Financial statements and notes

MSEK unless otherwise stated

Consolidated income statement

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

Consolidated statement of comprehensive income

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

Consolidated balance sheet

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

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

Consolidated statement of changes in equity

2017	Equity attributable to owners of the parent							
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	6 599	–110	6 163	39 667	53 105	72	53 177
Profit for the year					16 671	16 671	22	16 693
Other comprehensive income for the year			111	–832	114	–607	–2	–609
Total comprehensive income for the year			**111**	**–832**	**16 785**	**16 064**	**20**	**16 084**
Dividends					–8 252	–8 252	–3	–8 255
Acquisition of series A shares					–1 465	–1 465		–1 465
Divestment of series A shares		401			801	1 202		1 202
Divestment of series B shares		21			6	27		27
Change of non-controlling interests					–14	–14	–5	–19
Share-based payment, equity settled								
– expense during the year					143	143		143
– exercise option					–171	–171		–171
Closing balance, Dec. 31	**786**	**7 021**	**1**	**5 331**	**47 500**	**60 639**	**84**	**60 723**

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

See note 10 and 20 for additional information.

Consolidated statement of cash flows

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

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

1. Significant accounting principles, accounting estimates and judgments

SIGNIFICANT ACCOUNTING PRINCIPLES

The consolidated financial statements comprise Atlas Copco AB, the Parent Company ("the Company"), and its subsidiaries (together "the Group" or Atlas Copco) and the Group's interest in associated companies and joint ventures. Atlas Copco AB is headquartered in Nacka, Sweden.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The statements are also prepared in accordance with the Swedish recommendation RFR 1 "Supplementary Accounting Rules for Groups" and applicable statements issued by the Swedish Financial Reporting Board. These require certain additional disclosure requirements for Swedish consolidated financial statements prepared in accordance with IFRS.

The accounting principles set out below have been consistently applied to all periods presented, unless otherwise stated, and for all entities included in the consolidated financial statements. The Annual Report for the Group and for Atlas Copco AB, including financial statements, was approved for issuance on February 28, 2018. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 24, 2018.

Basis of consolidation

The consolidated financial statements have been prepared in accordance with the acquisition method. Accordingly, business combinations are seen as if the Group directly acquires the assets and assumes the liabilities of the entity acquired. The consolidated income statements and balance sheets of the Group include all entities in which the Company, directly or indirectly, has control. Control exists when the Company has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect its returns. Generally, control and hence consolidation is based on ownership. In a few exceptions, consolidation is based on agreements that give the Group control over an entity. See note A22 for information on the Group's subsidiaries.

Intra-group balances and internal income and expense arising from intra-group transactions are fully eliminated in preparing the consolidated financial statements. Gains and losses arising from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full, but losses only to the extent that there is no evidence of impairment.

Business combinations

At the acquisition date, the date on which control is obtained, each identifiable asset acquired and liability assumed is recognized at its acquisition-date fair value. The consideration transferred, measured at fair value, includes assets transferred by the Group, liabilities to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. Transactions costs that the Group incur in connection with a business combination are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of acquisition-date fair value amounts of the identifiable assets acquired and liabilities assumed.
Non-controlling interest is initially measured either
- at fair value, or
- at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Subsequent profit or loss attributable to the non-controlling interest is allocated to the non-controlling interest, even if it puts the non-controlling interest in a deficit position. Acquisitions of non-controlling interests are recognized as a transaction between equity attributable to owners of the parent and non-controlling interests. The difference between consideration paid and the proportionate share of net assets acquired is recognized in equity. For details on the acquisitions made during the year, see note 2.

Associated companies and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over financial and operating policies. When the Group holds 20–50% of the voting power, it is presumed that significant influence exists, unless otherwise demonstrated. A joint venture is an entity over which the Group has joint control, through contractual agreements with one or more parties.
Investments in associated companies and joint ventures are reported according to the equity method. This means that the carrying value of interests in an associate or joint venture corresponds to the Group's share of reported equity of the associate or joint venture, any goodwill, and any other remaining fair value adjustments recognized at acquisition date.

"Shares of profit in associated companies and joint ventures", included in the income statements, comprises the Group's share of the associate's and joint venture's income after tax adjusted for any amortization and depreciation, impairment losses, and other adjustments arising from any remaining fair value adjustments recognized at acquisition date. Dividends received from an associated company or joint venture reduce the carrying value of the investment.

Unrealized gains and losses arising from transactions with an associate or a joint venture are eliminated to the extent of the Group's interest, but losses only to the extent that there is no evidence of impairment of the asset. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognize further losses unless the Group has incurred obligations or made payments on behalf of the associate.

Functional currency and foreign currency translation

The consolidated financial statements are presented in Swedish krona (SEK), which is the functional currency for Atlas Copco AB and also the presentation currency for the Group's financial reporting. Unless otherwise stated, the amounts presented are in millions Swedish krona (MSEK).

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction and non-monetary items carried at fair value are reported at the rate that existed when the fair values were determined. Tangible and intangible assets, inventory and advanced payments are examples of non-monetary items.

Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. The exchange gains and losses related to receivables and payables and other operating receivables and liabilities are included in "Other operating income and expenses" and foreign exchange gains and losses attributable to other financial assets and liabilities are included in "Financial income and expenses". Exchange rate differences on translation to functional currency are reported in other comprehensive income in the following cases:
- translation of a financial liability designated as a hedge of the net investment in a foreign operation,
- translation of intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation,
- cash flow hedges of foreign currency to the extent that the hedge is effective.

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

Segment reporting

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

Revenue recognition

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

Goods sold

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

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

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

Rental operations
Rental income from rental equipment is recognized on a straight-line basis over the rental period. Sale of rental equipment is recognized as revenue when the significant risks and rewards of ownership have been transferred to the buyer. The carrying value of the rental equipment sold is recognized as cost of sales. Investments in and sales of rental equipment are included in cash flows from operating activities.

Other operating income and expenses
Commissions and royalties are recognized on an accrual basis in accordance with the financial substance of the agreement. Gains and losses on disposals of an item of non-current tangible and intangible assets are determined by comparing the proceeds from disposal with the carrying amount. Such gains and losses are recognized within "Other operating income" and "Other operating expenses". See note 7 for additional information.

Financial income and expenses
Interest income and interest expenses are recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. See note 8 for additional information.

Income taxes
Income taxes include both current and deferred taxes. Income taxes are reported in profit or loss unless the underlying transaction is reported in other comprehensive income or in equity, in which case the corresponding tax is reported according to the same principle.

A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognized using the balance sheet liability method. The calculation of deferred taxes is based on differences between the values reported in the balance sheet and their valuation for taxation, which are referred to as temporary differences, and the carry forward of unused tax losses and tax credits. Temporary differences attributable to the following assets and liabilities are not provided for: the initial recognition of goodwill, the initial recognition (other than in business combinations) of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries, associated companies and joint ventures to the extent that they will probably not reverse in the foreseeable future, and for which the Company is able to control the timing of the reversal of the temporary differences.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. In the calculation of deferred taxes, enacted or substantively enacted tax rates are used for the individual tax jurisdictions.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. For details regarding taxes, see note 9.

Earnings per share
Basic earnings per share are calculated based on the profit for the year attributable to owners of the parent and the basic weighted average number of shares outstanding. Diluted earnings per share are calculated based on the profit for the year attributable to owners of the parent and the diluted weighted average number of shares outstanding. Dilutive effects arise from stock options that are settled in shares, or that at the employees' choice can be settled in shares or cash in the share based incentive programs.

Stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options. When calculating the dilutive effect, the exercise price is adjusted by the value of future services related to the options. If options for which employees can choose settlement in shares or cash are dilutive, the profit for the year is adjusted for the difference between cash-settled and equity-settled treatment of options and the more dilutive of cash settlement and share settlement is used in calculating earnings per share. See note 11 for more details.

Intangible assets
Goodwill
Goodwill is recognized at cost, as established at the date of acquisition of a business (see "Business combinations"), less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combination. Impairment testing is made at least annually or whenever the need is indicated. The impairment test is performed at the level on which goodwill is monitored for internal management purposes. The five business areas of Atlas Copco's operations have been identified as CGUs. Goodwill is reported as an indefinite useful life intangible asset.

Technology-based intangible assets
Expenditure on research activities is expensed as incurred. Research projects acquired as part of business combinations are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, these research projects are carried at cost less amortization and impairment losses. Expenditure on development activities are expensed as incurred unless the activities meet the criteria for being capitalized i.e.:

- the product or process being developed is estimated to be technically and commercially feasible, and
- the Group has the intent and ability to complete and sell or use the product or process.

The expenditure capitalized includes the cost of materials, direct labor, and other costs directly attributable to the project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses. Amortization related to research and development expenditure for 2017 amounted to 1 135 (838). This has been reported as part of research and development costs in the income statement since the Group follows up on the research and development function as a whole.

Trademarks
Trademarks acquired by the Group are capitalized based on their fair value at the time of acquisition. Certain trademarks are estimated to have an indefinite useful life and are carried at cost less accumulated impairment losses. They are tested at least annually for impairment. Other trademarks, which have finite useful lives, are carried at cost less accumulated amortization and impairment losses.

Marketing and customer related intangible assets
Acquired marketing and customer related intangibles are capitalized based on their fair value at the time of acquisition and are carried at cost less accumulated amortization and impairment losses.

Other intangible assets
Acquired intangible assets relating to contract-based rights, such as licenses or franchise agreements, are capitalized based on their fair value at the time of acquisition and carried at cost less accumulated amortization and impairment losses. Expenditure on internally generated goodwill, trademarks and similar items is expensed as incurred. Changes in the Group's intangible assets during the year are described in note 12.

Property, plant and equipment
Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost of an item of property, plant and equipment comprises purchase price, import duties, and any cost directly attributable to bringing the asset to the location and condition for use. The cost also includes dismantlement and removal of the asset in the future if applicable. Borrowing cost for assets that need a substantial period of time to get ready for their intended use are included in the cost value until the assets are substantially ready for their use or sale and are thereafter depreciated. The Group capitalizes costs on initial recognition and on replacement of significant parts of property, plant and equipment if it is probable that the future economic benefits embodied will flow to the Group and the cost can be measured reliably. All other costs are recognized as an expense in profit or loss when incurred.

Rental equipment
The rental fleet is comprised of diesel and electric powered air compressors, generators, air dryers, and to a lesser extent general construction equipment. Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a residual value estimated at 0–10% of cost.

Depreciation and amortization
Depreciation and amortization is calculated based on cost using the straight-line method over the estimated useful life of the asset. Parts of property, plant

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

and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately when the useful lives of the parts do not coincide with the useful lives of other parts of the item. The following useful lives are used for depreciation and amortization:

Technology-based intangible assets	3–15 years
Trademarks with finite lives	5–15 years
Marketing and customer related intangible assets	5–10 years
Buildings	25–50 years
Machinery and equipment	3–10 years
Vehicles	4–5 years
Computer hardware and software	3–10 years
Rental equipment	3–8 years

The useful lives and residual values are reassessed annually. Land, assets under construction, goodwill, and trademarks with indefinite lives are not depreciated or amortized. For changes in the Group's property, plant and equipment see note 13.

Leasing

The Group acts both as lessor and lessee. Leases are classified as either finance leases or operating leases. A finance lease entails the transfer to the lessee of substantially all of the economic risks and benefits associated with ownership. If this is not the case, the lease is accounted for as an operating lease.

Group as lessee

For the lessee, a financial lease implies that the fixed asset leased is recognized as an asset in the balance sheet. Initially, a corresponding liability is recorded. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Fixed assets under finance leases are depreciated over their estimated useful lives, while the lease payments are reported as interest and amortization of the lease liability. For operating leases, the lessee does not account for the leased asset in its balance sheet. The costs of operating leases are recorded in the income statement on a straight-line basis over the term of the lease.

Group as lessor

In cases where the Group acts as the lessor under an operating lease, the asset is classified as rental equipment and is subject to the Group's depreciation policies. The lease payments are included in profit or loss on a straight-line basis over the term of the lease. Under finance leases where the Group acts as lessor, the transaction is recorded as a sale and a lease receivable, comprising the future minimum lease payments and any residual value guaranteed to the lessor, is recorded. Lease payments are recognized as interest income and repayment of the lease receivable. See note 22 for more details on leases.

Impairment of non-financial assets

The carrying values of the Group's non-financial assets are reviewed at least at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount (i.e. the greater of fair value less costs to sell and value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of assessing impairment, assets are grouped in CGUs, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss. An impairment loss related to goodwill is not reversed. In respect of other assets, impairment losses in prior periods are reviewed for possible reversal of the impairment at each reporting date.

