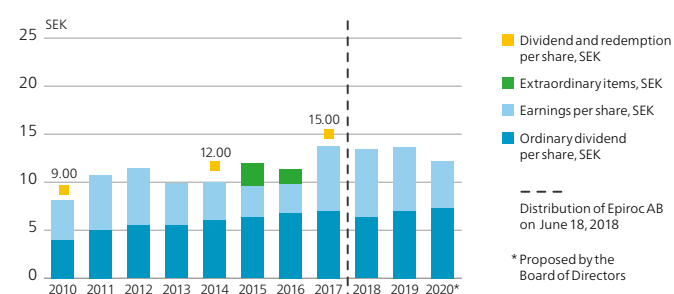
The Board of Directors proposes to the Annual General Meeting 2021 that a dividend of SEK 7.30 (7.00) per share to be paid for the 2020 fiscal year. Excluding shares currently held by the company, the proposed dividend corresponds to a total of MSEK 8 878 (8 519).

In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 29, 2021 and the second with record date October 25, 2021.

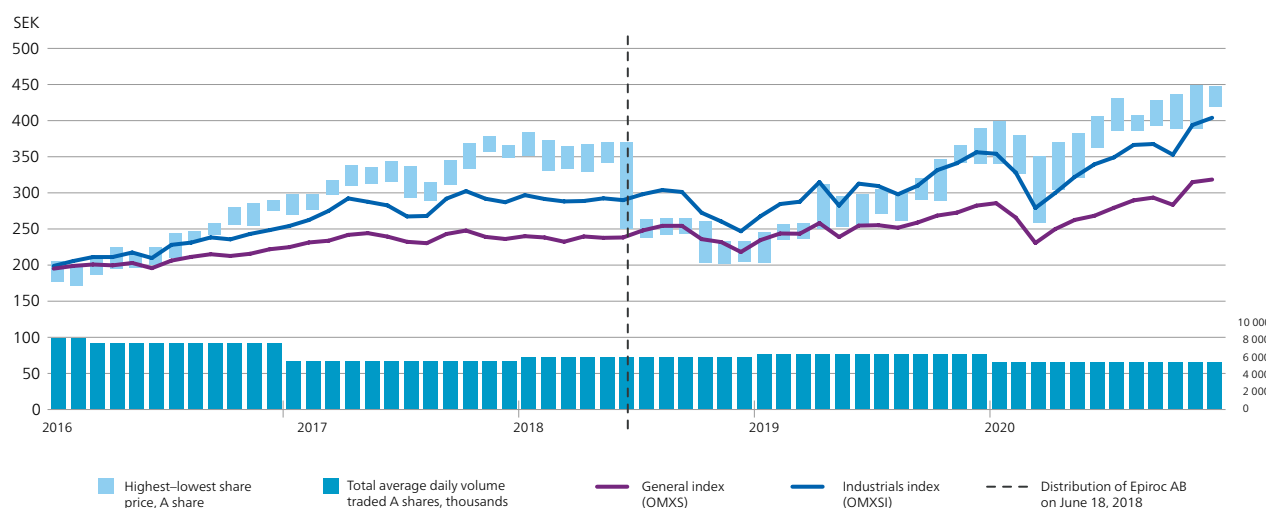
If approved, the dividend has averaged 56% of basic earnings per share during the last five years. The ambition is to distribute about 50% of earnings as dividends to shareholders. See more information on page 19.

SHARE INFORMATION 2020-12-31	A share	B share
Nasdaq Stockholm	ATCO A	ATCO B
ISIN code	SE0011166610	SE0011166628
ADR	ATLKY.OTC	ATLCY.OTC
Total number of shares	839 394 096	390 219 008
% of votes	95.6	4.4
% of capital	68.3	31.7
Whereof shares held by Atlas Copco		
% of votes	1.5	0.0
% of capital	1.1	0.0

EARNINGS AND DISTRIBUTION PER SHARE



SHARE PRICE



Ownership structure

At the end of 2020, Atlas Copco had 82 079 shareholders (81 656). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (34) of the voting rights and 32% (31) of the number of shares. Swedish investors held 48% (47) of the shares and represented 45% (45) of the voting rights.

TEN LARGEST SHAREHOLDERS*

December 31, 2020	% of votes	% of capital
Investor AB	22.3	16.9
Swedbank Robur fonder	2.7	3.7
Alecta Pensionsförsäkring	2.3	4.1
Handelsbanken fonder	1.8	1.7
SEB Investment Management	1.6	1.2
Folksam	1.1	1.2
Första AP-fonden	1.0	1.0
SPP Fonder AB	0.8	0.8
Länsförsäkringar fondförvaltning AB	0.6	0.5
Nordea Investment Funds	0.6	0.6
Others	65.2	68.3
Total	100.0	100.0
– of which shares held by Atlas Copco	1.5	1.1

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

OWNERSHIP STRUCTURE

Number of shares, December 31, 2020	% of shareholders	% of capital
1–500	72.5	0.6
501–2 000	18.4	1.3
2 001–10 000	7.1	2.0
10 001–50 000	1.3	1.8
50 001–100 000	0.2	0.8
>100 000	0.5	93.5
Total	100.0	100.0

OWNERSHIP CATEGORY

December 31, 2020	% of capital
Shareholders domiciled abroad (legal entities and individuals)	52.3
Swedish financial companies	37.1
Swedish individuals	4.5
Other Swedish legal entities	2.2
Swedish social insurance funds	2.6
Swedish trade organizations	1.0
Swedish government and municipals	0.3
Total	100.0

SHAREHOLDERS BY COUNTRY

December 31, 2020
percent of capital



SHARE ISSUES ¹⁾

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

¹⁾ For more information please visit www.atlascopcogroup.com/investor-relations.

²⁾ 1 213 493 751 shares net of shares held by Atlas Copco.

³⁾ 1 217 444 513 shares net of shares held by Atlas Copco.

⁴⁾ 1 213 080 695 shares net of shares held by Atlas Copco.

IMPORTANT DATES

2021	April 27	First quarter results
	April 27	Annual General Meeting
	April 28*	Shares trade excluding right to dividend of SEK 3.65
	May 4*	Dividend payment date (preliminary)
	May 27	Capital Markets Day
	July 16	Second quarter results
	October 21	Third quarter results
	October 22*	Shares trade excluding right to dividend of SEK 3.65
	October 28*	Dividend payment date (preliminary)
2022	January 25	Fourth quarter results 2021

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

More information

- More data per share can be found on page 140 in the three-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 2020.

The corporate governance report has been examined by the auditors, see page 123.

The following information is available at www.atlascopcogroup.com

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

Comment from the Chair

Atlas Copco is a truly global industrial company. We create lasting value and empower our customers to drive society forward in over 180 countries. Through our energy efficient products that save carbon emissions, and by implementing our values and processes respecting people and the planet, we can contribute to a better tomorrow.

Our Business Code of Practice is the most important instrument to make sure we always act with the highest ethical standards and integrity. The main international ethical standards supported by Atlas Copco are the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Companies and the UN Global Compact. Atlas Copco is a member of the UN Global Compact since 2008.

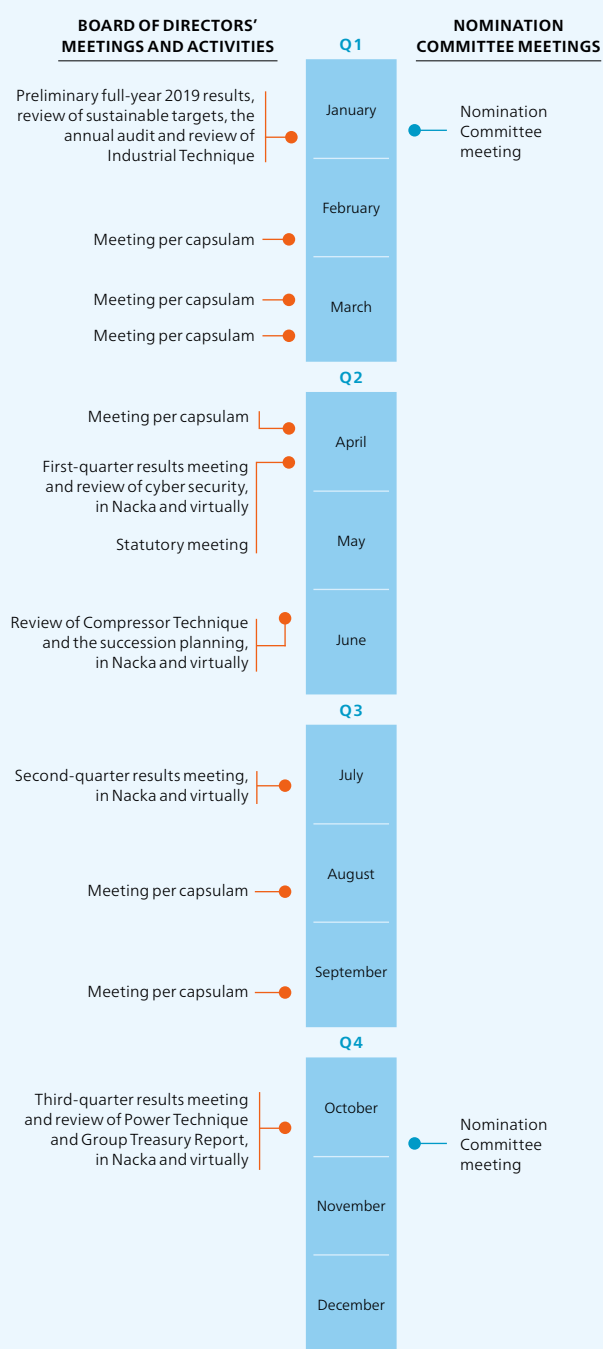
The annual signing of the Business Code of Practice, together with the training, support our employees to identify and handle ethical dilemmas and strengthen the awareness of our values and guidelines. We also request that our significant business partners commit to comply with the Business Code of Practice. This is further supported by a global system for reporting ethical misconduct.

To safeguard our reputation, we rely on solid governance and our leaders' ability to defend our values, including of course internal as well as external control and audits.

*Hans Stråberg,
Chair since 2014*



Meetings of the Board and the Nomination Committee during 2020





GOVERNANCE STRUCTURE

1. Shareholders

At the end of 2020, Atlas Copco had 82 079 shareholders (81 656). The ten largest shareholders registered directly or as a group with Euro-clear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (34) of the voting rights and 32% (31) of the number of shares. Swedish investors held 48% (47) of the shares and

represented 45% (45) 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 49–50.

2. General Meeting

The Annual General Meeting (AGM) is Atlas Copco’s supreme decision-making body in which all shareholders are entitled to take part. Anyone 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 vote at the AGM and shareholders who cannot participate in person may be represented by proxy holders or vote by mail. A shareholder or a proxy holder may be accompanied by two assistants and a proxy form can be found prior to the AGM at www.atlascopcogroup.com/aggm.

The AGM 2020 was held on April 23, 2020, in Sickla, Sweden and 58% of the total number of votes in the Company and 58% of the shares were represented. The Extraordinary General Meeting (EGM) 2020 was held on November 26, 2020, and 53% of the total number of votes in the Company and 55% of the shares were represented.

Decisions at the AGM 2020 included:

- Adoption of the income statements and balance sheets of Atlas Copco AB and the Group for 2019.
- Discharge of liability of the Company’s affairs during the 2019 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 3.50 per share.
- That the number of directors elected by the AGM for a term ending at the next AGM would be nine directors and no alternates.
- Election of the Board of Directors.
- A resolution of the Board of Directors’ fee.
- Approval of the guidelines for remuneration to management.
- Approval of the reported scope and principals for a performance based employee stock option plan for 2020 including mandate for the Board to decide upon repurchase and sales of Atlas Copco shares to hedge the plan and previous similar plans.
- Election of Ernst & Young AB as auditing company up to and including the Annual General Meeting 2021.

Decisions at the EGM 2020

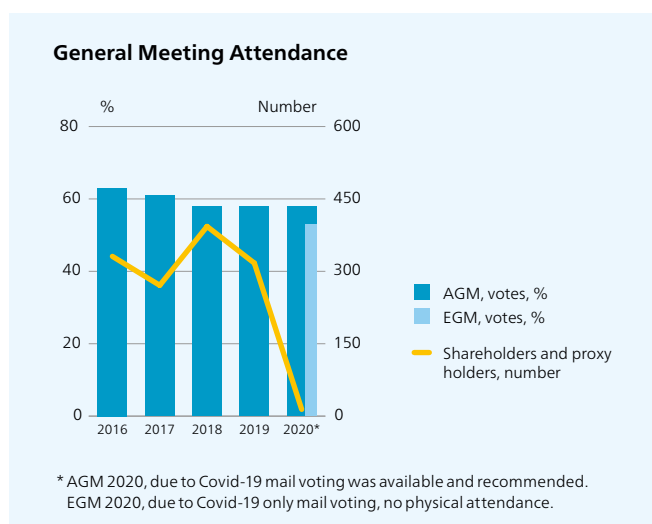
- Adoption of the Board’s proposal for profit distribution with a dividend of SEK 3.50 per share.
- Change of Articles of Association.

Annual General Meeting 2021

The Annual General Meeting will be held on April 27, 2021. 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, Attn: 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.



3. Nomination Committee

The goal of the Nomination Committee is to propose a Board with a broad and complementary experience from a number of important industries and markets, as well as a composition that is characterized by diversity, broadness and gender balance. Experience from manufacturing industry with international coverage is important, as it is Atlas Copco's main focus. The Nomination Committee's diversity policy is based on section 4.1 in the Corporate Governance Code. The nine Board members elected by the shareholders have backgrounds from various industries. As proposed to the AGM 2020, three of the eight non-executive members are women. One member is born in the 1940's, four in the 1950's, three in the 1960's, and one is born in the 1970's. The Board members are of three different nationalities, from Germany and the United States, with a majority of the Board members coming from Sweden. Increasing the diversity of the Board of Directors with regard to gender is a priority for the Nomination Committee.

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

a proposal for remuneration for Board committee work. Finally, the Nomination Committee proposes an audit company including remuneration for the audit.

The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2021. 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, 2020, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2021 were announced on September 24, 2020, and they represented approximately 29% of all votes in the Company. The members of the Nomination Committee receive no compensation for their work in the Nomination Committee.

Nomination Committee members for the AGM 2021: Petra Hedengran, Investor AB, Chair of the Nomination Committee; Jan Andersson, Swedbank Robur; Mikael Wiberg, Alecta; Helen Fasth Gillstedt, Handelsbanken Fonder AB; and Hans Stråberg, Atlas Copco AB, Chair of the Board.

4. Board of Directors

The Board of Directors is responsible for the overall organization, administration and management of Atlas Copco in the best interest of the Company and its 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 goals are regularly evaluated by the Board based on the Group's financial situation and financial, legal, social and environmental risks. The mission is to achieve a sustainable and profitable development of the Group.

Board of Directors' members

At the end of 2020 the Board of Directors consisted of eight elected members, including the President and CEO. The Board also had two union members, with one deputy. Atlas Copco fulfilled the 2020 requirements of Nasdaq Stockholm and the rules of the Swedish Corporate Governance Code regarding independency of board members.

The Board of Directors' work

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

The Board held twelve meetings in 2020. One meeting was held at Atlas Copco AB in Nacka, Sweden, six per capsulam, five meetings as a mix of participating in Nacka or virtually. The attendance at Board meetings is presented on page 55–56.

The Board continuously evaluates the performance of the President and CEO, Mats Rahmström. For the Annual Audit, the company's principal auditor, Erik Sandström, Ernst & Young AB, reported his observations to the Board and also had a separate session with the auditor where members of Group Management were not present.

Evaluation of the Board of Directors' work

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

Remuneration to the Board of Directors

Remuneration and fees are based on the work performed by the Board. The AGM 2020 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 2 325 000.
- Each of the other Board members not employed by the Company was granted SEK 740 000.
- An amount of SEK 315 000 was granted to the Chair of the Audit Committee and SEK 200 000 to each of the other members of this committee.
- An amount of SEK 125 000 was granted to the Chair of the Remuneration Committee and SEK 90 000 to each of the other members of this committee.
- An amount of SEK 100 000 was granted to each non-executive director who, in addition, participates in committee work decided upon by the Board.
- The meeting further resolved that 50% of the director's Board fee could be received in the form of synthetic shares.

5. Audit Committee

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

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

The Audit Committee members during 2020 were Staffan Bohman, Chair, Johan Forssell, Hans Stråberg and Gunilla Berg until the AGM, when Anna Ohlsson-Leijon replaced Gunilla Berg as member of the Committee.

6. Remuneration Committee

The Remuneration Committee is elected by the Board at the statutory Board meeting after the Annual General Meeting and until the statutory Board meeting the following year. The work of the Remuneration Committee is directed by the Remuneration Committee Charter, which is reviewed and approved annually by the Board. 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 guidelines for executive remuneration in Atlas Copco aim to establish principles for a fair and consistent remuneration with respect to compensation, benefits, and termination. The base salary is based on competence, area of responsibility, experience and performance, while the variable compensation is linked to predetermined and measurable criteria which can be financial or non-financial. The guidelines for executive remuneration are reviewed annually and the Annual General Meeting 2020 approved the guidelines for remuneration. See also note 5.

The Remuneration Committee had four meetings in 2020. All members were present. During the year, the Remuneration Committee also supported the President and CEO in determining remuneration to the other members of Group Management. All meetings of the Remuneration Committee have been reported to the Board and the corresponding Minutes have been distributed to the Board.

The Remuneration Committee members during 2020 were Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg until the AGM, when Staffan Bohman replaced Anders Ullberg as member of the Committee.

7. Auditor

The task of the external auditor is to examine Atlas Copco's consolidated accounts and annual report, as well as to review the Board and the CEO's management of the Company. At the AGM 2020 the audit firm Ernst & Young AB, Sweden, was elected external auditor until the AGM 2021 in compliance with a proposal from the Nomination Committee. The principal auditor is Erik Sandström, Authorized Public Accountant at Ernst & Young AB. At the AGM 2020, Thomas Strömberg,

previous principal auditor, Deloitte AB 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 59–60.

9. Group Management

Besides the President and CEO, the Group Management consists of four business area presidents and four senior vice presidents responsible for the main Group functions; Corporate Communications, 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 guidelines for executive remuneration in Atlas Copco are reviewed annually by the Board of Directors and presented to the AGM for approval at least every four years. In 2020, the AGM decided to adopt the Board's proposal. The remuneration shall consist of base salary, variable compensation, possible long-term incentive (personnel options), pension benefits and other benefits. The variable compensation is limited to a maximum percentage of the base salary and is linked to predetermined and measurable criteria which can be financial or non-financial. Non-financial criteria for 2020 have been to reduce the Group's CO₂ emissions and to increase the number of female employees in the Group. No fees are paid 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.

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 creating 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 Atlas Copco's Business Code of Practice, includes representatives of society, employees, customers, business partners and shareholders.

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

The strategic pillars together with the Group goals presented on pages 5–6 aim at continuously delivering sustainable, profitable growth for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

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

Board of Directors



Name	Hans Stråberg	Mats Rahmström	Staffan Bohman	Tina Donikowski
Position	Chair since 2014	Board member	Board member	Board member
Born	1957	1965	1949	1959
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 and Stanford Executive Program, U.S.	B.Sc. in Industrial Management from Gannon University, U.S.
Nationality / Elected	Swedish / 2013	Swedish / 2017	Swedish / 2003	American / 2017
External memberships	Chair of SKF, Roxtec AB, CTEK AB and Anocca AB. Board member of Investor AB and Mellby Gård AB. Member of The Royal Swedish Academy of Engineering Sciences.	Board member of Wärtsilä Oyj Abp, Finland, the Association of Swedish Engineering Industries and of Piab AB. Member of The Royal Swedish Academy of Engineering Sciences.	Chair of Electrolux AB, The German-Swedish Chamber of Commerce, and The Research Institute of Industrial Economics. Member of The Royal Swedish Academy of Engineering Sciences.	Board member of Circor International, Inc, TopBuild, Advanced Energy and Eriez Manufacturing Co.
Principal work experience and other information	Chief Executive Officer and President for Electrolux AB. Various executive positions in the Electrolux Group based in Sweden and the U.S. EU Co-Chair TABD, Trans-Atlantic Business Dialogue.	President and CEO of Atlas Copco AB*. President of the Atlas Copco Tools and Assembly Systems General Industry division. Before he was appointed President and CEO he was Business Area President for Industrial Technique.	CEO of Sapa AB, Gränges AB and DeLaval AB.	Vice President for Global Locomotive Business, Propulsion Business, Six Sigma Quality Leader, and General Manager Aftermarket Sales and Service, all with GE Transportation.
Attendance				
Board meetings	12 of 12	12 of 12	12 of 12	12 of 12
Annual General Meeting	Yes	Yes	No	No
Independence				
To Atlas Copco and its management	Yes	No ³⁾	Yes	Yes
To major shareholders	No ⁴⁾	Yes	Yes	Yes
Fees and holdings				
Total fees 2020, KSEK ¹⁾	2 750		1 131	648
Holdings in Atlas Copco AB ²⁾	25 000 class B shares 11 978 synthetic shares	13 087 class A shares 5 000 class B shares 391 713 employee stock options	10 000 class A shares 40 000 class B shares 2 721 synthetic shares	4 176 synthetic shares

Board members appointed by the unions



Benny Larsson
Position: Board member
Born: 1972
Nationality: Swedish
Elected: 2018
Board meetings: 12 of 12



Mikael Bergstedt
Position: Board member
Born: 1960
Nationality: Swedish
Elected: 2004
Board meetings: 12 of 12

Board of Directors, continued



Name	Johan Forssell	Anna Ohlsson-Leijon	Gordon Riske	Peter Wallenberg Jr
Position	Board member	Board member	Board member	Board member
Born	1971	1968	1957	1959
Education	M.Sc. in Economics and Business Administration, Stockholm School of Economics.	B.Sc. in Business Administration and Economics from Linköping University.	MBA programme at GSBA, Zurich, Switzerland, in collaboration with the State University of New York, U.S., and BBA, Oekreal School of Business, Zurich, Switzerland.	BSBA Hotel Administration, University of Denver, U.S. and International Bacheloria, American School, Leysin, Switzerland.
Nationality / Elected	Swedish / 2008	Swedish / 2020	American / German / 2020	Swedish / 2012
External memberships	Board member of EQT AB, Investor AB, Patricia Industries AB, Wärtsilä Oyj Abp, Finland, Epiroc AB, Confederation of Swedish Enterprise and Stockholm School of Economics. Member of The Royal Swedish Academy of Engineering Sciences.		Member of the Executive Board for the non-profit Hertie-Stiftung GmbH, Frankfurt, Germany, and a Non-Executive Director at Weichai Power Co., Ltd., Weifang, China.	Chair of Knut and Alice Wallenberg Foundation, Wallenberg Foundations AB and The Grand Group AB. Board member of EQT AB and Scania.
Principal work experience and other information	President and CEO of Investor AB*. Managing Director, Head of Core Investments and member of the management group of Investor AB.	Head of Business Area Europe, Executive Vice President, AB Electrolux*. Chief Financial Officer of Electrolux AB. Other senior positions within Electrolux including CFO of Major Appliances EMEA and Head of Electrolux Corporate Control & Services. Chief Financial Officer of Kimoda. Various positions within PricewaterhouseCoopers.	Chief Executive Officer of KION Group AG*, Germany. Chairman of the Management Board of Linde Material Handling GmbH, Germany, Chairman of the Management Board of Deutz AG, Germany, Managing Director of KUKA Roboter GmbH, Germany, and management positions at KUKA Schweißanlagen & Roboter GmbH, Germany and KUKA Welding Systems & Robot Corporation, U.S.	President and CEO of The Grand Hotel Holdings, General Manager, The Grand Hotel, President Hotel Division Stockholm-Saltsjön.
Attendance				
Board meeting	12 of 12	12 of 12	12 of 12	12 of 12
Annual General Meeting	No	No	No	No
Independence				
To Atlas Copco and its management	Yes	Yes	Yes	Yes
To major shareholders	No ⁵⁾	Yes	Yes	No ⁶⁾
Fees and holdings				
Total fees 2020, KSEK ¹⁾	940	705	648	830
Holdings in Atlas Copco AB ²⁾	11 000 class B shares 7 526 synthetic shares		1 089 synthetic shares	166 667 class A shares 7 526 synthetic shares

Board members appointed by the unions



Olle Magnusson
Position: Deputy to Mikael Bergstedt
Born: 1953
Nationality: Swedish
Elected: 2018
Board meetings: 12 of 12

REFERENCES:

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

¹⁾ See more information on the calculation of fees in note 5.

²⁾ Holdings as per end 2020, including those of close relatives or legal entities and grant for 2020.

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.

* Current position.

Group Management

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



Mats Rahmström
President and CEO



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



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



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



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



Gisela Lindstrand
Senior Vice President,
Chief Communications Officer



Hans Ola Meyer
Senior Vice President,
Chief Financial Officer



Håkan Osvald
Senior Vice President,
Chief Legal Officer



Cecilia Sandberg
Senior Vice President,
Chief Human Resources Officer

Group Management, continued

Mats Rahmström

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

Position: President and CEO

Born: 1965

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

Nationality: Swedish

Employed/In current position since: 1988/2017

External memberships: Board member of Wärtsilä Oyj Abp, Finland, the Association of Swedish Engineering Industries and of Piab AB. Member of The Royal Swedish Academy of Engineering Sciences.

Holdings in Atlas Copco AB*

13 087 class A shares
5 000 class B shares
391 713 employee stock options

Vagner Rego

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

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

Born: 1972

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

Nationality: Brazilian

Employed/In current position since: 1996/2017

Holdings in Atlas Copco AB*

3 013 class A shares
81 651 employee stock options

Geert Follens

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

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

Born: 1959

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

Nationality: Belgian

Employed/In current position since: 1995/2017

External memberships: Board member of SKF.

Holdings in Atlas Copco AB*

4 698 class A shares
64 927 employee stock options

Henrik Elmin

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

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

Born: 1970

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

Nationality: Swedish

Employed/In current position since: 2007/2017

Holdings in Atlas Copco AB*

4 060 class A shares
113 641 employee stock options

Andrew Walker

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

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

Born: 1961

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

Nationality: Irish

Employed/In current position since: 1986/2014

Holdings in Atlas Copco AB*

2 984 class A shares
94 017 employee stock options

Gisela Lindstrand

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

Position: Senior Vice President, Chief Communications Officer

Born: 1962

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

Nationality: Swedish

Employed/In current position since: 2018/2018

Holdings in Atlas Copco AB*

1 368 class A shares
22 144 employee stock options

Hans Ola Meyer

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

Position: Senior Vice President, Chief Financial Officer

Born: 1955

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

Nationality: Swedish

Employed/In current position since: 1991/1999

External memberships: Board member of Upplands Motor Holding AB and Electrolux Professional AB.

Holdings in Atlas Copco AB*

7 686 class A shares
37 821 class B shares
60 951 employee stock options

Håkan Osvald

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

Position: Senior Vice President, Chief Legal Officer

Born: 1954

Education: Master of Law from Uppsala University.

Nationality: Swedish

Employed/In current position since: 1985/2012

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

Holdings in Atlas Copco AB*

6 989 class A shares
2 600 class B shares
59 576 employee stock options

Cecilia Sandberg

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

Position: Senior Vice President, Chief Human Resources Officer

Born: 1968

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

Nationality: Swedish

Employed/In current position since: 2017/2017

Holdings in Atlas Copco AB*

2 105 class A shares
38 439 employee stock options

* Holdings as per end 2020, including those held by related natural or legal persons. See note 23 for more information on the option programs and matching shares.

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

Internal control over financial reporting

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

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

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

The financial reporting accounting policies and guidelines are issued by Group Management to all subsidiaries, which are followed up with newsletters and conference calls. Trainings are also held for complex accounting areas and new accounting policies. The policies and guidelines detail the appropriate accounting for key risk areas such as revenues, trade receivables, including bad debt provisions,

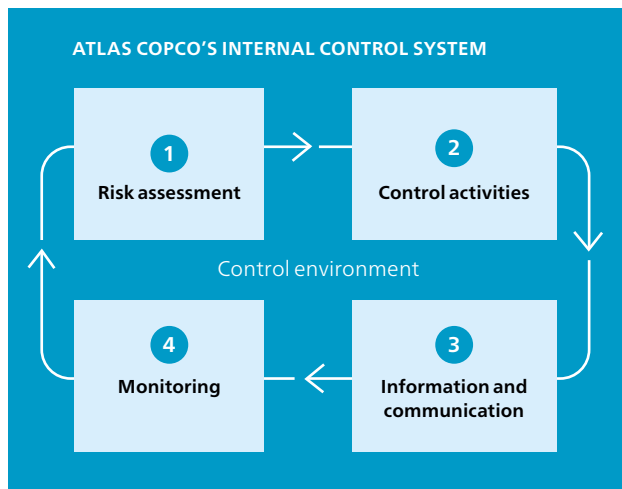
inventory costing and obsolescence, accounting for income taxes (current and deferred), financial instruments and business acquisitions.

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

1 Risk assessment

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

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



3 Information and communication

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

4 Monitoring

Examples of monitoring activities for the financial reporting include:

- Management at divisional, business area and Group level regularly reviews the financial information and assess compliance to Group policies.
- The Audit Committee and the Board of Directors regularly review reports on financial performance of the Group, by business area and geography.
- The internal audit process aims to provide independent and objective assurance on internal control. Further, the process aims to serve as a tool for employee professional development and to identify and recommend leading practices within the Group. Internal audits are annually planned or initiated by the Group internal audit function with a risk-based approach. Internal audits were conducted under leadership of Group internal audit staff with audit team members having diverse functional competences but always with expertise in accounting and controlling. The results of the internal audits undertaken are regularly reported to the Audit Committee and to Group Management.
- A control self-assessment (CSA) is performed primarily to support local unit managers to evaluate the status of their control routines and to address areas for improvement. One of the areas in the CSA is internal control, which includes internal control over financial reporting. Other areas include legal matters, communication and branding, and the Business Code of Practice.
- The Group has an independent misconduct reporting system where employees and other stakeholders can anonymously 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. The reporting system also includes perceived cases of human rights violation, discrimination or corruption. The reports are treated confidentially and the person reporting is guaranteed anonymity via an independent third-party service provider. More information about the grievance mechanism can be found on page 129.
- In the compliance process, all managers and all employees are requested to sign a statement confirming understanding and compliance to financial policies, the Business Code of Practice and applicable laws and regulations.

