

# ATLAS COPCO ANNUAL REPORT 2013

Atlas Copco generated a healthy  
result in a mixed business climate

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*Atlas Copco*

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## About the annual report

Atlas Copco believes in delivering innovative products, reliable services and profitable growth while being a responsible corporate citizen. This annual report reflects Atlas Copco's goal of creating sustainable, profitable development and it integrates financial, sustainability and governance information in order to describe Atlas Copco in a comprehensive and cohesive manner.

The report is divided into two sections for simple navigation.

"THIS IS ATLAS COPCO" contains the relevant information about Atlas Copco's vision, mission, strategy, structure and governance, how we do business as well as our long-term performance.

"THE YEAR IN REVIEW" describes Atlas Copco's annual performance and achievements.

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The audited annual accounts and consolidated accounts can be found on pages 14–47 and 56–122. The corporate governance report examined by the auditors can be found on pages 56–65.

Sustainability information that has been reviewed by the auditors can be found on pages 10–13, 48–53 and 125–132.

**Note:** The amounts are presented in MSEK unless otherwise indicated and numbers in parentheses represent comparative figures for the preceding year.

**Forward-looking statements:** Some statements in this report are forward-looking, and the actual outcomes could be materially different. In addition to the factors explicitly discussed, other factors could have a material effect on the actual outcomes. Such factors include, but are not limited to, general business conditions, fluctuations in exchange rates and interest rates, political developments, the impact of competing products and their pricing, product development, commercialization and technological difficulties, interruptions in supply, and major customer credit losses.

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

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# ATLAS COPCO GROUP

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers with innovative compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly systems. Atlas Copco develops products and service focused on productivity, energy efficiency, safety and ergonomics. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries. In 2013, Atlas Copco had revenues of BSEK 84 (BEUR 9.7) and more than 40 000 employees.

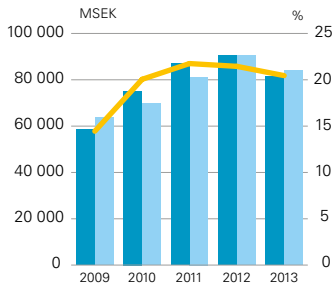
## COMPRESSOR TECHNIQUE



Revenues 2013  
MSEK 33 839

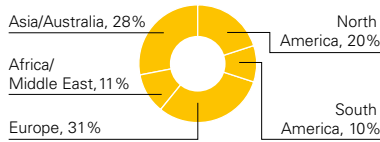
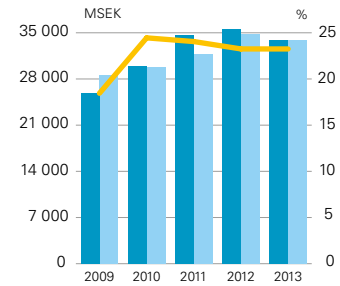
The Compressor Technique business area provides industrial compressors, vacuum solutions, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, Germany, the United States, China and India.

### ATLAS COPCO GROUP

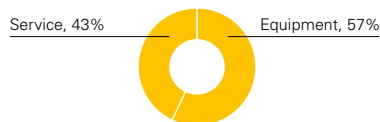
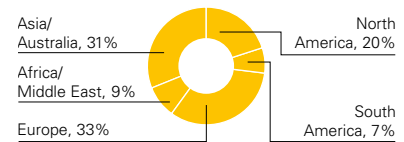


### ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

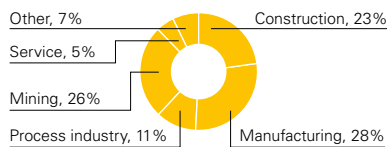
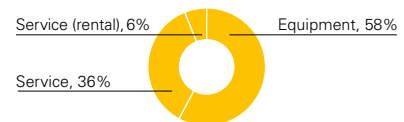
■ Orders received, MSEK  
■ Revenues, MSEK  
— Operating margin, %



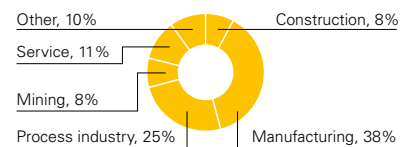
### REVENUES BY REGION



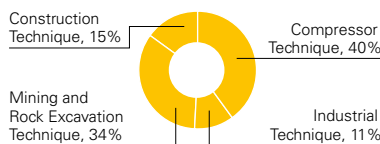
### SHARE OF REVENUES



### ORDERS RECEIVED BY CUSTOMER CATEGORY



### SHARE OF REVENUES BY BUSINESS AREA



### THE YEAR IN REVIEW

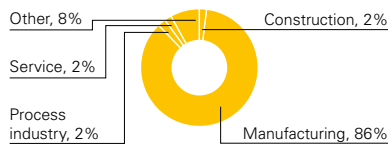
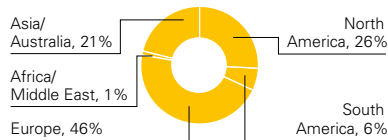
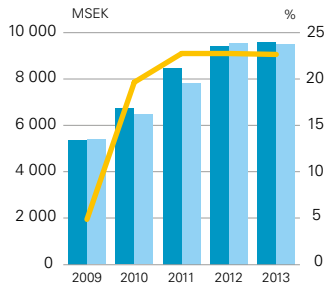
The orders received for industrial compressed air and gas equipment decreased slightly during 2013, whereas the service business continued to grow. The business area continued to invest in market presence, innovation and competence and is also expanding into process vacuum solutions by the acquisition of Edwards.

## INDUSTRIAL TECHNIQUE

Revenues 2013  
MSEK 9 501



The Industrial Technique business area provides industrial power tools, assembly systems, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive and aerospace industries, industrial manufacturing and maintenance, and in vehicle service. Principal product development and manufacturing units are located in Sweden, France and Japan.



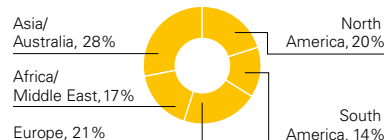
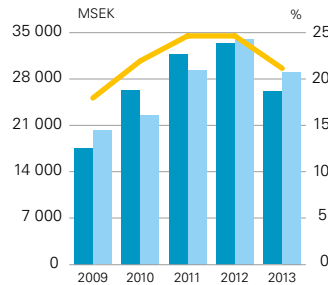
The demand for industrial tools and assembly systems was supported by investments by the motor vehicle industry and orders received increased. The business area acquired four complementary businesses and continued to invest in market presence, product development and service.

## MINING AND ROCK EXCAVATION TECHNIQUE

Revenues 2013  
MSEK 29 013



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



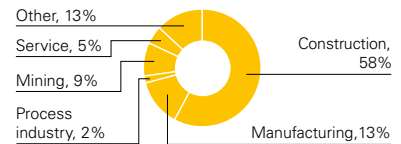
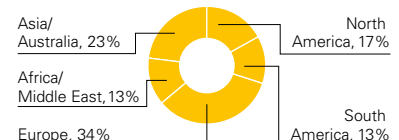
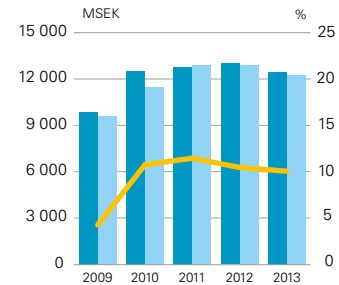
The demand for equipment from customers in the mining industry was weak and equipment orders decreased significantly. The order intake for equipment for infrastructure projects decreased slightly. The service and consumables business, however, remained healthy. Several actions to adjust the capacity to the lower mining equipment demand have been implemented. The business area made three acquisitions.

## CONSTRUCTION TECHNIQUE

Revenues 2013  
MSEK 12 257



The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The business area offers specialty rental and provides service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works, oil and gas, energy, drilling and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, the United States, China, India and Brazil.



The demand for construction equipment was largely unchanged during 2013. The business area continued to invest in market presence and product development and the number of employees in sales, service, and research and development increased.

# COMMITTED TO SUSTAINABLE PRODUCTIVITY

Revenues, MSEK	Operating margin	R&D expenditures	Proposed dividend, SEK
<b>83 888</b>	<b>20.3%</b>	<b>+3%</b>	<b>5.50</b>
in 2013	in 2013	to MSEK 2 665	per share



## RONNIE LETEN, PRESIDENT AND CEO

Atlas Copco generated a healthy result for 2013 in a mixed business climate. We continued to advance on our goals for sustainable profitable development.

PAGE 3



## MORE THAN 40 000 EMPLOYEES IN OVER 90 COUNTRIES

We strive to be First in Mind—First in Choice® for today's and future employees.

PAGE 44

## ACQUISITION OF EDWARDS

Atlas Copco finalized the acquisition of Edwards, a technology and market leader in sophisticated vacuum products and abatement solutions, in 2014. Edwards had approximately 3 400 employees and revenues of MSEK 6 950 in 2013.



## INCREASED CUSTOMER SAVINGS

Atlas Copco took the Variable Speed Drive innovation in compressors further to increase average customer savings from 25% to 50%.

PAGES 21 AND 41



## PAGE 21

*Turbo-molecular pump for high vacuum applications*



## EXTENSIVE RANGE

The Industrial Technique business area offers the most extensive range of industrial power tools and assembly systems in the market.