Inventories

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

Equity

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

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

Provisions

Provisions are recognized:

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

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

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

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

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

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

Post-employment benefits

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

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

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

Share-based compensation

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

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

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

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

Social security charges are paid in cash and are accounted for in consistence with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments. See note 23 for details.

Financial assets and liabilities – financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provision of the instrument. Transactions of financial assets are accounted for at trade date, which is the day when the Group contractually commits to acquire or dispose of the assets. Trade receivables are recognized on issuance of invoices. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay. Derecognition, fully or partially, of a financial asset occurs when the rights in the contract have been realized or mature, or when the Group no longer has control over it. A financial liability is derecognized, fully or partially, when the obligation specified in the contract is discharged or otherwise expires.

A financial asset and a financial liability are offset and the net amount presented in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Measurement of financial instruments

Financial instruments are measured, classified and recognized according to IAS 39 in the following categories:

The Group classifies its financial assets in the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Assets available for sale

The Group classifies its financial liabilities in the following categories:
- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest method

Financial assets and liabilities at fair value through profit or loss: This category includes financial assets and liabilities held for trading or are designated as such upon initial recognition. A financial asset or liability is held for trading if the Group manages such investments and makes purchase and sale decisions based on their fair value. A derivative that is not designated or effective as hedging instrument is also categorized as held for trading. Financial instruments in this category are measured at fair value and changes therein are recognized in profit or loss. Fair value is determined in the manner described in note 27.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market, such as trade and other receivables and cash and cash equivalents. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Held-to-maturity-investments are measured at amortized cost using the effective interest rate method, less any impairment losses.

Available-for-sale financial assets: This category consists of non-derivatives that are either designated as available-for-sale or are not classified as any of above categories. These assets are measured at fair value. Changes therein are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items which are recognized in profit or loss. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Fair value is determined in the manner described in note 27.

Other financial liabilities: Other financial liabilities are measured at amortized cost using the effective interest method. Trade payables and loan liabilities are recognized in this category.

Impairment of financial assets

Financial assets, except those classified as fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. A financial asset is considered to be impaired if objective evidence indicates that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been affected negatively. The impairment is made on an individual basis for significant financial assets and in some cases collectively in groups with similar credit risks. Impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Changes in fair value for derivatives that do not fulfill the criteria for hedge accounting are recognized as operating or financial transactions based on the purpose of the use of the derivative. Interest payments for interest swaps are recognized as interest income or expense, whereas changes in fair value of future payments are presented as gains or losses from financial instruments.

In order to qualify for hedge accounting the hedging relationship must be
- formally designated,
- expected to be highly effective, and
- documented.

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

Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss together with any changes in the fair value of the hedged asset or liability.

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

The amount recognized in equity through other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps are also used as cash flow hedges for hedging interest on borrowings with variable interest.

Hedge of net investments in foreign operations: The Group hedges a substantial part of net investments in foreign operations. Changes in the value of the hedge instrument relating to the effective portion of the hedge are recognized in other comprehensive income and accumulated in equity. Gains or losses relating to the ineffective portion are recognized immediately in profit or loss. On divestment of foreign operations, the gain or loss accumulated in equity is recycled through profit or loss, increasing or decreasing the profit or loss on the divestment. The Group uses loans and forward contracts as hedging instruments.

Accounting for discontinuation of hedges: Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

For fair value hedges, the fair value adjustment to the carrying amount of the hedged asset or liability arising from the hedged risk is amortized to profit or loss from the date the hedge was discontinued.

For cash flow hedges any gain or loss recognized in other comprehensive income and accumulated in equity at that time of hedge discontinuation remains in equity and is recognized when the forecast transaction is ulti-

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

mately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Assets held for sale and discontinued operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, assets and liabilities are measured at the lower of fair value less selling expenses and the carrying amount. Gains and losses recognized on remeasurements and disposals are reported in profit or loss.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations. A discontinued operation is reported separately from continuing operations in the income statement with the corresponding presentation for the comparative period. In the balance sheet assets held for sale and associated liabilities is reported separately, the comparative period is not affected. Assets held for sale and discontinued operations are carried at the lower of carrying amount of fair value less cost to sell.

Contingent liabilities

A contingent liability is a possible obligation or a present obligation that arises from past events that is not reported as a liability or provision, due either to that it is not probable that an outflow of resources will be required to settle the obligation or that a sufficiently reliable calculation of the amount cannot be made.

New or amended accounting standards in 2017

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

Amendments to IAS 7 Statement of Cash Flows

The amendments require disclosures of changes in liabilities from financing activities, including both changes from cash flows and non-cash changes.

Amendments to IAS 12 Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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

New or amended accounting standards effective after 2017

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

IFRS 16 Leases

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

IFRS 9 Financial Instruments

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

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

Effect on equity following adoption of IFRS 9 in the Group as of 1 January 2018	Adjustments	MSEK
Investments	a)	–
Deferred tax	b)	14
Trade receivables and other receivables, including lease receivables and cash equivalents	b)	–51
Total assets		**–37**
Retained earnings		–37
Net gain/loss on equity		**–37**

a) Classification and valuation

All financial assets which are valued to fair value presently are expected to continue to be valued at fair value. Investments in certain debt instruments currently recognized at amortized cost will be recognized at fair value through profit or loss. Investments in liquidity funds will be valued to fair value trough profit or loss. The Group has made the judgement that accounts receivables also continue to fulfill the criteria to be valued at amortized cost.

b) Impairment

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

c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the Group's financial statements.

d) Other adjustments

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

IFRS 15 Revenue from Contracts with Customers

This new standard will replace existing revenue recognition standards and establishes a five-step model to account for revenue from contracts with customers. Revenue recognized will reflect the expected and entitled consideration for transferring goods and/or services to customers. Mandatory effective date of the new standard is January 1, 2018 for annual periods beginning on or after January 1, 2018. The Group plans to adopt the new standard on the effective date using the full retrospective method using the following expedients:

- For completed contracts, the Group has not restated contracts that were completed before the beginning of the earliest period presented (2017).
- For all reporting periods presented before the initial application, the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognize that amount as revenue will not be disclosed.

The Group performed a preliminary assessment of the effects of IFRS 15 during 2016. This assessment continued with a more detailed analysis and was completed during 2017. The below implications have been identified to affect the timing of revenue from contracts with customers:

a) Sale of goods

In some cases, the Group provides customized equipment to customers, which includes installation and commissioning. Under these circumstances, the Group's assessment is that the customer simultaneously receives and consumes the benefits provided by the Group. Currently, these projects are accounted for over time. However, in some contracts with customers the Group does not fulfill all requirements in IFRS 15 to recognize revenue over time. The Group's

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

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

b) Rendering of service
The Group provides installation, commissioning, extended warranty and other services with certain equipment. These services are either sold separately in contracts with customers or bundled together with the sale of the equipment to the customer. Due to the more detailed requirements for determining whether goods or services are performance obligations under IFRS 15, the assessment of identified performance obligations might differ from identified deliverables according to the current revenue recognition standard. IFRS 15 also requires allocation of the transaction price to the identified performance obligations.

c) Variable consideration
Some contracts with customers provide a right of return, volume rebate or variable prices depending on certain factors. In order to prevent over-recognition of revenue, IFRS 15 requires estimated variable consideration to be constrained. Variable consideration may only be included in the transaction price allocated to the performance obligations if it is highly probable that a significant reversal of revenues will not occur when the uncertainty of the variable consideration has been resolved.

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

d) Other adjustments
In addition to the adjustments described above, on the implementation of IFRS 15, other items of the financial statement such as deferred tax and exchange difference on translation of foreign operations will be affected and adjusted accordingly.

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

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

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

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

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

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

Financial assets and liabilities – financial instruments from January 1, 2018
Recognition and derecognition
Financial assets and liabilities are recognized when the Group becomes a party to the contractual provision of the instrument. Transactions of financial assets are accounted for at trade date, which is the day when the Group contractually commits to acquire or dispose of the assets. Trade receivables are recognized on issuance of invoices. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay. Derecognition, fully or partially, of a financial asset occurs when the rights in the contract have been realized or mature, or when the Group no longer has control over it. A financial liability is derecognized, fully or partially, when the obligation specified in the contract is discharged or otherwise expires. A financial asset and a financial liability are offset and the net amount presented in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.
Gains and losses from derecognition and modifications is recognized in profit or loss.

Measurement of financial instruments
Financial instruments are classified at initial recognition. The classification decides the measurement of the instruments.

Classification and measurement of financial assets
Equity instruments: are classified at fair value through profit or loss (FVTPL) unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to classify them at fair value through other comprehensive income (FVOCI) with no subsequent reclassification to profit or loss. The Group classify equity instruments at FVTPL.

Derivative instruments: are classified at FVTPL, unless they are classified as a hedging instrument and the effective part of the hedge is recognized in other comprehensive income.

Debt instruments: the classification of financial assets that are debt instruments, including hybrid contracts, is based on the Group's business model for managing the assets and the asset's contractual cash flow characteristics. The instruments are classified at:
- amortized cost,
- fair value through other comprehensive income (FVOCI), or
- fair value through profit or loss (FVTPL).

Financial assets at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method. Assets classified at amortized cost are held under the business model of collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are subject to a loss allowance for expected credit losses.
Fair value through other comprehensive income (FVOCI) are assets held under the business model of both selling and collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial instruments in this category are recognized at fair value at initial recognition and changes in fair value are recognized in other comprehensive income (OCI) until derecognition, when the amounts in OCI are reclassified to profit or loss. The assets are subject to a loss allowance for expected credit losses.
Fair value through profit or loss (FVTPL) are all other debt instruments that are not measured at amortized cost or FVOCI. Financial instruments in this category are recognized at fair value at initial recognition and changes in fair value are recognized in profit or loss.

Classification and measurement of financial liabilities
Financial liabilities are classified at amortized cost, except derivatives. Financial liabilities at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method.
Derivatives are classified at FVTPL, unless they are classified as a hedging instrument and the effective part of the hedge is recognized in other comprehensive income.

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

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

Impairment of financial assets
Financial assets, except those classified at fair value through profit and loss (FVTPL), are subject to impairment for expected credit losses. In addition, the impairment model applies to contract assets, loan commitments and financial guarantees that are not measured at FVTPL. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk, usually at first recognition of an asset or receivable. ECL reflect the present value of all cash shortfalls related to default events either over the following 12 months or over the expected life of a financial instrument, depending on type of asset and on credit deterioration from inception. The ECL reflects an unbiased, probability-weighted outcome that considers multiple scenarios based on reasonable and supportable forecasts.

The simplified model is applied on trade receivables, lease receivables, contract assets and certain other financial receivables. A loss allowance is recognized over the expected lifetime of the receivable or asset. For other items subject to ECL, the impairment model with a three-stage approach is applied. Initially, and at each reporting date, a loss allowance will be recognized for the following 12 months, or a shorter time period depending on the time to maturity (stage 1). If it has been a significant increase in credit risk since origination, a loss allowance will be recognized for the remaining lifetime of the asset (stage 2). For assets that are considered as credit impaired, allowance for credit losses will continue to capture the lifetime expected credit losses (stage 3). For credit impaired receivables and assets, the interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount as in previous stages.

In the respective model applied, the measurement of ECL is based on different methods for different credit risk exposures. For trade receivables, contract assets and certain other financial receivables, the method is based on historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalent are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. Both external credit agencies rating and internally developed rating methods are applied. The measurement of ECL considers potential collaterals and other credit enhancements in the form of guarantees.

The financial assets are presented in the financial statements at amortized cost, i.e. net of gross carrying amount and the loss allowance. Changes in the loss allowance is recognized in profit or loss as impairment losses.

Derivatives and hedge accounting
Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Changes in fair value for derivatives that do not fulfill the criteria for hedge accounting are recognized as operating or financial transactions based on the purpose of the use of the derivative. Interest payments for interest rate swaps are recognized as interest income or expense, whereas changes in fair value of future payments are presented as gains or losses from financial instruments.

IFRS 9 Hedge accounting is applied. In order to qualify for hedge accounting the hedging relationship must be:
- formally identified and designated,
- expected to fulfil the effectiveness requirements, and
- documented.

The Group assesses, evaluates, and documents effectiveness both at hedge inception and on an on-going basis. Hedge effectiveness is assessed by an analysis of the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the value changes' that result from that economic relationship. Further, the hedge ratio, as defined in the Group´s risk management strategy, must be the same in the hedging relationship as in the actually hedge performed.

Cash flow hedges: Changes in the fair value of the hedging instrument are recognized in other comprehensive income to the extent that the hedge is effective and the accumulated changes in fair value are recognized as a separate component in equity. Gains or losses relating to the ineffective part of hedges are recognized immediately in profit or loss. The amount recognized in equity through other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in other comprehensive income and accumulated in equity is transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps are also used as cash flow hedges for hedging interest on borrowings with variable interest.