Financial statements and notes

MSEK unless otherwise stated

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Consolidated income statement

For the year ended December 31			
Amounts in MSEK	Note	2020	2019
Revenues	4	99 787	103 756
Cost of sales		-58 607	-59 024
Gross profit		41 180	44 732
Marketing expenses		-11 334	-12 118
Administrative expenses		-6 493	-7 226
Research and development expenses		-3 762	-3 631
Other operating income	7	270	297
Other operating expenses	7	-748	-173
Share of profit in associated companies and joint ventures	14	33	16
Operating profit	4, 5, 6, 16	19 146	21 897
Financial income	8	161	161
Financial expenses	8	-482	-486
Net financial items		-321	-325
Profit before tax		18 825	21 572
Income tax expense	9	-4 042	-5 029
Profit for the year		14 783	16 543
Profit attributable to:			
– owners of the parent		14 779	16 522
– non-controlling interests		4	21
Basic earnings per share, SEK	11	12.16	13.60
Diluted earnings per share, SEK	11	12.14	13.59

Consolidated statement of comprehensive income

For the year ended December 31			
Amounts in MSEK	Note	2020	2019
Profit for the year		14 783	16 543
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		93	-626
Income tax relating to items that will not be reclassified		-19	150
		74	-476
Items that may be reclassified subsequently to profit or loss			
Translation differences			
– on foreign operations		-6 398	1 578
– realized and reclassified to income statement		-	-32
Hedge of net investments in foreign operations		673	-252
Cash flow hedges		27	43
Income tax relating to items that may be reclassified		-211	71
		-5 909	1 408
Other comprehensive income for the year, net of tax	10	-5 835	932
Total comprehensive income for the year		8 948	17 475
Total comprehensive income attributable to:			
– owners of the parent		8 963	17 453
– non-controlling interests		-15	22

Consolidated balance sheet

Amounts in MSEK	Note	Dec. 31, 2020	Dec. 31, 2019
ASSETS			
Non-current assets			
Intangible assets	12	45 840	36 549
Rental equipment	13	2 241	2 858
Other property, plant and equipment	13	7 889	8 021
Right-of-use assets	22	3 261	3 557
Investments in associated companies and joint ventures	14	931	1 037
Other financial assets	15	673	642
Other receivables		102	116
Deferred tax assets	9	1 484	1 449
Total non-current assets		62 421	54 229
Current assets			
Inventories	16	13 450	14 501
Trade receivables	17	18 801	20 590
Income tax receivables		969	1 373
Other receivables	18	6 007	5 898
Other financial assets	15	58	125
Cash and cash equivalents	19	11 655	15 005
Assets classified as held for sale	3	5	1
Total current assets		50 945	57 493
TOTAL ASSETS		113 366	111 722
EQUITY			
	Page 64		
Share capital		786	786
Other paid-in capital		7 855	7 622
Reserves		2 913	8 804
Retained earnings		41 661	36 019
Total equity attributable to owners of the parent		53 215	53 231
Non-controlling interests		319	59
TOTAL EQUITY		53 534	53 290
LIABILITIES			
Non-current liabilities			
Borrowings	21	21 669	20 400
Post-employment benefits	23	3 488	3 488
Other liabilities		278	261
Provisions	25	1 195	1 149
Deferred tax liabilities	9	1 736	702
Total non-current liabilities		28 366	26 000
Current liabilities			
Borrowings	21	2 977	3 255
Trade payables		11 202	11 898
Income tax liabilities		1 367	1 433
Other liabilities	24	13 987	14 233
Provisions	25	1 933	1 613
Total current liabilities		31 466	32 432
TOTAL EQUITY AND LIABILITIES		113 366	111 722

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

Consolidated statement of changes in equity

2020	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total		
Amounts in MSEK								
Opening balance, Jan. 1	786	7 622	40	8 764	36 019	53 231	59	53 290
Profit for the year					14 779	14 779	4	14 783
Other comprehensive income for the year			19	-5 910	75	-5 816	-19	-5 835
Total comprehensive income for the year			19	-5 910	14 854	8 963	-15	8 948
Dividend					-8 506	-8 506		-8 506
Acquisition of series A shares					-1 097	-1 097		-1 097
Divestment of series A shares		230			590	820		820
Divestment of series B shares		3			-	3		3
Change of non-controlling interests					-157	-157	275	118
Share-based payment, equity settled								
– expense during the year					158	158		158
– exercise option					-200	-200		-200
Closing balance, Dec. 31	786	7 855	59	2 854	41 661	53 215	319	53 534

2019	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total		
Amounts in MSEK								
Opening balance, Jan. 1	786	7 201	2	7 395	27 041	42 425	47	42 472
Profit for the year					16 522	16 522	21	16 543
Other comprehensive income for the year			38	1 369	-476	931	1	932
Total comprehensive income for the year			38	1 369	16 046	17 453	22	17 475
Dividend					-7 653	-7 653	-10	-7 663
Acquisition of series A shares					-897	-897		-897
Divestment of series A shares		394			1 755	2 149		2 149
Divestment of series B shares		27			8	35		35
Share-based payment, equity settled								
– expense during the year					135	135		135
– exercise option					-416	-416		-416
Closing balance, Dec. 31	786	7 622	40	8 764	36 019	53 231	59	53 290

Consolidated statement of cash flows

For the year ended December 31 Amounts in MSEK	Note	2020	2019
Cash flows from operating activities			
Operating profit		19 146	21 897
Adjustments for:			
Depreciation, amortization and impairment	12, 13, 22	5 189	4 700
Capital gain/loss and other non-cash items		746	99
Operating cash surplus		25 081	26 696
Net financial items received/paid		244	-610
Taxes paid		-4 531	-5 501
Pension funding and payment of pension to employees		-340	-376
Cash flow before change in working capital		20 454	20 209
Change in:			
Inventories		535	-951
Operating receivables		1 208	-739
Operating liabilities		423	-1 281
Change in working capital		2 166	-2 971
Increase in rental equipment		-486	-1 140
Sale of rental equipment		70	53
Net cash from operating activities		22 204	16 151
Cash flows from investing activities			
Investments in other property, plant and equipment	13	-1 459	-1 662
Sale of other property, plant and equipment ¹⁾		39	718
Investments in intangible assets	12	-1 337	-1 016
Sale of intangible assets		-	1
Acquisition of subsidiaries	2	-13 583	-7 706
Investment in other financial assets, net		54	-18
Net cash from investing activities		-16 286	-9 683
Cash flows from financing activities			
Ordinary dividend		-8 506	-7 653
Dividend paid to non-controlling interest		-	-10
Acquisition of non-controlling interest		-216	-
Repurchase of own shares		-1 097	-897
Divestment of own shares		823	2 184
Borrowings		2 407	4 637
Repayment of borrowings		-729	-5 618
Settlement of CSA ²⁾		-79	367
Payment of lease liabilities	22	-1 155	-1 034
Net cash from financing activities		-8 552	-8 024
Net cash flow for the year		-2 634	-1 556
Cash and cash equivalents, Jan. 1		15 005	16 414
Net cash flow for the year		-2 634	-1 556
Exchange-rate difference in cash and cash equivalents		-716	147
Cash and cash equivalents, Dec. 31	19	11 655	15 005

¹⁾ 2019 includes MSEK 600 from sale-and-leaseback transactions of properties in the U.S.A., see note 28.

²⁾ Credit Support Annex, see note 27.

1. Significant accounting principles, critical accounting estimates and judgements

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 disclosures 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 March 3, 2021. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 27, 2021.

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, i.e. 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, plus any goodwill, and any other remaining fair value adjustments recognized at acquisition date.

"Share of profit in associated companies and joint ventures", included in the income statement, 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 rate 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 rate gains and losses attributable to other financial assets and liabilities are included in "Financial income and expenses". Exchange rate differences on translation to functional currency are reported in "Other comprehensive income" in the following cases:

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

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

Segment reporting

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

Revenue recognition

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

Goods sold

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

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

Installation services are sold together with the good or separately. The Group assesses the contract at inception, and the installation service is either considered as part of the performance obligation of the sale of the good or as a separate performance obligation. The installation service is a separate performance obligation when the customer can benefit from the service either on its own or

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

together with other resources readily available and the promise to transfer the service to the customer is separately identifiable from other promises in the contract.

For buy-back commitments where the buy-back price is lower than the 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 liabilities are estimated at contract inception and updated thereafter.

Rights of return

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

Rendering of service

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

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

Specialty rental

Income from specialty rental is recognized on a straight-line basis over the rental period. The specialty rental business is considered to be a service for the customers as this includes a complete solution to the customers to fulfill the customer needs. Sale of equipment from the specialty rental business is recognized as revenue when the control of the asset has been transferred to the buyer. Indicators of transfer of control is explained under "Goods sold" see page 66. The carrying value of the specialty rental equipment sold is recognized as cost of sales. Investments in and sales of specialty rental equipment are included in cash flows from operating activities.

Contract assets and contract liabilities

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

Practical expedients

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

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

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

Other operating income and expenses

Commissions received 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. See note 7 for additional information.

Government grants

Government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received. Government grants related to expenses are recognized in the income statement as a deduction of the associated expenses. If the grants cannot be allocated to an associated expense, government grants are recognized in "Other operating income". Government grants related to assets are recognized as a deduction in arriving at the carrying amount of the asset and recognized as revenue over the useful life of the asset through a reduction of the depreciation expense. 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 rate 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,
- 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

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test is performed at the level on which goodwill is monitored for internal management purposes. The four business areas of Atlas Copco's operations have been identified as CGUs. Goodwill is reported as an intangible asset with indefinite useful life.

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 2020 amounted to 975 (792). 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 over the useful life of the asset. 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. Changes in the Group's property, plant and equipment during the year are described in note 13.

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

Technology-based intangible assets	3–15 years
Trademarks with finite lives	5–15 years
Marketing and customer related intangible assets	5–15 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.

Leases

Group as lessee

Recognition of a lease

Upon initiation, contracts are assessed by the Group, to determine whether a contract is, or contains a lease. If the contract conveys the right to control the use of an identified asset for a certain period of time in exchange for consideration, then it is or contains a lease. The right to control the use of an identifiable asset is assessed by the Group based upon if there is an identifiable asset, if the Group has the right to obtain substantially all economic benefits from the use of the asset and if the Group has the right to steer the use of the asset. The Group has elected to separate the non-lease components and apply a number of practical expedients with regard to short-term leases and leases for which the underlying asset is of low value. In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately.

Measurement of a right-of-use asset and lease liability

Right-of-use asset

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

The right-of-use asset is depreciated over the lease term, using the straight-line method. Changes in the Group's right-of-use asset during the year is described in note 22.

Lease liability

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

The lease liability is measured at amortized cost by using the effective interest rate method. For additional information see note 21.

Short-term leases and leases for which the underlying asset is of low value

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

Group as a lessor

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

In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately. The Group assesses the

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lease classification of a sub-lease with reference to the right-of-use asset arising from the head-lease.

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 the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of assessing impairment, assets are grouped in CGUs, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss. An impairment loss related to goodwill is not reversed. In respect of other assets, impairment losses in prior periods are reviewed for possible reversal of the impairment at each reporting date.

Inventories

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

Equity

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

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

Supply chain financing

The Group and Banks, with close relations to Atlas Copco, offer suppliers the opportunity to use a supply chain financing scheme ("SCF") which allows them to be paid earlier than the invoice due date. The Group evaluates supplier arrangements against a number of indicators to assess if the payable continues to hold characteristics of a trade payable or should be classified as borrowings; these indicators include whether the payment terms exceed customary payment terms in the industry. These transactions have been recognized as either "Account payables" or "Borrowings" in the Group's balance sheet and as "Change in operating liabilities" or change in "Borrowings" or "Repayment of borrowings" in the statement of cash flows.

Provisions

Provisions are recognized:

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

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

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

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

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

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

Post-employment benefits

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

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

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

Share-based compensation

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

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

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

Social security charges are paid in cash and are accounted for in accordance 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 matured, 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 are 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).

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".

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

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 amortized cost using the effective interest rate method. Assets classified at amortized cost are held under the business model of collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are subject to a loss allowance for expected credit losses.

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

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

Classification and measurement of financial liabilities

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

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

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

Impairment of financial assets

Financial assets, except those classified at fair value through profit and loss (FVTPL), are subject to impairment for expected credit losses. In addition, the impairment model applies to contract assets, loan commitments and financial guarantees that are not measured at FVTPL. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk, usually at first recognition of an asset or receivable. The ECL reflects 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 the type of asset and on the 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 ongoing basis. Hedge effectiveness is assessed by an analysis of the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the value changes' that result from that economic relationship. Further, the hedge ratio, as defined in the Group's risk management strategy, must be the same in the hedging relationship as in the actually hedge performed.

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

The amount recognized in equity through "Other comprehensive income" is reversed to profit or loss in the same period in which the hedged item affects profit or loss. 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 can also be 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.

Assets held for sale

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 remeasurement and disposal are reported in profit or loss. In the balance sheet assets held for sale and associated liabilities are reported separately, the comparative period is not affected.

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

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 2020

The following new or amended IFRS standards have been applied by the Group from 2020, with none, or no material impact on the Group.

Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions

The amendment provided relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that made this election accounted for any change in lease payments resulting from Covid-19 related rent concession in the same way as it would account for the change under IFRS 16 if the change was not a lease modification. The Group applied the amendment to a limited number of contract that fulfilled the criteria in the amendment. Those contract mainly related to buildings. The amount recognized in the income statement was not material.

Amendment to IFRS 3 – Business Combinations

The amendment clarified the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also the definition of the term “outputs” is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

Amendment to IAS 1 and IAS 8 – Definition of Material

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors were done to align the definition of “material” across the standards and to clarify certain aspects of the definition. The new definition states that, “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” In particular, the amendment clarified the concept of “obscuring” material information and the meaning of primary users of general purpose financial statements. Furthermore, IASB also amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term “material” to ensure consistency.

Interest Rate Benchmark Reform (Amendments to IFRS 7, IFRS 9 and IAS 39)

There is an ongoing project to reform interest rate benchmarks, such as EONIA, EURIBOR and LIBOR, and alternative reference rates, known as “risk-free rates” (RFR’s) are being developed and will replace existing interest rate benchmarks. In this process IASB issued amendments to IFRS 7, IFRS 9 and IAS 39 that deals with hedging relationships that are directly affected by the interest rate benchmark reform and provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the reform.

New or amended accounting standards effective after 2020

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2020 and in some cases had not been adopted by the EU. The Group has not applied the new standards, interpretations or amendments. The current assessment is that these amendments will have none or no material effect on the Group.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments to IFRS 9 introduce a practical expedient if a modification of contractual cash flows of a financial asset or a financial liability is necessary as a direct consequence of the IBOR reform and occurs on an “economically equivalent” basis as the previous basis. In those cases, changes will be accounted for by updating the effective interest rate.

The amendment to IFRS 16 introduces a similar practical expedient when accounting for lease modifications required by the IBOR reform, a remeasurement of the lease liability is allowed using the revised discount rate. The amount of the remeasurement is recognized as an adjustment to the right-of-use asset.

The amendment to IFRS 9 also provides relief from discontinuing hedge relationships because of changes to hedge documentation required by the reform as well as temporary relief from having to meet the separately identifiable requirement. The amendments are applied for annual periods beginning on January 1, 2021 or after, with earlier application permitted.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial reports requires management’s judgement 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 in and in any future periods affected.

The estimates and the judgements 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 judgements are as follows:

Revenue recognition

Key sources of estimation uncertainty

Revenue for services and for highly customized goods where an enforceable right of payment is present is 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 the estimated total cost of each performance obligation. There is always an uncertainty if the total estimated expenditure is correctly calculated, and if the expenditure incurred reflects accurately the actual costs incurred, which means that there is uncertainty in the estimates of the degree of completion of the work performed. Management has assessed this method of determining the progress towards satisfaction of the performance obligation as most suitable as it reflects the progression of work performed, and the enforceable right of payment from the customer as the costs are incurred on the performance obligations.

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 judgement 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 recognized,
- if the control has been transferred to the customer (for example the Group has a present right to payment for the good, the customer has legal title of the good, the good has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the good), to determine if revenue and cost should be recognized in the current period,
- the transaction price of each performance obligation when a contract includes more than one performance obligation, to determine the revenue and cost to be recognized in the current period,
- certain contracts which include a right of return and/or volume rebates that give rise to variable consideration, variable consideration is assessed to identify possible constraints, 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 judgement

Asset impairment requires management’s judgement, 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.

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

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 recognizes 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 judgement

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 judgement on the estimated sales prices, over-stock articles, outdated articles, damaged goods, and selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. See note 16 for additional information.

Leases

Key sources of estimation uncertainty:

When the Group cannot readily determine the interest rate implicit in the lease, it uses incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over similar terms which requires estimations when no observable rates are available. The Group estimates the IBR by using market interest rates and adjusting with entity specific estimates such as currency and country risk.

Accounting judgement

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating the lease term, it considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. For leases of premises, the following factors are normally the most relevant:

- if any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend.
- otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The renewal periods for leases of offices and warehouse premises with extension options exceeding 10 to 15 years are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, renewal options for leases of motor vehicles are not part of the lease term because the Group typically leases motor vehicles for not more than three to five years and, hence, is not exercising any renewal options.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew. Refer to note 22 for information on potential future rental payments relating to extension options that are not included in the lease term.

Trade and financial receivable

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 for trade receivables and contract assets are an assessment of specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. The expected credit losses for lease receivables and financial receivables are an assessment that reflects an unbiased, probability-weighted outcome based on reasonable and supportable forecasts.

Accounting judgement:

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

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 healthcare-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 judgement

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 provisions are complex accounting estimates 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 are reviewed at least quarterly as well as when new products are introduced or when other changes occur which may affect the calculation. See note 25.

Acquisitions

Key sources of estimation uncertainty

The Group performs purchase price allocations related to business combinations. Purchase prices are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of the acquisition. Fair value is commonly based on valuation models. The valuation methods rely on various assumptions, such as estimated future cash flows, remaining economic useful life etc. The determination of the fair value requires the Group to apply assumptions and estimates. These can vary from the actual outcomes. See note 2.

2. Acquisitions

The following summarizes the acquisitions during 2020 and 2019:

Acquisition date		Country	Business area	Revenues ¹⁾	Number of employees ¹⁾
2020 Dec. 31	Purification Solutions LLC	U.S.A. etc.	Compressor Technique	242	60
2020 Dec. 21	Perceptron	U.S.A. etc.	Industrial Technique	516	300
2020 Sep. 2	MEDGAS-Technik GmbH	Germany etc.	Compressor Technique	126	80
2020 Aug. 4	iTrap (the technology and operating assets)	Germany	Vacuum Technique	²⁾	4
2020 Aug. 4	THN Druckluft and Produktions GmbH & Co. KG	Germany	Compressor Technique	²⁾	15
2020 Jun. 24	ISRA VISION AG	Germany etc.	Industrial Technique	1 619	800
2020 Jun. 5	Ovity Air Comprimé	France	Compressor Technique	²⁾	8
2020 Feb. 28	Dekker Vacuum Technologies, Inc.	U.S.A.	Vacuum Technique	217	70
2020 Feb. 27	Dr. Gustav Gail Drucklufttechnik GmbH	Germany	Compressor Technique	²⁾	10
2020 Jan. 22	M.C. Schroeder Equipment Co., Inc.	U.S.A.	Vacuum Technique	²⁾	8
2020 Jan. 16	Hydra Flow West	U.S.A.	Compressor Technique	²⁾	7
2020 Jan. 3	Scheugenpflug AG	Germany etc.	Industrial Technique	850	600
2019 Nov. 6	WestRon	U.S.A.	Compressor Technique	²⁾	26
2019 Oct. 18	Accurate Air Engineering and Compressed Air of California	U.S.A.	Compressor Technique	²⁾	52
2019 Jul. 2	MGES Inc.	U.S.A.	Compressor Technique	48	11
2019 Jul. 2	Eurochiller S.r.l.	Italy etc.	Compressor Technique	267	90
2019 Jul. 1	Brooks' Semiconductor Cryogenics Business	U.S.A. etc.	Vacuum Technique	1 400	400
2019 Jun. 19	Powerhouse Equipment & Engineering Co. Inc.	U.S.A.	Power Technique	347	95
2019 Jun. 17	Taylor Air Center	U.S.A.	Compressor Technique	²⁾	20
2019 May 29	AirCenterSüd GmbH & Co. KG	Germany	Compressor Technique	²⁾	6
2019 May 27	Air Compresseur service	France	Compressor Technique	²⁾	10
2019 May 3	Bold & Cichos GbR	Germany	Compressor Technique	²⁾	15
2019 May 2	Mid South Engine & Power Systems, LLC	U.S.A.	Power Technique	54	28
2019 Apr. 9	PSI Compressors of Brockville Incorporated	Canada	Compressor Technique	²⁾	6
2019 Apr. 3	Jacob Drucklufttechnik Vertriebs GmbH	Germany	Compressor Technique	²⁾	10
2019 Apr. 2	S.A.S. Air Diffusion	France	Compressor Technique	²⁾	15
2019 Mar. 19	Class 1 Incorporated	Canada	Compressor Technique	130	50
2019 Mar. 6	Woodward Compressor Sales	U.S.A.	Compressor Technique	²⁾	15
2019 Mar. 1	Appleton Compressor Service & Supply, Inc.	U.S.A.	Compressor Technique	²⁾	15
2019 Jan. 4	German Industrie Pumpen Vertriebs GmbH	Germany	Power Technique	50	20

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.

With exception of the acquisition of ISRA VISION (92.19% of shares acquired), all acquisitions above were made through the purchase of 100% of shares and voting rights or through the purchase of the net assets of the acquired operations. The Group received control over the operations upon the date of closing the acquisition. No equity instruments have been issued in connection with the acquisitions. All acquisitions have been accounted for using the acquisition method.

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant, except for ISRA VISION in 2020 and for the

Brook's Semiconductor Cryogenic Business in 2019 which are disclosed separately. The fair values related to intangible assets other than goodwill are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 10.5%. For more information about the valuation of contingent consideration, see note 27. The Group is in the process of reviewing the final values for certain of the recently acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2019 are included in the following tables.

2. Acquisitions, continued

Compressor Technique	Recognized values	
	2020	2019
Intangible assets	210	519
Property, plant and equipment ¹⁾	36	47
Other assets	141	266
Cash and cash equivalents	48	28
Interest-bearing liabilities and borrowings	-78	-70
Other liabilities and provisions	-112	-223
Net identifiable assets	245	567
Goodwill	185	241
Total consideration	430	808
Deferred consideration	-33	9
Cash and cash equivalents acquired	-48	-28
Net cash outflow	349	789

¹⁾ Includes right-of-use assets.

In September, the Compressor Technique business area acquired MEDGAS-Technik GmbH. The company is a manufacturer, distributor, installer and service provider of medical vacuum systems, pipeline equipment and medical supplies and is headquartered in Berndroth, Germany. The acquisition is expected to strengthen Atlas Copco's presence and accelerate its business development within medical gas in Europe. Intangible assets of 37 and goodwill of 25 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In December, the operating business of Purification Solutions LLC and certain other affiliates, a leading compressed air and gas solutions provider with a global sales network, was acquired. The company focuses on the design, production and sales of air treatment and on-site nitrogen generation equipment. It is headquartered in Charlotte, North Carolina, U.S.A., and operates under the brand name nano purification solutions. The company's expertise and product portfolio is expected to increase Atlas Copco's market share and accelerate its business development in North America, Europe and other strategic markets. Intangible assets of 104 and goodwill of 145 were recorded on the purchase. The goodwill is deductible for tax purposes.

In addition, the business area acquired four distributors during the year. In January, Hydra Flow West, located in Walnut, California, U.S.A., was acquired. Dr. Gustav Gail Drucklufttechnik GmbH and the assets of THN Druckluft, both businesses located in Germany, were acquired in February and August respectively. Finally, French Ovity Aur Comprimé was acquired in June. The acquisitions are expected to increase Atlas Copco's presence in their respective markets. In total, intangible assets of 61 were recorded on the purchases.

Vacuum Technique	Recognized values	
	2020	2019
Intangible assets	194	2 779
Property, plant and equipment ¹⁾	25	10
Other assets	88	1 369
Cash and cash equivalents	1	-
Interest-bearing liabilities and borrowings	-14	-
Other liabilities and provisions	-33	-152
Net identifiable assets	261	4 006
Goodwill	122	2 192
Total consideration	383	6 198
Deferred consideration	-6	-
Cash and cash equivalents acquired	-1	-
Net cash outflow	376	6 198

¹⁾ Includes right-of-use assets.

In January, the Vacuum Technique business area acquired the assets of M.C. Schroeder Equipment Co., Inc. The company is a distributor of vacuum equipment and service solutions based in Denver, North Carolina, U.S.A. The acquisition will complement Atlas Copco's existing footprint in the region. Intangible assets of 51 were recorded on the purchase.

In February, Dekker Vacuum Technologies, Inc. was acquired. The company is based in Michigan City, Indiana, U.S.A., and is a supplier of vacuum equipment and service solutions for industrial applications. The acquisition will complement Atlas Copco's existing portfolio in the liquid ring pump market. Intangible

assets of 102 and goodwill of 122 were recorded on the purchase. The goodwill is deductible for tax purposes.

In August, the technology and operating assets of iTrap were acquired. The business is located in Oberkochen, in southern Germany, and was part of ZEISS Venture. The iTrap is an ion trap mass spectrometer instrument capable of highly sensitive real time gas analysis. The instrument is used for diagnostics or process control in semiconductor process chambers. The acquisition is expected to bring value to the customers through the insights the technology can bring into the chemical environment in process chambers, in close to real time. Intangible assets of 41 were recorded on the purchase.

Industrial Technique	Recognized values	
	2020	2019
Intangible assets	4 818	-
Property, plant and equipment ¹⁾	478	-
Other assets	2 486	-3
Cash and cash equivalents	426	-
Interest-bearing liabilities and borrowings	-686	-
Other liabilities and provisions	-2 300	-
Net identifiable assets	5 222	-3
Non-controlling interests	-334	-
Goodwill	8 389	3
Total consideration	13 277	-
Deferred consideration	7	21
Cash and cash equivalents acquired	-426	-
Net cash outflow	12 858	21

¹⁾ Includes right-of-use assets.

In January, the Industrial Technique business area acquired Scheugenpflug AG. The company is based in Neustadt an der Donau near Munich, Germany, and offers dispensing solutions including adhesive bonding and potting solutions, used in various industries. The acquisition will strengthen Atlas Copco's position in industrial dispensing solutions by complementing and broadening the offering towards a larger group of customers. Intangible assets of 581 and goodwill of 1 431 were recorded on the purchase. The goodwill is not deductible for tax purposes.

On February 10, it was announced that Atlas Copco will partner with the global machine vision specialist ISRA VISION AG through a voluntary public takeover offer. All offer conditions were fulfilled during the second quarter and the settlement of the offer was completed on June 24, giving Atlas Copco in total 92.19% of ISRA VISION. ISRA VISION specializes in machine vision solutions with leading technologies for surface inspection and 3D vision for robot guidance, quality inspection and 3D metrology, operating through two business segments, Smart Factory Automation and Surface Vision. The company has a global presence with operations in over 25 locations and is headquartered in Darmstadt, Germany. Through the acquisition, Atlas Copco will increase the support for its customers on their transition towards digital manufacturing in several segments. The ability to offer both joining technologies and machine vision solutions for the same application is expected to strengthen Atlas Copco's position as a strategic partner for the customers in the future. Intangible assets of 4 142 and goodwill of 6 856 were recorded on the purchase. The goodwill is not deductible for tax purposes. Non-controlling interest amounted to 334 and has been valued at the proportionate share of the acquired net assets.

In December, the business area completed the acquisition of Perceptron by way of a negotiated statutory merger, resulting in Perceptron being delisted from the Nasdaq stock exchange in New York. Perceptron is a leading supplier of automated metrology solutions headquartered in Plymouth, Michigan, USA. Through Perceptron's position in automated metrology and vision systems for robot guidance, together with the recent acquisition of ISRA VISION, Atlas Copco is creating a strong offering in machine vision solutions. Intangible assets of 95 and goodwill of 102 were recorded on the purchase. The goodwill is not deductible for tax purposes.

2. Acquisitions, continued

Power Technique	Recognized values	
	2020	2019
Intangible assets	–	153
Property, plant and equipment ¹⁾	–5	193
Other assets	–7	147
Cash and cash equivalents	–	8
Interest-bearing liabilities and borrowings	–	–19
Other liabilities and provisions	3	–83
Net identifiable assets	–9	399
Goodwill	8	312
Total consideration	–1	711
Deferred consideration	1	–5
Cash and cash equivalents acquired	–	–8
Net cash outflow	–	698

¹⁾ Includes right-of-use assets.

Total fair value of acquired assets and liabilities	Group recognized values			
	2020	of which ISRA VISION	2019	of which Brooks ²⁾
Intangible assets	5 222	4 142	3 451	2 779
Property, plant and equipment ¹⁾	534	198	250	10
Other non-current assets	16	10	926	909
Inventories	907	573	431	255
Trade receivables ³⁾	1 021	540	393	205
Other current assets	764	642	29	–
Cash and cash equivalents	475	304	36	–
Interest-bearing liabilities and borrowings	–778	–528	–89	–
Other liabilities and provisions	–866	–385	–360	–161
Deferred tax assets/liabilities, net	–1 576	–1 414	–98	9
Net identifiable assets	5 719	4 082	4 969	4 006
Non-controlling interests	–334	–334	–	–
Goodwill	8 704	6 856	2 748	2 192
Total consideration	14 089	10 604	7 717	6 198
Deferred consideration	–31	–	25	–
Cash and cash equivalents acquired	–475	–304	–36	–
Net cash outflow	13 583	10 300	7 706	6 198

¹⁾ Includes right-of-use assets.

²⁾ Brooks refers to the acquisition of Brooks' Semiconductor Cryogenics Business.

³⁾ The gross amount is 1 073 (408) of which 52 (15) is expected to be uncollectible.

The Power Technique business area made no acquisitions in 2020. Minor adjustments were made in the year related to the acquisitions in 2019.

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 14 089 (7 717). This includes contingent consideration related to the acquisition of Purification Solutions with a fair value of 54. The payment of the contingent consideration is dependent on achieving future targets for revenues within three years of the acquisition. The fair value has been calculated based on the expectation that the maximum amount will be paid out.

Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2020 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 13 583 (7 706) after deducting cash and cash equivalents acquired of 475 (36).

Acquisition-related costs amounted to 175 (33) and were included in the "Administrative expenses". Costs related to acquisitions finalized in 2020 were included in the income statements for 2019 and 2020.

Contribution from businesses acquired in 2020 and 2019 by business area	Compressor Technique		Vacuum Technique		Industrial Technique*		Power Technique		Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Contribution from date of control										
Revenues	108	494	216	669	1 301	–	–	232	1 625	1 395
Operating profit	–10	–	2	104	–28	–	–	10	–36	114
Profit for the year									–31	82
Contribution if the acquisition had occurred on Jan. 1										
Revenues	484	1 148	253	1 333	2 431	–	–	381	3 168	2 862
Operating profit	–4	–34	–9	204	–63	–	–	17	–76	187
Profit for the year									–69	157

* From the date of control, ISRA VISION had revenues of MSEK 690 and operating profit of MSEK 15, including negative purchase price allocation effects of MSEK 90.

3. Assets held for sale

Assets held for sale

Assets held for sale increased in 2020 as a building has been classified as "Asset held for sale".