PAGE 24

Learn more at [www.atlascopco.com](http://www.atlascopco.com)

# PERFORMANCE SUMMARY 2013

FINANCIAL	Units	Goal	2013	2012	Change, %	
Orders received	MSEK		81 290	90 570	-10	
Revenues	MSEK	8% growth	83 888	90 533	-7	●
EBITDA	MSEK		19 759	21 930	-10	
Operating profit	MSEK		17 056	19 266	-11	
– as a percentage of revenues	%		20.3	21.3		
Profit before tax	MSEK		16 266	18 562	-12	
– as a percentage of revenues	%		19.4	20.5		
Profit for the year	MSEK		12 082	13 933	-13	
Basic earnings per share	SEK		9.95	11.47		
Diluted earnings per share	SEK		9.92	11.44		
Dividend per share	SEK	About 50% of earnings per share	5.50 <sup>1)</sup>	5.50	0	●
Equity per share	SEK		33	28		
Operating cash flow	MSEK		9 931	12 286	-19	
Return on capital employed	%	Sustained high	27.8	35.9		●
Return on equity	%		33.6	45.5		

ENVIRONMENTAL	Units	Goal	2013	2012	Change	
CO <sub>2</sub> emissions	'000 tonnes		309	332	-23	
– from operations (Scope 1+2)	'000 tonnes	-20%/COS	109	105	+4	●
– from transport (Scope 3)	'000 tonnes	-20%/COS	200	227	-27	●
Water consumption	'000 m <sup>3</sup>	+/-0 m <sup>3</sup> /COS	714	623	+91	●
Proportion of reused or recycled waste	%	100	93	92	+1	●
Sustainable construction	number	Increase	4	4	0	●
ISO 14001 environmental management systems	% of cost of sales	100	97	94	+3	●

EMPLOYEES, HEALTH AND SAFETY	Units	Goal	2013	2012	Change	
Average number of employees	number		40 159	39 113	+1 046	
Competence development	hours/employee		40	42	-2	●
Yearly appraisals	%	100	82	83	-1	●
Internal mobility	%	Encourage	7.7	8.2	-0.5	●
Proportion of women employees	%	Increase	16.8	16.9	-0.1	●
Diversity in nationality among senior managers	number	Increase	52	49	+3	●
Sick leave	%	<2.5	2.0	2.1	-0.1	●
Accidents	number/one million hours	0	5.4	5.4	0	●
Fatalities	number	0	0	3	-3	●
OHSAS 18001 health and safety systems	% of cost of sales	100	89	72	+17	●

GOVERNANCE	Units	Goal	2013	2012	Change	
Reports to the hotline	number	Encourage	47	39	+8	●
Significant suppliers committed to Business Code of Practice <sup>2)</sup>	%	100	72	N/a	-	●

● Positive trend/goal achieved   ● Neutral   ● Negative trend/goal not achieved

<sup>1)</sup> Proposed by the Board of Directors

<sup>2)</sup> See ESG note 6

A summary of the Group's goals can be found on page 8.



## ***SUSTAINABLE GROWTH BUILT ON FIVE PILLARS***

Atlas Copco generated a healthy result for 2013 in a mixed business climate. We continued to advance on our goals for sustainable profitable development. These include being First in mind—First in choice® for existing and potential customers, developing innovative products, providing excellent service, and increasing customers' energy efficiency.



We are convinced Atlas Copco will continue to benefit long-term from the global megatrends, despite the currently cautious market place. These trends include the industry's drive for energy efficiency and productivity, where our products and service play a key role; urbanization, which requires infrastructure work and minerals; and the investment needs in expanding regions such as Asia and Africa.

**Summary of 2013**

Our service business performed well in 2013, continuing to grow in importance. Our industrial businesses also had a good year as demand was stable for tools, assembly systems, compressors and construction equipment. The weak spot was the demand for mining equipment as the global mining industry softened significantly. This made it a difficult year for one of our four business areas, and was the main reason for the Group's total 7% decline in organic orders.

Last year, Atlas Copco celebrated 140 years as a company. When we look back at our fantastic history, we see that our fundamentals for success have always been about staying close to customers, innovating, providing professional service, running operations efficiently, and attracting and developing competent colleagues. Let us look a little closer at what Atlas Copco did during the year to strengthen these five pillars for sustainable profitable growth.

**Presence is key**

To us we are all one Atlas Copco, but to the outside world we have many faces in the form of our brands. Customers around the world may know our compressors as Ceccato or Quincy, our tools as Chicago Pneumatic or Desoutter, and our construction and mining equipment as



Shenyang – just to name a few of our brands. We are close to existing and prospective customers either directly as Atlas Copco or indirectly through our brands. It is a great asset that we together can offer customers different value propositions.

We continued to grow our presence in 2013, expanding westward in China, increasing our footprint in Russia, and boosting the sales force in the United States. Atlas Copco is selling to 182 countries, and we have own operations in half of those. We are building a stronger business not only in key countries like China but also in increasingly important markets like Indonesia, Vietnam, Mozambique, Angola and Algeria. Construction Technique continued to establish sales organizations around the world that are fully dedicated to the business area, such as in Brazil and Austria. This increased focus enhances efficiency and improves customers' experience with us.

Presence is also about being in the right market segments. Atlas Copco is expanding its product and service offerings both organically and through acquisitions. In January 2014 we closed the acquisition of Edwards Group, a global leader in vacuum solutions – a technology that has lots in common with our compressors. This will allow us to gain even more technological knowledge and offer more comprehensive industrial solutions to manufacturing customers. Atlas Copco closed 11 acquisitions in 2013. One example of how these help us broaden our market presence is Synatec, which provides products and solutions that enhance manufacturers' workplace operations, data collection and analysis.

**Enhancing customers' value**

Innovation has been at the heart of Atlas Copco since our foundation in 1873, and it keeps thriving. We continuously launch new products that are more productive,

energy efficient, safer and ergonomic. Innovations rolled out in 2013 include the breakthrough GA VSD+ compressors, which cut energy use by half compared to traditional compressors and set a new industry standard in efficiency. A new line of electric underground loaders and trucks will cut mining customers' emissions and help them be more productive. The world is striving for energy efficiency and lower carbon dioxide emissions, and we can provide it. Innovation can of course be many things, including design. This was evident last year when Atlas Copco won a Red Dot product design award for a highly productive and ergonomic electric nutrunner.

As a testament to our innovative culture, we have about 3 400 active patents globally representing approximately 900 inventions. Forbes magazine again included Atlas Copco in its list of the world's 100 most innovative companies. But we can of course never take this position as a leading innovator for granted. The world around us is constantly evolving and we must work hard to stay on the cutting edge. That is why we keep investing in product development and in boosting the knowledge of our engineers and others who play a key role in innovation.

The Group's John Munck Award, which rewards major technical innovations, was in 2013 presented to developers of a superior screwdriver solution for the electronics industry. The very light, compact and flexible design allows manufacturers to use the screwdriver system in the assembly of a wide range of products. It helps the mobile phone industry increase productivity and quality in their manufacturing, and has set a new standard.

**Giving customers peace of mind**

Atlas Copco's service business has made great progress since establishing its first dedicated service division in 2008 and the



## “Service lets us interact with customers”

reorganization in 2011 that created a devoted service division in each business area. Service revenues continued to grow and represent 43% of our business. For the first time in our history, since last year we have more people in service than in manufacturing.

Service is much more than doing machine maintenance and selling spare parts. It plays a big part in helping customers be more productive. As one example of this, in 2013 we launched a data monitoring system for our compressors that lets us remotely measure the equipment performance and see exactly when service is needed. The tool, called SMARTLink, gives our customers peace of mind, allowing them to focus on their business instead of on their compressors.

Since service lets us interact frequently with customers, it gives us valuable insights into their needs. This, in turn, generates new ideas for innovative products.

### There is always a better way

Atlas Copco is persistently looking for smarter ways to run operations, well aware there is always a better way. We are making assembly more efficient and flexible, speeding up delivery to our customers while also making it more reliable. We opened two top-modern compressor factories in China and India that use lean production management, which revolves around finding ways to reduce waste and continuously improve the operation. This fits perfectly with our strategy to be an asset-light and agile organization. We are also modernizing our sales outlets to ensure customers will get an even better experience with us.

To remain an efficient organization we must adjust our suit so it fits our weight. Last year, the Mining and Rock Excavation Technique business area experienced this as we unfortunately had to reduce the workforce due to the very challenging business climate.

Operational excellence is also about ensuring all our colleagues work in a safe

environment. Atlas Copco strives to have no work-related accidents and a healthy workforce. We stay committed to the UN Global Compact, a policy initiative for businesses that align their operations and strategies with ten universally accepted principles for human rights, labor, environment and anti-corruption. Partly due to our work in these areas, we are recognized as one of the most sustainable companies in the world. Once again we were included in the Dow Jones Sustainability Indexes and on the annual Global 100 list, which ranks companies that show they are increasing productivity while using less resources.

### Reducing the time to competence

People are the foundation for presence, innovation, service and operational excellence. This means attracting, recruiting and developing competent colleagues, and having a diverse workforce when it comes to gender, age and nationalities. The ratio of female employees was about 17%. The 405 most senior managers represent 52 nationalities, which is the result of our ambition to stay on top.

We are not only developing the skills of our people but are looking for ways to do this more efficiently. We think of this as reducing the time to competence – speeding up the time it takes employees to master their tasks. We are preparing our people for a changing world, not the least when it comes to the digital evolution that affects so much of what we do including our customer interaction. In rapidly growing countries it is especially important that we devote the right resources to improve the competence of the workforce.

One example of reducing the time to competence can be found in the Industrial Technique business area. In China it runs a leadership program that involves several levels including coaching, personal development and analysis of the manager's business plan. The program is making leaders ready faster to tackle the demands in a fast-growing market.

### OUR STRATEGIC PILLARS

PRESENCE

INNOVATION

SERVICE

OPERATIONAL EXCELLENCE

PEOPLE

### Striving for more

Atlas Copco will continue creating value by building on these five pillars for sustainable growth. We are fit to do so much more. Our global sales teams, strong presence in growing markets, expanding service business and innovative products will ensure that we remain competitive and agile. I am convinced we are in a great position to take advantage of all the exciting opportunities that we will face in 2014 and beyond.

Let me thank our shareholders, employees, customers and other stakeholders who are contributing to Atlas Copco's sustainable development, and give special thanks to Sune Carlsson, who has decided to move on after serving very successfully as Chair of the Board for the past decade.



Ronnie Leten  
President and CEO  
Stockholm, January 30, 2014

# THIS IS ATLAS COPCO

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

## VISION, MISSION AND STRATEGY

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice® of its customers and other principal stakeholders. The mission is to achieve sustainable, profitable development. Sustainability plays an important role in Atlas Copco's vision and it is an integral aspect of the Group's mission. An integrated sustainability strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders in a way that is economically, environmentally and socially responsible. In order to achieve the mission, the Board of Directors has adopted a number of goals. Strategies and achievements are presented throughout this annual report.