Hedge of net investments in foreign operations: The Group hedges a substantial part of net investments in foreign operations. Changes in the value of the hedge instrument relating to the effective portion of the hedge are recognized in other comprehensive income and accumulated in equity. Gains or losses relating to the ineffective portion are recognized immediately in profit or loss. On divestment of foreign operations, the gain or loss accumulated in equity is recycled through profit or loss, increasing or decreasing the profit or loss on the divestment. The Group uses loans and forward contracts as hedging instruments.

Accounting for discontinuation of hedges: Hedge accounting may not be voluntarily discontinued. Hedge accounting is discontinued:
- when the hedging instrument expires or is sold, terminated, or exercised,
- when there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk dominates the value changes that result from the economic relationship, or
- when the hedge accounting no longer meets the risk management objectives.

For cash flow hedges, any gain or loss recognized in other comprehensive income and accumulated in equity at the time of hedge discontinuation remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. For net investment hedges, any gain and loss recognized in other comprehensive income and accumulated in equity at the time of hedge discontinuation remains in equity until divestment of foreign operations, when the gain or loss accumulated in equity is recycled through profit or loss.

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

Key sources of estimation uncertainty: The Group measure the expected credit losses on financial assets classified at amortized cost including trade and financial receivables, lease receivables and contract assets. The expected credit losses are an assessment that reflects an unbiased, probability-weighted outcome based on reasonable and supportable forecasts.

Accounting judgement: Management's judgment considers rapidly changing market conditions which may be particularly sensitive in customer financing operations. An overlay control is performed to ensure that an adequate loss allowance is recognized. Additional information is included in section "Credit risk" in note 27.

Revenue recognition from January 1, 2018
Revenue recognition
Revenue is recognized at an amount that reflects the expected and entitled consideration for transferring goods and/or services to customers when control has passed to the customer.

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

When the goods sold is highly customized and an enforceable right to payment is present, revenue is recognized over time using the proportion of cost incurred to date compared to estimated total cost to measure progress towards transferring the control of the good to the customer.
For buy-back commitments where the buy-back price is lower than original selling price but there is an economic incentive for the customer to use the buy-back commitment option, the transaction is accounted for as a lease.

Variable consideration
Some contracts with customers provide a right of return, trade discounts or volume rebates. If revenue cannot be reliably measured, the Group defers revenue until the uncertainty is resolved. Such provisions are estimated at contract inception and updated thereafter.

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

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

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

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

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

Key sources of estimation uncertainty: Revenue for services and for highly customized goods where an enforceable right of payment is present are recognized over time in profit or loss by reference to the progress towards satisfaction of the performance obligation at the balance sheet date. The progress towards satisfaction is determined by the proportion of cost incurred to date compared to estimated total cost of each performance obligation.

Revenue for goods sold is recognized in profit or loss at one point in time when control of the good has been transferred to the customer.

Accounting judgement: Management's judgment is used, for instance, when assessing:
- the degree of progress towards satisfaction of the performance obligations and the estimated total costs for such contracts when revenue is recognized over time, to determine the revenue and cost to be recognized in the current period, and whether any losses need to be recognize,
- if the control has been transferred to the customer (i. e. the Group has a present right to payment for the good, the customer has legal title of the good, the good has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the good), to determine if revenue and cost should be recognized in the current period,
- the transaction price of each performance obligation when a contract includes more than one performance obligation, to determine the revenue and cost to be recognized in the current period, and
- the customer credit risk (i.e the risk that the customer will not meet the payment obligation), to determine and justify the revenue recognized in the current period.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial reports requires management's judgment and the use of estimates and assumptions that affects the amounts reported in the consolidated financial statements. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the prevailing circumstances. Actual result may differ from those estimates. The estimates and assumptions are reviewed on an on-going basis. Changes in accounting estimates are recognized in the period which they are revised and in any future periods affected.

The estimates and the judgments which, in the opinion of management, are significant to the underlying amounts included in the financial reports and for which there is a significant risk that future events or new information could entail a change in those estimates or judgments are as follows.

Revenue recognition

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

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

Impairment of goodwill, other intangible assets and other long-lived assets

Key sources of estimation uncertainty
Goodwill and certain trademarks are not amortized but are subject to annual tests for impairment. Other intangible assets and other long-lived assets are amortized or depreciated based on management's estimates of the period that the assets will generate revenue but are also reviewed regularly for indications of impairment. The impairment tests are based on a review of the recoverable amount, which is estimated based on management's projections of future cash flows using internal business plans and forecasts.

Accounting judgment
Asset impairment requires management's judgment, particularly in assessing:
- whether an event has occurred that may affect asset values,
- whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset in the business,
- the appropriate assumptions to be applied in preparing cash flow projections, and
- the discounting of these cash flows.

Changing the assumptions selected by management to determine the level, if any, of impairment could affect the financial position and results of operation. See note 12.

Deferred taxes

Key sources of estimation uncertainty
Deferred tax assets are recognized for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes and for tax loss carry-forwards. The Group records deferred tax assets based upon management's estimates of future taxable profit in different tax jurisdictions. The actual results may differ from these estimates, due to change in the business climate and change in tax legislation. See note 9.

Inventory

Accounting judgment
The Group values inventory at the lower of historical cost, based on the first-in, first-out basis, and net realizable value. The calculation of net realizable value involves management's judgment as to the estimated sales prices, overstock articles, outdated articles, damaged goods, and selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. See note 16 for additional information.

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

Trade and financial receivable

Key sources of estimation uncertainty

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

Accounting judgment

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

Pension and other post-employment benefit valuation assumptions

Key sources of estimation uncertainty

Pensions and other post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The key assumptions include discount rates, inflation, future salary increases, mortality rates, and health care cost trend rates. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate.

See note 23 for additional information regarding assumptions used in the calculation of pension and post-employment obligations.

Legal proceedings and tax claims

Accounting judgment

Atlas Copco recognizes a liability when the Group has an obligation from a past event involving the transfer of economic benefits and when a reasonable estimate can be made of what the transfer might be. The Group reviews outstanding legal cases regularly in order to assess the need for provisions in the financial statements. These reviews consider the factors of the specific case by internal legal counsel and through the use of outside legal counsel and advisors when necessary. The financial statements may be affected to the extent that management's assessments of the factors considered are not consistent with the actual outcome.

Additionally, the legal entities of the Group are frequently subject to audits by tax authorities in accordance with standard practice in the countries where the Group operates. In instances where the tax authorities have a different view on how to interpret the tax legislation, the Group makes estimates as to the likelihood of the outcome of the dispute, as well as estimates of potential claims. The actual results may differ from these estimates.

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties should cover future commitments for the sales volumes already realized. Warranty provision is a complex accounting estimate due to the variety of variables which are included in the calculations. The calculation methods are based on the type of products sold and historical data for level of repairs and replacements. The underlying estimates for calculating the provision is reviewed at least quarterly as well as when new products are being introduced or when other changes occur which may affect the calculation. See note 25.

2. Acquisitions

The following summarizes the significant acquisitions during 2017 and 2016:

Closing date		Country	Business area	Revenues 1)	Number of employees 1)
2017 Sep. 7	C.H. Spencer & Company Co.	U.S.A	Compressor Technique	2)	40
2017 Aug. 8	Glauber Equipment Corporation (certain assets)	U.S.A	Compressor Technique	2)	16
2017 May 3	Itubombas Locação Comércio Importação e Exportação	Brazil	Power Technique	50	40
2017 May 3	Pressure Compressores	Brazil	Compressor Technique	145	150
2017 Mar. 2	Orcan Basinci	Turkey	Compressor Technique	2)	17
2017 Feb. 2	Erkat Spezialmaschinen und Service	Germany	Power Technique	110	38
2017 Jan. 3	HB Kompressoren Druckluft und Industrietechnik	Germany	Compressor Technique	2)	10
2016 Dec. 22	Air Power of Nebraska	U.S.A.	Compressor Technique	2)	12
2016 Nov. 24	Phillip-Tech	China	Industrial Technique	2)	45
2016 Sep. 1	Leybold	Germany etc.	Compressor Technique 3)	3 150	1 600
2016 Aug. 5	CSK	South Korea etc.	Compressor Technique 3)	870	400
2016 Aug. 2	Schneider Druckluft	Germany, Slovakia and Czech Republic	Compressor Technique	250	110
2016 July 4	Roxel Rental	Norway	Power Technique	12	2
2016 June 14	Bondtech	Sweden	Industrial Technique	32	12
2016 May 2	Kohler Druckluft	Austria, Switzerland and Liechtenstein	Compressor Technique	2)	30
2016 Apr. 15	Scales Industrial Technologies	U.S.A.	Compressor Technique	2)	180
2016 Apr. 4	Air et Fluides Lyonnais	France	Compressor Technique	2)	6
2016 Mar. 2	FIAC	Italy etc.	Compressor Technique	640	400
2016 Jan. 12	Varisco	Italy etc.	Power Technique	270	135
2016 Jan. 5	Capitol Research Equipment	U.S.A.	Compressor Technique 3)	22	15

1) Annual revenues and number of employees at the time of acquisition.
2) Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.
3) Included in Vacuum Technique as from 2017.

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

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 10.5%. For more information about the valuation of contingent consideration, see note 27. The Group is in the process of reviewing the final values for the acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2017 are included in the following tables.

2. Acquisitions, continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Acquisitions, continued

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

[1] The gross amount is 123 (1 131) of which 8 (38) is expected to be uncollectible.

The goodwill recognized on acquisitions is primarily related to the synergies expected to be achieved from integrating these companies into the Group's existing structure.

The total consideration for all acquisitions was 482. Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2017 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 439 after deducting cash and cash equivalents acquired of 18.

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

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

3. Assets held for sale and divestments

Assets held for sale

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

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

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

Divestments and discontinued operations

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

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

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

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

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

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

4. Segment information

2017	Compressor Technique	Vacuum Technique	Industrial Technique	Mining and Rock Excavation Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	38 371	19 582	16 322	29 095	12 809	242	–	116 421
Inter-segment revenues	397	–	55	71	437	89	–1 049	–
Total revenues	**38 768**	**19 582**	**16 377**	**29 166**	**13 246**	**331**	**–1 049**	**116 421**
Operating profit	**8 960**	**4 956**	**4 175**	**5 844**	**2 137**	**–1 836**	**–36**	**24 200**
– of which share of profit in associated companies and joint ventures	–	–	*4*	*–1*	–	–	–	*3*
Net financial items								–1 071
Income tax expense								–6 367
Profit for the year from continuing operations								16 762
Loss for the year from discontinued operations								–69
Profit for the year								**16 693**
Non-cash expenses								
Depreciation/amortization	797	790	701	1 048	830	364	–80	4 450
Impairment	19	66	317	–	18	193	–	613
Other non-cash expenses	–88	–52	45	–7	–8	244	–	134
Segment assets	**22 653**	**23 294**	**13 103**	**20 245**	**13 461**	**4 099**	**–1 496**	**95 359**
– of which goodwill	*3 633*	*9 066*	*4 215*	*1 508*	*4 797*	–	–	*23 219*
Investments in associated companies and joint ventures	1	–	117	94	–	–	–	212
Unallocated assets								30 167
Total assets, continuing operations								125 738
Total assets								**125 738**
Segment liabilities	**13 343**	**4 709**	**3 533**	**6 688**	**2 951**	**3 705**	**–1 318**	**33 611**
Unallocated liabilities								31 404
Total liabilities, continuing operations								65 015
Total liabilities								**65 015**
Capital expenditures								
Property, plant and equipment	367	444	267	958	800	499	–148	3 187
– of which assets leased	*9*	*1*	*8*	*37*	*1*	–	–	*56*
Intangible assets	132	201	196	226	88	125	–	968
Total capital expenditures	**499**	**645**	**463**	**1 184**	**888**	**624**	**–148**	**4 155**
Goodwill acquired	153	–34	–3	–	71	–	–	187

4. Segment information, continued

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

* Includes inter-segment receivables and liabilities.

4. Segment information, continued

The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. All business areas are managed on a worldwide basis and their role is to develop, implement and follow up the objectives and strategies within their respective business.

For a description of the business areas, see pages 22–38.

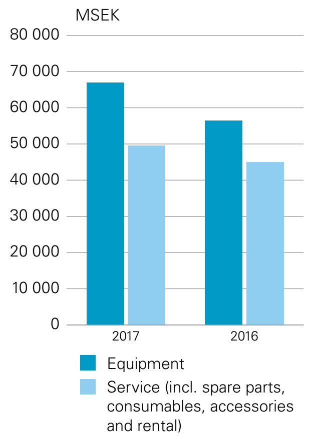
Common group functions, i.e. functions which serve all business areas or the Group as a whole, is not considered a segment.