Carrying value of assets held for sale	2020	2019
Property, plant and equipment	5	1
Net carrying value	5	1

4. Segment information

2020	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	46 979	24 673	16 141	11 994	–	–	99 787
Inter-segment revenues	350	12	35	112	–	–509	–
Total revenues	47 329	24 685	16 176	12 106	–	–509	99 787
Operating profit	10 658	5 519	2 422	1 594	–1 060	13	19 146
– of which share of profit in associated companies and joint ventures	0	33	0	–	–	–	33
Net financial items							–321
Income tax expense							–4 042
Profit for the year							14 783
Non-cash expenses							
Depreciation/amortization	1 398	1 211	1 175	1 147	265	–33	5 163
Impairment	2	–	12	4	8	–	26
Other non-cash expenses	–12	–20	112	6	24	–	110
Segment assets	26 943	30 869	27 949	9 863	2 721	–1 161	97 184
– of which goodwill	4 164	11 099	12 534	1 076	–	–	28 873
Investments in associated companies and joint ventures	1	809	121	–	–	–	931
Unallocated assets							15 251
Total assets	26 944	31 678	28 070	9 863	2 721	–1 161	113 366
Segment liabilities	15 517	5 070	4 451	2 397	2 255	–1 053	28 637
Unallocated liabilities							31 195
Total liabilities	15 517	5 070	4 451	2 397	2 225	–1 053	59 832
Capital expenditures							
Property, plant and equipment	1 152	737	352	687	161	–21	3 068
– of which right-of-use assets	575	197	129	107	115	–	1 123
Intangible assets	165	521	502	136	13	–	1 337
Total capital expenditures	1 317	1 258	854	823	174	–21	4 405
Goodwill acquired	185	122	8 389	8	–	–	8 704

2020	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Items affecting comparability in Operating profit	–	–300 ¹⁾	–190 ²⁾	–50 ²⁾	–312 ³⁾	–	–852

¹⁾ Refers to restructuring costs and a provision of –210 for the settlement of a pension dispute in Edwards Ltd dating from before the acquisition of Edwards Ltd in 2014.

²⁾ Refers to restructuring costs.

³⁾ Refers to a change in provision for share-related long-term incentive programs.

4. Segment information, continued

2019	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	47 721	23 570	18 678	13 787	–	–	103 756
Inter-segment revenues	565	–	34	128	–	–727	–
Total revenues	48 286	23 570	18 712	13 915	–	–727	103 756
Operating profit	11 198	5 792	4 069	2 308	–1 467	–3	21 897
– of which share of profit in associated companies and joint ventures	–	19	–3	–	–	–	16
Net financial items							–325
Income tax expense							–5 029
Profit for the year							16 543
Non-cash expenses							
Depreciation/amortization	1 295	1 097	929	1 111	281	–29	4 684
Impairment	–	1	1	14	–	–	16
Other non-cash expenses	183	–135	12	–30	263	–	293
Segment assets	29 940	33 103	14 892	12 106	2 844	–1 172	91 713
– of which goodwill	4 389	12 281	4 931	1 156	–	–	22 757
Investments in associated companies and joint ventures	1	904	132	–	–	–	1 037
Unallocated assets							18 972
Total assets	29 941	34 007	15 024	12 106	2 844	–1 172	111 722
Segment liabilities	15 835	5 321	3 830	3 188	2 204	–1 048	29 330
Unallocated liabilities							29 102
Total liabilities	15 835	5 321	3 830	3 188	2 204	–1 048	58 432
Capital expenditures							
Property, plant and equipment	1 487	581	564	1 513	104	–60	4 189
– of which right-of-use assets	627	177	317	210	56	–	1 387
Intangible assets	122	449	293	120	32	–	1 016
Total capital expenditures	1 609	1 030	857	1 633	136	–60	5 205
Goodwill acquired	241	2 192	3	312	–	–	2 748

2019	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Items affecting comparability in Operating profit	–	–	–117 ¹⁾	–	–663 ²⁾	–	–780

¹⁾ Refers to restructuring costs.

²⁾ Refers to a change in provision for share-related long-term incentive programs.

4. Segment information, continued

The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. The chief operating decision maker uses more than one measure of the operating segments' profit or loss to assess performance and allocate resources. The operating profit of the business areas is the primary profit measure used by the chief operating decision maker, and is reconciled to the consolidated operating profit in the tables on the previous pages. Items affecting comparability are included in a separate table since the chief operating decision maker reviews also these as part of allocating resources to the different business areas. All business areas are managed on a worldwide basis and their role is to develop, implement and follow up the objectives and strategies within their respective business.

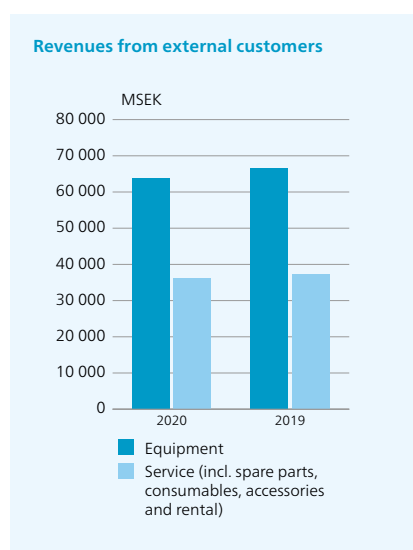
See pages 20–33 for a description of the business areas.

Common group functions, i.e. functions which serve all business areas or the Group as a whole, are 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, right-of-use assets, 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.



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	
	2020	2019	2020	2019
North America				
Canada	1 547	1 625	181	225
U.S.A.	20 513	22 417	11 668	12 968
Other countries	1 588	1 826	87	118
	23 648	25 868	11 936	13 311
South America				
Brazil	2 076	2 511	447	578
Chile	559	601	91	94
Other countries	929	989	55	78
	3 564	4 101	593	750
Europe				
Belgium	1 102	1 159	2 224	2 379
France	3 385	3 605	731	719
Germany	6 116	6 297	20 604	8 094
Italy	2 631	2 842	2 025	2 147
Russia	1 473	1 548	70	107
Sweden	1 425	1 484	1 330	1 278
United Kingdom	2 646	2 666	12 639	14 618
Other countries	11 543	12 180	1 580	1 654
	30 321	31 781	41 203	30 996
Africa/Middle East				
South Africa	522	671	85	115
Other countries	4 635	4 957	366	480
	5 157	5 628	451	595
Asia/Oceania				
Australia	1 076	1 121	173	196
China	20 519	19 471	2 200	2 329
India	3 197	4 077	286	316
Japan	2 918	2 932	489	492
South Korea	5 008	4 326	1 491	1 520
Other countries	4 379	4 451	409	480
	37 097	36 378	5 048	5 333
Total	99 787	103 756	59 231	50 985

Geographic distribution	Compressor Technique, %		Vacuum Technique, %		Industrial Technique, %		Power Technique, %		Group, %	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2020										
North America	21	22	20	21	31	31	25	26	23	24
South America	6	5	1	–	2	2	6	6	4	4
Europe	35	35	14	14	38	38	37	36	30	30
Africa/Middle East	7	7	2	2	1	2	10	10	5	5
Asia/Oceania	31	31	63	63	28	27	22	22	38	37
	100	100	100	100	100	100	100	100	100	100

4. Segment information, continued

Quarterly data

Revenues by business area	2020				2019			
	1	2	3	4	1	2	3	4
Compressor Technique	11 588	11 405	11 890	12 446	11 397	11 974	12 314	12 601
– of which external	11 470	11 322	11 806	12 381	11 241	11 832	12 146	12 502
– of which internal	118	83	84	65	156	142	168	99
Vacuum Technique	6 159	6 535	5 928	6 063	5 253	5 650	6 107	6 560
– of which external	6 154	6 535	5 925	6 059	5 253	5 650	6 107	6 560
– of which internal	5	–	3	4	–	–	–	–
Industrial Technique	4 193	3 355	4 221	4 407	4 547	4 576	4 783	4 806
– of which external	4 180	3 347	4 215	4 399	4 538	4 567	4 774	4 799
– of which internal	13	8	6	8	9	9	9	7
Power Technique	3 325	2 930	2 932	2 919	3 177	3 555	3 697	3 486
– of which external	3 294	2 898	2 903	2 899	3 149	3 531	3 649	3 458
– of which internal	31	32	29	20	28	24	48	28
Common Group functions/eliminations	–167	–123	–122	–97	–193	–175	–225	–134
Total	25 098	24 102	24 849	25 738	24 181	25 580	26 676	27 319

Operating profit by business area	2020				2019			
	1	2	3	4	1	2	3	4
Compressor Technique	2 520	2 444	2 729	2 965	2 618	2 773	2 897	2 910
<i>in % of revenues</i>	21.7%	21.4%	23.0%	23.8%	23.0%	23.2%	23.5%	23.1%
Vacuum Technique	1 497	1 278	1 354	1 390	1 292	1 401	1 508	1 591
<i>in % of revenues</i>	24.3%	19.6%	22.8%	22.9%	24.6%	24.8%	24.7%	24.3%
Industrial Technique	799	334	513	776	1 008	1 016	1 051	994
<i>in % of revenues</i>	19.1%	10.0%	12.2%	17.6%	22.2%	22.2%	22.0%	20.7%
Power Technique	473	286	410	425	524	619	606	559
<i>in % of revenues</i>	14.2%	9.8%	14.0%	14.6%	16.5%	17.4%	16.4%	16.0%
Common Group functions/eliminations	–165	–453	–246	–183	–394	–430	–219	–427
Operating profit	5 124	3 889	4 760	5 373	5 048	5 379	5 843	5 627
<i>in % of revenues</i>	20.4%	16.1%	19.2%	20.9%	20.9%	21.0%	21.9%	20.6%
Net financial items	–114	–63	–64	–80	–141	–64	–65	–55
Profit before tax	5 010	3 826	4 696	5 293	4 907	5 315	5 778	5 572
<i>in % of revenues</i>	20.0%	15.9%	18.9%	20.6%	20.3%	20.8%	21.7%	20.4%

5. Employees and personnel expenses

Average number of employees	2020			2019		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	69	38	107	61	41	102
Subsidiaries						
North America	1 198	4 788	5 986	1 127	4 474	5 601
South America	400	1 459	1 859	369	1 496	1 865
Europe	3 673	14 497	18 170	3 434	13 933	17 367
– of which Sweden	293	1 047	1 340	292	1 020	1 312
Africa/Middle East	186	891	1 077	186	893	1 079
Asia/Oceania	2 369	10 038	12 407	2 168	9 623	11 791
Total in subsidiaries	7 826	31 673	39 499	7 284	30 419	37 703
Total	7 895	31 711	39 606	7 345	30 460	37 805

Females in the Board of Directors and Group Management, %	Dec. 31, 2020	Dec. 31, 2019
Parent Company		
Board of Directors ¹⁾	22 ²⁾	30
Group Management	22	22

¹⁾ Which excludes President and CEO, includes employee representatives but excludes employees representatives' alternate members.

²⁾ One female board member left the board after the Annual General Meeting at her own request, and no replacement has been made.

5. Employees and personnel expenses, continued

Remuneration and other benefits	Group	
	2020	2019
Salaries and other remuneration	20 657	20 370
Contractual pension benefits	1 399	1 169
Other social costs	3 526	3 681
Total	25 582	25 220
Pension obligations to Board members and Group Management ¹⁾	4	4

¹⁾ Refers to former members of Group Management.

2020 Remuneration and other benefits to the Board							
KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees ¹⁾	Total fees incl. value of synthetic shares at grant date	Adjusted due to vesting and change in stock price ²⁾	Total expense recognized ³⁾
Chair:							
Hans Stråberg	1 163	1 162	3 423	425	2 750	767	3 517
Other members of the Board:							
Anders Ullberg ⁴⁾	185	–	–	48	233	–	233
Staffan Bohman	648	–	–	483	1 131	270	1 401
Johan Forssell	370	370	1 089	200	940	448	1 388
Tina Donikowski	648	–	–	–	648	350	998
Peter Wallenberg Jr	370	370	1 089	90	830	448	1 278
Sabine Neuß ⁴⁾	283	–	–	–	283	–	283
Gunilla Berg ⁴⁾	93	–	–	50	143	474	617
Gordon Riske ⁵⁾	278	370	1 089	–	648	–26	622
Anna Ohlsson-Leijon ⁵⁾	555	–	–	150	705	–	705
Other members of the Board previous year						124	124
Union representatives (3) ⁶⁾	90	–	–	–	90	–	90
Total	4 683	2 272	6 690	1 446	8 401	2 855	11 256

¹⁾ Refers to fees for membership in board committees.

²⁾ Refers to synthetic shares received in 2016–2020.

³⁾ Provision for synthetic shares as at December 31, 2020 amounted to MSEK 18 (15).

⁴⁾ Gunilla Berg and Anders Ullberg left the board at the Annual General Meeting 2020. Sabine Neuß left the board at her own request on May 18, 2020. The fees received were in accordance with this.

⁵⁾ Gordon Riske and Anna Ohlsson-Leijon were elected board members at the Annual General Meeting 2020.

⁶⁾ Union representatives receive compensation to prepare for their participation in board meetings.

2019 Remuneration and other benefits to the Board							
KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees ¹⁾	Total fees incl. value of synthetic shares at grant date	Adjusted due to vesting and change in stock price ²⁾	Total expense recognized ³⁾
Chair:							
Hans Stråberg	1 147	1 163	4 046	409	2 719	931	3 650
Other members of the Board:							
Anders Ullberg	730	–	–	178	908	–	908
Staffan Bohman	365	370	1 288	401	1 136	296	1 432
Johan Forssell	365	370	1 288	198	933	1 226	2 159
Tina Donikowski	365	370	1 288	–	735	539	1 274
Peter Wallenberg Jr	365	370	1 288	88	823	1 226	2 049
Sabine Neuß	730	–	–	–	730	–	730
Gunilla Berg	365	370	1 288	198	933	917	1 850
Other members of the Board previous year						687	687
Union representatives (4) ⁴⁾	80	–	–	–	80	–	80
Total	4 512	3 013	10 486	1 472	8 997	5 822	14 819

¹⁾ Refers to fees for membership in board committees.

²⁾ Refers to synthetic shares received in 2015–2019.

³⁾ Provision for synthetic shares as at December 31, 2019 amounted to MSEK 15 (9).

⁴⁾ Union representatives receive compensation to prepare for their participation in board meetings.

5. Employees and personnel expenses, continued

2020 Remuneration and other benefits to Group Management							
KSEK	Base salary ²⁾	Variable compensation ³⁾	Other benefits ⁴⁾	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments ⁵⁾	Total expense recognized
President and CEO							
Mats Rahmström ¹⁾	15 600	5 824	347	5 625	27 396	12 594	39 990
Other members of Group Management (8 positions)							
	31 670	9 054	5 168	8 567	54 459	13 794	68 253
Total	47 270	14 878	5 515	14 192	81 855	26 388	108 243
Total remuneration and other benefits to the Board and Group Management							119 499

¹⁾ Further details on the President and CEO remuneration is part of the Remuneration Report that will be published in connection with the notice to the Annual General Meeting.

²⁾ President and CEO as well as members in Group Management based in Sweden decided to abstain 10% of their base salary for the months April, May and June to a good cause project related to Covid-19 research.

³⁾ Refers to variable compensation earned in 2020 to be paid in 2021, based on actual base salary entitlement.

⁴⁾ Refers to vacation pay, company car, medical insurance, and other benefits.

⁵⁾ Refers to stock options and SARs received in 2016–2020 and includes recognized costs due to change in stock price and vesting period, see also note 23.

2019 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
President and CEO							
Mats Rahmström	14 000	7 840	431	4 941	27 212	22 919	50 131
Other members of Group Management (8 positions)							
	27 684	13 037	5 012	8 174	53 907	33 308	87 215
Total	41 684	20 877	5 443	13 115	81 119	56 227	137 346
Total remuneration and other benefits to the Board and Group Management							152 165

¹⁾ Refers to variable compensation earned in 2019 to be paid in 2020.

²⁾ Refers to vacation pay, company car, medical insurance, and other benefits.

³⁾ Refers to stock options and SARs received in 2015–2019 and includes recognized costs due to change in stock price and vesting period, see also note 23.

5. Employees and personnel expenses, continued

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

The guidelines for remuneration to the Board and Group Management are approved at the Annual General Meeting of the shareholders. The guidelines approved by the 2020 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 2020 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 and in the Remuneration Report.

The Annual General Meeting decided that each board member can elect to receive 50% of the 2020 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 2020. 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 from 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 when the board member resigned or otherwise the original payment date is valid.

Status end of year

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.

Remuneration and other committees 2020

The board has three committees:

- Remuneration committee consisting of Hans Stråberg (Chair), Peter Wallenberg Jr, Anders Ullberg (until Annual General Meeting 2020) and Staffan Bohman (from Annual General Meeting 2020). 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.
- Audit Committee consisting of Staffan Bohman (Chair), Johan Forssell, Hans Stråberg, Gunilla Berg (until Annual General Meeting 2020) and Anna Ohlsson-Leijon (from Annual General Meeting 2020).
- Repurchase committee consisting of Anders Ullberg (until Annual General Meeting 2020, and as chair), Staffan Bohman (full year, but as chair from Annual General Meeting 2020) and Hans Stråberg.

Group Management

Group Management consists of the President and CEO and eight 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 benefits and other benefits.

The following describes the various guidelines in determining the amount of remuneration:

- Base salary is based on competence, area of responsibility, experience and performance.
- Variable compensation is linked to predetermined and measurable criteria which can be financial or non-financial. Non-financial criteria for 2020 have been to reduce the CO₂ emissions in the Group and to increase the number of female employees in the Group. The variable compensation is maximized to 80% of the base salary for the President and CEO, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2020, see note 23.
- Pension benefits are paid in accordance with a defined contribution plan with premiums set in line with Atlas Copco Group Pension Policy for Swedish Executives and Atlas Copco terms and conditions for expatriate employments.
- Other benefits consist of company car and medical insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco terms and conditions for expatriate employment.

A mutual notice of termination of employment of six months shall apply.

The Board may resolve to deviate from the guidelines, in whole or in part, if in a specific case there are special reasons for the deviation and the Board deems deviation is needed to serve the company's long-term interests or to ensure the company's financial viability. 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 80 % 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 contribution is age related and is up to a maximum of 35% of the base salary. These pension plans are vested. In addition, premiums for private health insurance are added. The retirement age of the President and CEO is set at the age of 65.

Other members of Group Management

The variable compensation is not included in the basis for pension benefits. Members of Group Management have defined contribution pension plans, with contribution up to a maximum of 35% of the base salary according to age. These pension plans are vested. The retirement age is 65, unless there is an agreement between the company and the individual on a longer employment.

Termination of employment

The President and 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 President and CEO and other members of Group Management receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

Severance pay for the President and 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.

Stock option/share appreciation rights, holdings for Group Management – year end

The stock options/share appreciation rights holdings as at December 31 are detailed below:

Stock Options/share appreciations rights holdings as at Dec. 31, 2020 ¹⁾		
Grant Year	President and CEO	Other members of Group Management
2016	–	25 175
2017	75 762	126 461
2018	128 191	149 899
2019	187 760	233 811
2020 ²⁾	4 476	8 806
Total	396 189	544 152

¹⁾ The numbers have been adjusted for the effect of the distribution of Epiroc. See note 23 for additional information.

²⁾ Estimated grants for the 2020 stock option program including matching shares.

5. Employees and personnel expenses, continued

Workforce profile

Atlas Copco strives to grow local leaders where it operates. The geographical spread of employees and senior managers is in continuous development. As a customer-focused company, 51% (52) of all employees work in marketing, sales or service.

Geographical spread of employees as at Dec. 31, 2020, %	Employees	Nationality of senior managers
North America	15	8
South America	4	4
Europe	46	72
Africa/Middle East	3	4
Asia/Oceania	32	12
Total	100	100

Employees by professional category, %	2020	2019
Production	23	23
Marketing	8	8
Sales and support	14	15
Service	29	29
Administration	16	16
Research & development	10	9
Total	100	100

6. Remuneration to auditors

Audit fees and other services	2020	2019
Ernst & Young		
Audit fee	62	–
Other services, tax	2	–
Other services, other	0	–
Deloitte		
Audit fee	8	70
Audit activities other than the audit assignment	0	1
Other services, tax	4	3
Other services, other	3	6
Other audit firms		
Audit fee	11	8
Total	90	88

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 and the President and CEO.

Tax services include mostly tax consultancy services.

Other services essentially comprise consultancy services, such as due diligence services in connection with acquisitions, trainings and investigations.

At the Annual General Meeting 2020, Ernst & Young was elected as auditor for the Group up to and including the Annual General Meeting 2021.

7. Other operating income and expenses

Other operating income	2020	2019
Commissions received	11	16
Income from insurance operations	101	64
Capital gain on sale of property, plant and equipment	23	55
Other operating income	135	162
Total	270	297

Other operating expenses	2020	2019
Capital loss on sale of property, plant and equipment	–42	–27
Exchange-rate differences, net	–397	–48
Other operating expenses	–309	–98
Total	–748	–173

In 2020, other operating expenses include –210 related to a provision for settlement of a pension dispute in Edwards Ltd (Vacuum Technique) dating back to before the acquisition of Edwards Ltd 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 25 582 (25 220) whereof expenses for post-employment benefits amounted to 1 399 (1 169). See note 5 for further details.

Government grants of 444 (117) have been deducted in the related expenses or included in other operating income. The increase in government grant is mainly related to the Covid-19 pandemic. A significant portion of the government grants received is given in the form of reduced social security charges which applies to all companies in certain countries. In addition, government grants have been received in relation to salary support and partial unemployment. Government grants related to assets have been recognized as a deduction when establishing the carrying amount of the asset. Therefore, the government grants are reported as income over the useful life of the asset through a reduction in depreciation expense. The remaining value of these grants, at the end of 2020, amounted to 32 (51).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes –29 (42) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 5 189 (4 700). See note 12, 13 and 22 for further details. Costs for research and development amounted to 3 762 (3 631).

8. Financial income and expenses

Financial income and expenses	2020	2019
Interest income		
– cash and cash equivalents	42	87
– derivatives	94	19
– other	9	8
Capital gain		
– other assets	16	24
Foreign exchange gain, net	–	23
Financial income	161	161
Interest expenses		
– borrowings	–350	–415
– pension provisions, net	–37	–51
– deferred considerations	–4	–7
Change in fair value – other liabilities and borrowings	–1	–2
Foreign exchange loss, net	–87	–
Impairment loss	–3	–11
Financial expenses	–482	–486
Financial expenses, net	–321	–325

“Foreign exchange gain/loss, net” includes foreign exchange gains of 353 (93) on financial assets at fair value through profit or loss and foreign exchange losses of –440 (–70) on other liabilities.

9. Taxes

Income tax expense	2020	2019
Current taxes	–4 801	–4 909
Deferred taxes	759	–120
Total	–4 042	–5 029

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:

	2020	2019
Profit before tax	18 825	21 572
Weighted average tax based on national rates	–4 320	–5 353
– in %	22.9	24.8
Tax effect of:		
Non-deductible expenses	–534	–312
Withholding and other taxes on dividends	–29	–267
Tax-exempt income	617	697
Adjustments from prior years:		
– current taxes	85	251
– deferred taxes	229	–17
Effects of tax losses/credits utilized	1	20
Change in tax rate, deferred tax	–65	33
Tax losses not recognized	–57	–1
Other items	31	–80
Income tax expense	–4 042	–5 029
Effective tax in %	21.5	23.3

9. Taxes, continued

The effective tax rate was 21.5% (23.3). Withholding and other taxes on dividends of –29 (–267) relate to provisions on retained earnings in countries where Atlas Copco incur withholding and other taxes on dividends. Tax-exempt income of 617 (697) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. Adjustments from prior years – current tax includes the net from tax issues, tax disputes and also one-time positive tax effects in different countries and amounted to 85 (251).

In 2020, effects of income tax rate changes have affected the result with –65 (33).

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). In 2015, Atlas Copco made a provision of MEUR 300 (MSEK 2 802) and paid MEUR 239 (MSEK 2 250) in 2016. In the second quarter of 2017, Atlas Copco paid the remaining amount of MEUR 68 (MSEK 655). During 2017, MEUR 13 (MSEK 125) was expensed as an interest cost.

The Belgian government, as well as Atlas Copco, appealed the decision to the General Court of the European Union (EGC) in Luxembourg and on February 14, 2019 the EGC annulled the decision taken by the European Commission on January 11, 2016.

On May 3, 2019, the European Commission appealed the EGC’s annulment. The case will consequently be ruled by the European Court of Justice. In September 2020, the European Commission also published individual opening decisions stating that the specific decisions granted by Belgium between 2005 and 2014 regarding tax rulings granted to multinationals with regard to “Excess Profit” violated the EU rules for state aid. One of these opening decisions concerns Atlas Copco. It is likely several years before final decisions are made.

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	2020	2019
Opening net balance, Jan. 1	747	1 000
Business acquisitions	–1 576	–98
Charges to profit for the year	759	–120
Tax on amounts recorded to other comprehensive income	–179	–36
Translation differences	–3	1
Net balance, Dec. 31	–252	747

9. Taxes, continued

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

Deferred tax assets and liabilities	2020			2019		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	391	3 533	-3 142	81	2 269	-2 188
Property, plant and equipment ¹⁾	222	893	-671	271	984	-713
Other financial assets	21	55	-34	26	45	-19
Inventories	1 378	33	1 345	1 242	50	1 192
Current receivables	165	260	-95	170	76	94
Operating liabilities	705	9	696	725	2	723
Provisions	327	5	322	305	8	297
Post-employment benefits	860	15	845	888	10	878
Borrowings ¹⁾	500	5	495	761	4	757
Loss/credit carry-forwards	293	-	293	199	-	199
Other items ²⁾	8	314	-306	72	545	-473
Deferred tax assets/liabilities	4 870	5 122	-252	4 740	3 993	747
Netting of assets/liabilities	-3 386	-3 386	-	-3 291	-3 291	-
Net deferred tax balances	1 484	1 736	-252	1 449	702	747

¹⁾ The gross amount of deferred tax assets and liabilities relating to right-of-use assets and lease liabilities are included in Property, plant and equipment and Borrowings. The net amount of these items is not material.

²⁾ 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. At December 31, the Group had total tax loss carry-forwards of 3 254 (2 543), of which deferred tax assets were recognized for 1 387 (798). The tax value of reported tax loss carry-forwards totals 293 (199). There is no expiration date for utilization of the major part of the tax losses carry-forwards for which deferred tax assets have been recognized.

Tax loss carry-forwards for which no deferred tax have been recognized expire in accordance with below table:

	2020	2019
Expires after 1–2 years	109	32
Expires after 3–4 years	69	84
Expires after 5–6 years	49	27
No expiry date	1 640	1 602
Total	1 867	1 745

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

	2020	2019
Intangible assets	297	-69
Property, plant and equipment	17	-412 ¹⁾
Other financial assets	-14	33
Inventories	121	23
Current receivables	-11	8
Operating liabilities	38	-16
Provisions	48	51
Post-employment benefits	21	-20
Borrowings	-28	511 ¹⁾
Other items	231	-103
Changes due to temporary differences	720	6
Loss/credit carry-forwards	39	-126
Charges to profit for the year	759	-120

¹⁾ Changes in Property, plant and equipment and Borrowings mainly relate to right-of-use asset and lease liabilities. The net amount of these items is not material.

10. Other comprehensive income

Other comprehensive income for the year	2020			2019		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit plans	93	-19	74	-626	150	-476
Items that may be reclassified subsequently to profit or loss						
Translation differences						
– on foreign operations	-6 379	-57	-6 436	1 577	22	1 599
– realized and reclassified to income statement	-	-	-	-32	-	-32
Hedge of net investments in foreign operations	673	-146	527	-252	54	-198
Cash flow hedges	27	-8	19	43	-5	38
Total other comprehensive income	-5 586	-230	-5 816	710	221	931
Attributable to non-controlling interests						
Translation differences on foreign operations	-19	-	-19	1	-	1
Total other comprehensive income	-5 605	-230	-5 835	711	221	932

11. Earnings per share

Amount in SEK	Basic earnings per share		Diluted earnings per share	
	2020	2019	2020	2019
Earnings per share	12.16	13.60	12.14	13.59

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	2020	2019
Profit for the year	14 779	16 522

Average number of shares outstanding	2020	2019
Basic weighted average number of shares outstanding	1 215 423 710	1 214 711 277
Effect of employee stock options	1 788 839	1 043 065
Diluted weighted average number of shares outstanding	1 217 212 549	1 215 754 342

Potentially dilutive instruments

As of December 31, 2020, Atlas Copco had five outstanding employee stock option programs. The exercise price including adjustment for remaining vesting costs for the 2019 and 2020 programs exceeded the average share price for series A shares, SEK 385.03 per share. These programs are therefore considered anti-dilutive and not included in the calculation of diluted earnings per share. If the average share price, after adjustment with the above, exceeds the strike price in the future, these options will be dilutive, which is the case for the 2016, 2017 and 2018 programs.

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 or when there is an indication of impairment.

Current goodwill is monitored for internal management purposes at business area level which also represents the Group's operating segments. The goodwill has therefore been tested for impairment at business area level.

The recoverable amounts of the cash generating units have been calculated as value-in-use based on management's five-year forecast for net cash flows where the most significant assumptions are revenues, operating profits, working capital, and capital expenditures.

All assumptions for the five-year forecast are estimated individually for each of the business areas based on their particular market position and the characteristics and development of their end-markets. The forecasts represent management's assessment and are based on both external and internal sources. The perpetual growth for the period after five years is estimated at 2% (3).

The Group's average weighted cost of capital in 2020 was 8% (8) after tax (approximately 10.5% (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts. The business areas are all relatively diversified and have similar geographical coverage, similar organization and structure and, to a large extent, an industrial customer base. Specific risks, if any, have affected projected cash flows. The same discount rate has therefore

been used for all business areas. All business areas are expected to generate a return well above the values to be tested, including sensitivity analyses/worst-case scenarios.

The following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area:

	2020		2019	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	4 164	–	4 389
Vacuum Technique	2 436	11 099	2 713	12 281
Industrial Technique	–	12 534	–	4 931
Power Technique	–	1 076	–	1 156
Total	2 436	28 873	2 713	22 757

The trade names of Edwards, Leybold, CTI and Polycold 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:

	2020			2019		
	Internally generated	Acquired	Total	Internally generated	Acquired	Total
Cost of sales	32	38	70	26	36	62
Marketing expenses	5	773	778	7	639	646
Administrative expenses	100	52	152	82	46	128
Research and development expenses	398	578	976	371	421	792
Total	535	1 441	1 976	486	1 142	1 628

Impairment charges on intangible assets totaled 16 (14) of which 1 (14) was classified as research and development expenses, 5 (0) were classified as marketing expenses, and 10 (0) as administrative expenses. Of the impairment charges, 1 (14) was due to capitalized development costs relating to projects discontinued.