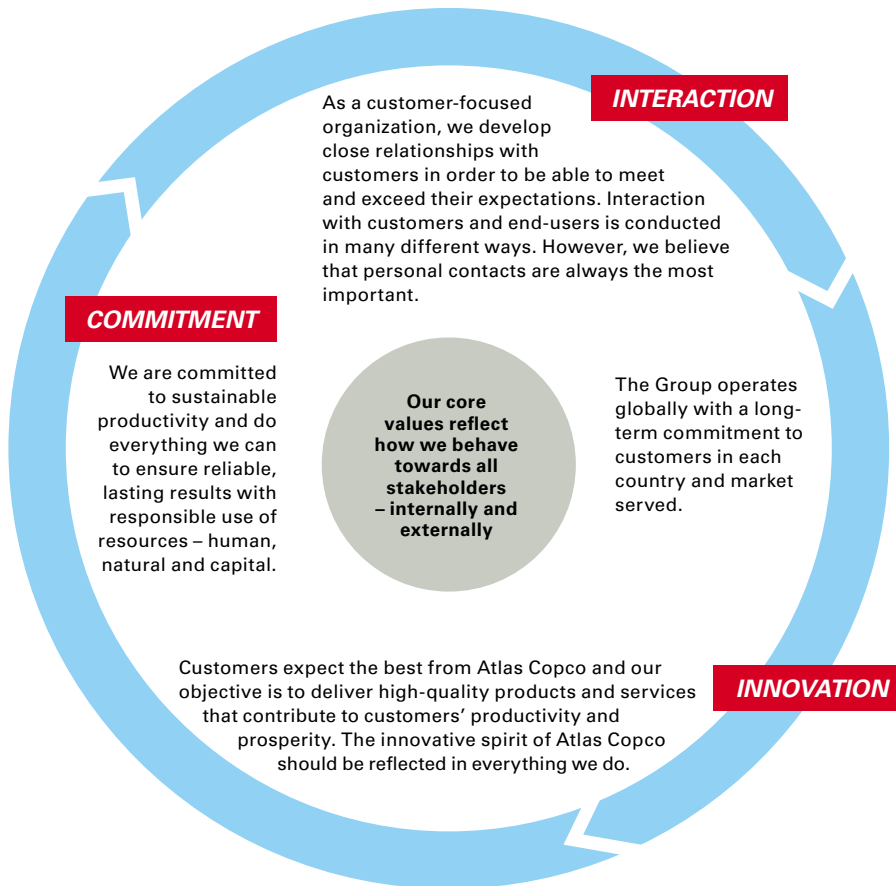
- For further information about governance, the Board of Directors and Group Management, see pages 56–65.
- For further information about risk management, see pages 36–39.
- For comprehensive information about the business areas, see pages 20–35.



**VISION:**  
First in Mind—First in Choice®

**MISSION:**  
To achieve sustainable profitable development

## OUR CORE VALUES AND THE WAY WE DO THINGS



We believe that there is always a better way to do things.



## THE ATLAS COPCO GROUP IS UNIFIED AND STRENGTHENED THROUGH:

A shared vision and a common identity	The sharing of brand names and trademarks	The sharing of resources and infrastructure	Common processes and shared best practices collected in the database <i>The Way We Do Things</i>
Shared financial and human resources, and their free mobility	The corporate culture and the core values: interaction, commitment, and innovation	A common leadership model	Common service providers



## GOALS FOR SUSTAINABLE, PROFITABLE DEVELOPMENT

<p><i>The customer focused goals will safeguard market expansion as well as customer satisfaction and loyalty. Atlas Copco delivers energy efficient, productive, safe and reliable products and solutions through innovation and continuous improvement.</i></p> <p><i>The goals for operations focus on people management, environmental achievements, health and safety, and on business ethics and integrity.</i></p> <p><i>The financial goals aim to support increased economic value creation.</i></p>	<p><b>Products, services and solutions</b></p>	<p>First in Mind—First in Choice® for customers and prospects for all brands</p>	<p>Increase customer loyalty</p>	<p>Increase customer energy efficiency by 20% by 2020*</p>	<p>Offer safe and reliable products and services</p>
	<p><b>Operations</b></p>	<p>First in Mind—First in Choice® employer for current and future employees</p> <p>No corruption or bribes</p> <p>Decrease CO<sub>2</sub> emissions from operations by 20% in relation to cost of sales by 2020*</p>	<p>Competence development to achieve good results and yearly coaching/ appraisals for all employees</p> <p>Work with business partners committed to high ethical, environmental and social standards</p> <p>Decrease CO<sub>2</sub> emissions from transport of goods by 20% in relation to cost of sales by 2020*</p>	<p>Increase diversity in both gender and nationality</p> <p>Encourage internal mobility</p> <p>Develop new products and services with a life cycle perspective</p> <p>Keep water consumption at current level</p>	<p>Safe and healthy working environment for all employees</p> <p>Zero work-related accidents</p> <p>Sick leave below 2.5%</p> <p>Construct Atlas Copco buildings according to sustainable building standards</p> <p>Reuse or recycle waste</p>
	<p><b>Financials</b></p>	<p>Annual revenue growth of 8% over a business cycle</p>	<p>Sustained high return on capital employed</p>	<p>All acquired businesses to contribute to economic value added</p>	<p>Annual dividend distribution about 50% of earnings per share</p>

\* Base year 2010

### Creating value for all stakeholders

The goals that were introduced in 2011 all aim at continuously delivering sustainable, profitable development for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value. To achieve this, five strategic pillars have been defined as crucial.



**STRATEGIC PILLARS FOR SUSTAINABLE PROFITABLE GROWTH**

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

**INNOVATION**  
Invest in research and development and continuously launch new products and services that increase customers' productivity.

**SERVICE**  
Increase the service offer, perform service on a higher share of the installed base of equipment and give customers peace of mind.

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

**PEOPLE**  
Attract, recruit and develop skilled coworkers and find ways to reduce their time to competence.

## STRUCTURE AND GOVERNANCE

Atlas Copco's organization is based on the principle of decentralized responsibilities and authorities. Atlas Copco's operations are organized in four business areas comprised of 22 divisions. Each operating unit has a business board which reflects the operational structure of the Group. The duty of a business board is to serve in an advisory and decision-making capacity concerning strategic and operative issues. It also ensures the implementation of controls and assessments. In addition, each legal company has a legal board focusing on compliance and reflecting the legal structure of the Group.

## PEOPLE

Atlas Copco's growth is closely related to how the Group succeeds in being a good employer, attracting, developing, and keeping qualified and motivated people. With a global business conducted through numerous companies, Atlas Copco works with continuous competence development, knowledge sharing and implementing the core values: interaction, commit-

ment, and innovation. All employees are expected to contribute by committing themselves to Group goals and to their individual performance targets. Atlas Copco's definition of good leadership is the ability to create lasting results.

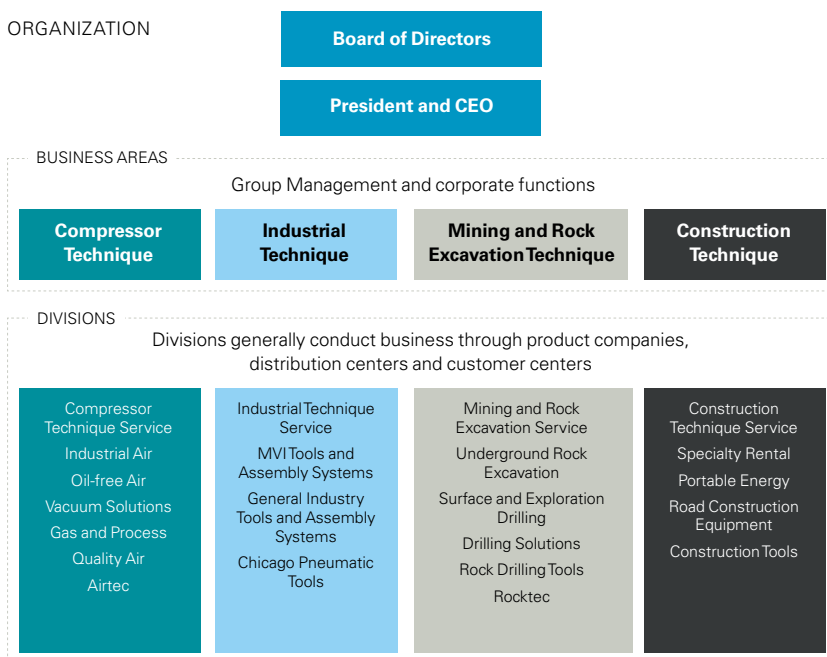
## PROCESSES

Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are governance, safety, health, environment and quality, accounting and business control, treasury, tax, audit and internal control, information technology, people management, legal, communications and branding, crisis management, administrative services, insurance, Group standards and acquisitions. The information is stored electronically and is available to all employees. Although most of the documentation is self-explanatory, training on how to implement the processes is provided to managers on a regular basis. Wherever they are located, Atlas Copco employees are expected to operate in accordance with the principles and guidelines provided.

## Sustainable Productivity

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

### ORGANIZATION



The Board of Directors is responsible for the organization and management of the Group, regularly assessing the Group's financial situation and financial, legal, social and environmental risks, and ensuring that the organization is designed for satisfactory control. The Board formally approves the Business Code of Practice.

The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions. He is responsible for ensuring that the organization works towards achieving the goals for sustainable, profitable development.

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

The divisions are separate operational units, each responsible for delivering results in line with the strategies and objectives set by the business area. Each division has global responsibility for a specific product or service offering. A division can have one or more product companies (units responsible for product development, manufacturing and product marketing) and has several customer centers (units responsible for customer contacts, sales and service) dedicated or shared with other divisions.

Each business area has a service division with global responsibility for service of the products and solutions of the business area.

Common service providers – internal or external – have been established with the mission to provide services faster, to a higher quality, and at a lower cost, thus allowing the divisions to focus on their core businesses.

# THIS IS HOW WE DO BUSINESS

Atlas Copco is characterized by focused businesses, a global presence with direct sales and service, a strong, stable and growing service business, professional people, and an asset-light and flexible manufacturing setup. Atlas Copco is committed to sustainable productivity, which means that we do everything we can to ensure reliable, lasting results with responsible use of resources – human, natural and capital.