The accounting principles for the segments are the same as those described in note 1. Atlas Copco's inter-segment pricing is determined on a commercial basis.

Segment assets are comprised of property, plant and equipment, intangible assets, other non-current receivables, inventories, and current receivables.

Segment liabilities include the sum of non-interest-bearing liabilities such as operating liabilities, other provisions, and other non-current liabilities. Capital expenditure includes property, plant and equipment, and intangible assets, but excludes the effect of goodwill, intangible assets and property, plant and equipment through acquisitions.

Revenues from external customers



Geographical information

The revenues presented are based on the location of the customers while non-current assets are based on the geographical location of the assets. These assets include non-current assets other than financial instruments, investments in associated companies and joint ventures, deferred tax assets, and post-employment benefit assets.

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

4. Segment information, continued

Quarterly data

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

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

5. Employees and personnel expenses

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

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

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

5. Employees and personnel expenses, continued

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

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

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

[1] Refers to fees for membership in board committees.
[2] Refers to synthetic shares received in 2012–2017.
[3] Provision for synthetic shares as at December 31, 2017 amounted to MSEK 11 (11).
[4] Hans Stråberg and Staffan Bohman invoiced their fees. The fees received include compensation for social costs and are cost neutral for the Company.
[5] Margareth Övrum left the board in 2017. The fees received refer to Q1, 2017.
[6] Tina Donikowski was elected board member at the Annual General Meeting 2017.
[7] Union representatives receive compensation to prepare for their participation in board meetings.

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation [1]	Other benefits [2]	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments [3]	Total expense recognized **2017**	Total expense recognized **2016**
President and CEO								
Mats Rahmström, from April 27, 2017	7 333	5 133	236	2 567	15 269	7 238	22 507	–
Ronnie Leten, until April 26, 2017 [4]	4 807	3 845	1 409	1 682	11 744	47 419	59 162	51 852
Other members of Group Management (9 positions)	25 519	14 015	3 693	8 173	51 399	26 646	78 046	73 068
Total 2017	**37 659**	**22 993**	**5 338**	**12 422**	**78 412**	**81 303**	**159 715**	
Total 2016	41 939	25 465	4 013	13 709	85 126	39 794		124 920
Total remuneration and other benefits to the Board and Group Management							172 076	136 241

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

5. Employees and personnel expenses, continued

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

Principles for remuneration to the Board and Group Management
The principles for remuneration to the Board and Group Management are approved at the Annual General Meeting of the shareholders. The principles approved by the 2017 meeting are described in the following paragraphs.

Board members
Remuneration and fees are based on the work performed by the Board. The remuneration and fees approved for 2017 are detailed in the table on the previous page. The remuneration to the President and CEO, who is a member of Group Management, is described in the following sections.

The Annual General Meeting decided that each board member can elect to receive 50% of the 2017 gross fee before tax, excluding other committee fees, in the form of synthetic shares and the remaining part in cash. The number of synthetic shares is based upon an average end price of series A shares during ten trading days following the release of the first quarterly interim report for 2017. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a board member resigns his or her position before the stipulated payment date as stated above, the board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the board member resigned or otherwise the original payment date is valid.

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

Group Management
Group Management consists of the Group President and nine other members of the Executive Committee. The compensation to Group Management shall consist of base salary, variable compensation, possible long-term incentive (personnel options), pension premium, and other benefits.

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

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. Non-financial parameters have for example been in relation to the Business Code of Practice. The variable compensation is maximized to 70% of the base salary for the Group President, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2017, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums set in line with Atlas Copco Group Pension Policy for Swedish Executives and Atlas Copco terms and conditions for expatriate employments.
- Other benefits consist of company car and private health insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco terms and conditions for expatriate employment.

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

The Board has the right to deviate from the principles stated above if special circumstances exist in a certain case. No fees are paid to Group Management for board memberships in Group companies nor do they receive compensation for other duties that they may perform outside the immediate scope of their duties.

President and CEO
The variable compensation can give a maximum of 70 % of the base salary. The variable compensation is not included in the basis for pension benefits. According to an agreement, the President and CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution.

The President and CEO is a member of the Atlas Copco Group Pension Policy for Swedish Executives, which is a defined contribution plan. The President and CEO is entitled to retire at the age of 65. The contribution is age related and is 35% of the base salary. These pension plans are vested.

Other members of Group Management
Members of Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. Members of Group Management not based in Sweden also have a defined contribution pension plan. These pension plans are vested. The retirement age is 65.

Option/share appreciation rights, holdings for Group Management
The stock options/share appreciation rights holdings as at December 31 are detailed below:

Stock Options/share appreciations rights holdings as at Dec. 31, 2017

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

[1] Estimated grants for the 2017 stock option program including matching shares. See note 23 for additional information.

Termination of employment
The CEO is entitled to a severance pay of twelve months if the Company terminates the employment and a further twelve months if other employment is not available.

Other members of Group Management are entitled to severance pay if the Company terminates their employment. The amount of severance pay is dependent on the length of employment with the Company and the age of the executive, but is never less than 12 months and never more than 24 months' salary.

Any income that the executive receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

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

Remuneration and other committees
In 2017, Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg were members of the remuneration committee. The committee proposed compensation to the President and CEO for approval by the Board. The committee also supported the President and CEO in determining the compensation to the other members of Group Management.

Staffan Bohman, Chair, Gunilla Berg, Johan Forssell and Hans Stråberg formed the Audit Committee.

Anders Ullberg, Chair, Staffan Bohman and Hans Stråberg participated in a committee regarding repurchase and sale of Atlas Copco shares.

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

5. Employees and personnel expenses, continued

Workforce profile

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

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

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

6. Remuneration to auditors

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

Audit fee refers to audit of the financial statements and the accounting records. For the Parent Company this also includes the administration of the business by the Board of Directors, the President and CEO.

Audit activities other than the audit assignment refer for example to comfort letters and the limited assurance report on Atlas Copco's sustainability report.

Tax services include both tax consultancy services and tax compliance services.

Other services essentially comprise consultancy services, such as consultancy services related to the preparation of the split of the Group.

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

7. Other operating income and expenses

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

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

Other operating expenses include 500 for costs associated with the proposed split of the Group. Other operating income includes a release of liabilities for contingent consideration from the Henrob acquisition in 2014. For 2016 other operating income included the release of a pension provision of 380, related to the acquisition of Edwards in 2014.

Additional information on costs by nature

Cost of goods sold includes expenses for inventories, see note 16, warranty costs, environmental fees, and transportation costs.

Salaries, remunerations and employer contributions amounted to 26 861 (26 046) whereof expenses for post-employment benefits amounted to 1 268 (820). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 60 (77). Government grants related to assets have been recognized as deferred income in the balance sheet and will be recognized as income over the useful life of the assets. The remaining value of these grants, at the end of 2017, amounted to 39 (64).

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

8. Financial income and expenses

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

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

9. Taxes

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

The following is a reconciliation of the companies' weighted average tax based on the nominal tax for the country as compared to the actual tax charge:

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

9. Taxes, continued

The effective tax rate including discontinued operations was 27.6% (28.1) and 27.5% (26.7) for continuing operations. Withholding tax on dividends of –309 (–356) relates to provisions on retained earnings in countries where Atlas Copco incurs withholding taxes on repatriation of income. Tax-exempt income of 739 (737) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. The net from tax issues and disputes in different countries amounted to 269 (245).

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

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

European Commission's decision on Belgium's tax rulings

On January 11, 2016, the European Commission announced its decision that Belgian tax rulings granted to companies with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state. Atlas Copco had such tax ruling since 2010.

Following the European Commission decision, Atlas Copco has paid, in total MEUR 313 (MSEK 2 952). During 2015 Atlas Copco made a provision of MEUR 300 (MSEK 2 802) and paid MEUR 239 (MSEK 2 250) in 2016. Atlas Copco has paid the remaining amount, whereof MEUR 68 (MSEK 655) in the second quarter 2017. MEUR 13 (MSEK 125) is expensed as an interest cost during 2017.

The Belgian government, as well as Atlas Copco, has appealed the decision to the General Court of the European Union (EGC) in Luxembourg. There are several other companies that have been affected by the decision of January 11, 2016 in the same way as Atlas Copco; most of those companies have also appealed to EGC.

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

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

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

9. Taxes, continued

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

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

[1] Other items primarily include tax deductions which are not related to specific balance sheet items.

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable results is probable. To the extent that it is not probable that taxable results will be available against which the unused tax losses can be utilized, a deferred tax asset is not recognized. At December 31, the Group had total tax loss carry-forwards of 3 491 (5 185), of which deferred tax assets were recognized for 870 (1 029). The tax value of reported tax loss carry-forwards totals 218 (255). There is no expiration date for utilization of the major part of the tax losses carry-forwards for which deferred tax assets have been recognized.

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

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

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

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

10. Other comprehensive income

Other comprehensive income for the year	2017			2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurments of defined benefit plans	120	–61	59	–113	–3	–116
Items that may be reclassified subsequently to profit or loss						
Translation differences on foreign operations	–648	200	–448	3 196	308	3 504
–realized and reclassified to income statement	55	–	55	–	–	–
Hedge of net investments in foreign operations	–492	108	–384	–762	168	–594
Cash flow hedges	142	–31	111	–25	11	–14
Total other comprehensive income	**–823**	**216**	**–607**	**2 296**	**484**	**2 780**
Attributable to non-controlling interests						
Translation differences on foreign operations	–2	–	–2	5	–	5
Total other comprehensive income	**–825**	**216**	**–609**	**2 301**	**484**	**2 785**

11. Earnings per share

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

The calculation of earnings per share presented above is based on profits and number of shares as detailed below.

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

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

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

12. Intangible assets

Impairment tests for cash-generating units with goodwill and for intangible assets with indefinite useful lives
Impairment tests (including sensitivity analyses) are performed as per September 30 each year.

Current goodwill is monitored for internal management purposes at business area level. The goodwill has therefore been tested for impairment at business area level except as stated below.

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

The recoverable amounts of the cash generating units have been calculated as value in use based on management's five-year forecast for net cash flows where the most significant assumptions are revenues, operating profits, working capital, and capital expenditures.

All assumptions for the five-year forecast are estimated individually for each of the business areas based on their particular market position and the characteristics and development of their end markets. The forecasts represent management's assessment and are based on both external and internal sources. The perpetual growth for the period after five years is estimated at 3%.

The Group's average weighted cost of capital in 2017 was 8% (8) after tax (approximately 10.5% (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts. All business areas are expected to generate a return well above the values to be tested, including sensitivity analyses/worst-case scenarios.

The following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area.
Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit:

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

The trade names of Edwards and Leybold in the Vacuum Technique business area represent strong trade names that have been used for a long time in their industries. Management's intention is that these trade names will be used for an indefinite period of time. Apart from the assessment of future customer demand and the profitability of the business, future marketing strategy decisions involving the trade names, can affect the carrying value of these intangible assets.

Amortization and impairment of intangible assets are recognized in the following line items in the income statement:

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

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

12. Intangible assets, continued

2017	Internally generated intangible assets: Product development	Internally generated intangible assets: Other technology and contract based	Acquired intangible assets: Product development	Acquired intangible assets: Trademark	Acquired intangible assets: Marketing and customer related	Acquired intangible assets: Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	5 734	1 455	101	3 543	6 531	5 726	24 146	47 236
Investments	508	132	132	–	–	196	–	968
Business acquisitions	–	–	–	19	164	6	187	376
Disposals	–46	–36	–6	–61	–23	–82	–	–254
Reclassifications	21	–17	–148	24	–110	–113	–27	–370
Translation differences	–56	7	2	–155	–364	–219	–1 050	–1 835
Closing balance, Dec. 31	**6 161**	**1 541**	**81**	**3 370**	**6 198**	**5 514**	**23 256**	**46 121**
Amortization and impairment losses								
Opening balance, Jan. 1	3 300	661	–8	929	2 561	1 928	37	9 408
Amortization for the period	527	117	61	113	486	453	–	1 757
Impairment charge for the period	95	189	13	21	194	76	–	588
Disposals	–45	–32	–6	–61	–23	–80	–	–247
Reclassifications	–43	15	–24	18	–103	–148	–	–285
Translation differences	–9	–2	–1	–25	–148	–66	–	–251
Closing balance, Dec. 31	**3 825**	**948**	**35**	**995**	**2 967**	**2 163**	**37**	**10 970**
Carrying amounts								
At Jan. 1	2 434	794	109	2 614	3 970	3 798	24 109	37 828
At Dec. 31	**2 336**	**593**	**46**	**2 375**	**3 231**	**3 351**	**23 219**	**35 151**

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

Other technology and contract based intangible assets include computer software, patents, and contract based rights such as licenses and franchise agreements. All intangible assets other than goodwill and trademarks with indefinite useful lives are amortized. Intangible assets of 102, including goodwill, have been reclassified to assets held for sale, see note 3.