12. Intangible assets, continued

2020	Internally generated intangible assets		Acquired intangible assets				Goodwill	Total
	Product development	Other technology and contract based	Product development	Trademarks	Marketing and customer related	Other technology and contract based		
Cost								
Opening balance, Jan. 1	4 611	1 321	538	4 433	7 549	7 030	22 789	48 271
Investments	1 034	161	3	–	–	139	–	1 337
Business acquisitions	–	–	–	494	3 117	1 611	8 704	13 926
Disposals	–5	–13	–13	–	–20	–50	–	–101
Reclassifications	9	170	–5	–	–	–170	–	4
Translation differences	–235	–74	–54	–426	–878	–702	–2 589	–4 958
Closing balance, Dec. 31	5 414	1 565	469	4 501	9 768	7 858	28 904	58 479
Amortization and impairment losses								
Opening balance, Jan. 1	2 788	727	28	1 166	3 975	3 006	32	11 722
Amortization for the period	393	131	5	145	678	608	–	1 960
Impairment charge for the period	1	10	–	1	4	–	–	16
Disposals	–5	–13	–10	–	–20	–50	–	–98
Reclassifications	–22	170	22	–	–	–170	–	–
Translation differences	–114	–50	–2	–93	–430	–271	–1	–961
Closing balance, Dec. 31	3 041	975	43	1 219	4 207	3 123	31	12 639
Carrying amounts								
At Jan. 1	1 823	594	510	3 267	3 574	4 024	22 757	36 549
At Dec. 31	2 373	590	426	3 282	5 561	4 735	28 873	45 840

2019	Internally generated intangible assets		Acquired intangible assets				Goodwill	Total
	Product development	Other technology and contract based	Product development	Trademarks	Marketing and customer related	Other technology and contract based		
Cost								
Opening balance, Jan. 1	3 923	1 148	198	3 481	6 402	5 524	19 448	40 124
Investments	761	157	2	–	–	96	–	1 016
Business acquisitions	–	–	411	854	954	1 232	2 748	6 199
Disposals	–188	–8	–29	–1	–2	–26	–	–254
Reclassifications	57	–2	–49	–	2	13	–	21
Translation differences	58	26	5	99	193	191	593	1 165
Closing balance, Dec. 31	4 611	1 321	538	4 433	7 549	7 030	22 789	48 271
Amortization and impairment losses								
Opening balance, Jan. 1	2 566	622	48	1 029	3 348	2 455	31	10 099
Amortization for the period	357	116	15	115	529	482	–	1 614
Impairment charge for the period	13	–	–	–	–	1	–	14
Disposals	–188	–7	–29	–1	–2	–25	–	–252
Reclassifications	7	–20	–7	–1	2	19	–	–
Translation differences	33	16	1	24	98	74	1	247
Closing balance, Dec. 31	2 788	727	28	1 166	3 975	3 006	32	11 722
Carrying amounts								
At Jan. 1	1 357	526	150	2 452	3 054	3 069	19 417	30 025
At Dec. 31	1 823	594	510	3 267	3 574	4 024	22 757	36 549

Other technology and contract based intangible assets include computer software, patents, and contract based rights such as licenses and franchise agreements. Marketing and customer related intangible assets include Internet domain names, customer lists, customer contracts and relationships with customers. All intangible assets other than goodwill and trademarks with indefinite useful lives are amortized.

For information regarding principles for amortization and impairment, see note 1.

See note 2 for information on business acquisitions.

13. Property, plant and equipment

2020	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	6 353	12 000	565	18 918	5 980
Investments	96	534	829	1 459	486
Business acquisitions	243	103	23	369	-5
Disposals	-39	-651	-	-690	-433
Reclassifications	153	591	-704	40	-117
Translation differences	-451	-867	-43	-1 361	-688
Closing balance, Dec. 31	6 355	11 710	670	18 735	5 223
Depreciation and impairment losses					
Opening balance, Jan. 1	2 593	8 304	-	10 897	3 122
Depreciation for the period	246	1 066	-	1 312	735
Impairment charge for the period	-	2	-	2	-
Disposals	-37	-597	-	-634	-410
Reclassifications	18	16	-	34	-92
Translation differences	-184	-581	-	-765	-373
Closing balance, Dec. 31	2 636	8 210	-	10 846	2 982
Carrying amounts					
At Jan. 1	3 760	3 696	565	8 021	2 858
At Dec. 31	3 719	3 500	670	7 889	2 241

2019	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1 ¹⁾	6 371	10 997	706	18 074	5 005
Investments	208	682	772	1 662	1 140
Business acquisitions	21	34	5	60	151
Disposals	-716	-594	-	-1 310	-447
Reclassifications	300	651	-940	11	-36
Translation differences	169	230	22	421	167
Closing balance, Dec. 31	6 353	12 000	565	18 918	5 980
Depreciation and impairment losses					
Opening balance, Jan. 1 ¹⁾	2 381	7 625	-	10 006	2 719
Depreciation for the period	253	1 042	-	1 295	725
Impairment charge for the period	-	-	-	-	2
Disposals	-94	-541	-	-635	-406
Reclassifications	-	27	-	27	-21
Translation differences	53	151	-	204	103
Closing balance, Dec. 31	2 593	8 304	-	10 897	3 122
Carrying amounts					
At Jan. 1 ¹⁾	3 990	3 372	706	8 068	2 286
At Dec. 31	3 760	3 696	565	8 021	2 858

¹⁾ Finance leases from 2018, previously included in note 13 Property, plant and equipment are presented in note 22 Leases.

For information regarding principles for depreciation and impairment, see note 1.

See note 2 for information on business acquisitions.

14. Investments in associated companies and joint ventures

Accumulated capital participation	2020	2019
Opening balance, Jan. 1	1 037	133
Acquisitions of joint ventures	0	909
Dividends	-49	-38
Profit for the year after income tax	33	16
Translation differences	-90	17
Closing balance, Dec. 31	931	1 037

2020								
Summary of financial information for associated companies and joint ventures	Country	Assets ¹⁾	Liabilities ¹⁾	Equity ¹⁾	Revenues ¹⁾	Profit for the year ¹⁾	Group's share, % ²⁾	Carrying value Dec.31
Associated companies								
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	59	16	43	28	-7	25	11
Reintube S.L.	Spain	7	3	4	9	0	47	1
ISRA Immobilie Berlin GmbH	Germany	75	81	-6	2 ³⁾	0 ³⁾	49.99	0
Joint ventures								
Toku-Hanbai Group	Japan	399	180	219	819	4	50	110
Ulvac Cryogenics Inc.	Japan	1 257	416	841	752	69	50	809
Total								931

¹⁾ Presented amounts for associated companies and joint ventures are for 100% of the company.

²⁾ The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

³⁾ Included from the date of acquisition.

2019								
Summary of financial information for associated companies and joint ventures	Country	Assets ¹⁾	Liabilities ¹⁾	Equity ¹⁾	Revenues ¹⁾	Profit for the year ¹⁾	Group's share, % ²⁾	Carrying value Dec.31
Associated companies								
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	74	22	52	39	-3	25	13
Reintube S.L.	Spain	6	3	3	9	0	47	1
Joint ventures								
Toku-Hanbai Group	Japan	423	186	237	799	-4	50	119
Ulvac Cryogenics Inc.	Japan	1 272	506	766	331 ³⁾	39 ³⁾	50	904
Total								1 037

¹⁾ Presented amounts for associated companies and joint ventures are for 100% of the company.

²⁾ The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

³⁾ Included from the date of acquisition.

The above tables are based on the most recent financial reporting available from associated companies and joint ventures.

On June 24, 2020, Atlas Copco completed the acquisition of 92.19% of ISRA VISION AG. Included in the acquisition was 49.99% share of German based ISRA Immobilie Berlin GmbH. In 2019, Atlas Copco completed the acquisition of Brooks' Semiconductor Cryogenics Business. Included in the acquisition was a 50% share of Japan based Ulvac Cryogenics Inc. (UCI). UCI manufactures and sells cryopumps and cryogenic equipment such as cryogenic refrigerators and provides various support services in advanced technology fields such as analysis equipment and medical care.

15. Other financial assets

The fair value of financial instruments under other financial assets corresponds to their carrying value.

	2020	2019
Non-current		
Pension and other similar benefit assets (note 23)	496	478
Financial assets at fair value through OCI	15	13
Financial assets at fair value through profit or loss	26	20
Financial assets measured at amortized cost		
– lease receivables	82	94
– other financial receivables	54	37
Closing balance, Dec. 31	673	642
Current		
Financial assets at fair value through profit or loss	–	73
Financial assets measured at amortized cost		
– lease receivables	20	32
– other financial receivables	38	20
Closing balance, Dec. 31	58	125

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

16. Inventories

	2020	2019
Raw materials	2 075	1 886
Work in progress	2 806	2 833
Semi-finished goods	3 626	3 720
Finished goods	4 943	6 062
Closing balance, Dec. 31	13 450	14 501

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 547 (411). Reversals of write-downs which were recognized in earnings totaled 30 (43). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 41 989 (42 893).

17. Trade receivables

The fair value for trade receivables corresponds to their carrying value. Trade receivables are measured at amortized cost.

Expected credit losses, trade	2020	2019
Opening balance, Jan. 1	711	716
Business acquisitions and divestments	52	15
Provisions recognized for potential losses	401	337
Amounts used for established losses	–144	–211
Release of unnecessary provisions	–163	–162
Translation differences	–77	16
Closing balance, Dec. 31	780	711

Trade receivables of 18 801 (20 590) are reported net of expected credit losses and other impairments amounting to 780 (711).

Expected credit losses and impairment losses recognized in the income statement totaled 193 (125).

For credit risk information, see note 27.

18. Other receivables

The fair value for other receivables corresponds to their carrying value.

	2020	2019
Derivatives		
– at fair value through profit or loss	307	277
– at fair value through OCI	89	78
Financial assets measured at amortized cost		
– other receivables	2 178	2 461
– contract assets	2 826	2 393
Prepaid expenses	607	689
Closing balance, Dec. 31	6 007	5 898

Other receivables consist primarily of VAT claims and advances to suppliers. Contract assets relate mainly to service and construction projects. Acquisitions during 2020 added contract assets in the amount of 585. Impairment losses recognized on contract assets were insignificant. Prepaid expenses include items such as insurance, interest, IT and employee costs.

See note 27 for information on the Group's derivatives.

19. Cash and cash equivalents

The fair value of cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are measured at amortized cost.

	2020	2019
Cash	10 778	13 421
Cash equivalents	877	1 584
Closing balance, Dec. 31	11 655	15 005

During 2020, cash and cash equivalents had an estimated average effective interest rate of 0.38% (0.66). The committed, but unutilized, credit lines were MEUR 1 640 (1 440), which equaled to MSEK 16 467 (15 030).

See note 27 for additional information.

20. Equity

Shares outstanding	2020			2019		
	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	–13 420 451	–	–13 420 451	–12 557 941	–8 899	–12 566 840
Total shares outstanding, Dec. 31	825 973 645	390 219 008	1 216 192 653	826 836 155	390 210 109	1 217 046 264

At December 31, 2020 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.

Repurchases/ Divestment of shares	Number of shares held by Atlas Copco						Cost value affecting equity	
	2020	AGM mandate 2020 Apr.–Dec.	AGM mandate 2019 Jan.–Mar.	2019	AGM mandate 2019 Apr.–Dec.	AGM mandate 2018 Jan.–Mar.	2020	2019
Opening balance, Jan. 1	12 566 840			16 899 062			3 211	4 077
Repurchase of A shares	3 000 000		3 000 000	3 000 000	1 200 000	1 800 000	1 097	897
Divestment of A shares	–2 137 490	–1 922 667	–214 823	–7 221 962	–5 439 956	–1 782 006	–590	–1 755
Divestment of B shares	–8 899	–8 899	–	–110 260	–110 260	–	–	–8
Closing balance, Dec. 31	13 420 451			12 566 840			3 718	3 211
Percentage of shares outstanding	1.1%			1.0%				

The 2020 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate is valid until the next AGM and allows:

- The purchase of not more than 3 350 000 series A shares, whereof a maximum 2 700 000 may be transferred to personnel stock option holders under the performance stock option plan 2020.
- The purchase of not more than 15 000 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 10 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 7 000 000 series A and B shares in order to cover the obligations under the performance stock option plans 2015, 2016 and 2017.

The 2019 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 next AGM and allowed:

- The purchase of not more than 4 250 000 series A shares, whereof a maximum 4 150 000 may be transferred to personnel stock option holders under the performance stock option plan 2019.
- 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 11 000 000 series A and B shares in order to cover the obligations under the performance stock option plans 2014, 2015 and 2016.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2020, 3 000 000 series A shares were repurchased while 2 137 490 series A shares and 8 899 series B shares were divested in accordance with mandates granted by the 2019 and 2020 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 2016–2020 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 319 (59). In the second quarter 2020, the Group acquired 92.19% of ISRA VISION (see also note 2) and almost the full remaining non-controlling interest of Atlas Copco (India) Ltd. Subsequent to these events, in addition to ISRA VISION, there are five subsidiaries that have non-controlling interest. The non-controlling interests are not material to the Group.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 7.30 (7.00) per share, totaling SEK 8 878 206 367 if shares held by the company on December 31, 2020 are excluded.

SEK	
Retained earnings including reserve for fair value	135 393 333 600
Profit for the year	11 110 645 915
	146 503 979 515
<i>The Board of Directors proposes that these earnings be appropriated as follows:</i>	
To the shareholders, a dividend of SEK 7.30 per share	8 878 206 367
To be retained in the business	137 625 773 148
Total	146 503 979 515

The proposed total dividend for 2019 amounted to SEK 7.00 per share, where a decision on a dividend of SEK 3.50 was made at the AGM on April 23, 2020 and a decision on a dividend of SEK 3.50 was made at the Extraordinary General Meeting on November 26, 2020 due to the extraordinary situation with the ongoing Covid-19 pandemic and has in accordance with these decisions been paid out by Atlas Copco AB. Total dividend paid out amounted to SEK 8 506 100 274.

21. Borrowings

	Maturity	Repurchased nominal amount	2020		2019	
			Carrying amount	Fair value	Carrying amount	Fair value
Non-current						
Medium Term Note Program MEUR 500	2023		5 013	5 316	5 207	5 655
Medium Term Note Program MEUR 500	2026		5 015	5 223	5 212	5 352
Medium Term Note Program MEUR 300	2029		2 989	3 037	3 105	3 050
Bilateral borrowings NIB MEUR 200	2024		2 008	2 058	2 088	2 140
Bilateral borrowings EIB MEUR 300	2022	MEUR 100	2 008	2 021	2 088	2 103
Bilateral borrowings EIB MEUR 200	2027		2 008	2 091	–	–
Other bank loans			210	210	15	15
Less current portion of long-term borrowings			–1	–1	–11	–11
Total non-current bonds and loans			19 250	19 955	17 704	18 304
Lease liabilities			2 400	2 400	2 670	2 670
Other financial liabilities			19	19	26	26
Total non-current borrowings			21 669	22 374	20 400	21 000
Current						
Current portion of long-term borrowings			1	1	11	11
Short-term loans			2 007	2 007	2 271	2 271
Lease liabilities			969	969	973	973
Total current borrowings			2 977	2 977	3 255	3 255
Closing balance, Dec. 31			24 646	25 351	23 655	24 255

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.

In 2019, Atlas Copco AB entered into a 7-year MEUR 300 loan agreement with the European Investment Bank. MEUR 200 was utilized in 2020.

Short term loans include supply chain financing contracts with remaining payment terms exceeding 180 days.

Atlas Copco has a long-term debt rating of A+ (A+) from Standard & Poor's Corporation and A+ (A+) from Fitch Ratings. Other than standard undertakings such as negative pledge and pari passu, interest-bearing loans, borrowings and committed credit lines are not subject to any financial covenants.

The Group's credit facilities are specified in the table below.

Credit facilities	Nominal amount	Maturity	Utilized
Commercial papers ^{1) 2)}	MSEK 10 016	–	–
Credit-line	MEUR 640	2025	–
Credit-line	MEUR 1 000	2021	–
Equivalent in SEK	MSEK 26 484		–

¹⁾ Interest is based on market conditions at the time when the facility is utilized. Maturity is set when the facility is utilized.

²⁾ The maximum amounts available under these programs total MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 10 016 (10 175).

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

Currency	2020			2019		
	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	2 159	21 681	88	1 950	20 354	86
SEK	261	261	1	307	307	1
USD	95	778	3	104	968	4
Others	–	1 926	8	–	2 026	9
Total	24 646	100		23 655	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
2021	1 969	1 013	2 982	2 982
2022	945	2 008	2 953	2 966
2023	5 566	–	5 566	5 869
2024	372	2 008	2 380	2 429
2025	237	–	237	237
2026	5 153	–	5 153	5 361
2027	2 132	–	2 132	2 215
2028	92	–	92	92
2029 and after	3 151	–	3 151	3 200
Total	19 617	5 029	24 646	25 351

¹⁾ Floating interest in the table corresponds to borrowings with fixings shorter or equal to six months.

21. Borrowings, continued

2020	Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Cash changes			Non cash changes					Closing balance, Dec. 31	
			Financing cash flows	Business acquisitions	Lease additions	Lease deductions	Business acquisitions	Change in fair value through P/L	Change in fair value through equity	FX change		Reclassification
Non-current												
	Non-current bonds and loans	17 704	2 252	–	–	–	59	6	–554	–215	–2	19 250
	Lease liabilities	2 670	–	–	519	–71	128	21	–	–197	–670	2 400
	Other financial liabilities	26	2	–5	–	–	–	–	–	–2	–2	19
	Total non-current	20 400	2 254	–5	519	–71	187	27	–554	–414	–674	21 669
Current												
	Current portion of long-term borrowings	11	–10	–	–	–	–	–	–	–1	1	1
	Short-term loans	1 970	–566	–	–	–	502	1	–	–115	1	1 793
	Lease liabilities	973	–1 227 ¹⁾	–	602	–66	42	59	–	–84	670	969
	Total current	2 954	–1 803	–	602	–66	544	60	–	–200	672	2 763
	Total	23 354	451	–5	1 121	–137	731	87	–554	–614	–2	24 432

¹⁾ Includes paid interest on lease liabilities.

2019	Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Change in accounting principles, IFRS 16	Cash changes			Non cash changes					Closing balance, Dec. 31
				Financing cash flows	Lease additions	Lease deductions	Business acquisitions	Change in fair value through P/L	Change in fair value through equity	FX change	Reclassification	
Non-current												
	Non-current bonds and loans	14 392	–	3 122	–	–	48	–22	165	5	–6	17 704
	Lease liabilities	10	2 437	–	898	–76	29	34	–	66	–728	2 670
	Other financial liabilities	13	–	–	–	–	12	1	–	0	–	26
	Total non-current	14 415	2 437	3 122	898	–76	89	13	165	71	–734	20 400
Current												
	Current portion of long-term borrowings	5 154	–	–5 250	–	–	–	–	105	1	1	11
	Short-term loans	802	–	1 147	–	–	1	0	–	15	5	1 970
	Lease liabilities	10	847	–1 098 ¹⁾	496	–85	11	41	–	23	728	973
	Total current	5 966	847	–5 201	496	–85	12	41	105	39	734	2 954
	Total	20 381	3 284	–2 079	1 394	–161	101	54	270	110	–	23 354

¹⁾ Includes paid interest on lease liabilities.

Cash flow from financing activities also includes net "Settlement of CSA" (Credit Support Annex) of –79 (367) which is not included in the tables above. In December 2020, the financial liability related to CSA amounted to MSEK 214 (301).

22. Leases

Group as a lessee

Atlas Copco's lease portfolio consists mainly of leased buildings such as offices and warehouses, vehicles and production equipment. There are several lease contracts with extension options and variable lease payments.

Carrying amounts and movements of the right-of-use asset are presented in the below table:

Right-of-use assets	Buildings and land	Machinery and equipment	Rental equipment	Total
2020				
Cost				
Opening balance, Jan. 1	3 176	1 408	47	4 631
Additions	677	446	–	1 123
Business acquisitions	157	13	–	170
Deductions	–208	–192	–3	–403
Reclassifications	–25	–37	–4	–66
Translation differences	–286	–128	–2	–416
Closing balance, Dec. 31	3 491	1 510	38	5 039
Depreciation and impairment losses				
Opening balance, Jan. 1	610	442	22	1 074
Depreciation and impairment for the period	702	454	8	1 164
Deductions	–121	–143	–3	–267
Reclassifications	–25	–25	–2	–52
Translation differences	–86	–54	–1	–141
Closing balance, Dec. 31	1 080	674	24	1 778
Carrying amounts				
At Jan. 1	2 566	966	25	3 557
At Dec. 31	2 411	836	14	3 261

Right-of-use assets	Buildings and land	Machinery and equipment	Rental equipment	Total
2019				
Cost				
Opening balance, Jan. 1 ¹⁾	9	68	15	92
Change in accounting principles, IFRS 16	2 350	907	2	3 259
Additions	782	594	11	1 387
Business acquisitions	33	6	–	39
Deductions	–66	–161	–	–227
Reclassifications	11	–32	19	–2
Translation differences	57	26	–	83
Closing balance, Dec. 31	3 176	1 408	47	4 631
Depreciation and impairment losses				
Opening balance, Jan. 1 ¹⁾	3	43	13	59
Depreciation for the period	614	427	9	1 050
Deductions	–5	–9	–	–14
Reclassifications	2	–16	–	–14
Translation differences	–4	–3	–	–7
Closing balance, Dec. 31	610	442	22	1 074
Carrying amounts				
At Jan. 1 ¹⁾	6	25	2	33
At Dec. 31	2 566	966	25	3 557

¹⁾ Finance leases for 2018 were presented in note 13 Property, plant and equipment.

For carrying amounts and movements of lease liabilities related to the right-of-use assets, see note 21. The maturity analysis of lease liabilities is disclosed in note 27.

22. Leases, continued

The following amounts have been recognized in profit or loss:

Leasing in income statement	2020	2019
Depreciation expense on right-of-use assets	-1 156	-1 050
Interest expense on lease liabilities	-80	-75
Expense relating to leases of low value assets	-44	-43
Expense relating to short-term leases	-105	-146
Expense relating to variable lease payments	-29	-49
Income from subleasing right-of-use assets	6	12
Gains or losses from sale and leaseback transactions	-	20
Total amount recognized in profit or loss	-1 408	-1 331

For cash outflows related to leases, the principal payment amounts to 1 155 (1 034) and the interest portion of lease payments to 72 (64). The principal payment is recognized as cash flow from financing activities and the interest portion of the lease payment as cash flow from operating activities, net financial items paid. For further information, see consolidated statements of cash flow and note 21.

Lease contracts that include extension options are mainly related to premises, machinery and equipment. Management uses significant judgement in determining whether these extension options are reasonably certain to be exercised. Extension options reasonably certain to be exercised are included in the lease term. Future cash outflow relating to extension options expected not to be exercised amounts to 157 (167). For leases that have not yet commenced, the future cash outflow amounts to 13 (31).

Group as a lessor

As a lessor, the Group has finance and operating lease contracts, see note 1 for further information.

Finance lease – lessor

Atlas Copco has equipment which is leased to customers under finance leases. Future payments to be received fall due as follows:

	2020		2019	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	21	20	34	32
Between one and five years	77	69	83	77
More than five years	8	7	11	11
Total	106	96	128	120
Unearned finance income	-	4	-	2
Unguaranteed residual value	-	6	-	6
Total	106	106	128	128

Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Future payments for non-cancellable operating leasing contracts fall due as follows:

	2020	2019
Less than one year	103	78
Between one and five years	148	118
More than five years	18	23
Total	269	219

Contingent rent recognized as income amounted to 5 (3).

23. Employee benefits

Post-employment benefits

Atlas Copco provides post-employment defined benefit 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, 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.

The plans in Germany cover pensions, early retirements and jubilee. The plans are funded.

There are three defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of white-collar employees in Sweden. Atlas Copco finances the benefits through a pension foundation. The second plan relates to a group of employees earning more than ten income base amounts that has opted out from the ITP plan. This plan is insured. The third defined benefit pension plan relates to former senior employees now retired. In Sweden, in addition to benefits relating to retirement pensions, Atlas Copco has obligations for family pensions for many of the Swedish employees, which are funded through a third-party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information for calculating the net pension obligation is not available.

In the United Kingdom, there is a final salary pension plan. This plan is funded. In 2010, the plan was converted to a defined contribution plan for future services.

In the United States, Atlas Copco provides a pension plan, a post-retirement medical plan, and a number of supplemental retirement pension benefits for executives. The pension plan is funded while the other plans are unfunded.

The Group identifies a number of risks in investments of pension plan assets. The main risks are interest rate risk, market risk, counterparty risk, liquidity and inflation risk, and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple asset classes, markets and issuers should be utilized. An asset and 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:

	2020	2019
Financial assets (note 15)	-496	-478
Post-employment benefits	3 488	3 488
Other provisions (note 25)	91	91
Closing balance, net	3 083	3 101

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 the balance sheet amounted to 3 083 (3 101). The weighted average duration of the obligation is 15.5 (15.5) years.

Post-employment benefits						
2020	Funded pension plans	Unfunded pension plans	Other funded plans	Other unfunded plans	Total	
Present value of defined benefit obligations	9 728	1 416	72	160	11 376	
Fair value of plan assets	-8 248	-	-73	-	-8 321	
Present value of net obligations	1 480	1 416	-1	160	3 055	
Other long-term service obligations	-	-	28	-	28	
Net amount recognized in the balance sheet	1 480	1 416	27	160	3 083	

Post-employment benefits						
2019	Funded pension plans	Unfunded pension plans	Other funded plans	Other unfunded plans	Total	
Present value of defined benefit obligations	10 151	1 268	77	169	11 665	
Fair value of plan assets	-8 511	-	-75	-	-8 586	
Present value of net obligations	1 640	1 268	2	169	3 079	
Other long-term service obligations	-	-	22	-	22	
Net amount recognized in the balance sheet	1 640	1 268	24	169	3 101	

23. Employee benefits, continued

Plan assets consist of the following:	2020			2019
	Quoted market price	Unquoted market price	Total	
Debt instruments	1 079	281	1 360	1 968
Equity instruments	579	151	730	673
Property	520	596	1 116	951
Assets held by insurance companies	154	1 718	1 872	1 963
Cash	458	166	624	484
Investment funds	590	768	1 358	1 553
Derivatives	5	2	7	7
Others	-1	1 255	1 254	987
Closing balance, Dec. 31	3 384	4 937	8 321	8 586

Movements in plan assets	2020	2019
Fair value of plan assets at Jan. 1	8 586	8 731
Interest income	141	217
Remeasurement – return on plan assets	411	430
Settlements	-	-943
Employer contributions	143	128
Plan members contributions	14	16
Administrative expenses	-11	-9
Benefit paid by the plan	-270	-372
Reclassifications	-138	22
Translation differences	-555	366
Fair value of plan assets, Dec. 31	8 321	8 586

The plan assets are allocated among the following geographic areas:	2020	2019
Europe	7 249	7 285
North America	647	708
Rest of the world	425	593
Total	8 321	8 586

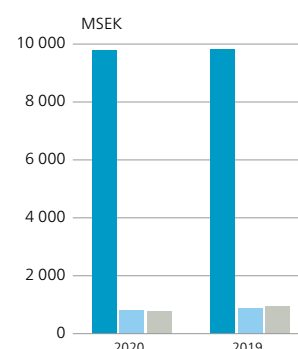
Asset ceiling	2020	2019
Asset ceiling at Jan. 1	-	42
Remeasurements – asset ceiling	-	-44
Translation differences	-	2
Asset ceiling, Dec. 31	-	-

Movements in present value of the obligations for defined benefits	2020	2019
Defined benefit obligations at Jan. 1	11 665	11 053
Current service cost	359	336
Past service cost	145	-52
Interest expense (+)	179	269
Actuarial gains (-)/ losses (+) arising from experience adjustments	-135	32
Actuarial gains (-)/ losses (+) arising from financial assumptions	505	1 232
Actuarial gains (-)/ losses (+) arising from demographic assumptions	-42	-150
Business acquisitions	55	21
Settlements	-	-943
Benefits paid from plan or company assets	-498	-600
Reclassifications	-137	56
Translation differences	-720	411
Defined benefit obligations, Dec. 31	11 376	11 665

Remeasurements recognized in other comprehensive income amounted to -93 (626) and 10 (14) in profit and loss. The Group expects to pay 373 (352) in contributions to defined benefit plans in 2021.

The defined benefit obligations for employee benefits consist of plans in the following geographic areas:

■ Europe
■ North America
■ Rest of the world



Expenses recognized in the income statement	2020	2019
Current service cost	359	336
Past service cost	145	-52
Net interest cost	38	52
Employee contribution/ participant contribution	-14	-16
Remeasurement of other long-term benefits	10	14
Administrative expenses	11	8
Total	549	342

The total benefit expense for defined benefit plans amounted to 549 (342), whereof 511 (290) have been charged to operating expenses and 38 (52) to financial expenses. Expenses related to defined contribution plans amounted to 888 (879).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages in %)	2020	2019
Discount rate		
Europe	1.09	1.32
North America	2.10	2.98
Future salary increases		
Europe	1.53	1.57
North America	0.11	0.41
Medical cost trend rate		
North America	6.22	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 +0.5%	-756	-36
Change in discount rate -0.5%	852	40
Increase in life expectancy, +1 year	332	20

23. Employee benefits, continued

Share value based incentive programs

In 2016–2019, 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 2020, the Annual General Meeting decided on a performance-based personnel stock option program for 2020 similar to the 2016–2019 programs.

Option programs 2016–2020

At the Annual General Meeting 2016–2020 respectively, it was decided to implement performance-based personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued for each program year depended on the value creation in the Group, measured as Economic Value Added (EVA, defined as the sum of adjusted operating profit and interest income less tax expenses and cost of capital), for the respective program year. For the 2020 option program, the number of options varies on a linear basis within a preset EVA interval. The size of 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.

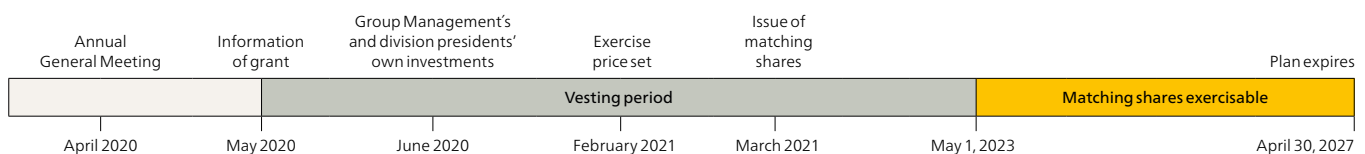
In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2016–2020 programs have a term of seven years. The options in the 2016–2020 programs are not transferable and become exercisable at 100% three years after grant.

The 2016–2020 programs include a requirement for Group Management and division presidents (32 in total) to purchase Atlas Copco A shares for 10% of their gross base salary in order to be granted options. A lower amount of investment will reduce the number of options proportionately. Further, Group Management and division presidents who have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

The Board had the right to decide to implement an alternative incentive solution (SARs) for key persons in such countries where the grant of personnel options was not feasible.

In the 2016–2017 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. 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.

Timeline 2020 long term incentive program



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 2019 and 2020, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2020 Program (Dec. 31, 2020)	2019 Program (at issue date)
Expected exercise price	SEK 463/316 ¹⁾	SEK 393/268 ¹⁾²⁾
Expected volatility	30%	30%
Expected options life (years)	4.6	4.4
Expected share price	SEK 421	SEK 343
Expected dividend (growth)	SEK 7.0 (6%)	SEK 7.0 (6%)
Risk free interest rate	1.00%	1.00%
Expected average grant value	SEK 75.70/126.50	SEK 56.50/98.20
Maximum number of options	2 653 352	4 081 165
– of which forfeited	–2 653 352	–84 826
Number of matching shares	30 038	27 622

¹⁾ Matching shares for Group Management and division presidents.

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 2016–2020 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
	From	To	From	To
Stock options				
2016	May 2016	April 2019	May 2019	April 2023
2017	May 2017	April 2020	May 2020	April 2024
2018	May 2018	April 2021	May 2021	April 2025
2019	May 2019	April 2022	May 2022	April 2026
2020 ¹⁾	N/a	N/a	N/a	N/a

¹⁾ No options issued as the EVA target for the Group was not met.