## Sales and service

Customer focus is a guiding principle for Atlas Copco. The ambition is to have close relationships with customers and to help them increase their productivity in a sustainable way. Sales and service is primarily direct, but complemented by alternative sales channels, e.g. through distributors, to maximize presence in the market. The Group has sales in more than 180 countries and about 80% of sales are made directly to the end user.

Sales of equipment are performed by engineers with strong application knowledge that has the ambition to offer the best solution for the customer's specific application. The offer also includes service and maintenance performed by technicians. Service is the responsibility of dedicated organizations in each business area. The responsibility includes development of service products, sales and marketing, technical support as well as service delivery and follow-up.

## Stable service business

More than 40% of revenues are generated from service (spare parts, maintenance, repairs, consumables, accessories, and rental). These revenues are more stable than equipment sales and provide a strong base for the business.

## Manufacturing and logistics

The manufacturing philosophy is to manufacture in-house those components that are critical for the performance of the

equipment. For non-critical components, Atlas Copco leverages the capacity and the competence of business partners and cooperates with them to continuously achieve product and process improvements. Approximately 75% of the production cost of equipment represents purchased components and about 25% are internally manufactured core components, assembly costs and overhead.

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

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

## Innovation

Atlas Copco believes that there is always a better way of doing things. Innovation and product development are very important and all products are designed internally. A key activity is to design new or improved products that provide tangible benefits in terms of productivity, energy efficiency and/or life cycle cost to the customer, and at the same time can be efficiently produced. Atlas Copco protects technical innovations with patents.

Innovation also includes better processes to improve the flow and utilization of assets and information. Innovation will improve customer satisfaction and contribute to strengthening customer relations, the brand, as well as financial performance. Overcapacities and inefficiencies must always be challenged.

## Investments in fixed assets and working capital

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

The working capital requirements of the Group are affected by the direct sales and service model, which requires a certain amount of inventory and receivables, as well as by the manufacturing philosophy. In an improving business climate with higher volumes, more working capital will be tied up. If the business climate deteriorates, working capital will be released.

## Acquisitions

Acquisitions are primarily done in, or very close to, the already existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and can offer tangible synergies with the existing businesses. All acquired businesses are expected to make a positive contribution to economic value added.

## Human capital

Atlas Copco strives to be a good employer to attract, develop, and keep qualified and motivated people. Employees are responsible for their own professional career and supported by continuous competence development and an internal job market. Employees are encouraged to grow professionally and take up new positions.

If the company needs to adapt capacity in a deteriorating business climate, the first resort is to stop recruitment. Layoffs are the last resort and, if necessary, Atlas Copco will provide support for the employees.

## PRIMARY DRIVERS OF REVENUES

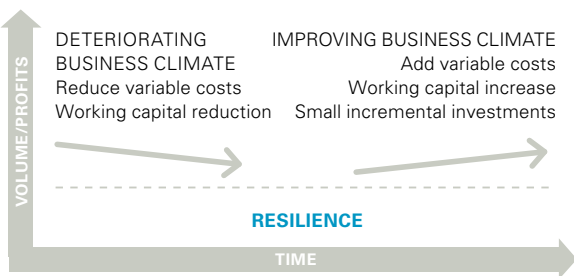
	Equipment	Service
Industry	Industrial machinery investment	Industrial production
Construction	Investment in infrastructure	Construction activity
Mining	Mining machinery investment	Metal and ore production



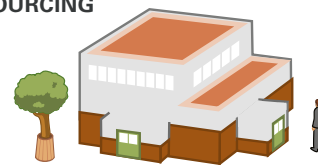
Atlas Copco strives to help the customers increase their productivity in a sustainable way.

About **80%** of sales are made directly to the end user.

**AGILE AND RESILIENT OPERATIONAL SETUP**

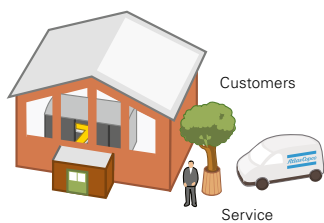


**SOURCING**



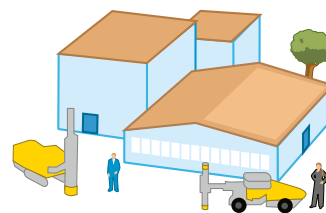
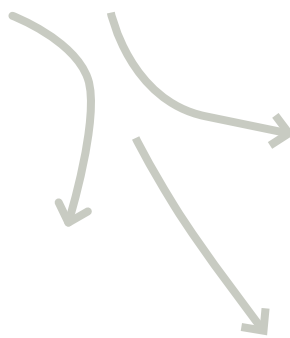
We leverage and develop the competence of our partners. Read how on [PAGE 48](#)

Suppliers must meet environmental, human rights and ethical standards. See Goals on [PAGE 8](#)



More than **40%** of our revenue is from our stable service business

**RESILIENCE IS CREATED BY**



**PRODUCT DEVELOPMENT & DESIGN**

Continuous investment in innovation. Read more on [PAGE 40](#)

**THE BUSINESS CODE OF PRACTICE**

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



**75%** of product cost is purchased material and components

**MANUFACTURING**

Variable cost structure and asset-light operations as well as competent and committed employees. Goals on [PAGE 8](#)



# CREATING VALUE FOR ALL STAKEHOLDERS

By integrating sustainability into Atlas Copco's customer-focused and operational goals, Atlas Copco can reduce costs, mitigate risks and create business opportunities. The Group creates a positive impact on society and the environment, which in turn positively affects Atlas Copco's financial bottom line – thus, creating shared value. Atlas Copco uses this win-win concept to increase sales, make sound investments and generate economic value.

## CUSTOMERS

Atlas Copco operates worldwide with a long-term commitment to contribute to customers' success. The interaction and close relationship with customers is key to gaining valuable input for the development of products, services and solutions that help improve customers' productivity in a sustainable way.



## EMPLOYEES

Atlas Copco strives to recruit, retain and develop a diverse pool of talented professionals. The Group is committed to providing a safe and healthy work environment that helps employees develop their careers and skills. Atlas Copco encourages employees to interact within the Group. Atlas Copco also interacts with potential future employees through job fairs at universities and technical institutes, as well as encouraging thesis projects and internships.



## BUSINESS PARTNERS

Atlas Copco works closely with its business partners, such as suppliers and distributors, and shares its knowledge and experience. The interaction contributes to product and service development and improved processes and logistics. It is crucial that business partners share the values of Atlas Copco and act in an environmentally and socially responsible manner, as outlined in the Business Code of Practice.



## SOCIETY AND ENVIRONMENT

Atlas Copco values discussions with non-governmental organizations (NGOs), governmental organizations (GOs) and other influencers, with whom it can have constructive dialogues regarding its strategy for sustainable productivity. The Group holds regular meetings with NGOs such as Transparency International and engages directly through governmental relations in countries where we do business. These discussions help Atlas Copco improve its sustainability performance and allow the Group to compare performance with other leading multinational companies.



## SHAREHOLDERS

The Group regularly communicates with shareholders, debt investors and other participants in the capital markets, e.g. through the annual general meeting, quarterly reports, capital markets days and other meetings. The objective is to communicate the strategy to generate more economic value over time in a sustainable way. Many investors believe that leading sustainable corporations can create significant long-term value through innovation, attracting and keeping the best people, and being customers' first choice.

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM





## COMPREHENSIVE WELLNESS PROGRAM EXTENDED TO BUSINESS PARTNERS

Atlas Copco South Africa's Wellness program has over a decade of success in working to address societal and health problems that present a significant business risk to the operations. The program is comprehensive and tackles the problem of HIV/AIDS from multiple angles, including education, overcoming societal stigmas, medical intervention and promoting positive life choices such as financial planning.

The program's success is driven by a strong policy and the commitment from management to develop a healthy and discrimination-free workplace. Atlas Copco covers the costs for all employees and offers confidential Voluntary Counselling and Testing (VCT) as well as antiretroviral therapy for those who become HIV positive. The program also cover the employee's partner and in some countries, the children as well. The Wellness program thrives

In 2002, Atlas Copco introduced an HIV/AIDS program in its operations in South Africa, including testing, awareness training, and consultation and treatment for employees who are diagnosed HIV positive. The program is now expanded to also include business partners.

through peer education training, dedicated awareness raising programs and community outreach activities.

The primary indicator for the success of the program is that while the rate of new HIV positive cases has been growing in double digits in South Africa, there have not been any new HIV positive employees in the Group since 2007. In addition to increased productivity, the program has created savings on insurance premiums amounting to approximately ZAR 1 million annually; money that has been allocated to employee pensions.

Today, Atlas Copco's HIV/AIDS program spans nine countries in Africa and is being expanded to also include business partners.

Atlas Copco Zambia is, for example, supporting six suppliers in the implementation of workplace programs and policies

to address HIV and wellness in their workplaces. This supply chain program reaches over 4 000 employees with education and testing to combat HIV.

As a result of these efforts, Atlas Copco is creating shared value by reducing productivity related supply chain interruptions while simultaneously addressing a significant social concern.

*" In addition to increased productivity, the program has created savings on insurance premiums amounting to approximately ZAR 1 million annually; money that has been allocated to employee pensions."*

## FLEXIBLE PACKAGING SOLUTION SAVES MONEY AND THE ENVIRONMENT

Using wrong or insufficient amounts of packaging materials can result in products being damaged during shipment. At the same time this can create operational inefficiencies and high volumes of waste that require more fuel for transport.

To overcome these challenges, a flexible packaging solution has been partially implemented in the distribution center in Allen, Texas, the United States. The innovative solution involves boxes made with 100% recyclable material that will tele-

Reaching our global customers requires a strong distribution network. However, transport and packaging practices can have a significant financial and environmental impact. A new packaging solution has proven efficient in saving both costs and carbon dioxide emissions.

scope to the desired size and with standardized box configurations specifically designed with transportation and handling in mind. The result is maximized shipping per container/pallet, lower freight costs and reduced carbon footprint by better utilizing shipping space by road, rail, air and sea. Overall the time for packing of the orders and loading of the finished boxes has been reduced by 75% compared to previous designs, resulting in increased productivity and efficiency.