For information regarding amortization and impairment principles, see note 1.

See note 2 for information on business acquisitions.

13. Property, plant and equipment

2017	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	6 747	14 753	741	22 241	6 563
Investments	102	779	894	1 775	1 412
Business acquisitions	2	21	–	23	43
Disposals	–148	–827	–	–975	–855
Reclassifications	345	388	–864	–131	–396
Translation differences	–114	–262	–19	–395	–312
Closing balance, Dec. 31	**6 934**	**14 852**	**752**	**22 538**	**6 455**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 509	9 939	–	12 448	3 468
Depreciation for the period	272	1 435	–	1 707	986
Impairment charge for the period	10	15	–	25	–
Disposals	–144	–751	–	–895	–548
Reclassifications	6	–79	–	–73	–220
Translation differences	–43	–154	–	–197	–165
Closing balance, Dec. 31	**2 610**	**10 405**	–	**13 015**	**3 521**
Carrying amounts					
At Jan. 1	4 238	4 814	741	9 793	3 095
At Dec. 31	**4 324**	**4 447**	**752**	**9 523**	**2 934**

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

Property plants and equipment of 39 have been reclassified to assets held for sale, see note 3.

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

Accumulated capital participation	2017	2016
Opening balance, Jan. 1	138	125
Acquisitions of associated companies	81	–
Dividends	–2	–4
Profit for the year after income tax	3	7
Translation differences	–8	10
Closing balance, Dec. 31	**212**	**138**

[1] The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

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

The above table is based on the most recent financial reporting available from associated companies and joint ventures. In 2017 a 49% interest in the Chinese company Zhejiang GIA Machinery Manufacturing Co., Ltd and a 34% interest in the Swedish company Mobilaris MCE AB were acquired. In 2016, the Group exercised the option to swap the shares in Yanggu Wuyue Special Steel Co. Ltd to the remaining non-controlling interest in Shandong Rock Drilling Tools Co. Ltd.

15. Other financial assets

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

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

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

16. Inventories

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

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

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

17. Trade receivables

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

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

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

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

For credit risk information, see note 27.

18. Other receivables

Fair value for other receivables corresponds to their carrying value.

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

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income relates mainly to service and construction projects. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs.

See note 27 for information on the Group's derivatives.

19. Cash and cash equivalents

Fair value for cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are classified as loans and receivables.

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

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

See note 27 for additional information.

20. Equity

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

At December 31, 2017 Atlas Copco AB's share capital amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately SEK 0.64 (0.64). Series A shares entitle the holder to one voting right and series B shares entitle the holder to one-tenth of a voting right per share.

20. **Equity,** continued

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

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

- The purchase of not more than 2 950 000 series A shares, whereof a maximum 2 900 000 may be transferred to personnel stock option holders under the performance stock option plan 2017.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 5 100 000 series A and B shares in order to cover the obligations under the performance stock option plans 2012, 2013 and 2014.

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

- The purchase of not more than 7 250 000 series A shares, whereof a maximum 7 000 000 may be transferred to personnel stock option holders under the performance stock option plan 2016.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 5 500 000 series A and B shares in order to cover the obligations under the performance stock option plans 2011, 2012 and 2013.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2017, 4 510 000 series A shares were repurchased while 3 681 788 series A shares and 86 500 series B shares were divested in accordance with mandates granted by the 2016 and 2017 AGM. Further information regarding repurchases and sales in accordance with AGM mandates is presented in the table above. The series A shares are held for possible delivery under the 2013–2017 personnel stock option programs. The series B shares held can be divested over time to cover costs related to the personnel stock option programs, including social insurance charges, cash settlements or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable. The total number of shares of series A and series B held by Atlas Copco is presented in the table above.

Reserves
Consolidated equity includes certain reserves which are described below:

Hedging reserve
The hedging reserve comprises the effective portion of net changes in fair value for certain cash flow hedging instruments.

Translation reserve
The translation reserve comprises all exchange differences arising from the translation of the financial statements of foreign operations, the translation of intra-group receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as from the translation of liabilities that hedge the company's net investments in foreign operations.

Non-controlling interest
Non-controlling interest amounts to 84 (72). In the first quarter Atlas Copco founded the subsidiary GIA Mining Equipment Co., Ltd with a non-controlling interest of 49%. In the second quarter, Atlas Copco acquired the remaining non-controlling interest in CSKT Inc. in Taiwan. In the fourth quarter the Group acquired part of the non-controlling interest in Atlas Copco Maroc SA. In connection with the Epiroc split a new subsidiary in India was founded, Epiroc Mining India Ltd, the non-controlling interest is the same as in the former subsidiary in India. In total six subsidiaries, have non-controlling interest. None of these are material to the Group.

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

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

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

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

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

21. Borrowings

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

The difference between carrying value and fair value relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. Changes in interest rates and credit margins create the difference between fair value and amortized cost. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 27.

Atlas Copco has a long-term debt rating of A (A) from Standard & Poor's Corporation and A (A) from Fitch Ratings. Other than standard undertakings such as negative pledge and pari passu, interest-bearing loans, borrowings and committed credit lines are not subject to any financial covenants.

		CASH changes	NON CASH changes						
Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Financing cash flows	New leases	Acquired/ Divested companies	Fair value change through P/L	Fair value change through Equity	FX change	Reclassi-fication	Closing balance, Dec. 31
Non-current									
Non-current bonds and loans	23 048	–4	–	4	5	492	15	–2	23 558
Financial lease liabilities	100	–40	30	–	–	–	–7	–7	76
Other financial liabilities	–	–1	–	2	–	–	–	–	1
Total Non-current	**23 148**	**–45**	**30**	**6**	**5**	**492**	**8**	**–9**	**23 635**
Current									
Current portion of long term borrowings	43	–34	–	–	–	–	–5	2	6
Short term loans	1 461	–137	–	32	–8	–	–67	–	1 281
Financial lease liability	70	–44	26	–	–	–	–4	7	55
Total Current	**1 574**	**–215**	**26**	**32**	**–8**	–	**–76**	**9**	**1 342**
Total	**24 722**	**–260**	**56**	**38**	**–3**	**492**	**–68**	**0**	**24 977**

Cash flow from financing activities also includes net "Settlement of CSA" (Credit Support Annex) of MSEK 972 which is not included in the table above. In December 2017, the financial liability related to CSA amounted to MSEK 171 (0).

21. Borrowings, continued

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

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

1) Interest is based on market conditions at the time when the facility is utilized. Maturity is set when the facility is utilized.
2) The maximum amounts available under these programs total MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 9 936 (18 913).

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

	2017			2016		
Currency	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	2 305	22 679	91	2 305	22 040	89
SEK	26	26	0	26	26	0
USD	164	1 348	5	184	1 675	7
Other	–	1 095	4	–	981	4
Total		**25 148**	**100**		**24 722**	**100**

The following table shows the maturity structure of the Group's borrowings and includes the effect of interest rate swaps.

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2018	–	1 513	1 513	1 513
2019	8 798	67	8 865	9 152
2020	–	24	24	24
2021	–	8	8	8
2022	–	2 953	2 953	2 989
2023	4 903	2	4 905	5 436
2024	–	1 968	1 968	2 037
2025	–	–	–	–
2026 and after	4 912	–	4 912	4 779
Total	**18 613**	**6 535**	**25 148**	**25 938**

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

22. Leases

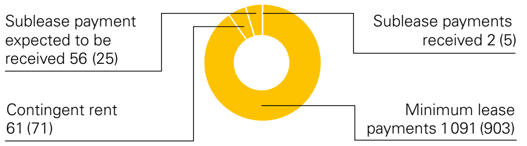
Operating leases – lessee

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

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

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

Leasing cost under operating leases – Lessee



Operating leases – lessor

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

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

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

Finance leases – lessee

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

Assets utilized under finance leases are comprised primarily of vehicles. For a limited number of finance leasing contracts, both purchase and renewal options exist.

Future payments for assets held under finance leases as lessee will fall due as follows:

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

Finance leases – lessor

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

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

23. Employee benefits

Post-employment benefits

Atlas Copco provides post-employment defined benefits pensions and other long-term employee benefits in most of its major locations. The most significant countries in terms of size of plans are Belgium, Canada, Germany, Sweden, the United Kingdom and the United States. Some plans are funded in advance with certain assets or funds held separately from the Group for future benefit payment obligations. Other plans are unfunded and the benefits from those plans are paid by the Group as they fall due.

The plans in Belgium cover early retirement, jubilee, and termination indemnity and are all unfunded.

In Canada, Atlas Copco provides a pension plan and a supplemental retirement pension benefit plan for executives. Both plans are funded. There are also two unfunded plans, a post-retirement benefit plan and a post-employment plan. In 2016, Canada had a curtailment in one of its pension plans resulting in a gain of MSEK 81, included in settlement gain.

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

There are three defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of white-collar employees in Sweden. Atlas Copco finances the benefits through a pension foundation. The second plan relates to a group of employees earning more than ten income base amounts that has opted out from the ITP plan. This plan is insured. The third defined benefit pension plan relates to former senior employees now retired. In Sweden, in addition to benefits relating to retirement pensions, Atlas Copco has obligations for family pensions for many of the Swedish employees, which are funded through a third-party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information is not available for calculating the net pension obligation.

In the United Kingdom, there is a final salary pension plan. This plan is funded. In 2010, the plan was converted to a defined contribution plan for future services. In 2016, a release of a pension provision related to the acquisition of Edwards occurred, resulting in a gain on settlement of MSEK 380.

In the United States, Atlas Copco provides a pension plan, a post-retirement medical plan, and a number of supplemental retirement pension benefits for executives. The pension plan is funded while the other plans are unfunded.

The Group identifies a number of risks in investments of pension plan assets. The main risks are interest rate risk, market risk, counterparty risk, liquidity and inflation risk, and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple asset classes, markets and issuers should be utilized. An asset liability management assessment should be conducted periodically. The study should include a number of elements. The most important elements are, the duration of the assets and the timing of liabilities, the expected return of the assets, the expected development of liabilities, the forecasted cash flows and the impact of a shift in interest rates on the obligation.

The net obligations for post-employment benefits and other long-term employee benefits have been recorded in the balance sheet as follows:

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

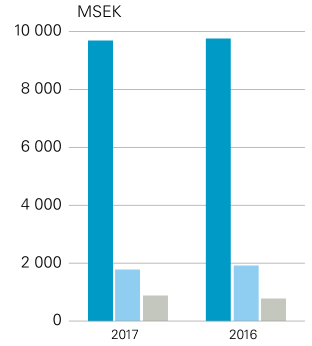
The tables below show the Group's obligations for post-employment benefits and other long-term employee benefits, the assumptions used to determine these obligations and the assets relating to these obligations for employee benefits, as well as the amounts recognized in the income statement and the balance sheet. The net amount recognized in balance sheet amounted to 2 567 (3 601). The weighted average duration of the obligation is 15.6 (16.6) in years.

Post-employment benefits **2017**	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
Present value of defined benefit obligations	9 011	3 006	91	227	12 335
Fair value of plan assets	–9 696	–	–90	–	–9 786
Present value of net obligations	**–685**	**3 006**	**1**	**227**	**2 549**
Other long-term service obligations	–	–	18	–	18
Net amount recognized in balance sheet	**–685**	**3 006**	**19**	**227**	**2 567**
2016					
Present value of defined benefit obligations	9 200	2 902	93	250	12 445
Fair value of plan assets	–8 825	–	–86	–	–8 911
Present value of net obligations	**375**	**2 902**	**7**	**250**	**3 534**
Other long-term service obligations	–	–	67	–	67
Net amount recognized in balance sheet	**375**	**2 902**	**74**	**250**	**3 601**

23. Employee benefits, continued

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

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:



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

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

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

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

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

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

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

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

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

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

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

23. Employee benefits, continued

Share value based incentive programs

In 2013–2016, the Annual General Meeting decided on performance-based personnel stock option programs based on a proposal from the Board on an option program for the respective years. In 2017, the Annual General Meeting decided on a performance based personnel stock option program for 2017 similar to the 2013–2016 programs.

Option programs 2013–2017

At the Annual General Meeting 2013–2017 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2017 option program, the number of options varies on a linear basis within a preset EVA interval. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long-term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110 % of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2013–2015 programs have a term of five years from the grant date whereas the 2016–2017 programs have a term of seven years. The options in the 2013–2017 programs are not transferable and become exercisable at 100 % three years after grant.

The 2013–2017 programs include a requirement for senior executives (38 in total) to purchase Atlas Copco A shares for 10 % of their gross base salary in order to be granted options. A lower amount of investment will reduce the number of options proportionately. Further, senior executives who have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75 % of the average trading price for series A shares during a ten day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

The Board had the right to decide to implement an alternative incentive solution (SARs) for key persons in such countries where the grant of personnel options was not feasible.