For the 2020 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

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 2020 for all share-based incentive programs, excluding social costs, amounted to 239 (525) of which 158 (135) refer 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 259 (264). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2016–2020, 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 at issue date	Intrinsic value for vested SARs
Stock options							
2014	263	5 100 614	Apr. 30, 2019	199.66	A	52.90	–
2015	254	3 430 049	Apr. 30, 2020	144.14	A	33.90	–
2016	256	7 279 231	Apr. 30, 2023	230.18	A	66.70	–
2017	262	3 046 532	Apr. 30, 2024	286.81	A	64.20	–
2018	269	2 401 107	Apr. 30, 2025	264.00	A	58.70	–
2019	267	3 343 789	Apr. 30, 2026	393.00	A	56.50	–
Matching shares							
2014	28	53 259	Apr. 30, 2019	136.46	A	96.30	–
2015	29	52 357	Apr. 30, 2020	98.54	A	63.20	–
2016	27	41 048	Apr. 30, 2023	157.38	A	106.20	–
2017	34	36 743	Apr. 30, 2024	195.62	A	108.40	–
2018	29	41 616	Apr. 30, 2025	180.00	A	92.80	–
2019	30	27 622	Apr. 30, 2026	268.00	A	98.20	–
Share appreciation rights							
2014	59	1 014 107	Apr. 30, 2019	199.66	A	–	–
2015	64	748 096	Apr. 30, 2020	144.14	A	–	276.96
2016	64	1 586 550	Apr. 30, 2023	230.18	A	–	190.92
2017	61	606 994	Apr. 30, 2024	286.81	A	–	134.29
2018	57	434 055	Apr. 30, 2025	264.00	A	–	–
2019	62	652 550	Apr. 30, 2026	393.00	A	–	–
Number of options/rights 2020 ¹⁾							
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							
2015	234 518	234 518	–	–	–	–	339
2016 ²⁾	1 747 686	672 923	–	1 074 763	1 074 763	4	390
2017 ³⁾	2 288 581	916 787	39 116	1 332 678	1 332 678	16	390
2018	2 393 492	–	83 802	2 309 690	–	28	–
2019	3 343 789	–	31 575	3 312 214	–	40	–
Matching shares							
2015	8 218	8 218	–	–	–	–	337
2016	15 091	4 092	–	10 999	10 999	4	430
2017	28 228	4 404	1 085	22 739	22 739	16	405
2018	41 616	–	1 514	40 102	–	28	–
2019	27 622	–	–	27 622	–	40	–
Share appreciation rights							
2015	32 832	32 832	–	–	–	–	345
2016	433 472	85 859	–	347 613	347 613	4	403
2017	421 013	144 074	–	276 939	276 939	16	394
2018	434 055	–	15 230	418 825	–	28	–
2019	652 550	–	–	652 550	–	40	–

¹⁾ All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded option contracts.

²⁾ Of which 175 218 have been accounted for as cash settled.

³⁾ Of which 258 184 have been accounted for as cash settled.

23. Employee benefits, continued

Number of options/rights 2019 ¹⁾								
Program	Outstanding Jan. 1	Issued	Exercised	Expired/ forfeited	Outstanding Dec. 31	–of which exercisable	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options								
2014	1 191 496	–	1 191 496	–	–	–	–	250
2015	1 423 420	–	1 188 902	–	234 518	234 518	4	294
2016	5 354 532	–	3 534 984	71 862	1 747 686	1 747 686	16	320
2017	2 327 745	–	–	39 164	2 288 581	–	28	–
2018	2 401 107	–	–	7 615	2 393 492	–	40	–
2019	–	3 343 789	–	–	3 343 789	–	52	–
Matching shares								
2014	15 232	–	15 232	–	–	–	–	250
2015	24 410	–	16 192	–	8 218	8 218	4	297
2016	36 217	–	21 126	–	15 091	15 091	16	321
2017	28 228	–	–	–	28 228	–	28	–
2018	41 616	–	–	–	41 616	–	40	–
2019	–	27 622	–	–	27 622	–	52	–
Share appreciation rights								
2014	187 302	–	187 302	–	–	–	–	247
2015	360 047	–	327 215	–	32 832	32 832	4	272
2016	1 176 539	–	719 113	23 954	433 472	433 472	16	321
2017	430 804	–	–	9 791	421 013	–	28	–
2018	434 055	–	–	–	434 055	–	40	–
2019	–	652 550	–	–	652 550	–	52	–

¹⁾ All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded option contracts.

24. Other liabilities

Fair value of other liabilities corresponds to carrying value.

Other current liabilities	2020	2019
Derivatives		
– at fair value through profit and loss	69	17
– at fair value through OCI	–	2
Other financial liabilities		
– other liabilities	2 099	1 976
– accrued expenses	6 617	6 865
Prepaid income other	28	34
Contract liabilities		
– advances from customers	3 027	2 781
– deferred revenues construction contracts	516	714
– deferred revenues service contracts	1 631	1 844
Closing balance, Dec. 31	13 987	14 233

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.

The amounts included in contract liabilities at the beginning of the year have been recognized as revenue during the year except for 376 (530). The main reason for revenues not recognized during the year is that they are related to performance obligations that will be performed in future periods.

As of the end of 2020, transaction price allocated to remaining performance obligations was 12 772 (13 604) and the majority will be recognized as revenue over the next 3 years. The transaction price does not include consideration that is constrained.

25. Provisions

2020	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 193	225	1 344	2 762
During the year				
– provisions made	1 216	290	638	2 144
– provisions used	–945	–79	–269	–1 293
– provisions reversed	–169	–7	–179	–355
Business acquisitions	23	–	16	39
Translation differences	–101	–18	–50	–169
Closing balance, Dec. 31	1 217	411	1 500	3 128
Non-current	193	28	974	1 195
Current	1 024	383	526	1 933
Total	1 217	411	1 500	3 128

2019	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 086	273	1 153	2 512
During the year				
– provisions made	1 116	203	969	2 288
– provisions used	–964	–245	–478	–1 687
– provisions reversed	–132	–12	–310	–454
Business acquisitions	61	–	–	61
Reclassification	1	–	–1	–
Translation differences	25	6	11	42
Closing balance, Dec. 31	1 193	225	1 344	2 762
Non-current	201	29	919	1 149
Current	992	196	425	1 613
Total	1 193	225	1 344	2 762

Maturity 2020	Product warranty	Restructuring	Other	Total
Less than one year	1 024	383	526	1 933
Between one and five years	183	8	610	801
More than five years	10	20	364	394
Total	1 217	411	1 500	3 128

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 23), and asset restoration obligations.

26. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2020	2019
Inventory and property, plant and equipment	61	80
Endowment insurances	183	190
Total	244	270
Contingent liabilities	2020	2019
Notes discounted	8	5
Sureties and other contingent liabilities	244	229
Total	252	234

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

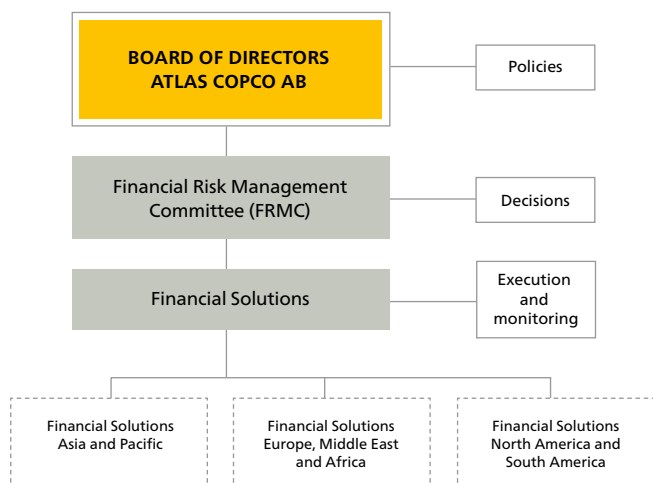
27. Financial exposure and principles for control of financial risks

FINANCIAL RISKS

The Group is exposed to various financial risks in its operations. These financial risks include: Funding and liquidity risk, Interest rate risk, Currency risk, Credit risk and Other market and price risks

The Board of Directors establishes the overall financial policies and monitors compliance with 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 and Group Treasurer. 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.

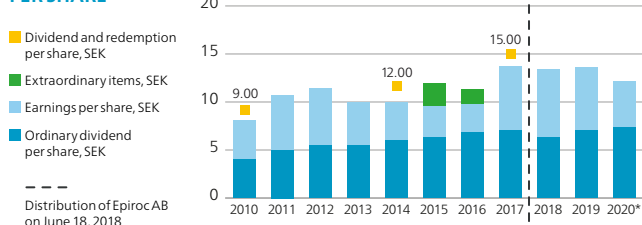


Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 78 180(76 945). 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 ambition is that the annual dividend shall correspond to about 50% of earnings per share. In recent years, the Board has sometimes also proposed, and the Annual General Meeting has approved, distributions of "excess" equity to the shareholders through share redemptions and share repurchases.

There are no external capital requirements imposed on the Group.

EARNINGS AND DISTRIBUTION PER SHARE



* Proposed by the Board of Directors

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.

Policy

The Group's policy refers to Atlas Copco AB, Atlas Copco Airpower n.v. and Atlas Copco Finance DAC as external borrowings mainly have been held in these entities.

- The Group should maintain minimum MSEK 8 000 committed credit facilities to meet operational, strategic and rating objectives.
- The average tenor, time to maturity, of the Group's external debt, shall be at least 3 years.
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months.
- 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's policy.

Funding and liquidity risk	2020	2019
Committed credit facilities	16 467	15 030
Cash and cash equivalents	11 655	15 005
Average tenor, years	4.8	5.6
Short-term external debt maturities	–	–

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 cash flow table shows the 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 with maturity 2021 and 2025 to secure liquidity.

Financial instruments	Up to 1 year	1–3 years	4–5 years	Over 5 years
Liabilities				
Bonds and loans	–	7 446	2 097	10 074
Lease liabilities	–	1 386	632	507
Other financial liabilities	5	2	2	15
Other liabilities	52	31	30	48
Non-current financial liabilities	57	8 865	2 761	10 644
Bonds and loans	2 200	–	–	–
Lease liabilities	1 020	–	–	–
Current portion of interest-bearing liabilities	1	–	–	–
Derivatives	69	–	–	–
Other accrued expenses	6 617	–	–	–
Trade payables	11 202	–	–	–
Other liabilities	2 099	–	–	–
Current financial liabilities	23 208	–	–	–
Financial liabilities	23 265	8 865	2 761	10 644

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

Interest rate risk

Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate levels.

Policy

The Group's policy states that the average interest duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and without a maximum limit.

Status at year end

The Group's borrowings have a mix of fixed and floating rates. No interest rate swaps are used to convert interest. For more information about the Group's borrowings, see note 21.

Interest risk	2020	2019
Effective interest rate on bonds and loans	0.9%	1.0%
Effective interest rate on lease liabilities	2.4%	2.1%
Duration (months)	51	56

21% (24) of the Group's bonds and loans have floating interest rates. A shift of one percentage point upward of all floating rates would impact the Group's interest net with MSEK –40 (–42). Same shift downwards would impact the Group's interest net with MSEK 0 (0), based on the assumption that the interest rate on the Group's bonds and loans cannot be negative.

The book value of the Group's bonds and loans are not exposed to market interest rate risk at year end as all bonds and loans are reported at amortized cost, compared to if borrowings were reported at fair value where cash flows are discounted using market interest rate.

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. The exposure occurs in relation to payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure).

Transaction exposure risk

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 global presence, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies emerge. The values of these net positions fluctuate subject to changes in currency rates and, thus, render transaction exposure for the Group.

Policy

The Group's policy states that exposure 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. The Financial Risk Management Committee can decide to hedge part of the transaction exposure. Transactions shall then qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed. Financial transaction exposure is substantially hedged.

Status at year end

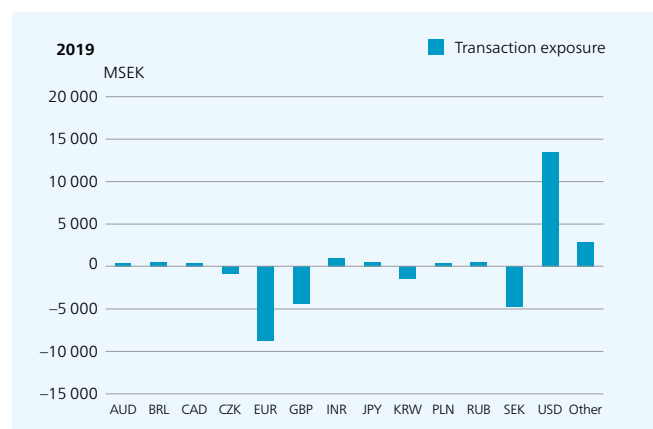
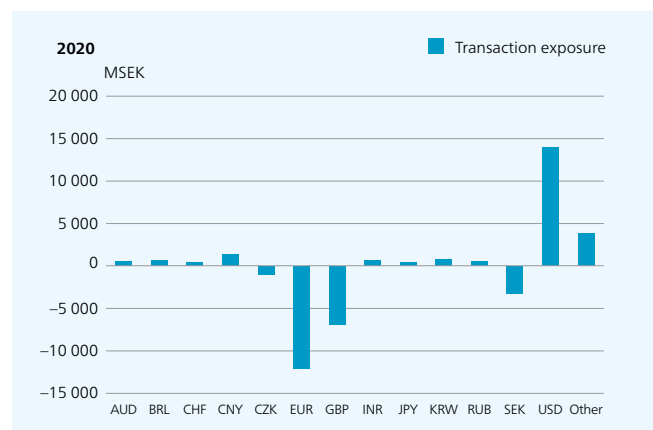
The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. Graph 1 shows the net of in- and outflows per currency for currencies which have the largest surplus or deficit. The operational transaction exposure is defined as the net operational cash flow exposure and amounts to MSEK –3 207 (–4 711). The estimated amounts are based on the Group's operational external payments from customers and to suppliers.

The transaction exposure sensitivity analysis is based on the operational transaction exposure. It shows how the cash flow and profit before tax would theoretically be impacted by a five percentage point change in SEK, USD or EUR, against all other currencies. The analysis is based on the assumption that no hedging transaction has been undertaken and is done before any impact of offsetting price adjustments or similar measures.

As an example, the net transaction exposure of in- and outflow payments in EUR is a deficit as shown in graph 1. A strengthening in the EUR currency rate against all other currencies with +5% would have a negative impact on the cash flow and profit before tax of MSEK –602, and a weakening would have a positive impact of MSEK 602.

Transaction exposure sensitivity	2020	2019
SEK exchange rate + 5%	–160	–236
USD exchange rate + 5%	695	675
EUR exchange rate + 5%	–602	–438

GRAPH 1 Estimated operational transaction exposure in the Group's most important currencies *



* Without adjustments for onetime effects.

Outstanding derivative instruments related to transaction exposure	2020 Nominal amount, net in transaction currency	2019 Nominal amount, net in transaction currency
Foreign exchange forwards		
EUR	–	0
GBP	187	137
USD	–242	–175

The Financial Risk Management Committee has decided to hedge part of the transaction exposure with foreign exchange forward contracts. All contracts mature within 12 months. The fair value of all outstanding contracts is MSEK 89 (46) for assets and MSEK 0 (2) for liabilities. Out of the net nominal amounts in the table, the largest cross is GBP/USD with nominal amounts of MGBP 187/ MUSD –242 (MGBP 137/ MUSD –175).

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

Translation exposure risk

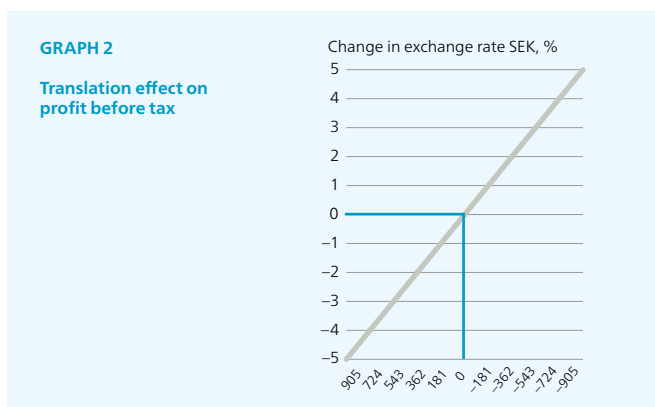
Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's global presence creates currency effects when subsidiaries' financial statements with functional currencies other than SEK are translated to SEK in the Group's consolidated financial statements. Translation of subsidiaries' profit affects the Group's profit and balance sheet translation affect other comprehensive income. The translation exposure is measured as the net of assets and liabilities in a specific currency.

Policy

The Group's policy states that translation exposure should be reduced by matching assets and liabilities in the same currencies. The Financial Risk Management Committee can decide to hedge part or all remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

Graph 2 shows the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated to SEK. A five percentage points upward change in SEK would impact the Groups' profit before tax with MSEK -905 (-1 030).



The Group has hedged part of the translation exposure using loans and foreign exchange forward contracts. The hedges have reduced the exposure on net investments in EUR in the consolidated financial statements and the exchange rate risk related to net assets in subsidiaries. The hedges 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	2020		2019	
	Effect in OCI	Nominal amount	Effect in OCI	Nominal amount
Derivatives	MSEK 95	MEUR 300	MSEK 31	MEUR 300
Loans in EUR ¹⁾	MSEK -1 047	MEUR 1 400	MSEK -1 682	MEUR 1 400

¹⁾ In the balance sheet, loans designated as net investment hedges are reported at amortized cost and not at fair value.

Most of the Group's bonds and loans are designated as net investments hedges, and movements in currency rates are accounted for in other comprehensive income. A five percentage points upward change in EUR against SEK would affect other comprehensive income with MSEK 676 (614) (see also note 1, Significant accounting principles, Financial assets and liabilities – financial instruments).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections.

Operational credit risk

Operational credit risk is the risk that the Group's customers do not meet their payment obligations.

Policy

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

The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

Credit risk	2020	2019
Receivables at amortized cost		
– trade receivables	18 903	20 705
– lease receivables	102	126
– other financial receivables	92	57
– other receivables	1 891	2 107
– contract assets	2 826	2 393
– cash and cash equivalents	11 655	15 005
Financial assets at fair value through OCI	15	13
Financial assets at fair value through profit or loss	26	20
Derivatives	396	355
Total	35 906	40 781

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.

Provision for credit risks

The business units establish provisions for their expected credit losses in respect of trade and other receivables. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk. For assets such as trade receivables, lease receivables, contract assets and certain other financial receivables, the simplified model is applied. The main components of this provision are specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalents are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. At year end 2020, the provision for bad debt amounted to 4.0% (3.3) of gross total customer receivables.

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

The following table presents the gross value of trade receivables, both current and non-current, by maturity, together with the related impairment provisions.

Trade receivables	2020		2019	
	Gross	Impairment	Gross	Impairment
Not past due	15 245	38	15 494	48
Past due but not individually impaired				
0–30 days	1 713	–	2 593	–
31–60 days	673	–	954	–
61–90 days	378	–	491	–
More than 90 days	1 428	–	1 649	–
Past due and individually impaired				
0–30 days	34	1	56	1
31–60 days	23	2	19	1
61–90 days	10	5	13	2
More than 90 days	179	155	147	126
Collective impairment	–	579	–	533
Total	19 683	780	21 416	711

The total estimated fair value of collateral for trade receivables amounted to 96 (44). 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 lease receivables amounted to 102 (126), of which 0 (0) have been impaired, and the gross amount of other financial receivables amounted to 99 (65), of which 7 (8) have been impaired.

There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral for lease receivables and other finance receivables was 0 (0) and 0 (0) respectively.

Financial credit risk

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.

Policy

The Groups financial credit risk is measured differently depending on transaction type; investment transactions or derivative transactions.

Investment transactions

Cash and cash equivalent may only be invested with a counterparty if the counterparty rating is above a rating threshold. The threshold for cash and cash equivalent is set at A-/A3 (as rated by Standard & Poor's, Fitch Ratings and Moody's). Investments in structured financial products are not allowed, unless approved by the Financial Risk Management Committee. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterparty and its maximum exposure limit is maintained and monitored.

Derivative transactions

Derivative 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 subsidiary, 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

Investment transactions in form of cash and cash equivalents amounted to MSEK 11 655 at year end. These consist of cash, short term bank deposits and investments in liquidity funds. At year end, the measured credit risk on derivatives, taking into account the market value and collaterals, amounted to MSEK 115 (42).

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

Outstanding derivative instruments	2020	2019
Assets	396	355
Liabilities	69	19

No financial assets or liabilities are offset in the balance sheet. The table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments	Gross	Offset in balance sheet	Net in balance sheet	Master netting agreement	Cash collateral	Net position
Assets						
Derivatives	396	–	396	–69	–214	113
Liabilities						
Derivatives	69	–	69	–69	–	–

The positive net position in assets is due to the fact that the exchange of security is done on a weekly basis.

Other market and price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is directly and indirectly exposed to raw material price fluctuations. Cost increases for raw materials and components often coincide with strong end-customer demand and are compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. The fair value is established according to a fair value hierarchy. The hierarchy levels should reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of each level and valuation methods used for each financial instrument.

Level 1

In the Level 1 method, fair value is based on quoted (unadjusted) prices in active markets for identical assets or liabilities. A market is considered as active if quoted prices from an exchange, broker, industry group, pricing service, or supervisory body are readily and regularly available and those prices represent actual and regularly occurring market transactions at arm's length.

Level 2

In the Level 2 method, fair value is based on models that utilize observable data for the asset or liability other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Such observable data may be market interest rates and yield curves.

Level 3

In the Level 3 method, fair value is based on a valuation model, whereby significant input is based on unobservable market data.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows. Discounted cash flow models are used for the valuation.

Interest-bearing liabilities

Fair values are calculated based on market rates and present value of future cash flows.

Finance leases and other financial receivables

Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

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

The Group's financial instruments by level

The carrying value for the Group's financial instruments corresponds to fair value in all categories except for borrowings.

See note 21 for additional information about the Group's borrowings.

The following table includes financial instruments at their fair value and by category.

Financial instruments by fair value hierarchy	2020				2019			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets	177	26	151	–	165	20	145	–
Other receivables	102	–	102	–	116	–	116	–
Non-current financial assets	279	26	253	–	281	20	261	–
Trade receivables	18 801	–	18 801	–	20 590	–	20 590	–
Financial assets	58	–	58	–	125	73	52	–
Other receivables	1 891	–	1 891	–	2 107	–	2 107	–
Derivatives	396	–	396	–	355	–	355	–
Contract assets	2 826	–	2 826	–	2 393	–	2 393	–
Current financial assets	23 972	–	23 972	–	25 570	73	25 497	–
Financial assets	24 251	26	24 225	–	25 851	93	25 758	–
Bonds and loans	20 133	13 731	6 402	–	18 304	14 057	4 247	–
Other financial liabilities	19	–	19	–	26	–	26	–
Other liabilities	161	–	94	67	153	–	100	53
Non-current financial liabilities	20 313	13 731	6 515	67	18 483	14 057	4 373	53
Current portion of long-term loans	1	–	1	–	11	–	11	–
Short-term loans	2 007	–	2 007	–	2 271	–	2 271	–
Derivatives	69	–	69	–	19	–	19	–
Other accrued expenses	6 617	–	6 617	–	6 865	–	6 865	–
Trade payables	11 202	–	11 202	–	11 898	–	11 898	–
Other liabilities	2 099	–	2 069	30	1 976	–	1 946	30
Current financial liabilities	21 995	–	21 965	30	23 040	–	23 010	30
Financial liabilities	42 308	13 731	28 480	97	41 523	14 057	27 383	83

In other liabilities, MSEK 97 (83) relate to contingent considerations for acquisitions. The fair value of these liabilities has been calculated based on the expected outcome of the targets set out in the contracts, given a discount rate of 10.5%. For information about changes due to acquisitions, see note 2.

Reconciliation of financial liabilities in Level 3 (MSEK)	Opening balance	Business acquisitions	Settlement	Discounting effect	Remeasurement	Translation	Closing balance	Profit/loss related to liabilities included in closing balance
Contingent considerations 2020	83	56	–43	4	–1	–2	97	–3

Currency rates used in the financial statements	Value	Code	Year-end rate		Average rate	
			2020	2019	2020	2019
Australia	1	AUD	6.26	6.51	6.35	6.56
Canada	1	CAD	6.39	7.13	6.84	7.10
China	1	CNY	1.25	1.33	1.33	1.37
EU	1	EUR	10.04	10.44	10.49	10.57
Hong Kong	100	HKD	105.48	119.68	118.26	120.28
United Kingdom	1	GBP	11.07	12.22	11.82	12.02
U.S.A.	1	USD	8.18	9.32	9.18	9.42

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates, joint ventures and with its Board members and Group Management. The Company's largest shareholder, Investor AB, controls approximately 22% (22) of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies and joint ventures is found in note 14. Information about Board members and Group Management is presented on pages 55–58.

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.

In 2019, Atlas Copco entered into a sale and leaseback transaction with the Group's German pension trust related to buildings in the US. The buildings were sold for a consideration of 629, resulting in a gain of 20. The lease terms are for 10 years. Both the consideration and the lease terms are on market terms. "Lease liabilities" in the table below represents the outstanding balances with the Group's German pension trust.

In addition, 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, joint ventures and other related parties:

	2020	2019
Revenues	41	34
Goods purchased	18	25
Service purchased	107	55
At Dec. 31:		
Trade receivables	18	7
Trade payables	21	8
Lease liabilities	249	287

Compensation to key management personnel

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

Financial statements, Parent Company

Income statement

For the year ended December 31 Amounts in MSEK	Note	2020	2019
Administrative expenses	A2	-615	-746
Other operating income	A3	105	109
Other operating expenses	A3	-19	-5
Operating loss		-529	-642
Financial income	A4	12 125	62 528
Financial expenses	A4	-644	-52 442
Profit after financial items		10 952	9 444
Appropriations	A5	88	1 930
Profit before tax		11 040	11 374
Income tax	A6	71	-33
Profit for the year		11 111	11 341

Statement of comprehensive income

For the year ended December 31 Amounts in MSEK	Note	2020	2019
Profit for the year		11 111	11 341
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation of net investment		-	-
Cash flow hedges		-	-
Income tax relating to items that may be reclassified		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		11 111	11 341

Balance sheet

As at December 31 Amounts in MSEK	Note	2020	2019
ASSETS			
Non-current assets			
Intangible assets	A7	12	16
Tangible assets	A8	38	37
Financial assets			
Deferred tax assets	A9	183	68
Shares in Group companies	A10, A21	161 228	158 255
Other financial assets	A11	204	208
Total non-current assets		161 665	158 584
Current assets			
Income tax receivables		810	730
Other receivables	A12	16 108	15 573
Cash and cash equivalents	A13	8	36
Total current assets		16 926	16 339
TOTAL ASSETS		178 591	174 923
EQUITY			
Restricted equity			
Share capital		786	786
Legal reserve		4 999	4 999
Total restricted equity		5 785	5 785
Non-restricted equity			
Reserve for fair value		-1 180	-1 180
Retained earnings		136 573	134 054
Profit for the year		11 111	11 341
Total non-restricted equity		146 504	144 215
TOTAL EQUITY		152 289	150 000
PROVISIONS			
Post-employment benefits	A15	188	195
Other provisions	A16	478	429
Total provisions		666	624
LIABILITIES			
Non-current liabilities			
Borrowings	A17	23 007	18 888
Total non-current liabilities		23 007	18 888
Current liabilities			
Borrowings	A17	2 344	5 061
Tax liabilities		-	-
Other liabilities	A18	285	350
Total current liabilities		2 629	5 411
TOTAL EQUITY AND LIABILITIES		178 591	174 923

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, 2020	1 217 046 264	786	4 999	–1 180	145 395	150 000
Total comprehensive income for the year					11 111	11 111
Ordinary dividend					–8 506	–8 506
Acquisition series A shares	–3 000 000				–1 097	–1 097
Divestment series A shares	2 137 490				820	820
Divestment series B shares	8 899				3	3
Share-based payment, equity settled						
– expense during the year					158	158
– exercise of options					–200	–200
Closing balance, Dec. 31, 2020	1 216 192 653	786	4 999	–1 180	147 684	152 289
Opening balance, Jan. 1, 2019	1 212 714 042	786	4 999	–1 180	140 701	145 306
Total comprehensive income for the year					11 341	11 341
Ordinary dividend					–7 653	–7 653
Acquisition series A shares	–3 000 000				–897	–897
Divestment series A shares	7 221 962				2 149	2 149
Divestment series B shares	110 260				35	35
Share-based payment, equity settled						
– expense during the year					135	135
– exercise of options					–416	–416
Closing balance, Dec. 31, 2019	1 217 046 264	786	4 999	–1 180	145 395	150 000

See note A14 for additional information.

Statement of cash flows

For the year ended December 31 Amounts in MSEK	2020	2019
Cash flows from operating activities		
Operating loss	–529	–642
Adjustments for:		
Depreciation	10	12
Capital gain/loss and other non-cash items	–283	–1 679
Operating cash deficit	–802	–2 309
Net financial items received	11 902	62 237
Group contributions received	1 930	3 490
Taxes paid	–124	–803
Cash flow before change in working capital	12 906	62 615
Change in		
Operating receivables	–2 408	–3 424
Operating liabilities	–35	–115
Change in working capital	–2 443	–3 539
Net cash from operating activities	10 463	59 076

For the year ended December 31 Amounts in MSEK	2020	2019
Cash flow from investing activities		
Investments in tangible assets	–7	–2
Investments in intangible assets	–	–
Investments in subsidiaries	–3 105	–162
Repayments/investments in financial assets	–2	19
Net cash from investing activities	–3 114	–145
Cash flow from financing activities		
Dividends paid	–8 506	–7 653
Repurchase and divestment of own shares	–274	1 287
Change in interest-bearing liabilities	1 402	–58 435
Net cash from financing activities	–7 378	–64 801
Net cash flow for the year	–29	–5 870
Cash and cash equivalents, Jan. 1	36	5 906
Net cash flow for the year	–29	–5 870
Cash and cash equivalents, Dec. 31	8	36

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 71.

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 expensed continuously on a straight-line basis over the lease term. Leases are not carried as assets, since the risk and rewards associated with ownership of the assets have not been transferred to the Parent Company.

Employee benefits

Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19. In the Parent Company defined benefit plans are accounted for according to the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Board. The primary differences as compared to IAS 19 are the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the Group's consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but are recognized against Shares in Group companies. This vesting cost is accrued over the same period as in the Group and with a corresponding increase in equity for equity-settled programs and as a change in liabilities for cash-settled programs.

Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued according to IFRS 9. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting

Interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares of foreign subsidiaries are not translated using the foreign exchange rates on the reporting date, but measured based on the exchange rate the day that the hedging relation was established.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss, as fair value hedge accounting is applied.

Group and shareholders' contributions

In Sweden, Group contributions are deductible for tax purposes but shareholders' contributions are not. Group contributions are recognized as appropriations in the income statement. Shareholders' contributions are recognized as an increase of Shares in Group companies and tested for impairment.

A2. Employees and personnel expenses and remunerations to auditors

Average number of employees	2020			2019		
	Women	Men	Total	Women	Men	Total
	Sweden	69	38	107	61	41

Women in Atlas Copco Board and Management, %	Dec. 31, 2020	Dec. 31, 2019
Board of Directors excl. union representatives	25 ¹⁾	33
Group Management	22	22

¹⁾ One female board member left the board after the Annual General Meeting at her own request, and no replacement has been made.