Over a five month period, the freight costs have been reduced with 30% and the savings is estimated to be over MUS\$ 2 annually. The carbon dioxide emissions from transport can be reduced with more than 60 tonnes annually, from this initiative alone. Furthermore, the packaging technique prevents movements and damage during transport, ensuring that our customers receive our products in perfect condition.

# THE YEAR IN REVIEW

## MARKET REVIEW AND DEMAND DEVELOPMENT

The order intake for Atlas Copco's equipment was lower compared to the previous year, primarily due to a significant decrease in orders received for mining equipment. The order intake of small and medium-sized compressors to the manufacturing industry was stable, while orders for large compressors for the process industry decreased somewhat. The orders received for industrial tools and assembly systems increased due to investments from the motor vehicle industry. The total demand for construction equipment for infrastructure and civil engineering work was somewhat weaker. See also business area sections on pages 20–35.

The service business continued to develop positively and grew organically in all business areas.

Orders received decreased by 10% to MSEK 81 290 (90 570), corresponding to a 7% organic decline.

### North America

The order intake in North America decreased by 6% in local currencies, with stable orders in the United States and significant declines in Canada and Mexico due to higher exposure to the weak mining industry. The orders were, however, robust for industrial tools and assembly systems, for construction equipment and small- and medium-sized industrial compressors, while they were lower for large compressors. The service business grew in all business areas, except in Mining and Rock Excavation Technique. In total, North America accounted for 20% (20) of orders received.

### South America

The South American orders decreased by 19% in local currencies, primarily due to lower sales of mining equipment and industrial compressors. The demand for industrial tools and assembly systems as well as construction equipment was stable. The service business grew in all business areas. In total, South America accounted for 10% (11) of orders received.

### Europe

The orders received decreased by 2% in local currencies in Europe, with a slight increased order intake for industrial tools and assembly systems as well as for industrial compressors, but with lower orders for construction and mining equipment. Geographically, the development was mixed. Germany, the United Kingdom and Turkey developed positively, while most markets in southern and eastern Europe had a negative development. The service business was stable. In total, Europe accounted for 32% (29) of orders received.

### Africa/Middle East

The orders received decreased by 10% in local currencies in the Africa/Middle East region, which accounted for 11% (11) of the Group's orders received. The main explanation was lower demand for mining equipment. The service business grew strongly.

### Asia/Australia

The orders received in Asia/Australia decreased by 15% in local currencies, primarily as the orders for mining equipment declined significantly in Australia and somewhat in Asia. In total, however, the order intake was largely unchanged in Asia, positively affected by increased investments in industrial tools and assembly systems from the motor vehicle industry, particularly in China, where also orders of small and medium-sized compressors improved. There was, however, a negative development in the region for large compressors, which affected order intake in South Korea and China. The service business continued to grow at a high pace in the region. In total Asia/Australia accounted for 27% (29) of orders received.

### Near-term demand outlook,

*Published January 30, 2014*

The overall demand for the Group's products and services is expected to remain at the current level.

## SALES BRIDGE

	Atlas Copco Group		
	Orders received	Orders on hand, December 31	Revenues
<b>2011</b>	<b>86 955</b>	<b>24 714</b>	<b>81 203</b>
Structural change, %	+2		+2
Currency, %	0		0
Price, %	+2		+2
Volume, %	0		+7
<b>Total, %</b>	<b>+4</b>		<b>+11</b>
<b>2012</b>	<b>90 570</b>	<b>24 020</b>	<b>90 533</b>
Structural change, %	+1		+1
Currency, %	-4		-4
Price, %	+1		+1
Volume, %	-8		-5
<b>Total, %</b>	<b>-10</b>		<b>-7</b>
<b>2013</b>	<b>81 290</b>	<b>19 263</b>	<b>83 888</b>

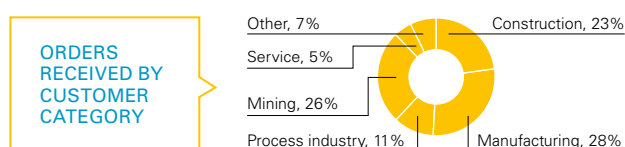
## ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



## Market presence

The presence was further strengthened with the addition of sales and service engineers in many markets in Asia and Africa/Middle East. Also the number of employees in research and development increased in Asia.

Atlas Copco had own customer centers in 92 (89) countries and production facilities in 23 (22) countries on five continents at the end of the year. Revenues were reported in 182 (176) countries.



## IMPORTANT EVENTS

### Acquisitions and divestments

The Group completed eleven acquisitions during the year, which added net revenues of MSEK 572 in 2013. In the beginning of 2014, two acquisitions were completed, including the acquisition of Edwards Group Ltd., a leading global supplier of vacuum and abatement solutions, with revenues in 2013 of about MSEK 6 950. See also note 2 and 30 and business area sections on pages 20–35.

In December, Atlas Copco consolidated its in-house insurance operations and divested Atlas Copco Reinsurance SA, the Luxembourg captive company. The insurance capacity remains unchanged, but is now fully concentrated to the Swedish-based captive.

### Investments in manufacturing and adaption of capacity

Two facilities to expand the capacity to assemble portable and industrial compressors were inaugurated in China and India. In Sweden the single largest investment project ever in Atlas Copco's history was finalized. The investment totalled approximately MSEK 450 and increased the production capacity of rock drilling tools.

Several actions to adjust the capacity to the lower mining equipment demand were implemented, including insourcing of final assembly.

### Specialty Rental division to Construction Technique

On January 1, 2014, the Specialty Rental division moved from the Compressor Technique business area to the Construction Technique business area. The objective is to strengthen growth by further developing product and service synergies. Pro-forma data is available on pages 21 and 33.

### Certifications on quality, environment, health and safety

In September 2012, Atlas Copco decided that all product companies, as well as all sites with 70 or more employees shall have ISO 9001, ISO 14001 and OHSAS 18001 certifications by the end of 2013. The goal was not achieved, but all sites have initiated the certification process.

### Changes in Group Management

Atlas Copco appointed Johan Halling as President of the Mining and Rock Excavation Technique business area and member of Group Management as from August 1, 2013. He succeeded Bob Fassl.

### Recognitions

Atlas Copco achieved the following recognitions: Inclusion in Dow Jones Sustainability World Index and FTSE4Good; included as one of the 100 most innovative companies in the world by Forbes; and ranked among the world's top sustainable companies by Global 100.

## FINANCIAL SUMMARY AND ANALYSIS

KEY FINANCIAL DATA, MSEK	2013	2012
Orders received	81 290	90 570
Revenues	83 888	90 533
EBITDA	19 759	21 930
Operating profit	17 056	19 266
– in % of revenues	20.3	21.3
Profit before tax	16 266	18 562
– in % of revenues	19.4	20.5
Profit for the year	12 082	13 933
Basic earnings per share, SEK	9.95	11.47
Diluted earnings per share, SEK	9.92	11.44

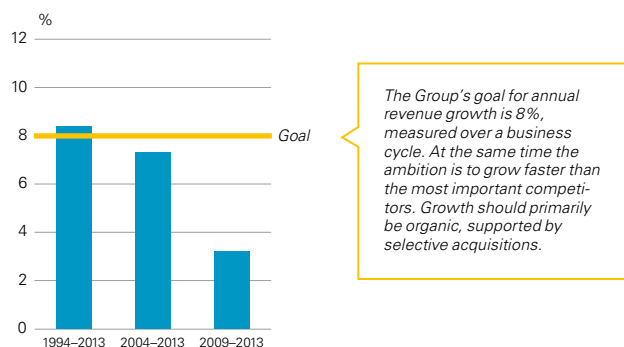
## SALES BRIDGE

	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
<b>2011</b>	<b>34 664</b>	<b>31 760</b>	<b>8 462</b>	<b>7 821</b>	<b>31 751</b>	<b>29 356</b>	<b>12 786</b>	<b>12 918</b>
Structural change, %	+2	+2	+10	+11	+1	+1	+2	+2
Currency, %	0	0	–1	–1	0	+1	–1	–1
Price, %	+1	+1	+1	+1	+3	+3	+2	+2
Volume, %	–1	+6	+1	+11	+1	+11	–1	–3
<b>Total, %</b>	<b>+2</b>	<b>+9</b>	<b>+11</b>	<b>+22</b>	<b>+5</b>	<b>+16</b>	<b>+2</b>	<b>0</b>
<b>2012</b>	<b>35 469</b>	<b>34 714</b>	<b>9 435</b>	<b>9 566</b>	<b>33 482</b>	<b>34 054</b>	<b>13 001</b>	<b>12 888</b>
Structural change, %	0	0	+2	+1	+1	+1	0	0
Currency, %	–4	–4	–3	–3	–5	–5	–5	–5
Price, %	+1	+1	0	0	+3	+2	+1	+1
Volume, %	–2	0	+3	+1	–21	–13	0	–1
<b>Total, %</b>	<b>–5</b>	<b>–3</b>	<b>+2</b>	<b>–1</b>	<b>–22</b>	<b>–15</b>	<b>–4</b>	<b>–5</b>
<b>2013</b>	<b>33 823</b>	<b>33 839</b>	<b>9 594</b>	<b>9 501</b>	<b>26 092</b>	<b>29 013</b>	<b>12 471</b>	<b>12 257</b>

## Revenues

The Group's revenues decreased by 7% to MSEK 83 888 (90 533). The goal is to achieve annual revenue growth of 8% over a business cycle. In the past 10 years, annual revenue growth has averaged nearly 7%. If the divested businesses related to professional electric tools and equipment rental are excluded, the annual revenue growth has averaged approximately 11%.

### REVENUE GROWTH, AVERAGE



## Operating profit

Operating profit decreased by 11%, to MSEK 17 056 (19 266), corresponding to a margin of 20.3% (21.3). Items affecting comparability, including effects from share-related long-term incentive programs, were MSEK 63 (–182) and the adjusted operating margin was 20.3% (21.5).