In the 2013–2017 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

The Black-Scholes model is used to calculate the fair value of the options/SARs in the programs at issue date. For the programs in 2016 and 2017, the fair value of the options/SARs was based on the following assumptions:

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

1) Matching shares for senior executives. 2) Actual.

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

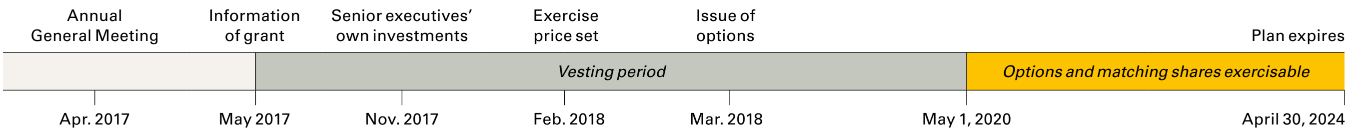
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in the 2013–2017 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
Stock options	From	To	From	To
2013	June 2013	April 2016	May 2016	April 2018
2014	May 2014	April 2017	May 2017	April 2019
2015	May 2015	April 2018	May 2018	April 2020
2016	May 2016	April 2019	May 2019	April 2023
2017	May 2017	April 2020	May 2020	April 2024

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

Timeline 2017 option plan



23. Employee benefits, continued

For SARs and the options classified as cash-settled, the fair value is recognized as an expense over the same vesting period; the fair value is, however, remeasured at each reporting date and changes in the fair value after the end of the vesting period continue to be recognized as a personnel expense.

In accordance with IFRS 2, the expense in 2017 for all share-based incentive programs amounted to 503 (268) excluding social costs of which 143 (82) refers to equity-settled options. The related costs for social security contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses.

In the balance sheet, the provision for share appreciation rights and stock options classified as cash-settled as of December 31 amounted to 417 (195). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2013–2017, see also note 20.

Summary of share value based incentive programs

Program	Initial number of employees	Initial number of options	Expiration date	Exercise price, SEK	Type of share	Fair value on grant date	Intrinsic value for vested SARs
Stock options							
2011	224	2 801 249	Apr. 30. 16	179.70	A	22.47	–
2012	248	3 522 144	Apr. 30. 17	195.32	A	28.30	–
2013	250	–	N/a	N/a	N/a	N/a	–
2014	263	3 751 402	Apr. 30. 19	271.50	A	52.90	–
2015	254	2 522 760	Apr. 30. 20	196.00	A	33.90	–
2016	256	5 353 473	Apr. 30. 23	313.00	A	66.70	–
Matching shares							
2011	20	40 438	Apr. 30. 16	122.08	A	41.23	–
2012	28	43 286	Apr. 30. 17	132.82	A	52.30	–
2013	28	44 704	Apr. 30. 18	128.91	A	58.00	–
2014	28	39 191	Apr. 30. 19	185.56	A	96.30	–
2015	29	38 531	Apr. 30. 20	134.00	A	63.20	–
2016	27	30 209	Apr. 30. 23	214.00	A	106.20	–
Share appreciation rights							
2011	48	543 215	Apr. 30. 16	179.70	A	–	174.50
2012	56	720 806	Apr. 30. 17	195.32	A	–	158.88
2013	58	–	N/a	N/a	N/a	N/a	–
2014	59	745 866	Apr. 30. 19	271.50	A	–	82.70
2015	64	550 225	Apr. 30. 20	196.00	A	–	–
2016	64	1 166 828	Apr. 30. 23	313.00	A	–	–

Number of options/rights 2017

Program	Outstanding Jan.1	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options							
2012	1 199 518	1 199 518	–	–	–	–	299
2014 [1)]	3 484 737	1 901 762	114 922	1 468 053	*1 468 053*	16	345
2015 [2)]	2 497 204	–	135 560	2 361 644	–	28	–
2016 [3)]	5 353 473	–	88 085	5 265 388	–	40	–
Matching shares							
2012	20 441	20 441	–	–	–	–	298
2013	29 681	15 600	–	14 081	*14 081*	4	319
2014	33 412	7 240	2 468	23 704	*23 704*	16	342
2015	37 297	–	4 284	33 013	–	28	–
2016	30 209	–	–	30 209	–	40	–
Share appreciation rights							
2012	147 351	147 054	297	–	–	–	299
2014	733 445	372 773	–	360 672	*360 672*	16	342
2015	541 916	–	8 309	533 607	–	28	–
2016	1 166 828	–	17 617	1 149 211	–	40	–

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

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

23. Employee benefits, continued

Number of options/rights 2016 Program	Outstanding Jan.1	Granted	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options								
2011	1 313 819	–	1 302 400	11 419	–	–	–	204
2012	2 818 339	–	1 618 534	287	1 199 518	*1 199 518*	4	257
2014	3 673 964	–	–	189 227	3 484 737	–	28	–
2015	2 522 760	–	–	25 556	2 497 204	–	40	–
2016	–	5 353 473	–	–	5 353 473	–	52	–
Matching shares								
2011	22 203	–	22 203	–	–	–	–	203
2012	29 261	–	8 820	–	20 441	*20 441*	4	241
2013	36 708	–	7 027	–	29 681	*29 681*	16	230
2014	36 469	–	–	3 057	33 412	–	28	–
2015	38 531	–	–	1 234	37 297	–	40	–
2016	–	30 209	–	–	30 209	–	52	–
Share appreciation rights								
2011	117 791	–	117 790	1	–	–	–	203
2012	526 996	–	379 645	–	147 351	*147 351*	4	255
2014	745 866	–	–	12 421	733 445	–	28	–
2015	550 225	–	–	8 309	541 916	–	40	–
2016	–	1 166 828	–	–	1 166 828	–	52	–

All numbers have been adjusted for the effect of the redemptions in 2011 and 2015 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

24. Other liabilities

Fair value of other liabilities corresponds to carrying value.

Other current liabilities	2017	2016
Derivatives		
– held for trading	179	648
– designated for hedge accounting	–	82
Other financial liabilities		
– other liabilities	2 945	3 128
– accrued expenses	8 196	7 468
Advances from customers	3 006	2 393
Deferred revenues construction contracts	307	284
Deferred revenues service contracts	1 337	1 231
Closing balance, Dec 31	**15 970**	**15 234**

Accrued expenses include items such as social costs, vacation pay liability, accrued interest, and accrued operational expenses.

See note 27 for information on the Group's derivatives.

25. Provisions

2017	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 359	480	1 397	3 236
During the year				
– provisions made	862	142	1 190	2 194
– provisions used	–776	–151	–687	–1 614
– provisions reversed	–135	–41	–215	–391
Business acquisitions	2	–	6	8
Reclassification	–3	1	3	1
Translation differences	–29	7	–39	–61
Closing balance, Dec. 31	**1 280**	**438**	**1 655**	**3 373**
Non-current	185	65	1 097	1 347
Current	1 095	373	558	2 026
Total	**1 280**	**438**	**1 655**	**3 373**

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

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

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 23), and environmental remediation obligations.

26. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2017	2016
Inventory and property, plant and equipment	46	34
Endowment insurances	293	134
Other receivables	105	854
Total	**444**	**1 022**

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

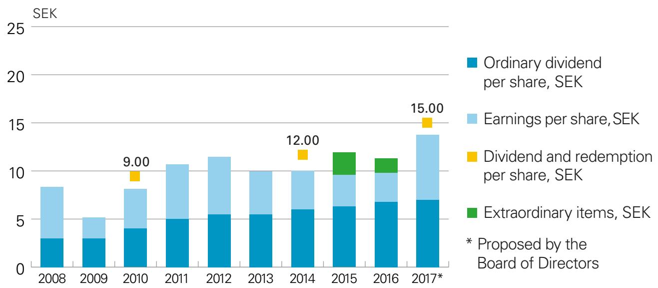
Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

27. Financial exposure and principles for control of financial risks

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 85 871 (77 899). The Group's policy is to have a capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's decision is that the annual dividend shall correspond to about 50% of earnings per share. In recent years, the Board has also proposed, and the Annual General Meeting has approved, distributions of "excess" equity to the shareholders through share redemptions and share repurchases.

There are no external capital requirements imposed on the Group.



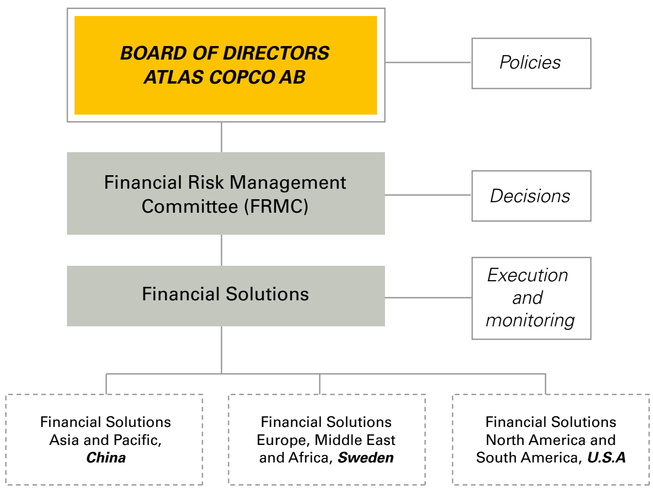
Financial risks

The Group is exposed to various financial risks in its operations. These financial risks include:

- Funding and liquidity risk
- Currency risk
- Other market and price risks
- Interest rate risk
- Credit risk

The Board of Directors establishes the overall financial policies and monitors compliance to the policies. The Group's Financial Risk Management Committee (FRMC) manages the Group's financial risks within the mandate given by the Board of Directors. The members of the FRMC are the CEO, CFO, Group Treasurer, and Head of Business Control, Financial Solutions. The FRMC meets on a quarterly basis or more often if circumstances require.

Financial Solutions has the operational responsibility for financial risk management in the Group. Financial Solutions manages and controls financial risk exposures, ensures that appropriate financing is in place through loans and committed credit facilities, and manages the Group's liquidity.



Funding and liquidity risk

Funding risk is the risk that the Group does not have access to adequate financing on acceptable terms at any given point in time. Liquidity risk is the risk that the Group does not have access to its funds, when needed, due to poor market liquidity.

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

Group funding risk policy
The Group's funding risk policy refers to Atlas Copco AB and Atlas Copco Airpower n.v. as external borrowings mainly are held in these entities.

- The Group should maintain minimum MSEK 8 000 committed credit facilities to meet operational, strategic and rating objectives. Actual amount at year-end was MEUR 1 440 (1 440) which corresponds to MSEK 14 170 (13 770).
- The average tenor (i.e. time to maturity) of the Group's external debt shall be at least 3 years. Actual average tenor at year-end was 4.7 years (5.7).
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months. In 2018 no debt is maturing (0).
- Adequate funding at subsidiary level shall at all times be in place.

Status at year-end
As per December 31, there were no deviations from the Group funding risk policy. Cash and cash equivalents totaled MSEK 24 496 (11 458). The overall liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalent as of year-end, and available back-up credit facilities from banks. Please refer to note 21 for information on utilized borrowings, maturity, and back-up facilities.

The following table shows maturity structure of the Group's financial liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay, including both interest and nominal amounts. The short-term assets are well matched with the short-term liabilities in terms of maturity. Furthermore, the Group has back-up facilities of MSEK 14 170 with maturity 2020 and 2021 to secure liquidity.

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

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

Interest rate risk
Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate levels.

Group interest rate risk policy
The interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 48 months.

Status at year-end
The Group uses interest rate swap agreements to a limited extent to convert interest on loans. The Group has interest rate swaps to convert variable interest rates to fixed interest rates on the loan of MEUR 275. These swaps are designated as cash flow hedging instruments and the hedged item is the floating interest rate of the loan. The forecasted cash flows have due dates every six months until September 2019. For more information about the Group's borrowings, see note 21.

Including the effect of derivatives, the effective interest rate and interest duration of the Group's borrowings at year-end was 2.0% (2.0) and 41 months (50) respectively. Excluding derivatives, the Group's effective interest rate was 1.7% (1.8) and the average interest duration was 39 months (47).

Outstanding derivative instruments related to interest rate risk	2017		2016	
	Fair value	Nominal amount	Fair value	Nominal amount
Interest rate swaps, cash flow hedge				
Assets	–	–	–	–
Liabilities	MSEK 89	MEUR 275	MSEK 126	MEUR 275

The following tables show the estimated effect, in MSEK, of a parallel upward and downward shift of one percentage point (100 basis points) in all interest rates on external loans and on interest rate swaps hedging the loans.