Salaries and other remuneration	2020		2019	
	Board members and Group Management ¹⁾	Other employees	Board members and Group Management ¹⁾	Other employees
	Sweden	77	100	107
of which variable compensation	10		18	

¹⁾ Includes 7 (8) Board members, until May there were 8 board members, who receive fees from Atlas Copco AB as well as the President and CEO and 5 (5) 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	2020	2019
Contractual pension benefits for Board members and Group Management	11	10
Contractual pension benefits for other employees	23	21
Other social costs	67	104
Total	101	135
Pension obligations to former members of Group Management	4	4

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2020	2019
Ernst & Young		
– audit fee	5	–
– audit activities other than the audit assignment	–	–
– other services, tax	0	–
– other services, other	–	–
Deloitte		
– audit fee	–	6
– audit activities other than audit assignment	–	1
– other services, tax	–	–
– other services, other	2	4
Total	7	11

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 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 2020, Ernst & Young was elected as auditor for the Group up to and including the Annual General Meeting 2021.

A3. Other operating income and expense

Pension benefits and other social costs	2020	2019
Commissions received	105	109
Other operating income	0	0
Total other operating income	105	109
Exchange-rate differences, net	–2	1
Other operating expense	–17	–6
Total other operating expense	–19	–5

Other operating expense, 17 (6) MSEK, essentially comprise costs associated with the split of the Group.

A4. Financial income and expenses

Financial income and expenses	2020	2019
Interest income		
– cash and cash equivalents	0	0
– receivables from Group companies	26	38
– derivatives	3	8
Dividend income from Group companies	11 381	62 478
Capital gain	713	–
Foreign exchange gain, net	2	4
Financial income	12 125	62 528
Interest expense		
– borrowings	–186	–238
– liabilities to Group companies	–37	–54
Change in fair value		
– other liabilities	0	0
Impairment loss		
– writedown of shares in Group Companies	–421	–52 150
Financial expenses	–644	–52 442
Financial income, net	11 481	10 086

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

	2020	2019
Net gain/loss on		
– loans and receivables, incl. bank deposits	28	42
– other liabilities	–223	–292
– derivatives	3	8
Profit from shares in Group companies	11 673	10 328
Total	11 481	10 086

Profit from shares in Group companies mainly refers to dividend income from subsidiaries and capital gains from transfer of shares in subsidiaries. These transactions are eliminated in the Group accounts since they are internal. For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

Appropriations	2020	2019
Group contributions paid	-2	0
Group contributions received	90	1 930
Total	88	1 930

A6. Income tax

	2020	2019
Current tax	-44	-48
Deferred tax	115	15
Total	71	-33
Profit before taxes	11 040	11 374
The Swedish corporate tax rate, %	21.4	21.4
National tax based on profit before taxes	-2 364	-2 434
Tax effects of:		
Non-deductible expenses	-94	-11 167
Tax exempt income	2 588	13 370
Deductible expenses, not recognized in Income statement	57	286
Tax financial net	-41	-30
Change in tax rate, deferred tax	-7	-
Controlled foreign company taxation	-24	-39
Adjustments from prior years	-44	-19
Total	71	-33
Effective tax in %	-0.6	0.3

The Parent Company's effective tax rate of -0.6% (0.3) is primarily affected by non-taxable income such as dividends from Group companies.

A8. Property, plant and equipment

	2020			2019		
	Buildings and land	Machinery and equipment	Total	Buildings and land	Machinery and equipment	Total
Accumulated cost						
Opening balance, Jan. 1	46	60	106	46	59	105
Investments	-	7	7	-	2	2
Disposals	-	-	-	-	-1	-1
Closing balance, Dec. 31	46	67	113	46	60	106
Accumulated depreciation						
Opening balance, Jan. 1	14	55	69	11	51	62
Depreciation for the year	2	4	6	3	4	7
Disposals	-	-	-	-	0	0
Closing balance, Dec. 31	16	59	75	14	55	69
Carrying amount						
Opening balance, Jan. 1	32	5	37	35	8	43
Closing balance, Dec. 31	30	8	38	32	5	37

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, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 58 (57). Future payments for non-cancelable leasing contracts amounted to 177 (337) and fall due as follows in the table beside.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2020	2019
Accumulated cost		
Opening balance, Jan. 1	67	67
Investments	-	-
Closing balance, Dec. 31	67	67
Accumulated depreciation		
Opening balance, Jan. 1	51	46
Depreciation for the year	4	5
Closing balance, Dec. 31	55	51
Carrying amount		
Opening balance, Jan. 1	16	21
Closing balance, Dec. 31	12	16

	2020	2019
Less than one year	59	58
Between one and five years	117	226
More than five years	1	53
Total	177	337

A9. Deferred tax assets and liabilities

	2020			2019		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Fixed assets	–	–	–	0	–	0
Post-employment benefits	38	–	38	41	–	41
Other provisions	18	–	18	27	–	27
Loss/credit carry-forward	127	–	127	–	–	–
Total	183	–	183	68	–	68

Deferred tax assets regarding tax loss carry-forward are reported to the extent that realization of the related tax benefit through future taxable results is probable. The following reconciles the net balance of deferred taxes at the beginning of the year to that at the end of the year:

	2020	2019
Net balance, Jan. 1	68	53
Charges to profit for the year	115	15
Net balance, Dec. 31	183	68

A10. Shares in Group companies

	2020	2019
Accumulated cost		
Opening balance, Jan. 1	237 414	235 611
Investments	–	0
Net investment hedge	43	1 192
Shareholders' contribution	6 456	611
Divestments	–3 105	–
Closing balance, Dec. 31	240 808	237 414
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	600	600
Accumulated write-down		
Opening balance, Jan. 1	–79 759	–27 609
Write-down	–421	–52 150
Closing balance, Dec. 31	–80 180	–79 759
Total	161 228	158 255

For further information about Group companies, see note A21.

A11. Other financial assets

	2020	2019
Endowment insurances	183	190
Financial assets measured at amortized cost		
– other financial receivables	21	18
Closing balance, Dec. 31	204	208

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

A12. Other receivables

	2020	2019
Receivables from Group companies	16 049	15 484
Derivatives		
– at fair value through profit or loss	–	0
– at fair value through OCI	–	32
Financial assets measured at amortized cost		
– other receivables	17	18
Prepaid expenses and accrued income	42	39
Closing balance, Dec. 31	16 108	15 573

A13. Cash and cash equivalents

	2020	2019
Cash and cash equivalents measured at amortized cost		
– cash	8	36
Closing balance, Dec. 31	8	36

The Parent Company's guaranteed, but unutilized, credit lines equaled to 6 426 (6 680). The reduction of Parent Company's cash and cash equivalents is due to that the Group has centralized its cash management to another subsidiary.

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2020, 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

	2020			2019		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	190	5	195	164	7	171
Provision made	16	1	17	29	-1	28
Provision used	-23	-1	-24	-3	-1	-4
Closing balance, Dec. 31	183	5	188	190	5	195

The Parent Company has endowment insurances of 183 (190) 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 two 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 retired former senior employees. These pension arrangements are provided for.

	2020			2019		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	147	5	152	148	5	153
Fair value of plan assets	-460	-	-460	-391	-	-391
Present value of net obligations	-313	5	-308	-243	5	-238
Not recognized surplus	313	-	313	243	-	243
Net amount recognized in balance sheet	0	5	5	0	5	5

	2020			2019		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Reconciliation of defined benefit obligations						
Defined benefit obligations at Jan. 1	148	5	153	141	7	148
Service cost	4	-	4	5	-1	4
Interest expense	5	-	5	5	-	5
Benefits paid from plan	-8	-1	-9	-8	-	-8
Other changes in obligations	-2	1	-1	5	-1	4
Defined benefit obligations at Dec. 31	147	5	152	148	5	153

	2020			2019		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Reconciliation of plan assets						
Fair value of plan assets at Jan. 1	391	0	391	369	-	369
Return on plan assets	77	-	77	30	-	30
Payments/ Remuneration of plan assets	-8	-	-8	-8	-	-8
Fair value of plan assets at Dec. 31	460	0	460	391	-	391

A15. Post-employment benefits, continued

	2020	2019
Pension commitments provided for in the balance sheet		
Costs excluding interest	15	5
Total	15	5
Pension commitments provided for through insurance contracts		
Service cost	23	20
Total	23	20
Net cost for pensions, excluding taxes	38	25
Special employer's contribution	6	4
Total	44	29

Pension expenses excluding taxes for the year, included within administrative expenses amounted to 38 (25) of which the Board members and Group Management 11 (10) and others 27 (15).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 460 (391) and is allocated as follows:

	2020	2019
Equity securities	37	31
Bonds	191	191
Real estate	172	149
Cash and cash equivalents	60	20
Total	460	391

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 14.4% (8.2) inclusive of MSEK 7.7 (8.0) paid remuneration.

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.8% (3.8). The Parent Company estimates MSEK 12 will be paid to defined benefit pension plans during 2021.

A16. Other provisions

	2020	2019
Opening balance, Jan. 1	429	183
During the year		
– provisions made	152	530
– provisions used	–103	–284
Closing balance, Dec. 31	478	429

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	2020		2019	
			Carrying amount	Fair value	Carrying amount	Fair value
Non-current						
Medium Term Note Program MEUR 500	2023		4 548	5 316	4 545	5 655
Medium Term Note Program MEUR 500	2026		5 073	5 223	5 072	5 352
Bilateral borrowings EIB MEUR 300	2022	MEUR 100	1 851	2 021	1 851	2 103
Bilateral borrowings NIB MEUR 200	2024		2 100	2 058	2 100	2 140
Bilateral borrowings EIB MEUR 200	2027		2 008	2 092		
Non-current borrowings from Group companies			7 427	7 051	5 320	5 387
Total non-current borrowings			23 007	23 761	18 888	20 637
Current						
Current borrowings from Group companies			2 344	2 344	5 061	5 061
Total current borrowings			2 344	2 344	5 061	5 061
Closing balance, Dec. 31			25 351	26 105	23 949	25 698
Whereof external borrowings			15 580	16 710	13 568	15 250

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. In 2019, Atlas Copco AB entered into a 7-year MEUR 300 loan agreement with the European Investment Bank. MEUR 200 was drawn down in 2020.

A17. Borrowings, continued

The following table shows the maturity structure of the Parent Company's external borrowings.

Maturity	Fixed	Floating ¹⁾	Carrying amount	Fair value
2022		1 851	1 851	2 021
2023	4 548		4 548	5 316
2024		2 100	2 100	2 058
2026	5 073		5 073	5 223
2027	2 008		2 008	2 092
Total	11 629	3 951	15 580	16 710

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

A18. Other liabilities

	2020	2019
Accounts payable	18	36
Liabilities to Group companies	48	52
Other financial liabilities		
– other liabilities	9	57
Accrued expenses and prepaid income	210	205
Closing balance, Dec. 31	285	350

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 15 580 (13 568) of external borrowings and MSEK 9 771 (10 381) of internal borrowings at December 31, 2020. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 27 in the consolidated financial statements.

Hedge accounting

The Parent Company hedges shares in subsidiaries through loans of MEUR 2 091 (2 091) and derivatives of MEUR 300 (300). The deferral hedge accounting of the loans is based on a RFR 2 exemption. In 2020 an external derivative was replaced by an internal contract with Atlas Copco Finance DAC contributing with MSEK 98 to Receivables from Group companies in below table.

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	2020	2019
Cash and cash equivalents	8	36
Receivables from Group companies	16 049	15 484
Derivatives	–	32
Other	80	75
Total	16 137	15 627

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

	2020	2019
Assets pledged for derivative contracts		
Other receivables	–	0
Assets pledged for pension commitments		
Endowment insurances	183	190
Total	183	190
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	3 287	11 718
Total	3 290	11 721

Sureties and other contingent liabilities include bank and commercial guarantees and performance bonds. The decrease mainly relates to the closing of a large financial guarantee of 800 MEUR supporting the Revolving Credit Facility of one of Atlas Copco's subsidiaries.

A21. Directly owned subsidiaries

	2020			2019		
	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	46 521	76 415	100	46 390
Directly owned customer centers						
AGRE Kompressoren GmbH, Steyr	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	21 731 917	100	827	21 731 912	96	817
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	28	250 000	100	28
Atlas Copco (Malaysia), Sdn. Bhd., Shah Alam	1 000 000	100	11	1 000 000	100	10
Atlas Copco (Philippines) Inc., Binan	677 980	100	34	121 995	100	6
Atlas Copco (Schweiz) AG., Studen	8 000	100	63	8 000	100	62
Atlas Copco (South East Asia) Pte.Ltd., Singapore	4 500 000	100	34	4 500 000	100	33
Atlas Copco Argentina S.A.C.I., Buenos Aires	5 120 025	93/100 ¹⁾	84	5 120 025	93/100 ¹⁾	84
Atlas Copco Brasil Ltda., Barueri	70 358 841	100	253	70 358 841	100	248
Atlas Copco Canada Inc., Toronto	6 946	100	665	6 946	100	665
Atlas Copco Chile SpA, Santiago	24 998	100	6	24 998	100	6
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	34	60 000	100	32
Atlas Copco Eastern Africa Limited., Nairobi	482 999	100	40	482 999	100	40
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100 ¹⁾	4	5	0/100 ¹⁾	4
Atlas Copco GmbH, Vienna	1	100	43	1	100	43
Atlas Copco Indoeuropeiska AB, 556155-2760, Nacka	3 500	100	20	3 500	100	20
Atlas Copco KK, Tokyo	100 000	100	38	100 000	100	38
Atlas Copco Kompressorteknik A/S, Albertslund	4 000	100	5	4 000	100	5
Atlas Copco Maroc SA., Casablanca	3 960	99	6	3 960	99	6
Atlas Copco Services Middle East OMC, Manama	500	100	18	500	100	16
Atlas Copco Venezuela SA, Valencia	25 812 000	100	0	25 812 000	100	0
Servatechnik AG, Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Porto Salvo	1	100	14	1	100	14
Directly owned holding companies and others						
AB Atlas Diesel, 556019-1610, Nacka	1 000	100	0	1 000	100	0
Atlas Copco A/S, Langhus	2 500	100	44	2 500	100	44
Atlas Copco Beheer B.V., Zwijndrecht	15 712	100	247	15 712	100	247
Atlas Copco Deutschland GmbH, Essen	–	–	–	1	100	32
Atlas Copco Finance Belgium BVBA, Wilrijk	1	0/100 ¹⁾	0	1	0/100 ¹⁾	0
Atlas Copco Finance DAC, Dublin	5 162 000 001	100	54 300	5 162 000 001	100	54 228
Atlas Copco Finance S.á.r.l., Luxembourg	–	–	–	50 004	100	0
Atlas Copco France Holding S.A., Cergy Pontoise	278 255	100	314	278 225	100	305
Atlas Copco Germany Holding AG, Frankfurt	–	–	–	50 000	100	1
Atlas Copco Holding GmbH, Essen	2	100	4 341	2	100	1 220
Atlas Copco Internationaal B.V., Zwijndrecht	10 002	100	27 376	10 002	100	27 338
Atlas Copco Järila Holding AB, 556062-0212, Nacka	95 000	100	717	95 000	100	1 165
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	12	100 000	100	12
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	25 004	1 000	100	24 971
Capanyd AB i likvidation, 556655-0421, Nacka	–	–	–	75 000	100	0
Econus SA, Montevideo	21 582 605	100	17	21 582 605	100	17
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	33	150	100	33
Power Tools Distribution n.v., Hoeselt	1	0/100 ¹⁾	1	1	0/100 ¹⁾	1
Saltus Industrial Technique AB, 559053-5455, Nacka	500	100	9	500	100	9
Carrying amount, Dec. 31			161 228			158 255

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 55–58.

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:

	2020	2019
Revenues		
Dividends	11 381	62 478
Group contribution	90	1 930
Interest income	26	38
Expenses		
Group contribution	–2	0
Interest expenses	–37	–54
Receivables	16 049	15 484
Liabilities	9 819	10 433
Guarantees	3 287	11 718

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country/Area	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	Algiers
Angola	Atlas Copco Angola Ltd	Luanda
Argentina	Atlas Copco Argentina S.A.C.I.	Buenos Aires
Australia	Atlas Copco Australia Pty Ltd	Blacktown
	SCS Filtration	Melbourne
	Walker Filtration Pty. Australia	Melbourne
Austria	AGRE Kompressoren GmbH	Steyr
	Atlas Copco GmbH	Vienna
	Medgas-Technik medical systems GmbH	Leisach
Bahrain	Atlas Copco Services Middle East OMC	Manama
Bangladesh	Atlas Copco Bangladesh Ltd.	Dhaka
Belgium	Atlas Copco Airpower n.v.	Wilrijk
	Atlas Copco Belgium n.v.	Overijse
	Atlas Copco Finance Belgium BVBA	Wilrijk
	Atlas Copco Rental Europe n.v.	Boom
	Atlas Copco Support Services N.V.	Wilrijk
	Atlas Copco Vacuum Belgium NV	Estaimpuis
	EDMAC Europe N.V.	Wilrijk
	International Compressor Distribution n.v.	Wilrijk
	MultiAir BELUX NV	Deinze
	Power Tools Distribution n.v.	Hoeseit
Bolivia	Atlas Copco Bolivia S.A Compresores, Maquinaria y Servicio	Santa Cruz
Brazil	Atlas Copco Brasil Indústria e Comércio Ltda.	Barueri
	Atlas Copco Brasil Ltda	Barueri
	Chicago Pneumatic Brasil Ltda	Barueri
	Edwards Vacuo Ltda	Sao Paulo
	ISRA VISION COMÉRCIO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA	Sao Paulo
	Itubombas Locação, Comércio, Importação e Exportação Ltda.	Itu
	Leybold do Brasil Ltda.	Jundiaí
	Perceptron do Brazil Ltd	Sao Paulo
	Pressure Compresores Ltda.	Maringa
Bulgaria	Atlas Copco Bulgaria EOOD	Sofia
Canada	Atlas Copco Canada Inc.	Toronto
	Chicago Pneumatic Tool Co. Canada Ltd.	Toronto
	Class 1 Incorporated	Cambridge
	Photonfocus Imaging Ltd.	Oakville
	Westron Rotating Solutions Canada Inc.	Calgary
Chile	Atlas Copco Chile SpA	Santiago
China	Atlas Copco (Wuxi) Compressor 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

Country/Area	Company	Location (City)
China	Atlas Copco (Shanghai) Process Equipment Co., Ltd.	Shanghai
	Atlas Copco (Shanghai) Trading Co., Ltd.	Shanghai
	Bolaite (Shanghai) 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
	Factory for Industrial Air Compressors (Jiangmen) Co., Ltd.	Jiangmen
	Guangzhou Linghein Compressor Co., Ltd	Guangzhou
	ISRA VISION (Shanghai) Co. Ltd.	Shanghai
	Kunshan Q-Tech Air System Technologies Ltd.	Kunshan
	Leybold Equipment (Tianjin) Co., Ltd.	Tianjin
	Leybold (Tianjin) International Trade Co.Ltd.	Tianjin
	Linghein (Shanghai) Gas Technologies Co., Ltd.	Shanghai
	Liutech Machinery Equipment Co., Ltd	Liuzhou
	Liuzhou Tech Machinery Co., Ltd.	Liuzhou
	Pan-Asia Gas Technology (Wuxi) Co., Ltd.	Wuxi
	Perceptron Metrology (Shanghai) Co. Ltd	Shanghai
	Q-Tech (Shanghai) Gas Equipment Co.,Ltd	Shanghai
	Scheugenpflug Resin Metering Technologies co., Ltd	Suzhou
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	Shanghai
	Shanghai Tooltec Industrial Tool Co., Ltd.	Shanghai
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	Wuxi
	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd	Wuxi
Colombia	Atlas Copco Colombia Ltda	Bogota
Cyprus	Atlas Copco (Cyprus) Ltd.	Nicosia
Czech Republic	ALUP CZ spol. S.r.o	Breclav
	Atlas Copco s.r.o.	Prague
	Atlas Copco Services s.r.o.	Brno
	Edwards s.r.o.	Lutin
	Next Metrology Software s.r.o.	Prague
	Schneider Airsystems s.r.o.	Line
Denmark	Atlas Copco Kompressorteknik A/S	Albertslund
	RENO A/S	Give
Egypt	Atlas Copco Equipment Egypt S.A.E.	Cairo
	Atlas Copco Service Egypt	Cairo

A22. Related parties, continued

Country/Area	Company	Location (City)	Country/Area	Company	Location (City)
Finland	ISRA VISION Finland Oy	<i>Helsinki</i>	Greece	Atlas Copco Hellas AE	<i>Koropi</i>
	Oy Atlas Copco Ab	<i>Vantaa</i>		Hong Kong	Atlas Copco China/Hong Kong Ltd
	Oy Atlas Copco Kompressorit Ab	<i>Vantaa</i>	Hungary	Atlas Copco Hungary Kft	<i>Szigetszentmiklós</i>
France	Oy Atlas Copco Tools Ab	<i>Vantaa</i>	India	Atlas Copco (India) Ltd.	<i>Pune</i>
	ABAC France S.A.S.	<i>Valence</i>		Edwards India Private Ltd	<i>Pune</i>
	Air Compresseur Service S.A.S.	<i>Saint-Ouen-L'Aumône</i>		ISRA VISION INDIA Private Limited	<i>Mumbai</i>
	Atlas Copco Applications Industrielles S.A.S.	<i>Cergy Pontoise</i>		Leybold India Pvt Ltd.	<i>Pune</i>
	Atlas Copco Crépelle S.A.S.	<i>Lille</i>		Perceptron Non-Contact Metrology Solutions Pvt Ltd	<i>Chennai</i>
	Atlas Copco France Holding S.A.	<i>Cergy Pontoise</i>	Indonesia	PT Atlas Copco Indonesia	<i>Jakarta</i>
	Atlas Copco France SAS	<i>Cergy Pontoise</i>	Iraq	Atlas Copco Iraq LLC	<i>Erbil</i>
	Edwards SAS	<i>Herblay</i>	Ireland	Atlas Copco (Ireland) Ltd.	<i>Dublin</i>
	ETS Georges Renault S.A.S.	<i>Saint-Herblain</i>		Atlas Copco Finance DAC	<i>Dublin</i>
	Eurochiller France S.a.r.l.	<i>Neuve-Église (Villé)</i>		Edwards Vacuum Technology Ireland Ltd	<i>Dublin</i>
	Exclair S.A.S.	<i>Saint Ouen L'Aumône</i>	Israel	Edwards Israel Vacuum Ltd	<i>Kiryat Gat</i>
	Leybold France SAS	<i>Bourg-Les-Valence</i>	Italy	ABAC Aria Compressa S.r.l	<i>Robassomero</i>
	Location Thermique Service SAS	<i>Carvin</i>		Atlas Copco BLM S.r.l.	<i>Milan</i>
	MultiAir France S.A.S	<i>Chambly</i>		Atlas Copco Italia S.r.l.	<i>Milan</i>
	Ovity Air Comprimé SAS	<i>Le Mans</i>		Ceccato Aria Compressa S.r.l	<i>Vicenza</i>
	Perceptron EURL	<i>Montigny le Bretonneux</i>		Coord 3 s.r.l.	<i>Bruzolo (TO)</i>
Seti-Tec S.A.S.	<i>Lognes</i>		Edwards S.r.l.	<i>Milan</i>	
Germany	3D-Shape GmbH	<i>Erlangen</i>		Eurochiller S.r.l.	<i>Castello d'Agogna (Pv)</i>
	ALUP-Kompressoren GmbH ¹⁾	<i>Reutlingen</i>		Fiac Professional Air Compressors S.r.l.	<i>Bologna</i>
	Atlas Copco Beteiligungs GmbH ¹⁾	<i>Essen</i>		FIAC S.r.l.	<i>Bologna</i>
	Atlas Copco Energas GmbH ¹⁾	<i>Cologne</i>		Leybold Italia S.r.l	<i>Milan</i>
	Atlas Copco Germany Holding AG	<i>Essen</i>		MultiAir Italia S.r.l	<i>Cinisello Balsamo</i>
	Atlas Copco Holding GmbH ¹⁾	<i>Essen</i>		Varisco S.r.l.	<i>Padova</i>
	Atlas Copco IAS GmbH ¹⁾	<i>Bretten</i>		Varisco Wellpoint s.r.l.	<i>Padova</i>
	Atlas Copco Industry GmbH ¹⁾	<i>Essen</i>	Japan	Atlas Copco KK	<i>Tokyo</i>
	Atlas Copco Kompressoren und Drucklufttechnik GmbH ¹⁾	<i>Essen</i>		Edwards Japan Ltd	<i>Chiba</i>
	Atlas Copco Power Technique GmbH ¹⁾	<i>Essen</i>		Fuji Industrial Technique Co., Ltd.	<i>Osaka</i>
	Atlas Copco Technology GmbH ¹⁾	<i>Essen</i>		ISRA VISION JAPAN Co., Ltd	<i>Yokohama</i>
	Atlas Copco Tools Central Europe GmbH ¹⁾	<i>Essen</i>		Leybold Japan Co.Ltd. Shin-Yokohama AK bldg	<i>Kohoku-Ku, Yokohama-Shi</i>
	Desoutter GmbH ¹⁾	<i>Maintal</i>		Perceptron Asia Pacific Ltd	<i>Tokyo</i>
	Dipotec GmbH	<i>Neustadt a.d. Donau</i>	Kazakhstan	Atlas Copco AirPower Central Asia LLP	<i>Almaty</i>
	Edwards GmbH	<i>Kirchheim</i>	Kenya	Atlas Copco Eastern Africa Limited	<i>Nairobi</i>
	GP Inspect GmbH	<i>Neuried</i>	Latvia	Atlas Copco Baltic SIA	<i>Riga</i>
	GP Solar GmbH	<i>Neuried</i>	Lebanon	Atlas Copco Levant S.A.L.	<i>Beirut</i>
	IPV Industrie-Pumpen Vertriebs GmbH Dresden ¹⁾	<i>Dresden</i>	Luxembourg	Atlas Copco Finance S.á.r.l.	<i>Luxembourg</i>
	ISRA Immobilie Darmstadt GmbH	<i>Darmstadt</i>	Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	<i>Shah Alam</i>
	ISRA PARSYTEC GmbH	<i>Aachen</i>		Edwards Technologies Malaysia Sdn. Bhd.	<i>Puchong</i>
	ISRA SURFACE VISION GmbH	<i>Herten</i>	Mexico	Atlas Copco Mexicana S.A. de C.V.	<i>Tlalnepantla</i>
	ISRA VISION AG	<i>Darmstadt</i>		Desarrollos Tecnológicos ACMSA S.A. de C.V.	<i>Tlalnepantla</i>
	ISRA VISION GmbH	<i>Darmstadt</i>		Desoutter Tools Mexico SA de CV	<i>Tlalnepantla</i>
	ISRA VISION Graphikon GmbH	<i>Berlin</i>		ISRA VISION S. de R.L. de C.V.	<i>Queretaro</i>
	ISRA VISION LASOR GmbH	<i>Bielefeld</i>		Scheugenpflug Mexico, S.de R.L. de C.V.	<i>Guadalajara</i>
	ISRA VISION PARSYTEC AG	<i>Aachen</i>	Morocco	Atlas Copco Maroc SA	<i>Casablanca</i>
	ISRA VISION POLYMETRIC GmbH	<i>Darmstadt</i>	Myanmar	Atlas Copco Services Myanmar Co., Ltd.	<i>Yangon</i>
	KDS Kompressoren- und Druckluftservice GmbH ¹⁾	<i>Essen</i>	Netherlands	Alup Grassair Kompressoren BV	<i>Oss</i>
	Leybold Dresden GmbH	<i>Dresden</i>		Atlas Copco Beheer B.V.	<i>Zwijndrecht</i>
	Leybold GmbH	<i>Cologne</i>		Atlas Copco Internationaal B.V.	<i>Zwijndrecht</i>
	Leybold Real Estate GmbH ¹⁾	<i>Cologne</i>		Creemers Compressors B.V.	<i>Oss</i>
	Medgas-Technik GmbH Medical Technology ¹⁾	<i>Berndroth</i>		Leybold Nederland B.V.	<i>Utrecht</i>
	metronom Automation GmbH	<i>Mainz</i>		Perceptron B.V.	<i>The Hague</i>
	Nano-Purification Solutions GmbH	<i>Krefeld</i>	New Zealand	Atlas Copco (N.Z.) Ltd.	<i>Auckland</i>
	Perceptron GmbH	<i>Munich</i>		Exclair (NZ) Limited	<i>Auckland</i>
	PMH Druckluft GmbH ¹⁾	<i>Moers</i>	Nigeria	Atlas Copco Nigeria Ltd.	<i>Lagos</i>
QUISS Qualitäts-Inspektionssysteme und Service AG ¹⁾	<i>Puchheim</i>	Norway	Atlas Copco A/S	<i>Langhus</i>	
Scheugenpflug GmbH ¹⁾	<i>Neustadt a.d. Donau</i>		Atlas Copco Kompressorteknikk A/S	<i>Langhus</i>	
Schneider Druckluft GmbH ¹⁾	<i>Reutlingen</i>		Atlas Copco Tools A/S	<i>Langhus</i>	
Synatec GmbH ¹⁾	<i>Leinfelden-Echterdingen</i>		Berema A/S	<i>Langhus</i>	
Vision Experts GmbH	<i>Karlsruhe</i>				

¹⁾ For the business year ending December 31, 2020 several German subsidiaries will make use of the §§ 264, 291 Handelsgesetzbuch (German Commercial Code) exemption rules of filing their own (consolidated) financial statements.