Operating profit for the Compressor Technique business area decreased by 2% to MSEK 7 823 (8 017), corresponding to an unchanged margin of 23.1% (23.1). The operating profit and margin was affected negatively by currency. The operating margin was, further, supported by efficiency improvements, but was negatively affected by dilution from acquisitions.

Operating profit for the Industrial Technique business area was MSEK 2 138 (2 158), corresponding to a margin of 22.5%

(22.6). The operating margin was supported by higher volumes, but was negatively affected by dilution from acquisitions.

Operating profit for the Mining and Rock Excavation Technique business area decreased by 27% to MSEK 6 083 (8 335), including restructuring costs of MSEK 120. The adjusted operating margin was 21.4% (24.5) and was also impacted negatively by lower volumes, currency and dilution from acquisitions.

Operating profit for the Construction Technique business area decreased by 9% to MSEK 1 214 (1 332), corresponding to a margin of 9.9% (10.3). Previous year includes restructuring costs of MSEK 65. The adjusted operating margin was 9.9% (10.8) and was negatively impacted by currency.

Costs for common group functions and eliminations decreased to MSEK –202 (–576), including a gain of MSEK 90 related to a divestment of the captive insurance operations in Luxembourg (previous year: a gain of MSEK 100 from sales of assets in the customer financing portfolio), an insurance reimbursement of MSEK 155 and the effect from the provision for share-related long-term incentive programs of MSEK –62 (–217).

## Depreciation and EBITDA

Depreciation and amortization was MSEK 2 703 (2 664). Earnings before depreciation and amortization, EBITDA, was MSEK 19 759 (21 930), corresponding to a margin of 23.6% (24.2).

## Net financial items

The Group's net financial items totaled MSEK –790 (–704). The net interest expense increased to MSEK –730 (–658). Other financial items were MSEK –60 (–46). See note 9 and 28.

## Profit before tax

Profit before tax decreased by 12% to MSEK 16 266 (18 562), corresponding to a profit margin of 19.4% (20.5).

## Taxes

Taxes for the year totaled MSEK 4 184 (4 629), corresponding to an effective tax rate of 25.7% (24.9) in relation to profit before tax. See note 10.

## BRIDGE – REVENUES AND OPERATING PROFIT

MSEK	2013	Volume, price, mix and other	Currency	Acquisitions	Restructuring and capital gain	Share based long-term incentive programs	2012
Revenues	83 888	–3 345	–4 150	850	–	–	90 533
Operating profit	17 056	–1 215	–1 225	–15	+90	+155	19 266
Effect on margin, %	20.3	–0.6	–0.5	–0.2	+0.1	+0.2	21.3

*The operating margin decreased to 20.3% (21.3). It was negatively affected by the net effect of volume, price, mix and operational costs, by currency and by dilution from acquisitions. The effect from items affecting comparability was positive.*

MSEK	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets <sup>1)</sup>	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Compressor Technique	33 839	34 714	7 823	8 017	23.1	23.1	61	62	1 085	987
Industrial Technique	9 501	9 566	2 138	2 158	22.5	22.6	42	43	121	170
Mining and Rock Excavation Technique	29 013	34 054	6 083	8 335	21.0	24.5	41	59	912	1 298
Construction Technique	12 257	12 888	1 214	1 332	9.9	10.3	10	10	255	286
Common Group functions/eliminations	–722	–689	–202	–576					338	230
<b>Total Group</b>	<b>83 888</b>	<b>90 533</b>	<b>17 056</b>	<b>19 266</b>	<b>20.3</b>	<b>21.3</b>	<b>28</b>	<b>36</b>	<b>2 711</b>	<b>2 971</b>

<sup>1)</sup> Excluding assets leased.

### Profit and earnings per share

Profit for the year decreased by 13% to MSEK 12 082 (13 933), whereof MSEK 12 072 (13 920) and MSEK 10 (13) attributable to owners of the parent and non-controlling interests, respectively. Basic and diluted earnings per share were SEK 9.95 (11.47) and SEK 9.92 (11.44), respectively.

### Balance sheet

#### BALANCE SHEET IN SUMMARY

MSEK	December 31, 2013		December 31, 2012	
Intangible assets	17 279	19%	15 879	20%
Rental equipment	2 420	3%	2 030	3%
Other property, plant and equipment	6 907	8%	6 846	8%
Other fixed assets	3 401	4%	3 481	4%
Inventories	16 826	19%	17 653	22%
Receivables	21 726	25%	21 155	26%
Current financial assets	1 697	2%	1 333	2%
Cash and cash equivalents	17 633	20%	12 416	15%
Assets classified as held for sale	2	0%	1	0%
<b>Total assets</b>	<b>87 891</b>	<b>100%</b>	<b>80 794</b>	<b>100%</b>
Total equity	39 794	45%	34 185	42%
Interest-bearing liabilities	27 006	31%	23 201	29%
Non-interest-bearing liabilities	21 091	24%	23 408	29%
<b>Total equity and liabilities</b>	<b>87 891</b>	<b>100%</b>	<b>80 794</b>	<b>100%</b>

The Group's total assets increased by 9% to MSEK 87 891 (80 794). Currency translation effects were -1%. The effect from the increase of cash, cash equivalents and other current financial assets was about 8%, excluding the effect of acquisitions that represented about 2%. Excluding these effects, the assets increased by approximately 2% for comparable units, primarily due to a net increase in property, plant and equipment and higher trade receivables.

### Equity

MSEK	2013	2012
Opening balance	34 185	28 839
- Change in accounting principle	-	-617
Restated opening balance, Jan. 1	34 185	28 222
Profit for the year	12 082	13 933
Other comprehensive income for the year	154	-1 908
Shareholders' transactions	-6 627	-6 062
Closing balance	39 794	34 185
Equity attributable to		
- owners of the parent	39 647	34 131
- non-controlling interests	147	54

At year end, Group equity including non-controlling interests was MSEK 39 794 (34 185). Total comprehensive income for the year was MSEK 12 236 (12 025), see page 67 and note 11. Shareholders' transactions include dividends of MSEK -6 669 (-6 070), sales and repurchases of own shares of net MSEK 24 (271), change of non-controlling interests of MSEK 85 (-107) and share-based payments of net MSEK -67 (-156).

Equity per share was SEK 33 (28). Equity accounted for 45% (42) of total assets. Atlas Copco's market capitalization at year end was MSEK 213 348 (211 397), or 536% (616) of net book value. The information related to public takeover bids given for the Parent Company, on page 19, is also valid for the Group.

### Interest-bearing debt and net indebtedness

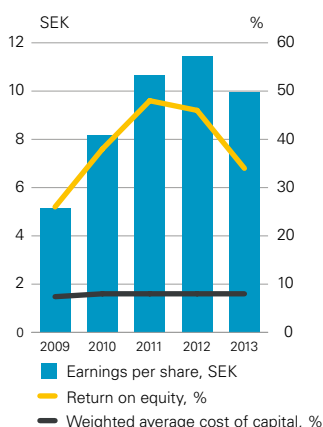
Total interest-bearing debt was MSEK 27 006 (23 201), whereof post-employment benefits MSEK 1 414 (2 149). The Group has an average maturity of 4.4 years on interest bearing liabilities. See notes 22 and 24 for additional information.

The Group's net indebtedness, adjusted with MSEK -172 (-190) for the fair value of related interest rate swaps, amounted to MSEK 7 504 (9 262) at year end. The net debt/EBITDA ratio was 0.4 (0.4) and the debt/equity ratio was 19% (27).

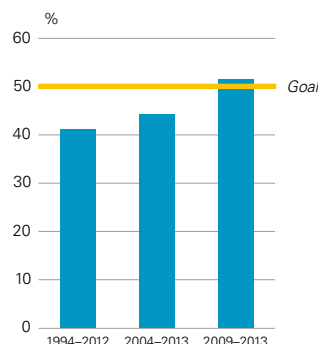
### Credit rating

Atlas Copco's long-term and short-term debt is rated by Moody's and Standard & Poor's with the long-/short-term rating A2/P1 and A/A1, respectively.

#### RETURN ON EQUITY AND EARNINGS PER SHARE



#### DIVIDEND/EARNINGS PER SHARE, AVERAGE



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

#### Dividend policy history

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

### Operating cash flow and investments

Operating cash surplus reached MSEK 19 205 (21 583). The working capital increased by MSEK 538 (1 366) and the rental equipment increased by MSEK 1 021 (749). Net cash from operating activities amounted to MSEK 11 867 (13 704).

Net investments in property, plant and equipment were MSEK –1 191 (–1 605), 100% (143) of annual depreciation. Larger investments were made by Compressor Technique in China, Belgium, the United States, and Germany; by Industrial Technique in Sweden; by Mining and Rock Excavation Technique in Sweden, the United States and China; and by Construction Technique in China and Sweden.

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK –997 (–913).

Investments in other financial assets were MSEK –735 (–474), mostly related to customer financing activities. In 2012, a portfolio of financing and leasing contracts was divested for MSEK 1 400.

Operating cash flow was MSEK 9 931 (12 286), equal to 12% (14) of Group revenues.

The net cash flow from acquisitions and divestments in subsidiaries increased, and amounted to MSEK –1 549 (–1 195).

### Cash flow from financing

Dividends paid amounted to MSEK –6 669 (–6 070). Sales and repurchases of own shares equaled net MSEK 24 (271). Acquisition of non-controlling interest, primarily related to Atlas Copco (India) Ltd., amounted to MSEK –3 (–107). Change in interest-bearing liabilities amounted to MSEK 4 113 (1 702) and includes a 10-year MEUR 500 bond loan that was issued during the year.

### Working capital ratios

The ratio of inventories to revenues at year end increased to 20.1% (19.5) and trade receivables to 19.8% (17.6). The corresponding average ratios increased to 20.9% (20.3) and 19.3% (18.6), respectively. Average trade payables in relation to revenues were 7.8% (8.2)

### Capital turnover

The capital turnover ratio was 0.98 (1.15) and the capital employed turnover ratio was 1.34 (1.67).