The first table shows the estimated effect on the profit and loss before taxes. 74% (74) of the Groups loan portfolio have fixed interest rates. The interest costs for these loans are not affected by a movement in market interest rates. The simulation is based on the assumption that interest on loans can not be negative. For all the interest rate swaps, cash flow hedge accounting is applied with no impact on earnings as changes in fair value affect other comprehensive income.

The second table shows the fair value effect on loans and interest rate swaps reported at fair value. Certain loans are reported at amortized cost and are therefore not affected by changes in interest rate levels.

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

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

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

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. This affects both transaction exposure (cash flow) and translation exposure (balance sheet). These two exposures are explained separately below.

Transaction exposure

Group currency risk policy

Transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates, affecting cash flows in foreign currencies in the operations. Due to the Group's presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies merge. The values of these net positions fluctuate subject to changes in currency rates and, thus, render transaction exposure. The following describes the Group's general policies for managing transaction exposure:

- Exposures shall be reduced by matching in and outflows of the same currencies.
- Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements.
- Based on the assumption that hedging does not have any significant effect on the Group's long-term result, the policy recommends to leave transaction exposures unhedged on an ongoing basis. In general, business areas and divisions shall not hedge currency risks. Hedging can, however, be motivated in case of long-term contracts where there is no possibility to adjust the contract price or the associated costs. Financial transaction exposure is fully hedged.
- The FRMC decides if parts of the transaction exposure shall be hedged. Transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

Status at year end

The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. A part of the transaction exposure has after FRMC decision been hedged with derivative instruments. The net nominal amounts of the derivative instruments are shown in the table.

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

Out of the net nominal amounts in the table the largest cross is GBP/USD and with nominal amounts of MGBP 46/MUSD –59. Out of the outstanding amounts, 100% is maturing within one year. No hedging beyond 18 months is in place.

In the table below, fair value for all outstanding derivative instruments related to transaction exposure is shown.

Outstanding derivative instruments related to transaction exposure	2017 Fair value	2016 Fair value
Foreign exchange forwards		
Assets	35	13
Liabilities	0	98

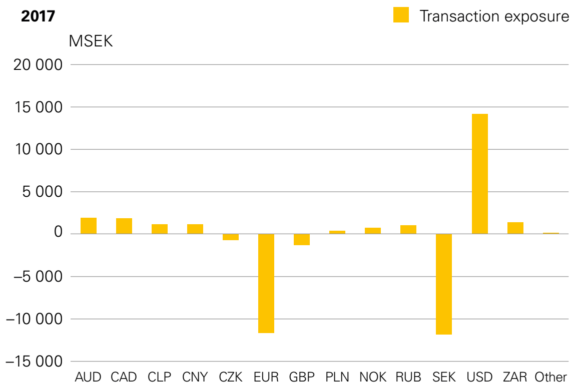
The largest operational surplus and deficit currencies are shown in Graph 1 including discontinued operations. The amounts presented in Graph 1 represent estimates of the Group's net exchangeable amounts in different currencies. Estimates are based on the Group's intercompany payments and on payment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

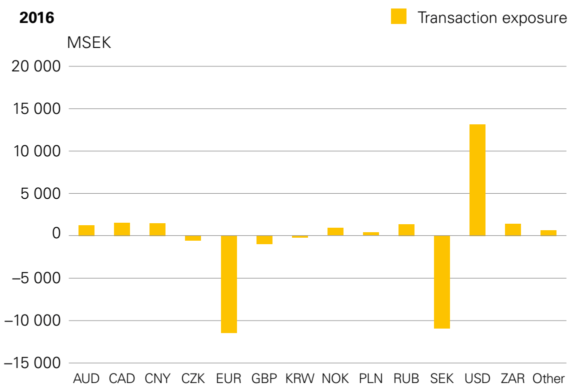
The following table indicates the effect from one percentage point weakening or strengthening of the SEK against all other currencies based on the transaction exposure.

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

The table on the next page indicates the effect on the Group's pretax earnings that one-sided fluctuations in USD and EUR exchange rates may have. The indication is based on the assumptions that no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The sensitivity analysis is based on the operational transaction exposure for 2017.

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





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

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

Translation exposure

Group currency risk policy

Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's worldwide presence creates a currency effect since the financial statements of entities with functional currencies other than SEK are translated to SEK when preparing the consolidated financial statements. The net exposure in each currency represents the net of assets and liabilities denominated in that currency. The effect of currency rate fluctuations on these net positions is the translation effect.

The following describes the Group's general policies for managing translation exposure:

- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge part or all of the remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

The Group uses loans to reduce the translation exposure on net investments in EUR in the consolidated financial statements and to reduce the exchange rate risk related to net assets in subsidiaries. These instruments are designated as net investment hedges in the consolidated financial statements.

The financial instruments shown in the table below are used to hedge EUR-denominated net assets.

Outstanding financial instruments related to translation exposure	2017		2016	
	Fair value	Nominal amount	Fair value	Nominal amount
External loans				
Loans in EUR [1]	MSEK –2 602	MEUR 1 775	MSEK –2 144	MEUR 1 775

[1] In the balance sheet, loans designated as net investment hedges are reported at amortized cost and not at fair value.

The Group's loan portfolio is also exposed to movement in currency rates. However, the impact on the net income would be limited as a majority of all of the Group´s loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income. Loans not designated as net investment hedges affect net income. These loans are hedged with FX-forward contracts, also affecting net income. The impact of a 1% movement in the EUR/SEK rate would affect other comprehensive income with MSEK 38 (37) (see also note 1, Accounting principles, Financial assets and liabilities).

Graph 2 indicates the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated. The graph indicates for example that the translation effect on the Group's pretax earnings would be –195 (–153) if SEK is strengthened by 1%. A 1% SEK weakening would affect the Group's pretax earnings by 195 (153).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections. The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

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

Operational credit risk

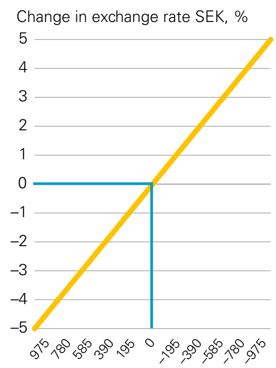
Group credit risk policy

Operational credit risk is the risk that the Group's customers do not meet their payment obligations. The Group's operational credit risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. The operational credit risk is measured as the net aggregate value of receivables on a customer.

Status at year end

Since the Group's sales are dispersed among many customers, of whom no single customer represents a significant share of the Group's commercial risk, the monitoring of commercial credit risks is primarily done at the business area, divisional or business unit level. Each business unit is required to have an approved commercial risk policy.

GRAPH 2 Translation effect on earnings before tax



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

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

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

Provision for credit risks
The business units establish provisions for their estimate of incurred losses in respect of trade and other receivables. The main components of this provision are specific loss provisions corresponding to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have not yet been identified. The collective loss provision is determined based on historical default statistics for similar financial assets. At year-end 2017, the provision for bad debt amounted to 4.3% (4.9) of gross total customer receivables. The following table presents the gross value of trade receivables, both current and non-current, by maturity together with the related impairment provisions.

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

The total estimated fair value of collateral for trade receivables amounted to 389 (405). The collateral mainly consisted of repossession rights and export credit insurance. Based on historical default statistics and the diversified customer base, the credit risk is assessed to be limited.

The gross amount of finance lease receivables amounted to 954 (984), of which 48 (39) have been impaired, and the gross amount of other financial receivables amounted to 1 520 (3 050), of which 88 (160) have been impaired. There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral for finance lease receivables and other finance receivables was 534 (573) and 1 031 (1 712) respectively, consisting primarily of repossession rights.

Financial credit risk
Group credit risk policy
Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparts related to the Group's investments, bank deposits or derivative transactions. The financial credit risk is measured differently depending on transaction type.

Investment transactions
Efficient cash management systems should be maintained in order to minimize excess cash in operations where it cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if at least one of the credit ratings (as rated by Standard & Poor's, Fitch Ratings or Moody's) of the approved counterpart or underlying investment is at least: A-/A3 in case of financial counterparties and funds, BBB-/Baa3 in case of non-financial counterparties. Investments in structured financial products are not allowed, unless approved by the FRMC. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterpart and its maximum exposure limit is maintained and monitored.

Derivative transactions
As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparts. Such transactions may only be undertaken with approved counterparts for which credit limits are established and with which ISDA (International Swaps and Derivatives Association) master agreements and CSA (Credit Support Annex) agreements are in force. Derivative transactions may only be entered into by Atlas Copco Financial Solutions or in rare cases by another entity, but only with approval from the Group Treasurer. Atlas Copco primarily uses derivatives as hedging instruments and the policy allows only standardized (as opposed to structured) derivatives.

Status at year-end
At year-end 2017, the measured credit risk on derivatives, taking into account the market-to-market value and collaterals, amounted to MSEK 101 (138).

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

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

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

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements and the fair values of derivatives that are not offset in the balance sheet are 466 (128) for assets and 268 (856) for liabilities. The table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments	Gross	Offset in BS	Net in BS	Master netting agreement	Cash collateral	Net position
Assets						
Derivatives	466	–	466	–466	0	0
Liabilities						
Derivatives	268	–	268	–466	119	–79

The negative net position in liabilities is due to that exchange of security is done on a weekly basis.

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

Other market and price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is directly and indirectly exposed to raw material price fluctuations. Cost increases for raw materials and components often coincide with strong end-customer demand and are offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. The fair value is established according to a fair value hierarchy. The hierarchy levels should reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of each level and valuation methods used for each financial instrument.

Level 1
In the Level 1 method, fair value is based on quoted (unadjusted) prices in active markets for identical assets or liabilities. A market is considered as active if quoted prices from an exchange, broker, industry group, pricing service, or supervisory body are readily and regularly available and those prices represent actual and regularly occurring market transactions at arm's length.

Level 2
In the Level 2 method, fair value is based on models that utilize observable data for the asset or liability other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Such observable data may be market interest rates and yield curves.

Level 3
In the Level 3 method, fair value is based on a valuation model, whereby significant input is based on unobservable market data.

Valuation methods

Derivatives
Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows. Discounted cash flow models are used for the valuation.

Interest-bearing liabilities
Fair values are calculated based on market rates and present value of future cash flows.

Finance leases and other financial receivables
Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

The Group's financial instruments by level

The carrying value for the Group's financial instruments corresponds to fair value in all categories except for borrowings and held-to-maturity investments. See note 21 for additional information about the Group's borrowings.

The following table includes financial instruments at their fair value and by category.

Financial instruments by fair value hierarchy	Fair value	Level 1	Level 2	Level 3
Financial assets	110	101	9	–
Other receivables	1 188	–	1 188	–
Non-current financial assets	**1 298**	**101**	**1 197**	–
Trade receivables	22 853	–	22 853	–
Financial assets	1 295	38	1 257	–
Other receivables	3 166	–	3 166	–
Derivatives	466	–	466	–
Other accrued income	1 955	–	1 955	–
Current financial assets	**29 735**	**38**	**29 697**	**–**
Financial assets	**31 033**	**139**	**30 894**	**–**
Borrowings	24 347	16 568	7 779	–
Other financial liabilities	77	–	77	–
Derivatives	89	–	89	–
Other liabilities	133	–	65	68
Non-current financial liabilities	**24 646**	**16 568**	**8 010**	**68**
Borrowings	1 458	–	1 458	–
Derivatives	179	–	179	–
Other accrued expenses	8 196	–	8 196	–
Trade payables	14 206	–	14 206	–
Other liabilities	2 945	–	2 944	1
Current financial liabilities	**26 984**	–	**26 983**	**1**
Financial liabilities	**51 630**	**16 568**	**34 993**	**69**

In other liabilities, MSEK 69 (861) relate to contingent considerations for acquisitions. The fair value of these liabilities has been calculated based on the expected outcome of the targets set out in the contracts, given a discount rate of 10.5%.

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

Reconciliation of financial liabilities in Level 3 (MSEK)	Opening balance	Business acquisitions	Settlement	Interest	Remeasurement	Translation	Closing balance	Profit/loss related to liabilities included in closing balance
Deferred considerations 2017	861	–7	–29	17	–716	–57	**69**	699

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

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates, joint ventures and with its Board members and Group Management. The Company's largest shareholder, Investor AB, controls approximately 22 % of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies and joint ventures is found in note 14. Information about Board members and Group Management is presented on pages 62–65.

In 2017 Atlas Copco sold a portfolio of financing and leasing contracts, related to customer financing, to the Group's German pension trust for a consideration of MSEK 737 resulting in a capital gain of 2. The consideration is on market terms.

Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year, other than dividends declared and has no outstanding balances with Investor AB.

Investor AB has controlling or significant influence in companies with which Atlas Copco may have transactions within the normal course of business. Any such transactions are made on commercial terms.

Transactions with associated companies and joint ventures

The Group sold various products and purchased goods through certain associated companies and joint ventures on terms generally similar to those prevailing with unrelated parties.