A22. Related parties, continued

Country/Area	Company	Location (City)	Country/Area	Company	Location (City)
Pakistan	Atlas Copco Pakistan (Private) Limited	Lahore	United Kingdom	Air Compressors and Tools Limited	Hemel Hempstead
Peru	Atlas Copco Perú S.A.C.	Lima		Atlas Copco IAS UK Limited	Flintshire
Philippines	Atlas Copco (Philippines) Inc.	Binan		Atlas Copco Ltd.	Hemel Hempstead
Poland	ALUP Kompressoren Polska sp. z o.o.	Janki		Atlas Copco Medical Ltd.	Staveley
	Atlas Copco Polska Sp. z o.o.	Warsaw		Atlas Copco UK Holdings Ltd.	Hemel Hempstead
Portugal	Sociedade Atlas Copco de Portugal Unipessoal Lda	Porto Salvo		Edwards High Vacuum International Ltd.	Burgess Hill
Romania	Atlas Copco Romania S.R.L.	Bucharest		Edwards Ltd.	Burgess Hill
	Scheugenpflug S.R.L.	Sibiu		Isocool Limited	Braintree
Russia	Airgrupp LLC	Moscow		ISRA VISION Ltd.	London
	ISRA VISION LLC	Moscow		ISRA VISION PARSYTEC Ltd.	Eastleigh
	JSC Atlas Copco	Moscow		Leybold UK Ltd.	Chessington
Serbia	Atlas Copco Srbija doo	Belgrade	Nano-Purification Solutions Ltd.	Newcastle	
Singapore	Atlas Copco (South East Asia) Pte. Ltd.	Singapore	Perceptron Metrology UK Ltd.	Birmingham	
	Edwards Technologies Singapore PTE Ltd	Singapore	Tentec Ltd.	Birmingham	
	Leybold Singapore Pte Ltd	Singapore	Walker Filtration Ltd. UK	Washington	
Slovakia	Atlas Copco s.r.o	Bratislava	U.S.A.	Air & Gas Solutions LLC	Charlotte
	ISRA VISION s.r.o.	Bratislava	Atlas Copco Compressors LLC	Rock Hill	
	Perceptron Slovensko s.r.o.	Bratislava	Atlas Copco Comptec LLC	Voorheesville	
	Schneider Airsystems s.r.o.	Nitra	Atlas Copco IAS LLC	Auburn Hills	
Slovenia	Atlas Copco d.o.o.	Trzin	Atlas Copco Mafi-Trench Company LLC	Santa Maria	
South Africa	Atlas Copco Industrial South Africa (Pty) Ltd	Boksburg	Atlas Copco North America LLC	Parsippany	
	Rand Air South Africa (Pty) Ltd	Boksburg	Atlas Copco Rental LLC	Laporte	
South Korea	Atlas Copco Korea Co., Ltd.	Seongnam	Atlas Copco Tools & Assembly Systems LLC	Auburn Hills	
	CP Tools Korea Co., Ltd.	Anyang	Atlas Copco USA Holdings Inc.	Parsippany	
	CSK Inc.	Yongin	BeaconMedaes LLC	Rock Hill	
	Edwards Korea Ltd	Cheonan	C H Spencer LLC	Salt Lake City	
	ISRA VISION Korea Co. Ltd	Seoul	Chicago Pneumatic International Inc.	Rock Hill	
Spain	Leybold Korea Ltd	Bundang	Chicago Pneumatic Tool Company LLC	Rock Hill	
	Aire Comprimido Industrial Iberia, S.L.	Madrid	CSK TS Inc	Austin	
	Atlas Copco S.A.E.	Madrid	Dekker Vacuum Technologies Inc	Michigan City	
	Grupos Electrógenos Europa, S.A.	Zaragoza	Edwards Vacuum, LLC	Wilmington	
	Leybold Hispanica S.A.	Cornellá de Llobregat	Henrob Corporation	New Hudson	
	Perceptron Iberica, S.L.	Barcelona	ISRA SURFACE VISION Inc.	Berkeley Lake	
Sweden	Photonfocus Spain, S.L.	Barcelona	ISRA VISION PARSYTEC Inc.	Berkeley Lake	
	Atlas Copco Compressor AB	Nacka	ISRA VISION SYSTEMS Inc.	Auburn Hills	
	Atlas Copco Industrial Technique AB	Nacka	Leybold USA Inc.	Wilmington	
	Atlas Copco Järila Holding AB	Nacka	Mid-South Engine & Power Systems LLC	White Oak	
	Atlas Copco Nacka Holding AB	Nacka	Nowvac Inc.	Parsippany	
	Atlas Copco Sickla Holding AB	Nacka	Perceptron Inc.	Plymouth	
	Industria Insurance Company Ltd Industria Försäkringsaktiebolag	Nacka	Perceptron Global Inc.	Plymouth	
Switzerland	Atlas Copco (Schweiz) AG	Studen	Perceptron Software Technology, Inc.	Plymouth	
	Leybold Schweiz AG	Steinhausen	Powerhouse Equipment & Engineering Co. Inc.	Delanco	
	Medgas-Technik Schweiz AG	Sankt-Gallen	Power Technique North America LLC	Rock Hill	
	Photonfocus AG	Lachen	Quincy Compressor LLC	Bay Minette	
	Servatechnik AG	Oftringen	Scheugenpflug Inc.	Kennesaw	
Taiwan	Atlas Copco Taiwan Ltd.	Taoyuan	Vacuum Technique LLC	Michigan City	
	CSKT Inc.	Jubei	Walker Filtration Inc. US	Erie	
	Edwards Technologies Ltd	Jhunuan	Venezuela	Atlas Copco Venezuela SA	Valencia
Thailand	Leybold Taiwan Ltd	Hsin-Chu	Vietnam	Atlas Copco Vietnam Company Ltd.	Hanoi
	Atlas Copco (Thailand) Limited	Bangkok	Zambia	Atlas Copco Industrial Zambia Limited	Kitwe
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			
Ukraine	ISRA VISION YAPAY GÖRME VE OTOMASYON SAN. VE TİC. A.Ş.	Istanbul			
	Atlas Copco Ukraine LLC	Kiev			
United Arab Emirates	Atlas Copco Middle East FZE	Dubai			

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.

The Annual Report also contains the Group's and Parent Company's statutory sustainability report in accordance with the Swedish Annual Accounts Act, Chapter 6, Section 11, see page 19.

Nacka, March 3, 2021
Atlas Copco AB

Hans Stråberg
Chair

Staffan Bohman
Board member

Tina Donikowski
Board member

Johan Forssell
Board member

Anna Ohlsson-Leijon
Board member

Mats Rahmström
Board member
President and CEO

Gordon Riske
Board member

Peter Wallenberg Jr
Board member

Mikael Bergstedt
Board member
Union representative

Benny Larsson
Board member
Union representative

Our audit report was submitted on March 3, 2021
Ernst & Young AB

Erik Sandström
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 11, 2021.

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 (publ) except for the corporate governance statement on pages 51–60 and the quarterly data on page 79 for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 13–38, 44–48 and 61–122 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 2020 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 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 51–60 and the quarterly data on page 79. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Accounting for business combinations

Description

In the fiscal year 2020, Atlas Copco made 12 acquisitions for a total consideration of 14.1 billion SEK. The acquired assets and liabilities must be separately identified and valued at fair value at the date of the acquisition. For acquired assets and liabilities for which there is no active market management must apply valuation models and significant estimates in order to determine the fair value.

Disclosures related to the group's accounting principles, significant accounting estimates and judgements are provided in note 1 and note 2 contains disclosures related to the acquisitions made.

Based on the significance of the acquisitions and the high degree of management estimate required to account for these matters, we have assessed the accounting for business combinations as a key audit matter in our audit.

How our audit addressed this key audit matter

As part of our audit we have evaluated the group's processes related to the accounting of business combinations. We have reviewed the purchase agreements and audited the purchase price allocations for all significant acquisitions.

With support from our internal valuation specialists, we have assessed the valuation models applied and the significant estimates used when accounting for the business combinations. The models and estimates have been tested by comparing them to historical outcome, future cash flow forecasts as well as external sources and established valuation techniques. Further we have performed sensitivity analyzes for significant estimates as well as benchmark comparisons.

Finally, we have assessed the appropriateness of the disclosures provided in the annual report.

Valuation of goodwill

Description

At December 31, 2020, the total value of goodwill amounts to 28.9 billion SEK and is allocated to the group's different cash generating units. Goodwill must be tested for impairment at least annually or whenever there are indicators of impairment. The test is carried out by comparing the recoverable amount to the carrying value. To calculate the recoverable amount management apply significant judgment and estimates regarding future cash flows, perpetual growth rate and discount rates. The impairment tests for 2020 did not result in any impairment write off.

Disclosures related to the group's accounting principles, significant accounting estimates and judgements are provided in note 1 and disclosures related to goodwill and the impairment test performed is provided in note 12.

Based on carrying value of the goodwill and the high degree of management estimate required to perform the impairment tests, we have assessed the accounting for the valuation of goodwill as a key audit matter in our audit.

How our audit addressed this key audit matter

In the audit, we have evaluated the group's process for conducting impairment tests. Based on established criteria, we have examined how the group identifies cash-generating units.

With support from our internal valuation specialists, we have evaluated the valuation methods used. We have assessed the reasonableness of assumptions, conducted sensitivity analysis, and compared them to historical outcomes as well as external sources and industry benchmarks.

Finally, we have assessed the appropriateness of the disclosures provided in the annual report.

Revenue recognition

Description

The group recognize revenue from a wide range of geographical markets and the revenues are generated from product- and product related offerings ranging from equipment, service and rental to the customers. The appropriate timing of revenue recognition can vary from a point in time to recognition over time. Judgement may be required in assessing if control has been transferred to the customer and to determine the satisfaction of performance obligations.

The group's decentralized organization where revenues are generated from a large number of subsidiaries further increases the complexity of ensuring that the revenue recognition principles are consistently applied across the group.

Disclosures related to the group's accounting principles, critical accounting estimates and judgement are provided in note 1 and note 4 provides disclosures regarding revenue disaggregated by operating segment and geography.

Based on the above, we have assessed the revenue recognition as a key audit matter in our audit.

How our audit addressed this key audit matter

In our audit we have assessed the group's processes for revenue recognition. Further, we have reviewed the group's accounting manual and assessed whether the policies for revenue recognition are in accordance with the applicable accounting standards.

Audit report, continued

We have obtained an understanding of the different types of significant revenue contracts and evaluated the identified performance obligations and determinations made regarding when performance obligations are considered satisfied. In addition, we have performed detailed revenue transaction testing and revenue data analytical procedures to assess the revenue recognition.

We have assessed the appropriateness of the disclosures provided in the annual report.

Accounting for income taxes

Description

Atlas Copco is a global group with subsidiaries world-wide. The accounting for income taxes requires adherence to local tax legislation which often can be complex and allow for different interpretations and judgement. The group's subsidiaries are regularly subject to tax audits in which the local tax authorities might challenge the group's interpretation of the local legislation.

In instances where the tax authorities are of a different opinion of how to interpret the tax legislation the outcome is often dependent on negotiations with the local tax authorities or legal proceedings. In order to account for income taxes in these instances, management may have to apply significant estimates. Changes to these estimates can have a material effect on the income tax reported.

Disclosures related to the group's accounting principles, critical accounting estimates and judgement are provided in note 1 and disclosures related to taxes are provided in note 9.

Based on the above, we have assessed accounting for income taxes as a key audit matter in our audit.

How our audit addressed this key audit matter

We have evaluated the group's process for accounting for income taxes. We have reviewed communication between Atlas Copco and the tax authorities for significant uncertain income tax matters. Our internal tax specialists have been engaged to evaluate the assessments and interpretations made by the group. We have also assessed the reasonability of the accounting for these matters by comparisons to historical outcome in similar cases and by obtaining assessments from the group's external tax advisors where appropriate.

We have assessed the appropriateness of the disclosures provided in the annual report.

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 1–12, 39–43, 49–50 and 126–141. 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 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 other information, we are required to report that fact. We have nothing to report in this regard.

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 intends to liquidate the company, to cease operations, or has 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 skepticism 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 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.

Audit report, continued

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 (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) 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.

Other matters

The audit of the annual accounts for 2019 was performed by another auditor who submitted an auditor's report dated 28 February 2020, with unmodified opinions in the Report on the annual accounts.

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 skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 51–60 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.

Ernst & Young AB with Erik Sandström as auditor in charge, Box 7850, 103 99 Stockholm, was appointed auditor of Atlas Copco AB by the general meeting of the shareholders on April 23, 2020 and has been the company's auditor since April 23, 2020.

Stockholm, March 3, 2021

Ernst & Young AB

Erik Sandström
Authorized Public Accountant

Financial definitions*

Reference is made in the Annual Report to a number of financial performance measures which are not defined according to IFRS. These performance measures provide complementary information and are used to help investors as well as Group Management analyze the company's operations and facilitate an evaluation of the performance. Since not all companies calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS.

Adjusted operating profit

Operating profit (earnings before interest and tax), excluding items affecting comparability.

Adjusted operating profit margin

Operating profit margin excl. items affecting comparability.

Average number of shares outstanding

The weighted average number of shares outstanding before or after dilution. Shares held by Atlas Copco are not included in the number of shares outstanding. The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs. The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options.

Capital employed

Average total assets less non-interest-bearing liabilities/provisions. Capital employed for the business areas excludes cash, tax liabilities and tax receivables.

Capital employed turnover ratio

Revenues divided by average capital employed.

Capital turnover ratio

Revenues divided by average total assets.

Debt/equity ratio

Net indebtedness in relation to equity, including non-controlling interests.

Dividend yield

Dividend divided by the average share price quoted.

Earnings per share

Profit for the period attributable to owners of the parent divided by the average number of shares outstanding.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

Operating profit plus depreciation, impairment and amortization.

EBITDA margin

EBITDA as a percentage of revenues.

Equity/assets ratio

Equity including non-controlling interests, as a percentage of total assets.

Equity per share

Equity including non-controlling interests divided by the average number of shares outstanding.

Items affecting comparability

Restructuring costs, capital gains/losses, impairments, changes in provision for share-related long-term incentive program and other items with the character of affecting comparability.

Net cash flow

Change in cash and cash equivalents excluding currency exchange rate effects.

Net debt/EBITDA ratio

Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position

Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

Net interest expense

Interest expense less interest income.

Operating cash flow

Cash flow from operations and cash flow from investments, excluding company acquisitions/divestments and currency hedges of loans.

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 www.atlascopcogroup.com/en/investor-relations/key-figures/financial-definitions

Sustainability notes

Atlas Copco's mission is to achieve sustainable, profitable growth. The sustainability report is an integrated part of the Group's annual report. The sustainability notes on the following pages, include complementary information about the materiality analysis, stakeholder dialogue, governance, results and reporting principles.

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Materiality analysis and stakeholder engagement

Atlas Copco's sustainability report should provide stakeholders with relevant information about the Group's economic, environmental and social impact. In defining the report content, Atlas Copco applies Global Reporting Initiative's (GRI) reporting principles on stakeholder inclusiveness, sustainability context, materiality and completeness.

Atlas Copco's Business Code of Practice defines the Group's five key stakeholders, and each group are consulted for the materiality mapping process. Stakeholders are defined as those who can be significantly affected by the Group's operations. Internal stakeholders include functions such as research and development, logistics, human resources and purchasing. For external stakeholders' input, Atlas Copco directly and indirectly engages with international NGOs, unions, key investors, civil society and business advocacy groups, customers and business partners. This stakeholder-driven approach takes inspiration from the GRI's guidance for materiality and the materiality process is summarized on the Group's website www.atlascopcogroup.com.

A materiality analysis is done regularly, involving internal and external stakeholders through surveys and interviews. A survey asking stakeholders to prioritize a set of pre-defined issues is posted on the intranet and spread externally in order to capture a broad array of stakeholder views. In-depth interviews with stakeholder groups such as customers, employees, investors, NGOs, peers and board members complement the survey. The result is discussed in internal workshops with for example the specialist safety, health, environment and quality functions and is reviewed by Group Management.

Atlas Copco uses the stakeholder input together with UN Global Compact's ten principles, mapping of the business' impact on the UN Sustainable Development Goals, and risk and opportunity assessments based on the business strategy to define the Group's significant environmental, economic and social impact. The result of the materiality process is used in the review of the Group's focus areas for sustainability. The analysis also served as input to the formulation of the KPIs and goals, as presented on page 6, that measure Atlas Copco's progress since 2019. A renewed materiality analysis will be undertaken during 2021.

Stakeholders and their key topics and concerns

As a global Group, it is vital for Atlas Copco to ensure accountability for its actual and potential impact on stakeholders.

For external stakeholders' input, Atlas Copco engages with international NGOs, unions, key investors, civil society, customers and business partners in a number of ways, both directly and indirectly.

Stakeholder group	Key topics and concerns	Dialogue form
Customers	<ul style="list-style-type: none"> – Product safety – Product innovation – Resource efficient products – Climate and environmental impact 	<ul style="list-style-type: none"> – Customer visits – Customer surveys and interviews – Customer events – Website
Investors, analysts, shareholders	<ul style="list-style-type: none"> – Financial targets – Growth – Risk management – Business ethics 	<ul style="list-style-type: none"> – Investor meetings – Capital market days – Annual general meeting – Website
Employees	<ul style="list-style-type: none"> – Health and safety – Working conditions – Competence development – Compensation and benefits 	<ul style="list-style-type: none"> – Yearly appraisal – Employee surveys – Work councils – Employee representatives on the Board
Society	<ul style="list-style-type: none"> – Climate and environmental impact – Social and environmental compliance – Human rights – Labor market issues 	<ul style="list-style-type: none"> – Memberships in international collaborations and industry initiatives – Local engagement – Website – Surveys and interviews
Business partners	<ul style="list-style-type: none"> – Occupational health and safety – Labor conditions – Human rights – Business ethics 	<ul style="list-style-type: none"> – Collaborations with suppliers – On-site evaluation and audits – Surveys and interviews

Sustainability impact and risks in the value chain

Understanding our sustainability impact and risks throughout the value chain helps us choose the right actions to handle them. The table below shows where our impact takes place, the corresponding risks and examples of how we work to minimize them.

Business partners	Our own operations	Customers
IMPACT		
Atlas Copco has a large supplier base and purchased components account for about 75% of the product cost. The choice of suppliers is therefore of great importance for the Group’s impact from a social and environmental perspective. The collaboration with business partners and the supplier requirements aim to protect Atlas Copco from risks and promote better standards in society.	Atlas Copco has global operations with manufacturing and employees in a large number of countries. In some of these, there is a high risk of human rights violations, corruption, and non-compliance. Impact can mainly be linked to the business’ (including products’) climate and environmental impact, employees’ working conditions, including health and safety.	Atlas Copco’s customers demand innovative, high-quality products that are resource and energy efficient, safe and ergonomic. The main part of the products’ climate impact occurs when they are being used.
RISKS		
<ul style="list-style-type: none"> – Business partners not living up to human rights standards, such as working conditions and the freedom of association – Business partners who do not live up to the principles of ethical business, for example regarding corruption – Risk that purchased components are not produced in a sustainable way, for example the presence of conflict minerals, or that components have a large carbon footprint – Climate- or environmental-related events causing disruptions in the supply or distribution chain 	<ul style="list-style-type: none"> – Insufficient standards regarding employee safety and health – Violations of human rights, such as discrimination and restrictions on freedom of association – Unethical behavior or corruption – Manufacturing and transport of products lead to greenhouse gas emissions – Environmental impact from waste and emissions – Climate- or environmental-related events causing disruptions in operations or manufacturing 	<ul style="list-style-type: none"> – Customers’ impact on the environment, climate or human rights and other social aspects – Risks of sanctions – Risks of corruption
ACTIVITIES		
<ul style="list-style-type: none"> – Risk-based assessment of business partners, including factors such as quality and social/environmental responsibility – Requirement that significant direct suppliers must have an approved environmental management system – Requirement that significant business partners must sign and follow the Business Code – Action plans developed together with the supplier to deal with shortcomings and deviations – Employee training in the Business Code of Practice, and a system for reporting violations – Safety, health and environmental training for business partners – Global network of sub-suppliers reducing the dependence on individual suppliers – Promoting international standards, such as UN Global Compact – Technology development in collaboration with business partners 	<ul style="list-style-type: none"> – Regular assessment of health and safety risks in Atlas Copco’s operations – Certification of major operating units according to ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001 – Training for all employees in the Business Code of Practice, and a system for reporting violations – Follow-up and control through internal audits – Safety and health training – Increased use of renewable energy and efforts to decrease energy consumption – Efforts to decrease waste volumes and to increase the share of reused and recycled waste – Efforts to reduce water consumption – Reduced use of air freight in favor of more environmentally friendly transport – Applying international standards and guidelines, such as the UN Global Compact 	<ul style="list-style-type: none"> – Continuous development of products with improved ergonomics, safety, energy efficiency and reduced emissions – Employee training in the Business Code of Practice, and a system for reporting violations – Evaluation of customers’ sustainability work and dialogue with customers in complex environments – Collaborations with customers to develop efficient, safe and environmentally friendly solutions



Material topics and boundaries

Based on the materiality analyses in 2015 and 2018, Atlas Copco has identified material topics according to the GRI Standards framework. There were no significant changes to the material topics in 2020. Atlas Copco’s work impacts the different parts of the value chain as described in the table below.

	Impact on suppliers	Impact on Atlas Copco	Impact on customers
ECONOMIC IMPACT			
Economic performance		●	
Anti-corruption	●	●	●
ENVIRONMENTAL IMPACT			
Energy and emissions	●	●	●
Environmental compliance		●	
Supplier assessment	●	●	
SOCIAL IMPACT			
Employment		●	
Occupational health and safety	●	●	●
Training and education		●	
Diversity and inclusion		●	
Non-discrimination		●	
Human rights assessment	●	●	●
Supplier assessment	●	●	
Product responsibility	●	●	●
Socioeconomic compliance	●	●	

Sustainability governance

The Board of Atlas Copco has the overarching responsibility for the governance of the company, including financial and non-financial goals and strategies. The Board is also the owner of the Group’s Business Code of Practice which regulates how Atlas Copco employees act towards each other and in their relations to stakeholders.

The Board of Directors approves the focus areas for sustainability, as well as the related key performance indicators (KPIs), and goals. Progress in relation to the Group KPIs is monitored quarterly by Group Management and annually by the Board of Directors. All members of Group Management are responsible for the implementation of goals and strategies although the CEO has the ultimate responsibility. The head of sustainability reports to the SVP Chief Communications Officer, who is a member of Group Management.

Implementation is mainly handled by the divisions, which are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area. The divisional presidents and general managers are responsible for safeguarding that targets are set as a part of the three-year plan, and that they are followed-up and reported to the Group. The business areas and divisions set quantified targets for delivering on the Group goals. The annual report communicates the aggregated results on Group level.

Safety, Health, Environment and Quality (SHEQ) managers in the operational entities, divisions and business areas play an important role in supporting the organization’s sustainability work. At corporate level, a sustainability team and controller provide coordination and support to the entire organization, working closely with a SHEQ representative from each business area. The Group SHEQ council is chaired by a division president and consists of the SHEQ managers for each business area, the Vice President Sustainability for the Group, and representatives for HR, Holding and controlling. The SHEQ council comes together quarterly to discuss actions, policy and guidelines to support the organization to reach set ambitions.

The Business Code of Practice

Atlas Copco’s Business Code of Practice is our guide to doing business ethically and optimizing the social and environmental impact of our operations. It is designed to make sure that we always act with the highest ethical standards and integrity. In cases where the Business Code of Practice is stronger than local laws and regulations, we insist on following the Code. The Business Code of Practice has been translated into 33 languages and it is based on the following international standards and guidelines:

- United Nations International Bill of Human Rights
- The ILO Declaration on Fundamental Principles and Rights at Work
- The United Nations Global Compact
- The OECD Guidelines for Multinational Enterprises

Grievance mechanism

The Group promotes a culture of integrity through mutual respect, trust in each other, and high standards of ethics in all business interactions. As of 2020, a new misconduct reporting system called “SpeakUp” is used. The system offers anonymous reporting in more than 70 languages and is accessible 24/7, via a message function or local phone number. It can be used by employees or external stakeholders to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. The Group’s legal department handles cases and initiates investigations. The Group is positive to receiving reports through the system and promotes it actively, internally and externally.

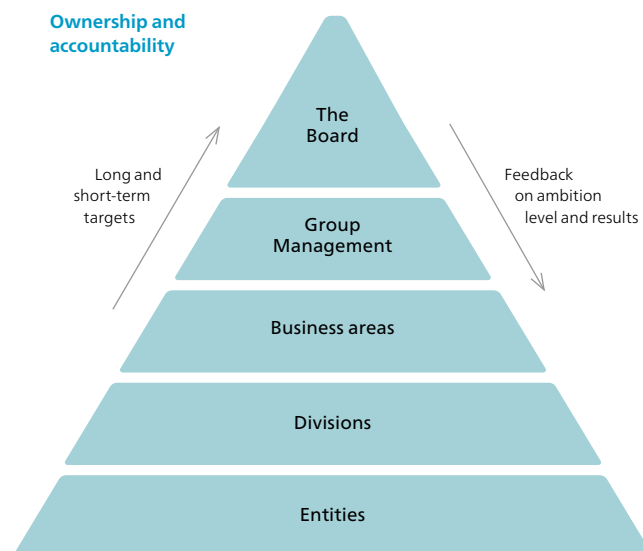
External initiatives and membership of associations

Atlas Copco’s central guiding policy, the Business Code of Practice, supports the United Nations International Bill of Human Rights, The International Labour Organization Declaration on Fundamental Principles and Rights at Work, and The OECD Guidelines for Multinational Enterprises.

Since 2008, Atlas Copco is a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

Atlas Copco is a member of the Swedish Leadership for Sustainable Development, a business network for accelerating the implementation of the Sustainable Development Goals, coordinated by the Swedish International Development Cooperation Agency.

Atlas Copco is also active in a number of international organizations and industry collaborations and initiatives, such as the Stockholm Chamber of Commerce, the International Council of Swedish Industry, Transparency International Sweden, the Association of Swedish Engineering Industries, the European Committee of Manufacturers of Compressors, Vacuum Technology, Pneumatic Tools, Air Treatment Equipment and Condensate Treatment Equipment and the Responsible Minerals Initiative. While the general objectives of the organizations are in line with Atlas Copco’s interests, there may be differences of opinion regarding specific issues. The membership does not indicate that Atlas Copco endorses all actions or policy statements made by the respective organization.



ECONOMIC IMPACT

Economic performance

Direct economic value generated and distributed

Atlas Copco creates employment and financial stability through subcontracting manufacturing and other activities. The Group's shareholders and creditors provide funds to finance the asset base that is used to create economic value. In return, these stakeholders receive dividend and interest.

Atlas Copco contributes to economic development within the regions where we operate, through payments to pension funds and social security, and payment of taxes, social costs and other duties. Community investments amounted to MSEK 19 (22).

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, which also decreases the environmental impact from transport.

Economic value	2020	2019
Direct economic value	100 251	104 230
Revenues	99 787	103 756
<i>Economic value distributed</i>		
Operating costs	55 362	56 952
Employee wages and benefits, including other social costs	25 582	25 220
Costs for providers of capital	8 988	8 149
Costs for direct taxes to governments	4 801	4 909
Economic value retained	5 518	9 000
– Redemption of shares	–	–

Anti-corruption and anti-competitive behavior

Atlas Copco has zero tolerance against corruption. The Business Code of Practice is the Group's central policy document, accessible to all employees in the internal database. All employees are required to sign the compliance statement for adherence to the Business Code of Practice, and take online trainings annually. Division presidents have the ultimate responsibility for the adherence to the Group's values and policies. Internal control is exercised through distribution of responsibility and internal audits. The Compliance Board oversees compliance with the Business Code of Practice.

Reported potential violations, number	2020
Fraud	16
Labor relations, including discrimination and harassment	116
Corruption	8
Other	27
Total	167

During the year, there were a total of 167 reported potential violations through Atlas Copco's grievance mechanism. In 53 cases no evidence of wrongdoing was found, in 48 cases evidence could confirm that no wrongdoing had occurred, in 13 cases disciplinary action, such as a written warning, were taken against one or several employees as a result of an investigation. In 25 cases weaknesses were found in internal processes which were improved as a result. No case was settled in court.

There were no significant fines or non-monetary sanctions for non-competitive behavior or for non-compliance with laws and/or regulations in the social and economic area during the year.

ENVIRONMENTAL IMPACT

Atlas Copco has integrated the most material environmental KPIs into its strategic work. This drives improvement and efficiency, while reducing our impact on the environment.

Environmental performance is monitored and reported at unit level and aggregated to Group level. General managers are responsible for overseeing the implementation of divisional strategies and goals, including undertaking initiatives to curb energy use and emissions as well as increase the proportion of renewable energy used.

Environmental management systems

To minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has the ambition to implement environmental management systems in all operations. All product companies should be certified according to ISO 14001. Acquired product companies are normally certified within a two-year period.

Atlas Copco strives for all major operating units to be triple-certified according to ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001. All production units with more than ten employees and all customer companies and rental companies with more than 70 employees are to be triple-certified. By the end of 2020 the share of required units that were not triple-certified was 7% of the total number of operational units. The same measure for each individual certification was 5% for ISO 9001, 7% for ISO 14001 and 7% for OHSAS 18001/ISO 45001. These units are mainly acquisitions still within the two-year timeframe to comply, or newly restructured units. Some units not yet triple-certified are in the process of becoming so, and a smaller portion has lacked the resources so far to commit to a triple certification.

Atlas Copco requires direct significant suppliers to apply a precautionary approach and to have an environmental management system (EMS). The Group measures the share of significant suppliers with an approved EMS and the goal is that the share should increase continuously. An approved EMS is defined as ISO 14001, or that EMAS (EU Eco-Management and Audit Scheme) requirements are fulfilled. The direct significant supplier needs to be third party certified for ISO 14001 or registered EMAS and hold a valid certificate or registration. In 2020, 30% of significant direct suppliers had an approved environmental management system according to this definition.

Energy consumption within the organization

Energy consumption*, MWH	2020
Direct energy, renewable	2 917
Direct energy, non-renewable	96 933
Indirect energy, renewable (incl. renewable of mix)	150 046
Indirect energy, non-renewable	101 401

* The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity (99%) and district heating (1%) used at the sites. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, bio-fuel, gasoline, solar, geothermal, propane and natural gas.

Environmental compliance

Atlas Copco follows applicable environmental laws in all countries where the Group operates. Incidents or fines are reported for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages. There was 1 (0) accident resulting in adverse environmental effects in 2020, and there were monetary sanctions for non-compliance amounting to KSEK 43 (0) and clean-up costs amounted to KSEK 44 (0).

Two Swedish companies require permits based on Swedish environmental regulations. These operations mainly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, and noise pollution. The Group has been granted two permits needed to conduct its business and none of them was under revision in 2020.

SOCIAL IMPACT

Employment

Information on employees and other workers

Atlas Copco is a significant employer in the global market. The Group reports the number of employees as full time equivalents (FTE) per geographical spread and per professional category, as well as divided between white-collar and blue-collar employees.

New employee hires and employee turnover

The total number and rate of external new employee hires in 2020 was 3 352 (5 003) which constitutes 8.5% (13.2) of the total average number of employees during the year. The percentage of externally recruited females was 26% (25). The total number of resignations was 1 727 (2 214), which constitutes 4.4% (5.9) of the total average number of employees during the year.

The Group's KPIs for employee satisfaction and engagement measure how employees perceive the opportunities to grow in the company and how they perceive the company culture. The goal for both KPIs are to be above the global benchmark. The benchmark reflects the employee engagement survey provider's proprietary benchmark for global companies. The benchmark incorporates both anonymized data from the survey provider's global customer base with tens of millions of responses across more than 150 countries, as well as data from industry panel studies to produce robust and unbiased normative data.

Freedom of association and collective bargaining

Atlas Copco views trade unions and employee representatives as a valuable support system for its employees, and fosters relationships based on mutual respect and constructive dialogue. Labor practices and employee rights, such as the right to collective bargaining, are included in the Business Code of Practice. In 2020, 32% (34) of all employees were covered by collective bargaining agreements.

As a decentralized organization, the engagement and dialogue with labor unions takes place at a local level. In countries where no independent labor union exist, Atlas Copco has taken measures to establish forums for employer/employee relations, for example in China, through environment and safety committees. The diversity and inclusion guideline covers all employees.

Labor relations are followed-up regularly on the operational level and reviewed by internal audit. The compliance of significant suppliers to Atlas Copco's Business Code of Practice, which is based on international guidelines and frameworks such as the UN Global Compact and the International Labour Organization Declaration on Fundamental Principles and Rights at Work, is audited regularly.

Occupational health and safety

Safety and well-being are key priorities for Atlas Copco due to the importance of a sound working environment to employees' health and motivation, as well as to the Group's productivity and competitiveness. The global Safety, Health and Environmental policy ensures that there are robust standards for safety and well-being in the workplace. Grievances in relation to occupational health and safety can be reported anonymously via the Group's misconduct reporting system.

All divisions set targets and make action plans to enhance awareness and improve behavior, policies and processes with the purpose of offering a safe and healthy work environment and to identify and address risks. Group companies must have an Atlas Copco verified Safety Health Environment and Quality management system, which is documented, implemented and maintained on an ongoing basis. Customer companies and rental companies with more than 70 employees and all product companies shall be certified according to OHSAS 18001/ISO 45001. Targets and KPIs on safety and well-being are monitored continuously by local management and followed up regularly by Group Management.