### Return on capital employed and return on equity

Return on capital employed was 27.8% (35.9) and the return on equity 33.6% (45.5). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

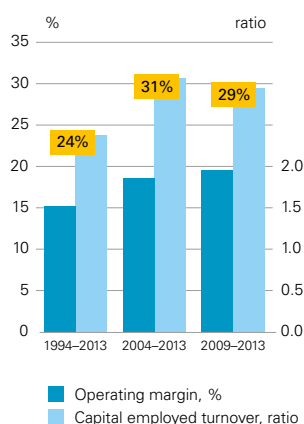
### Employees

In 2013, the average number of employees in the Atlas Copco Group increased by 1 046 to 40 159. At year end, the number of employees was 40 241 (39 811) and the number of full-time consultants/external workforce was 2 137 (2 109). For comparable units the total workforce decreased by 718 while acquisitions added 1 176 for a total increase of 458. See also pages 44–47.

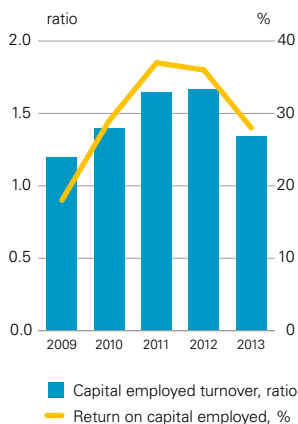
Average number of employees	2013	2012
Atlas Copco Group	40 159	39 113
– Sweden	4 497	4 702
– Outside Sweden	35 662	34 411
Business areas		
– Compressor Technique	15 910	15 471
– Industrial Technique	4 553	4 389
– Mining and Rock Excavation Technique	13 347	12 766
– Construction Technique	4 996	5 101
– Common Group functions	1 353	1 386

*The Group's goal is to continue to deliver high return on capital employed, by constantly striving for operational excellence and generating growth. All acquired businesses are expected to have a return on capital employed above the Group's weighted average cost of capital.*

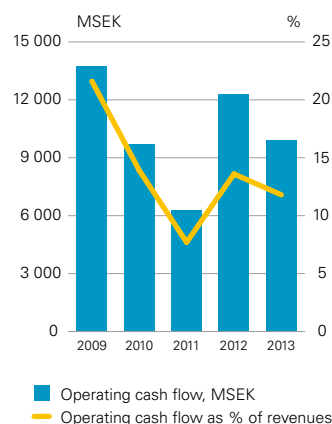
### RETURN ON CAPITAL EMPLOYED, AVERAGE



### CAPITAL EMPLOYED TURNOVER AND RETURN



### OPERATING CASH FLOW



## PARENT COMPANY

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden. Its operations include administrative functions, holding company functions as well as part of Group Treasury.

### Earnings

Profit before tax totaled MSEK 14 130 (3 960). Profit for the year amounted to MSEK 13 275 (3 024).

### Financing

The total assets of the Parent Company were MSEK 113 896 (108 741). At year end 2013, cash and cash equivalents amounted to MSEK 13 302 (7 579) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 64 979 (63 485), whereof the main part is Group internal loans. Equity represented 41% (38) of total assets and the undistributed earnings totaled MSEK 41 194 (35 452).

### Employees

The average number of employees in the Parent Company was 109 (109).

### Remuneration

Fees and other remuneration paid to the Board of Directors, the President and CEO, and other members of Group Management, as well as other statistics and the guidelines regarding remuneration and benefits to the management of the Group as approved by the Annual General Meeting 2013 are specified in note 5.

### Risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 36–39.

### Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.50 (5.50) per share, equal to MSEK 6 675 (6 668), be paid for the 2013 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described below.

#### SEK

Retained earnings including reserve for fair value	27 918 560 883
Profit for the year	13 274 967 512
	<b>41 193 528 395</b>

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

To the shareholders, a dividend of SEK 5.50 per share	6 674 541 022
To be retained in the business	34 518 987 373
<b>Total</b>	<b>41 193 528 395</b>

### Shares and share capital

At year end, Atlas Copco's share capital totaled MSEK 786 (786) and a total number of 1 229 613 104 shares divided into 839 394 096 class A shares and 390 219 008 class B shares were issued. Net of 15 414 812 class A shares and 645 379 class B shares held by Atlas Copco, 1 213 552 913 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote.

Investor AB is the single largest shareholder in Atlas Copco AB. At year end 2013 Investor AB held a total of 206 895 611 shares, representing 22.3% of the votes and 16.8% of the capital.

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

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

# COMPRESSOR TECHNIQUE

The orders received for industrial compressed air and gas equipment decreased slightly during 2013, whereas the service business continued to grow. The business area continued to invest in market presence, innovation and competence and is also expanding into process vacuum solutions by the acquisition of Edwards.

KEY FIGURES, MSEK	2013	2012	CHANGE, %
Orders received	33 823	35 469	-5
Revenues	33 839	34 714	-3
Operating profit	7 823	8 017	-2
Operating margin, %	23.1	23.1	
Return on capital employed, %	61	62	
Investments	1 085	987	
Average number of employees	15 910	15 471	+3





# THE YEAR IN REVIEW

## Business development

The order intake for stationary industrial compressors and air treatment equipment, such as compressed air dryers, coolers and filters, was somewhat lower compared to the previous year. The orders received for small and medium-sized compressors were stable in all major markets. The order intake for large compressors as well as for gas and process compressors and expanders, however, decreased. For these machines, the orders increased in Europe, but were lower in North America and in the important Asian markets.

The specialty rental business grew.

The demand for service developed favorably and continued to grow in all major markets.

Total order intake decreased 1% organically.

## Market presence and organizational development

The business area continued to invest in market presence, particularly in Asia, and the number of employees in sales, service and product development increased during the year. Also, production started in two new compressor manufacturing facilities in China and in India.

On January 1, 2014, the Specialty Rental division moved from the Compressor Technique business area to the Construction Technique business area. The objective is to strengthen growth by further developing product and service synergies. Pro-forma data is presented below.

PRO-FORMA, MSEK	2013	2012
Orders received	31 765	33 481
Revenues	31 782	32 725
Operating profit	7 239	7 474
Operating margin, %	22.9	22.8

## Acquisitions

The business area made three acquisitions in 2013:

- Air et Techniques Energies Provence (ATEP), a compressor distributor in France with 30 employees.
- National Pump & Compressor's air compressor business in the state of Illinois, USA, with about 45 employees.

- Dost Kompresör, a compressor distributor in Turkey, with 16 employees.

## Acquisition of Edwards, expanding into vacuum solutions

On January 9, 2014, Atlas Copco finalized the acquisition of Edwards, a technology and market leader in sophisticated vacuum products and abatement solutions. The products and services are integral to manufacturing processes, such as for semiconductors and flat panel displays, and are used within an increasingly diverse range of industrial applications.

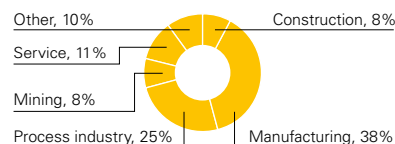
The acquisition of Edwards offers Atlas Copco an opportunity to expand into a growing business which serves industries that are well-known to Atlas Copco. There are several synergies between vacuum and compressed air solutions in sales, service and technology development.

Edwards had approximately 3 400 employees and revenues of MSEK 6 950 in 2013, of which more than half in Asia.

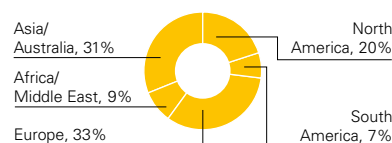
## Revenues, profits and returns

Revenues reached MSEK 33 839 (34 714), corresponding to an organic growth of 1%. Operating profit decreased by 2% to MSEK 7 823 (8 017), corresponding to a margin of 23.1% (23.1). The operating profit and margin was affected negatively by currency. The operating margin was, further, supported by efficiency improvements, but was negatively affected by dilution from acquisitions. The return on capital employed was 61% (62).

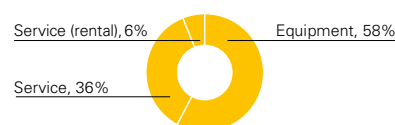
## ORDERS RECEIVED BY CUSTOMER CATEGORY



## REVENUES BY REGION



## SHARE OF REVENUES



## ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



## INNOVATION Several new products and solutions were introduced, including the following examples:

- A range of small oil-injected screw compressors that features a compact design with breakthrough energy-efficiency. The award-winning variable speed drive compressor range achieves energy savings of 50% on average compared to fixed speed models.
- A portfolio of equipment for medical air applications with compressors, air purifiers and a controller to manage the installation to optimum performance.
- An energy-efficient large oil-injected screw compressor, which has up to 10% lower energy consumption compared to the previous generation. It is also equipped with an energy recovery system.
- A range of highly energy-efficient centrifugal compressors which saves up to 7% energy at full load.





The Compressor Technique business area provides industrial compressors, vacuum solutions, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, Germany, the United States, China and India.

REVENUES, MSEK

# 33 839

IN 2013

### The market

The global market for compressed air equipment, air and gas treatment equipment, vacuum solutions and related services is characterized by a diversified customer base. The customers demand solutions that are reliable, productive and efficient and suited to specific applications.

Compressors are used in a wide spectrum of applications. In industrial processes, clean, dry and oil-free air is needed in e.g. food, pharmaceutical, electronics, and textile industries. Compressed air is also used to power tools in assembly operations and in applications as diversified as snow making, fish farming, on high-speed trains, and in hospitals. Low pressure compressors, blowers, are used in applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

Gas and process compressors and expanders are supplied to various process industries, such as air separation plants, power utilities, chemical and petrochemical plants, and liquefied natural gas applications.

Vacuum solutions are required in a number of industrial applications where the pressure is required to be below atmospheric pressure and/or the environment needs to be clean. Applications include manufacturing of semiconductors, flat panel displays, chemicals and pharmaceuticals as well as packaging, pick-up and conveying.

Stationary industrial air compressors and associated air-treatment products, spare parts and service represent about 75% of sales. Large gas and process compressors represent approximately 10% and vacuum solutions, including service, approximately 15%. The acquired Edwards business is included in the description above.