The following table summarizes the Group's related party transactions with its associates and joint ventures:

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

Compensation to key management personnel

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

29. Subsequent events

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

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

Audit report

To the annual general meeting of the shareholders of Atlas Copco AB
Corporate identity number 556014-2720

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year January 1, 2017 – December 31, 2017 except for the corporate governance statement on pages 58–67. The annual accounts and consolidated accounts of the company are included on pages 14–46, 52–55 and 58–129 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 58–67. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services referred to in the Auditors Regulation (537/2014) Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies in the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Recognition of revenue in the appropriate period

The group generates revenues from product and product related offerings ranging from equipment, service and rental to customers in multiple geographies. The time of delivery of the different offerings ranges from a specific point in time to over several years, and the sales agreements may include complex terms such as buy-back commitments, return rights, and a single transaction may contain separate revenue components such as product delivery, installation and servicing of equipment sold. All these complexities managed by several hundred subsidiaries require policies and procedures as well as management judgment to determine the appropriate method and period to properly recognize revenues.

In note 1 the group's revenue recognition policy together with critical accounting estimates and judgments is described, and note 4 provides disclosures of revenues separated on different product offerings and geographies.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for revenue recognition and its compliance with IFRS,
- analytical review of revenues disaggregated on different product offerings and geographies, and
- on a sample basis testing of sales transaction for revenue recognition in the appropriate period.

Valuation of trade receivables

The group has significant amounts of trade receivables from its sales to customers in around 180 countries. There is a risk that parts of the receivables will not be paid. The risk may be higher in some geographies due to weaker economic conditions or geopolitical uncertainties. Procedures for collecting payments and assessing customers' ability to pay together with appropriate accounting policies to recognize provisions for doubtful receivables are important factors to ensure a fair valuation of trade receivables.

In note 1 the group's policy for recognizing impairment of trade receivables is described, and note 17 describes the provisions for bad debts and note 27 disclose the ageing of trade receivables.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for recognizing bad debt for compliance with IFRS,
- evaluating processes and controls for credit assessments and approval of credit limits,
- on a sample basis confirming trade receivables against customer statements alternatively against cash receipts, and
- evaluating management's estimates of the provision for doubtful receivables.

Valuation of inventory

The group carries significant inventories of goods and spare parts produced and held by several production companies and customer centres in many countries. Valuation of inventory requires clear policies and is subject to management's estimates for determining its cost, judgment about its saleability and its net realizable value as well as procedures for safeguarding and keeping track of the inventory.

In note 1 the group's inventory accounting policy and critical accounting estimates and judgments are described, and note 16 provides disclosures of the group's inventory obsolescence provisions.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy and the individual entities' accounting for inventory in compliance with IFRS,
- observations of physical inventory counts,
- on a sample basis testing of the valuation of inventory,
- evaluating management's estimates of the obsolescence reserve, and
- review of eliminations of intragroup profits in inventory.

Accounting for Income taxes

Accounting for income taxes are subject to complex tax legislation requiring management's interpretation and judgment. The interpretations made by management may be challenged by different tax authorities, other authorities and courts. The group's geographical footprint also requires adherence to tax legislation and transfer pricing requirements in many different countries. The European Commission's decision on January 11, 2016, that Belgian tax rulings granted to multinationals with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state, requires management's judgment of the final outcome as the decision has been appealed by Atlas Copco.

In note 1 the group's accounting policy for income taxes together with critical accounting estimates and judgments is described, and note 9 provides disclosures of income taxes as well as the accounting treatment regarding the European Commission's decision on the Belgian "Excess Profit" tax rulings.

Audit report, *continued*

Our audit procedures
Our audit procedures included, but were not limited to:

- review of tax calculations to assess if the income tax expense and tax assets and liabilities have been appropriately accounted for,
- assessing management's processes for monitoring compliance with income tax legislation and transfer pricing requirements in the different geographies, and
- evaluating the accounting associated with the European Commission's decision regarding Belgian "Excess Profit" tax rulings.
- evaluating the tax effects of the legal restructurings in preparation for the proposed Epiroc split.

Financial instruments and foreign currency exposures
To manage its financial risk exposure the group uses different financial instruments, including derivatives. Accounting for derivatives is complex and movements in fair values, measurement of effectiveness and application of hedging strategies could have a significant impact on the reported results and financial position of the group. In addition to derivative instruments the group uses external loans to hedge the currency exposure associated with its net investments in foreign operations.

In note 1 the group's accounting policy for financial instruments is described and note 27 provides disclosures regarding financial instruments and foreign currency exposures as well as the group's financial risk management procedures.

Our audit procedures
Our audit procedures included, but were not limited to:

- review of hedging strategies and policies,
- review of hedging activities to ensure that these are properly authorized and accounted for,
- evaluation of hedge effectiveness, and
- review of the relevance of market data and methodologies used to determine fair value of derivative contracts.
- review of disclosures regarding the sensitivity of key assumptions.

Other information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2–13, 47–51, 56–57 and 133–144. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information is otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regards.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any potential significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed

Audit report, continued

risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Atlas Copco AB for the financial year January 1, 2017 – December 31, 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 58–67 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Deloitte AB, was appointed auditor of Atlas Copco AB by the annual general meeting of the shareholders on April 26, 2017 and has been the company´s auditors since April 28, 2010.

Nacka, February 28, 2018
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Financial definitions*

Reference is made in the Annual Report to a number of financial performance measures which are not defined according to IFRS. These performance measures provide complementary information and are used to help investors as well as group management analyze the company's operations and facilitate an evaluation of the performance. Since not all companies calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS.

Adjusted operating profit
Operating profit (earnings before interest and tax), excluding items affecting comparability.

Adjusted operating profit margin
Operating profit margin excl. items affecting comparability.

Average number of shares outstanding
The weighted average number of shares outstanding before or after dilution. Shares held by Atlas Copco are not included in the number of shares outstanding. The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs. The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options.

Capital employed
Average total assets less non-interest-bearing liabilities/provisions. Capital employed for the business areas excludes cash, tax liabilities and tax receivables.

Capital employed turnover ratio
Revenues divided by average capital employed.

Capital turnover ratio
Revenues divided by average total assets.

Debt/equity ratio
Net indebtedness in relation to equity, including non-controlling interests.

Dividend yield
Dividend divided by the average share price quoted.

Earnings per share
Profit for the period attributable to owners of the parent divided by the average number of shares outstanding.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
Operating profit plus depreciation, impairment and amortization.

EBITDA margin
EBITDA as a percentage of revenues.

Equity/assets ratio
Equity including non-controlling interests, as a percentage of total assets.

Equity per share
Equity including non-controlling interests divided by the average number of shares outstanding.

Items affecting comparability
Restructuring costs, capital gains/losses, impairments and other non-recurring items.

Net cash flow
Change in cash and cash equivalents excluding currency exchange rate effects.

Net debt/EBITDA ratio
Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position
Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

Net interest expense
Interest expense less interest income.

Operating cash flow
Cash flow from operations and cash flow from investments, excluding company acquisitions/divestments.

Operating cash surplus
Operating profit adding back depreciation, amortization and impairments as well as capital gains/losses and other non-cash items.

Operating profit
Revenues less all costs related to operations, but excluding net financial items and income tax expense.

Operating profit margin
Operating profit as a percentage of revenues.

Organic growth
Sales growth that excludes translation effects from exchange rate differences, and acquisitions/divestments.

Profit margin
Profit before tax as a percentage of revenues.

Return on capital employed (ROCE)
Profit before tax plus interest paid and foreign exchange differences (for business areas: operating profit) as a percentage of capital employed.

Return on equity
Profit for the period, attributable to owners of the parent as a percentage of average equity, excluding non-controlling interests.

Total return to shareholders
Share price performance including reinvested dividends and share redemptions.

Weighted average cost of capital (WACC)

$$\frac{\text{interest-bearing liabilities} \times i + \text{market capitalization} \times r}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

i: An estimated average risk-free interest rate of 4% plus a premium of 0.5%. An estimated standard tax rate has been applied.
r: An estimated average risk-free interest rate of 4% plus an equity risk premium of 5%.

* Atlas Copco has chosen to present the company's alternative performance measures in accordance with the guidance by the European Securities and Markets Authority (ESMA) in a separate appendix. The appendix is published on http://www.atlascopcogroup.com/investor-relations/key-figures

Five years in summary

MSEK	2013	2014	2015	2016	2017
	Including discontinued operations		Continuing operations		
ORDERS, REVENUES AND PROFIT					
Orders	81 290	93 873	97 002	102 812	123 431
Revenues	83 888	93 721	98 973	101 356	116 421
Change, organic from volume and price, %	–4	–2	–2	0	10
EBITDA	19 759	20 724	23 952	24 039	29 263
EBITDA margin, %	23.6	22.1	24.2	23.7	25.1
Operating profit	17 056	17 015	19 772	19 798	24 200
Operating profit margin, %	20.3	18.2	20.0	19.5	20.8
Net interest expense	–730	–699	–750	–769	–971
Profit before tax	16 266	16 091	18 875	18 805	23 129
Profit margin, %	19.4	17.2	19.1	18.6	19.9
Profit for the year	12 082	12 175	11 777	13 785	16 672
EMPLOYEES					
Average number of employees	40 159	43 645	42 308	42 749	45 986
Revenues per employee, SEK thousands	2 089	2 147	2 339	2 371	2 532
CASH FLOW					
Operating cash surplus	19 205	20 426	23 547	24 600	29 370
Cash flow before change in working capital	13 426	15 634	17 350	16 154	21 113
Change in working capital	–538	2 056	1 599	2 875	1 215
Cash flow from investing activities	–4 472	–10 565	–3 853	–7 148	–758
Gross investments in other property, plant and equipment	–1 255	–1 548	–1 705	–1 369	–1 742
Gross investments in rental equipment	–1 456	–1 719	–1 263	–1 207	–1 412
Net investments in rental equipment	–1 021	–1 303	–837	–748	–948
Cash flow from financing activities	–2 535	–14 358	–14 497	–8 991	–7 745
of which dividends paid [1]	–6 669	–6 682	–14 639	–7 687	–8 255
Operating cash flow	8 532	13 916	16 955	18 109	18 856
FINANCIAL POSITION AND RETURN					
Total assets	87 891	105 281	103 010	115 892	125 738
Capital turnover ratio	0.98	0.98	0.97	0.95	0.99
Capital employed	62 683	70 953	71 372	72 987	82 318
Capital employed turnover ratio	1.34	1.32	1.39	1.39	1.41
Return on capital employed, %	27.8	24.3	28.3	27.2	29.7
Net indebtedness	7 504	15 428	14 806	14 829	2 466
Net debt/EBITDA	0.38	0.74	0.62	0.62	0.08
Equity	39 794	50 753	46 750	53 177	60 723
Debt/equity ratio, %	18.9	30.4	31.7	27.9	3.9
Equity/assets ratio, %	45.3	48.2	45.4	45.9	48.3
Return on equity, %	33.6	28.1	24.3	24.3	30.1
KEY FIGURES PER SHARE					
Basic earnings / diluted earnings, SEK	9.95 / 9.92	10.01 / 9.99	9.62 / 9.58	9.81 / 9.79	13.73 / 13.63
Dividend, SEK	5.50	6.00	6.30	6.80	7.00 [2]
Dividend as % of basic earnings	55.3%	59.9%	65.5%	69.3%	51.0%
Dividend yield %	3.1%	3.1%	2.6%	3.0%	2.2%
Redemption of shares, SEK	–	6.00	–	–	8.00 [2]
Operating cash flow, SEK	7.0	11.5	13.9	14.9	15.5
Equity, SEK	33	42	38	44	50
Share price, December 31, A share / B share, SEK	178.3 / 163.2	218.4 / 200.9	208.4 / 195.3	277.5 / 248.6	354.2 / 314.6
Highest price quoted, A share / B share, SEK	194.1 / 176.4	222.6 / 204.3	303.1 / 270.0	290.0 / 259.4	375.8 / 338.1
Lowest price quoted, A share / B share, SEK	154.3 / 136.2	169.6 / 155.9	186.9 / 173.7	171.0 / 162.6	277.0 / 247.1
Average closing price, A share / B share, SEK	179.0 / 160.6	196.4 / 181.1	238.7 / 217.5	229.9 / 210.0	322.0 / 338.1
Average number of shares, millions	1 212.8	1 215.6	1 217.4	1 216.1	1 214.1
Diluted average number of shares, millions	1 214.4	1 216.6	1 218.7	1 216.8	1 215.8
Number of shareholders, December 31	72 738	70 914	79 926	76 058	80 846
Market capitalization, December 31, MSEK	213 348	261 719	251 140	329 940	420 076

[1] Includes share redemption in 2015 [2] Proposed by the Board of Directors