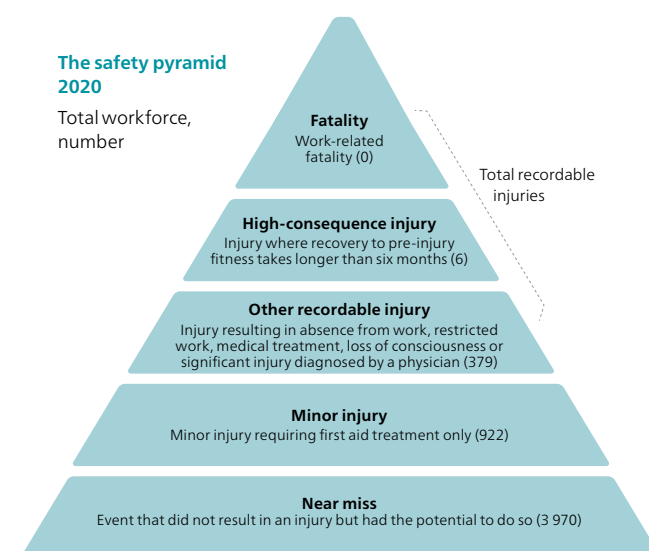
	Per million working hours	Number
Total recordable injuries, 2020		
Recordable injuries total workforce	4.84	385
Recordable injuries Atlas Copco employees	4.87	361
Recordable injuries additional workforce	4.40	24
Fatalities total workforce	0	0
Fatalities Atlas Copco employees	0	0
Fatalities additional workforce	0	0
High-consequence injuries total workforce	0.08	6
High-consequence injuries Atlas Copco employees	0.08	6
High-consequence injuries additional workforce	0	0

The safety pyramid

In 2019, Atlas Copco started using the safety pyramid for reporting to encourage safe behavior in order to decrease risks and prevent injuries in the workforce. The method supports transparent reporting, risk-averse behavior and behavior change. The definitions of different severity of incidents and injuries were aligned with international standards. It is not possible to compare the number and rate of incidents and injuries with the years before 2019, as this was the first year this Group-wide reporting tool was used.

The Group's goal for safety-related measures is to have a balanced safety pyramid. This means that more near misses than minor injuries, and more minor injuries than recordable injuries are reported.

The results of the 2020 reporting in the safety pyramid model is described in the table and in the illustration below. Major hazards reported for high-consequence injuries were slips and trips, manual handling and lone working. Common injuries were for instance cuts from operating machines and sprains from slipping. Actions undertaken to mitigate hazards are among others awareness training and risk assessment of working environment, inspections, mechanical handling aids, and ensuring safe access to equipment. There was 0 (1) work-related fatality in the Group in 2020.



Human rights assessment

Atlas Copco's central guiding policy is the Business Code of Practice. Atlas Copco is 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 Business Code of Practice also supports the International Labour Organization Declaration on Fundamental Principles and Rights at Work, as well as the OECD's Guidelines for Multinational Enterprises.

The Group committed to the UN Guiding Principles for Business and Human Rights when it was launched in 2011 and works to develop the implementation of the principles. In accordance with the framework's requirements, Atlas Copco has an ongoing process to identify, prevent, mitigate and account for the human rights impacts related to Atlas Copco's business and business relations.

The Group strives to work according to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business processes. The Group's commitment covers all individuals and groups who may be impacted by its activities or through its business relationships. Human rights are monitored by the Compliance Board, which has two members of Group Management: the SVP Chief Legal Officer and the SVP Chief Communications Officer. The Compliance Board addresses training needs, impact assessment and the action points related to the implementation of the UN Guiding Principles.

Human rights due diligence is carried out when deemed relevant for specific markets, for instance when Atlas Copco enters a market that is perceived as presenting severe human rights risks.

The Atlas Copco misconduct reporting system can be used to report perceived human rights violations anonymously. Atlas Copco's human rights statement can be found at the Group's website www.atlascopcogroup.com.

Training on human rights policies and procedures

Atlas Copco has developed human rights specific training in addition to training in the Business Code of Practice to increase employee awareness. The training is available to all employees through the Group's intranet.

Diversity and inclusion

Atlas Copco’s Diversity and Inclusion guideline states that we strive for diversity and inclusion in every aspect of our operations. Atlas Copco believes in having an inclusive culture, which means that all of our employees are treated fairly and with respect, are able to make a professional career, are seen and heard, and have the opportunity to thrive and grow. We provide equal opportunity to all applicants and employees and do not discriminate based on race, religion, gender, age, nationality, disability, sexual orientation or political opinion. Atlas Copco companies establish local diversity policies and guidelines in alignment with the Group policy, local laws and regulations, and local ambitions.

The Diversity and Inclusion Council is chaired by President and CEO Mats Rahmström, and consists of representatives from all business areas, along with the corporate communications, human resources and accounting and controlling functions. The council meets regularly to follow up on action plans and results in the operations. The Group strives to increase the share of women in the organization, and has established a KPI measuring the progress. The goal is that by 2030, there should be 30% women in the Group. In 2020, the share of women in the workforce was 20.0% (19.8) at year end. The Board of Directors (excluding worker representatives) was constituted of 6 men and 2 women and Group Management were 7 men and 2 women.

Anti-harassment and non-discrimination are addressed in the Business Code training that all employees are required to take yearly. Atlas Copco has managers on international assignments coming from 46 countries and working in 45. In 2020, a total of 73% (72%) of all senior managers were locally employed. 40 nationalities were represented among the 478 most senior managers worldwide.

Taxes

The Group recognizes the key role that tax plays in advancing economic development and considers it vital to combat corruption and support sound business practices in order to create the most value for society. Atlas Copco believes in good corporate practice in the area of tax management, balancing the interests of various stakeholders, including customers, investors as well as the governments and communities in the countries in which the Group operates. Atlas Copco does not engage in aggressive tax planning, but instead takes care to pay the correct taxes in its countries of operation. Atlas Copco’s tax policy can be found at the Group’s website www.atlascopcogroup.com. See note 9 of the consolidated financial statements for the details of taxes paid, reported according to the international financial reporting standards.

Disclosing tax by country

Atlas Copco has been in dialogue with investors, NGOs and peers regarding disclosure of tax paid per country. At present, there is no established international standard for reporting taxes paid by country and the resulting data is therefore 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 can be compared and analyzed fairly.

Responsibility throughout the value chain

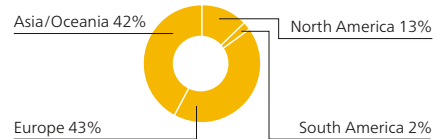
Working with business partners who share Atlas Copco’s high standards regarding quality, business ethics, the environment and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain. The ambition is to work with suppliers and distributors who share these standards and who comply with the Business Code of Conduct.

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

Suppliers

Atlas Copco has a large international supplier base. Around 75% of product cost stems from purchased components. Atlas Copco’s purchasing strategies are decentralized to give the organization higher flexibility and to ensure the right competence. Purchasing councils oversee supply chain management at divisional level, and come together as a part of the Group purchasing council to develop central policies and tools that impact all operations. Local purchasing is encouraged.

Geographical spread of suppliers



Evaluation 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 handbook of policies and guidelines *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 regularly or when deemed necessary. These result in a report with concrete suggestions in the form of an action plan or improvements to be followed up on at an agreed time. Atlas Copco can provide experience and know-how to suppliers who need support in order to comply with the minimum standards set forth in the business partner compliance document. However, suppliers who fail to meet the criteria and do not show a willingness to improve are rejected. Due to restrictions for travel and visits in view of Covid-19, the number of on-site audits was significantly lower in 2020 than previous years.

Suppliers’ commitment	2020	2019
Significant suppliers, number	5 309	5 079
Suppliers audited on safety, health, social, and environmental issues. ¹⁾	669	1 116
Suppliers approved (no need to follow up)	655	1 084
Suppliers conditionally approved (monitored)	14	31
Suppliers rejected (relationship ended) ²⁾	0	1
Suppliers asked on commitment to the Business Code of Practice, number	5 160	4 897
Significant suppliers that have confirmed their commitment to the Code, %	93	90

¹⁾ Audits are conducted by Atlas Copco teams directly at the suppliers’ sites.

²⁾ Reasons for rejection relate to safety in the workplace, labor conditions, environment issues, or non compliance of laws. Suppliers are rejected if they do not meet Atlas Copco’s requirements and are not willing to improve. In 2020, 0 business partner(s) were rejected due to environmental, health & safety issues, and 0 business partner(s) due to corruption.

Definition of significant suppliers:

Significant suppliers are all external suppliers of goods and services, direct and indirect, with a purchasing value above a set threshold, based on 12-month values from October previous year to September current year. For suppliers in countries with heightened risk for human rights violations, environmental risks or corruption etc., the purchasing threshold is lower (approximately 13% of set value). In 2020, the number of significant suppliers increased compared to 2019.

Responsible sourcing of minerals

Responsible sourcing of minerals is essential to Atlas Copco and though the Group does not procure directly from smelters/refineries, some parts of the supply chain do. Atlas Copco is not in the scope of Dodd-Frank Act or the EU regulation 2017/821, but based on concerns of violations of human rights including forced labor, human trafficking and child labor, and to support our customers' obligation to these Acts, the Group has measures to detect and prevent the use of conflict minerals in its supply chain.

Atlas Copco requires its direct suppliers to commit to responsible sourcing of all minerals included in parts and products they sell to us. This commitment is exercised through minerals data collection and due diligence, implemented every year. Moreover, all our significant suppliers must sign the Business Code of Practice that includes an article on responsible sourcing requirements. The process is described in detail on the Group's website www.atlascopcogroup.com.

Atlas Copco has a comprehensive program to investigate the possible use of all conflict minerals in components used in Atlas Copco products. The program ensures responsible sourcing of tin, tantalum, tungsten and gold. Cobalt was added to the program in 2020, and data collection and due diligence using the Responsible Minerals Initiative (RMI) guidelines and Cobalt Reporting Template (CRT) will be rolled out continuously.

As a member of the RMI, Atlas Copco adheres to its guidelines by encouraging suppliers to source from smelters verified by a third party such as RMI's Responsible Minerals Assurance Process (RMAP), and commits to transparency by submitting reporting templates to customers about smelters in the supply chain and collaborates with stakeholders.

Distributors

Atlas Copco has a large international distributor base. Atlas Copco's sales strategies are set by the divisions on a global level and are tuned for local market needs by the customer centers. These sales strategies include the choice of sales channels and distributor management. The marketing councils ensure cross-divisional alignment and develop central policies and tools that impact all operations.

Starting in 2019, the percentage of significant distributors that sign the Atlas Copco business criteria is measured as a Group KPI. In 2020, 84% of all significant distributors signed the business partner criteria. 93% of the significant distributors were asked to sign the criteria.

Definition of significant distributors: Atlas Copco's definition of significant distributors are all external distributors, including agents and resellers with sales of the Group's goods and services for a value above a set threshold, based on 12-month values from October previous year to September current year. For distributors, agents and resellers in countries with a heightened risk for human rights violations, environmental risks or corruption etc., the sales threshold is set to include all active distributors.

Product responsibility

Atlas Copco's ambition is to follow all applicable laws and regulations regarding safety, health and environmental aspects, product information, safety information and labeling. The information required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, 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, all electrically driven Atlas Copco products sold into the EU fall under the EU Waste Electrical and Electronic Equipment (WEEE) Directive. This includes compressors, vacuum pumps, handheld electric tools and monitoring control instruments. Atlas Copco is responsible for, and arranges with customers, the disposal of products that fall under the directive.

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 the Group's products or processes. Items containing declarable substances are avoided or replaced whenever possible. Via a dedicated Atlas Copco communication platform all our suppliers can be swiftly informed about upcoming legislative changes. The Atlas Copco Prohibited and Declarable list is under continuous revision according to applicable legislations worldwide. This includes REACH, RoHS, and U.S. State of California Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65). The lists on prohibited and declarable substances are also published on the Group's website www.atlascopcogroup.com.

Incidents of non-compliance

No cases have been filed in 2020 (0) for non-compliance with such laws and regulations concerning the provision and use of such products and services.

Calculations of product energy efficiency on pages 22–33

The energy efficiency calculations for the products detailed in the report are based on estimates provided by Atlas Copco's research and development departments. Carbon dioxide emissions factors used for the calculations come from open source calculators or standards. The calculations of the number of combustion engine passenger cars driven for one year, corresponding to the product's carbon emission savings were made using the US Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

Piston compressor

The carbon footprint calculation method used standardizes the calculation of embodied CO₂ footprint of a product. Embodied footprint summarizes the impact of material, service, assembly, inbound and outbound transportation. In use footprint calculates the CO₂ for different use cases and markets.

Major impacts are coming from the compressor energy efficiency, but also ingoing materials and weight. For the A49B piston compressor range, an improvement of 1 568 kg CO₂ in embodied footprint per machine during its lifespan was calculated.

Liquid ring pump

The LRP VSD+ has low Specific Energy Requirement (Wh/m³) across its vacuum range. Typical measured energy savings based in variable vacuum applications compared to previous fixed speed installations average 40%. Energy consumption calculations assume an average machine running of 40 hours per week.

Magazine for battery manufacturing

The comparison was made by measuring the energy required to feed a system with fasteners for one battery lid with a standard blow-feed system. The amount of compressed air needed to join the same number of fasteners with a magazine system have been calculated and converted in electric energy. This resulted in about 1.3 Wh per joint of the battery lid with the magazine system and about 3.6 Wh with a standard system. The result showed that the HLX 70 magazine required about 64% less energy per joint in this application.

Light tower

The CO₂ emissions have been calculated based on the emission factor for mineral diesel, fuel consumption and a standard profile use of the machine in Europe. The annual operating hours according to this is 1 320 hours. The source of the emissions factor is BEIS 2019 (UK Government, Department for Business, Energy and Industrial Strategy) and the reference data is 3.31 kg CO_{2e} /l. The fuel consumption of the previous light tower HLH5+ is 0.56 l/h and in the new light tower HLH6+ 0.32 l/h. This means CO₂ emissions savings of up to 40%. The CO₂ savings equivalencies were calculated based on the total sales forecast of the unit for 2021.

About the sustainability report

Atlas Copco has prepared its sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines since 2001. The sustainability report is published annually and the most recent report, prior to this report, was published in March 2020 as a part of Atlas Copco's annual report 2019.

Sustainability is an integral part of Atlas Copco's business model and the Group therefore reports financial and non-financial data in a consolidated annual report. This provides Atlas Copco's stakeholders with a relatively complete overview of how the Group works in order to contribute to sustainable development and increasing stakeholder value.

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. Atlas Copco is also a signatory of UN Global Compact since 2008, and this report is the Group's Communication on Progress (COP), a report on performance in relation to Global Compact's ten principles on human rights, labor law, the environment and anti-corruption. Information relating to the Sustainability Accounting Standards Board (SASB) standards for industrial machinery and goods is disclosed for relevant aspects and where data is available.

Group external auditors, Ernst & Young, have performed a limited review of the sustainability report according to GRI Standards: Core option, see the Auditor's report on page 139.

Report boundary

The sustainability report includes information regarding issues where Atlas Copco has a significant economic, environmental and social impact. GRI's materiality principle has been the guiding principle in determining the report

content. It covers the material issues that have the highest priority to Atlas Copco's stakeholders.

The report covers Atlas Copco's operations for the fiscal year 2020, unless otherwise stated. Operations divested during the year are excluded, acquired units are included. This may at times cause changes in reported performance. Environmental data covers production units and distribution centers. Supplier data covers production units and distribution centers, while distributor data covers all applicable units. Employee data covers all operations.

Sustainability information in the annual report is primarily presented on pages 5–12, 34–43 and 127–138.

Data collection

Reported facts and figures in the sustainability report have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. Reported values are normally not corrected retroactively. When a restatement of historically reported numbers is made, this can be due to a change of calculation method or scope.

Responsibility for reporting rests with the general manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

For questions regarding the report and its contents, please contact Sofia Svingby, Vice President Sustainability: sustainability@atlascopco.com

GRI content index

GRI Standards	Description	Page	Comment/SASB disclosure
Organizational profile			
102-1	Name of organization	Inside cover	
102-2	Activities, brands, products, and services	Inside cover, 20–33	
102-3	Location of headquarters	Inside cover	
102-4	Location of operations	Inside cover	
102-5	Ownership and legal form	51–54	
102-6	Markets served	Inside cover, 23, 26, 29, 32	
102-7	Scale of the reporting organization	Inside cover, 13–18, 20–32, 78	
102-8	Information on employees and other workers	11, 18, 36–38, 131–132	Atlas Copco reports the aggregate number of full-time equivalents, not how many employees work full-time or part-time. Additional workforce can be either temporary or permanent, generally employed through a third party. Omission: Atlas Copco does not report additional workforce by gender. <i>Information relating to the SASB reporting standard: Number of employees (code RT-IG-000B)</i>
102-9	Supply chain	39, 132–133	
102-10	Significant changes to the organization and its supply chain	13	
102-11	Precautionary principle or approach	41–43, 130	
102-12	External initiatives	129	
102-13	Membership of associations	129	
Strategy and analysis			
102-14	Statement from senior decision-maker	3–4, 51, 54	
Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	10, 39–40	
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102-18	Governance structure	9–10, 51–58, 129	

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GRI Standards	Description	Page	Comment/SASB disclosure
Stakeholder engagement			
102-40	List of stakeholder groups	127	
102-41	Collective bargaining agreements	131	
102-42	Identifying and selecting stakeholders	127	
102-43	Approach to stakeholder engagement	127	
102-44	Key topics and concerns raised	127, 129	
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102-45	Entities included in the consolidated financial statements	118–121	
102-46	Process for defining report content and topic boundaries	127, 129	
102-47	List of material topics	129	
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102-52	Reporting cycle	134	
102-53	Contact point for questions regarding the report	134	
102-54	Claims of reporting in accordance with GRI Standards	134	
102-55	GRI content index	134–137	
102-56	External assurance	139	
ECONOMIC IMPACT			
Economic performance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129–130	
201-1	Direct economic value generated and distributed	130	
Anti-corruption			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129–130	
205-3	Confirmed incidents of corruption and actions taken	130	
Anti-competitive behavior			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129–130	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	130	
ENVIRONMENTAL IMPACT			
Energy			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 41–43, 129–130	
302-1	Energy consumption within the organization	130, 138	Omission: Atlas Copco reports energy consumption in MWh, not in joule. <i>Information relating to the SASB reporting standard: Energy management (code RT-IG-000B). Total energy consumed. Percentage renewable electricity (RT-IG 130 a1)</i>
302-3	Energy intensity	138	
Emissions			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 41–43, 129–130	
305-1	Direct greenhouse gas emissions (Scope 1)	138	
305-2	Energy direct greenhouse gas emissions (Scope 2)	138	
305-3	Other indirect greenhouse gas emissions (Scope 3)	138	Atlas Copco reports on CO ₂ emissions related to transports of goods within Scope 3.
305-4	Greenhouse gas emissions intensity	138	

GRI content index, cont.

GRI Standards	Description	Page	Comment/SASB disclosure
Environment – compliance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129–130	
307-1	Non-compliance with environmental laws and regulations	130	
Supplier environmental assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129–130, 132	
308-1	New suppliers that were screened using environmental criteria	39, 132, 138	Atlas Copco uses a risk-based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly.
SOCIAL IMPACT			
Employment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 36–37, 129, 131	
401-1	New employee hires and employee turnover	131, 138	Omission: Atlas Copco does not report turnover by age group and gender.
Occupational health and safety			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 38, 129, 131	Atlas Copco is applying the 2018 GRI standard for Occupational health and safety.
403-1	Occupational health and safety management system	38, 131	
403-2	Hazard identification, risk assessment, and incident investigation	38, 130, 131	
403-3	Occupational health services	38, 131	
403-4	Worker participation, consultation, and communication on occupational health and safety	38	
403-5	Worker training on occupational health and safety	38, 131	
403-6	Promotion of worker health	36–38	
403-7	Prevention/mitigation of occupational health and safety impacts directly linked by business relationships	128	
403-9	Work-related injuries	38, 131, 138	Omission: Near misses are reported in absolute numbers, not in relation to number of working hours. <i>Information relating to the SASB reporting standard:</i> Total recordable incident rate. Fatality rate. Near miss frequency rate. (code RT-IG-320.a.1)
Training and education			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 36–37, 129	
404-3	Percentage of employees receiving regular performance and career development reviews	138	Omission: Atlas Copco does not report breakdown by gender or employee category.
Diversity and inclusion			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 36–37, 129, 132	
405-1	Diversity of governance bodies and employees	36–37, 55–58, 132, 138	Omission: Age group is not disclosed at Group level. Minority group membership is not reported on in the Group.
Non-discrimination			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 36–37, 129, 132	
406-1	Incidents of discrimination and corrective actions taken	130	

GRI content index, cont.

GRI Standards	Description	Page	Comment/SASB disclosure
Human rights assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 39–40, 129, 131–132	
412-2	Employee training on human rights policies or procedures	39–40, 132, 137–138	All employees are trained in the Business Code of Practice, which includes respect for human rights. Omission: Employee training is not reported by category of training at Group level.
Supplier social assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 39, 129, 132–133	
414-1	New suppliers that were screened using social criteria	39, 132, 138	Atlas Copco uses a risk-based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly.
Customer health and safety			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129, 133	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	133	
Marketing and labeling			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129, 133	
417-2	Incidents of non-compliance concerning product and service information and labeling	133	
Socioeconomic compliance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	6, 129, 130	
419-1	Non-compliance with laws and regulations in the social and economic area	130	

Footnotes to environmental, social and governance (ESG) performance on page 138

- ¹⁾ Calculations according to GRI Standard Guidelines, www.globalreporting.org.
- ²⁾ Direct economic value includes 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⁾ Total energy includes both indirect and direct energy used. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, biofuel, gasoline, solar, geothermal, propane and natural gas.

- ⁶⁾ The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org). Country factors used for energy come from the International Energy Agency. Indirect energy (Scope 2) is presented both as market-based and location-based according to the GHG Protocol. A market-based approach has been applied unless otherwise stated. Factors from NTM (transportmeasures.org) are used for transport of goods when emission data is not provided by the transport company. Scope 3 emissions include inbound and outbound transport of goods that the company is responsible for as defined by Incoterm. Out of scope emissions data for direct CO₂ emissions from biologically sequestered carbon (e.g. CO₂ from burning biomass/biofuels) was 22 tonnes in 2020.
- ⁷⁾ Results are, as a rule, collected every two years through the Group's employee survey "Insight". The previous survey was conducted in 2019.
- ⁸⁾ The reporting model and the definition of different kinds of severity of incidents and injuries were changed in 2019 and the results can therefore not be compared with previous years' results.
- ⁹⁾ The process and scope for employees' signing and training in the Business Code of Practice was reviewed and updated in 2018 and 2019.
- ¹⁰⁾ The scope for distributors signing the Business Code of Practice was reviewed and updated in 2019.

Sustainability performance ¹⁾

ECONOMIC VALUE	2018	2019	2020
Direct economic value ²⁾	96 415	104 230	100 251
Revenues	95 363	103 756	99 787
<i>Economic value distributed</i>			
Operating costs ³⁾	52 557	56 952	55 362
Employee wages and benefits, including other social costs	22 129	25 220	25 582
Costs for providers of capital ⁴⁾	9 381	8 149	8 988
Costs for direct taxes to governments	4 876	4 909	4 801
Economic value retained	7 472	9 000	5 518
– Redemption of shares	9 705	–	–
ENVIRONMENT			
Renewable energy for operations, % of total energy use	34	41	44
Direct energy use in GWh ⁵⁾	104	105	100
Indirect energy use in GWh ⁵⁾	256	264	251
Total energy use in GWh ⁵⁾	360	369	351
Total energy use in MWh/COS ⁵⁾	7.2	6.8	6.6
CO ₂ emissions '000 tonnes (direct energy) – scope 1 ⁶⁾	21	22	20
CO ₂ emissions '000 tonnes (indirect energy) – scope 2 ⁶⁾	72	60	57
CO ₂ emissions '000 tonnes (total energy) – scope 1+2 ⁶⁾	93	82	77
CO ₂ emissions '000 tonnes (indirect energy, location-based) – scope 2 ⁶⁾	95	98	95
CO ₂ emissions '000 tonnes (transport) – scope 3 ⁶⁾	170	150	124
CO ₂ emissions tonnes (transport)/COS ⁶⁾	3.4	2.8	2.3
CO ₂ emissions tonnes total energy and transport (scope 1, 2, 3)/COS ⁶⁾	5.3	4.3	3.8
Total waste (in '000 kg)	33 267	32 459	31 036
Waste (in kg)/COS	667	597	581
Reused or recycled waste, %	94	95	93
Water consumption (m ³)	436	394	384
Water consumption (m ³)/COS ⁷⁾	8.7	7.2	7.2
Significant direct suppliers with an approved environmental management system, %	–	28	30
PEOPLE			
White-collar employees, %	69	69	70
Blue-collar employees, %	31	31	30
Employee turnover white-collar employees, %	6.1	6.0	4.2
Employee turnover blue-collar employees, %	7.7	5.6	4.8
Total turnover, voluntary leave, %	6.6	5.9	4.4
Yearly performance and development discussion, %	82	84	85
Proportion of female employees, % year end	19.1	19.8	20.0
Proportion of female managers, % year end	19.2	19.5	19.7
Degree to which employees agree that there are opportunities to learn and grow in the company (score) ⁷⁾	–	71	–
Degree to which employees agree that we have a work culture of respect, fairness and openness (score) ⁷⁾	–	74	–
SAFETY AND WELL-BEING			
Recordable injuries total workforce, number ⁸⁾	–	406	385
Recordable injuries per million working hours total workforce ⁸⁾	–	5.2	4.8
Minor injuries total workforce, number ⁸⁾	–	997	922
Minor injuries per million working hours total workforce ⁸⁾	–	12.7	11.6
Fatalities, number	0	1	0
Fatalities per million working hours total workforce	0	0.01	0
Sick leave due to diseases and recordable injuries, %	2.0	2.0	2.1
Degree to which employees agree that Atlas Copco takes a genuine interest in their well-being (score) ⁷⁾	–	69	–
A balanced safety pyramid (yes/no)	–	yes	yes
ETHICS			
Employees signed compliance to the Business Code of Practice, % ⁹⁾	–	98	99
Employees trained in the Business Code of Practice, % ⁹⁾	–	94	99
Managers in risk countries held trainings in the Business Code of Practice, %	–	91	99
Significant distributors committed to the Business Code of Practice, % ¹⁰⁾	–	59	84
Significant suppliers committed to the Business Code of Practice, %	86	90	93

See footnotes on page 137

Auditor's Limited Assurance Report on Atlas Copco AB's Sustainability Report and statement regarding the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To Atlas Copco AB, corporate identity number 556014-2720

Introduction

We have been engaged by the Board of Directors of Atlas Copco AB to undertake a limited assurance engagement of Atlas Copco AB's Sustainability Report for the year 2020. The scope of the Sustainability Report has been defined on page 134 and the Statutory Sustainability Report on page 19.

Responsibilities of the Board and Executive Management

The Board of Directors and Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 134 in the Sustainability Report and consist of the GRI Sustainability Reporting Standards, as well as the accounting and calculation principles that the company has developed. This responsibility 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 our limited assurance procedures and to express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented in this document and does therefore not cover future oriented information.

We have conducted our engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the statutory sustainability report. A limited assurance engagement and an examination

according to RevR 12 are different from and substantially less in scope than reasonable assurance 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 in a limited review and an examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. The conclusion based on limited assurance procedures and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on reasonable assurance.

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 conclusions below.

Conclusions

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm, March 3, 2021
Ernst & Young AB

Erik Sandström
Authorized Public Accountant

Outi Alestalo
Expert Member of FAR

Three years in summary

ORDERS, REVENUES AND PROFIT	2018	2019	2020
Orders, MSEK	97 132	106 104	100 554
Revenues, MSEK	95 363	103 756	99 787
Change, organic from volume, price and mix, %	8	2	-3
EBITDA, MSEK	24 510	26 597	24 335
EBITDA margin, %	25.7	25.6	24.4
Operating profit, MSEK	21 187	21 897	19 146
Operating profit margin, %	22.2	21.1	19.2
Net interest expense, MSEK	-644	-359	-245
Profit before tax, MSEK	20 844	21 572	18 825
Profit margin, %	21.9	20.8	18.9
Profit for the year, MSEK	16 336	16 543	14 783
EMPLOYEES	2018	2019	2020
Average number of employees	35 894	37 805	39 606
Revenues per employee, SEK thousands	2 657	2 745	2 519
CASH FLOW	2018	2019	2020
Operating cash surplus, MSEK	28 444	26 696	25 081
Cash flow before change in working capital, MSEK	21 481	20 209	20 454
Change in working capital, MSEK	-3 391	-2 971	2 166
Cash flow from investing activities, MSEK	-4 301	-9 683	-16 286
Gross investments in other property, plant and equipment, MSEK	-2 000	-1 662	-1 459
Gross investments in rental equipment, MSEK	-1 462	-1 140	-486
Net investments in rental equipment, MSEK	-1 276	-1 087	-416
Cash flow from financing activities, MSEK	-21 601	-8 024	-8 552
of which dividends paid, MSEK	-8 496	-7 663	-8 506
Operating cash flow, MSEK	14 133	14 625	18 910
FINANCIAL POSITION AND RETURN	2018	2019	2020
Total assets, MSEK	96 670	111 722	113 366
Capital turnover ratio	0.99	0.98	0.86
Capital employed, average MSEK	64 945	72 732	83 649
Capital employed turnover ratio	1.47	1.43	1.19
Return on capital employed, %	33	30	23
Net indebtedness, MSEK	6 702	12 013	16 421
Net debt/EBITDA, MSEK	0.3	0.5	0.7
Equity, MSEK	42 472	53 290	53 534
Debt/equity ratio, %	16	23	31
Equity/assets ratio, %	43.9	48	47
Return on equity, %	33.7	35	27
KEY FIGURES PER SHARE	2018	2019	2020
Basic earnings / diluted earnings, SEK	13.45 / 13.43	13.60 / 13.59	12.16 / 12.14
Dividend, SEK ¹⁾	6.30	7.00	7.30 ¹⁾
Dividend as % of basic earnings	47.0	51.5	20.0
Dividend yield, %	2.2	2.4	1.9
Redemption of shares, SEK	-	-	-
Operating cash flow, SEK	11.65	12.04	15.56
Equity, SEK	35	44	44
Share price, December 31, A share / B share, SEK	210.5 / 193.3	373.6 / 325.2	421.1 / 368.3
Highest price quoted, A share / B share, SEK	380.8 / 339.7	386.5 / 336.9	445.5 / 390.0
Lowest price quoted, A share / B share, SEK	205.3 / 187.7	205.0 / 188.5	266.7 / 231.6
Average closing price, A share / B share, SEK	291.3 / 264.0	288.0 / 258.8	385.03 / 338.0
Average number of shares, millions	1 213.5	1 214.7	1 215.4
Diluted average number of shares, millions	1 215.3	1 215.8	1 217.2
Number of shareholders, December 31	87 009	81 656	82 079
Market capitalization, December 31, MSEK	252 130	440 497	497 187

¹⁾ Proposed by the Board of Directors.

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