### Market trends

- Energy efficiency/savings, energy recovery and reduction of CO<sub>2</sub> emissions
- Increased demand for service and monitoring of compressed air installations
- Focus on total solution and total lifecycle cost
- New applications for compressed air, compressed gas and vacuum

### Demand drivers

- Investments in machinery
- Industrial production
- Energy costs

### Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of compressed air and gas and vacuum solutions, by being interactive, committed and innovative, and offering customers the best value.

The strategy is to further develop Atlas Copco's leading position in the selected niches and grow the business in a way that is economically, environmentally and socially responsible. This should be done by capitalizing on the strong market presence worldwide, improving market penetration in mature and developing markets, and continuously developing improved products and solutions to satisfy demands from customers. The presence is enhanced by utilizing multiple brands. The strategy encompasses giving a continuous focus to the service business as well as developing businesses within focused areas such as air treatment equipment, low pressure compressors, vacuum solutions, and compressor solutions for trains, ships, and hospitals. The ambition is to continue to grow the service business and to develop new businesses. The business area is actively looking at acquiring complementary businesses.

### Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions offering better value and improved energy efficiency to customers
- Extend the product and service offering
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

### Competition

Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll-Rand, Kaeser, Hitachi, Gardner Denver, Cameron, Sullair, and Parker Hannifin. There are also numerous regional and local competitors. In the market for gas and process compressors and expanders, the main competitors are Siemens and MAN Turbo. In the market for vacuum solutions, the main competitors are Busch, Gardner Denver, Oerlikon/Leybold and Pfeiffer Vacuum.

### MARKET POSITION

Compressor Technique has a leading market position globally in most of its operations.

# PRODUCTS AND APPLICATIONS

Atlas Copco offers all major air compression technologies as well as air and gas treatment equipment, air management systems and vacuum solutions, and is able to offer customers the best solution for every application.

## Piston compressors

Piston compressors are available as oil-injected and oil-free. They are used in general industrial applications as well as specialized applications.

## Oil-free tooth and scroll compressors

Oil-free tooth and scroll compressors are used in industrial and medical applications with a demand for high-quality oil-free air. Some models are available as a WorkPlace AirSystem with integrated dryers as well as with energy-efficient Variable Speed Drive (VSD).

## Rotary screw compressors

Rotary screw compressors are available as oil-injected and oil-free. They are used in numerous industrial applications and can feature the WorkPlace AirSystem with integrated dryers, as well as the energy-efficient VSD technology and energy recovery kits.

## Oil-free blowers

Oil-free blowers are available with different technologies: rotary lobe blowers, rotary screw blowers and centrifugal blowers. Blowers are used in process industry applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

## Oil-free centrifugal compressors

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

## Gas and process compressors

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

## Vacuum solutions

Vacuum products and abatement solutions are integral to manufacturing processes requiring clean vacuum environments, such as for semiconductors and flat panel displays, and are also used within an increasingly diverse range of industrial applications.

## Air and gas treatment equipment

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

Multiple brands are used to increase local presence and reach specific customer segments



Oil-injected screw compressors with a compact design and breakthrough energy-efficiency

Turbomolecular pump for high vacuum applications



## Business Area President:

Stephan Kuhn



## THE DIVISIONS

January 1, 2014

1. **Compressor Technique Service** President Andrew Walker
2. **Industrial Air** President Joeri Ooms
3. **Oil-free Air** President Chris Lybaert
4. **Vacuum Solutions** President Geert Follens
5. **Gas and Process** President Peter Wagner
6. **Quality Air** President Horst Wasel
7. **Airtec** President Philippe Ernens

# INDUSTRIAL TECHNIQUE

The demand for industrial tools and assembly systems was supported by investments by the motor vehicle industry and orders received increased. The business area acquired four complementary businesses and continued to invest in market presence, product development and service.

KEY FIGURES, MSEK	2013	2012	CHANGE, %
Orders received	9 594	9 435	+2
Revenues	9 501	9 566	-1
Operating profit	2 138	2 158	-1
Operating margin, %	22.5	22.6	
Return on capital employed, %	42	43	
Investments	121	170	
Average number of employees	4 553	4 389	+4



# THE YEAR IN REVIEW

## Business development

The demand for industrial tools and assembly systems was supported by investments by the motor vehicle industry and orders received increased by 3% organically.

The orders received for advanced industrial tools and assembly systems to the motor vehicle industry increased as manufacturers continued to equip new assembly lines and upgrade existing ones with new and more productive tools and systems. The order volumes increased in all major markets with strong development in China, India and the United Kingdom. The adhesive equipment business performed well and contributed to the growth with strong sales in particularly Asia and North America.

Order volumes for industrial power tools from the general manufacturing industries decreased in the three main regions, Europe, North America and Asia. The sales to the electronics and aerospace industry held up well, but the sales to most general assembly segments, including the off-road segment, decreased.

Orders received were largely unchanged for the vehicle service business, providing large fleet operators and specialized repair shops with tools and other equipment.

The service business continued to develop well. Customers increasingly demand service and maintenance support and double-digit order growth was achieved in the United States, China and Brazil.

## Market presence and organizational development

The business area increased its presence in targeted markets and customer segments by acquiring complementary businesses and by adding resources in product development and service.

## Acquisitions

The business area made four acquisitions in 2013:

- Rapid-Torc, which develops and markets hydraulic torque wrenches, based in the United States with revenues of approximately MSEK 75 and 30 employees.

- The assets of Saltus-Werk Max Forst GmbH, a manufacturer of mechanical and electric torque solutions, based in Germany and with revenues of about MSEK 70 and 65 employees.
- Synatec, which provides quality improvement solutions mainly to the automotive industry. The German-based company had 120 employees and revenues of MSEK 105.
- UK-based Tentec Ltd., which develops and markets bolt-tightening solutions, with revenues of MSEK 105 and 65 employees.

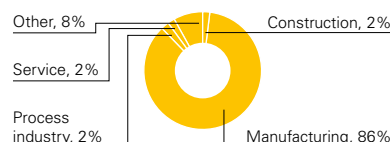
## Product design award

An electric nutrunner received the Red Dot product design award. The versatile tool combines a pistol grip and an angle tool into one unit with two triggers, which offers high accuracy, shorter operating times, maximum flexibility, and increased productivity. In some applications the tool can increase productivity with more than 50%.

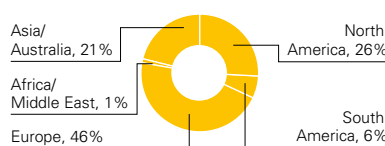
## Revenues, profits and returns

Revenues decreased by 1% to MSEK 9 501 (9 566), up 1% organically. Operating profit was MSEK 2 138 (2 158), corresponding to a margin of 22.5% (22.6). The operating margin was supported by higher volumes, but was negatively affected by dilution from acquisitions. Return on capital employed was 42% (43).

## ORDERS RECEIVED BY CUSTOMER CATEGORY



## REVENUES BY REGION



## SHARE OF REVENUES



## ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



## INNOVATION Several industrial tools and assembly systems were introduced, including the following examples:

- A range of electric tightening tools with controller that is easy to install. These offer the high speed of pneumatic tools with the accuracy and control of an electric tool and contribute to increased productivity, better ergonomics and lower energy consumption.
- A pneumatic grinder with a two-stage turbine motor that provides an extremely high efficiency combined with high operator comfort and safety. A speed governor helps reduce process time to a minimum and since the job is done faster, the total energy consumption is significantly lower.
- An electric pulse tool for assembly operations. The main benefits of the tool are increased quality of the assembly and higher energy efficiency (reduced CO<sub>2</sub> emissions) compared to a pneumatic tool.



The Industrial Technique business area provides industrial power tools, assembly systems, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive and aerospace industries, industrial manufacturing and maintenance, and in vehicle service. Principal product development and manufacturing units are located in Sweden, France and Japan.

REVENUES, MSEK

# 9 501

IN 2013

### The market

The motor vehicle industry, including sub-suppliers, is a key customer segment representing approximately half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production. This also includes a wide offering of quality assurance and quality improvement solutions. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is increasingly using adhesives. The business area offers dispensing equipment for adhesives and sealants.

In general industry, industrial tools are used in a number of applications, such as assembly, drilling and material removal. Customers are found in assembly operations, e.g. electronics, aerospace and appliances, in general industrial manufacturing, shipyards, foundries and among machine tool builders. The equipment supplied includes assembly tools for an increasingly large torque-range, drills, percussive tools, grinders, hoists and trolleys, and accessories. Air motors are supplied separately for different applications in production facilities.

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

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

### Market trends

- Higher requirements for quality, productivity, flexibility, ergonomics and environment
- More advanced tools and systems and increased importance of service, know-how and training
- More power tools with electric motors, partly replacing pneumatic tools
- Demand for lower fuel consumption drives demand for alternative assembly methods, e.g. adhesives
- Both general industrial and motor vehicle manufacturing are moving east

### Demand drivers

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

### Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of industrial power tools, assembly systems, quality assurance products, software, and services to customers in the motor vehicle industry, in targeted areas in the general manufacturing industry and in vehicle service.

The strategy is to continue to grow the business profitably by building on the technological leadership and continuously offering products and services that improve customers' productivity. Important activities are to extend the product offering, particularly with the motor vehicle industry and to provide additional services, know-how and training. The business area is also increasing its presence in general industrial manufacturing, vehicle service and geographically in targeted markets in Asia and Eastern Europe. The presence is enhanced by utilizing multiple brands. The business area is actively looking at acquiring complementary businesses. Growth should be achieved in a way that is economically, environmentally and socially responsible.

### Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Extend the product and service offering
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

### Competition

Industrial Technique's competitors in the industrial tools business include Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors. In the area of adhesive and sealant equipment, the primary competitors are Nordson and Graco.

### MARKET POSITION

Industrial Technique has a leading market position globally in most of its operations.

# PRODUCTS AND APPLICATIONS

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

### Motor vehicle industry

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

### General industrial manufacturing

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

### Vehicle service

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



Ultra-compact and powerful impact wrench



Advanced electric assembly tool with controller



Hydraulic torque-wrench for high torque applications



Pneumatic turbine grinder with extremely high efficiency

**Business Area President:**  
Mats Rahmström



**THE DIVISIONS**  
January 1, 2014

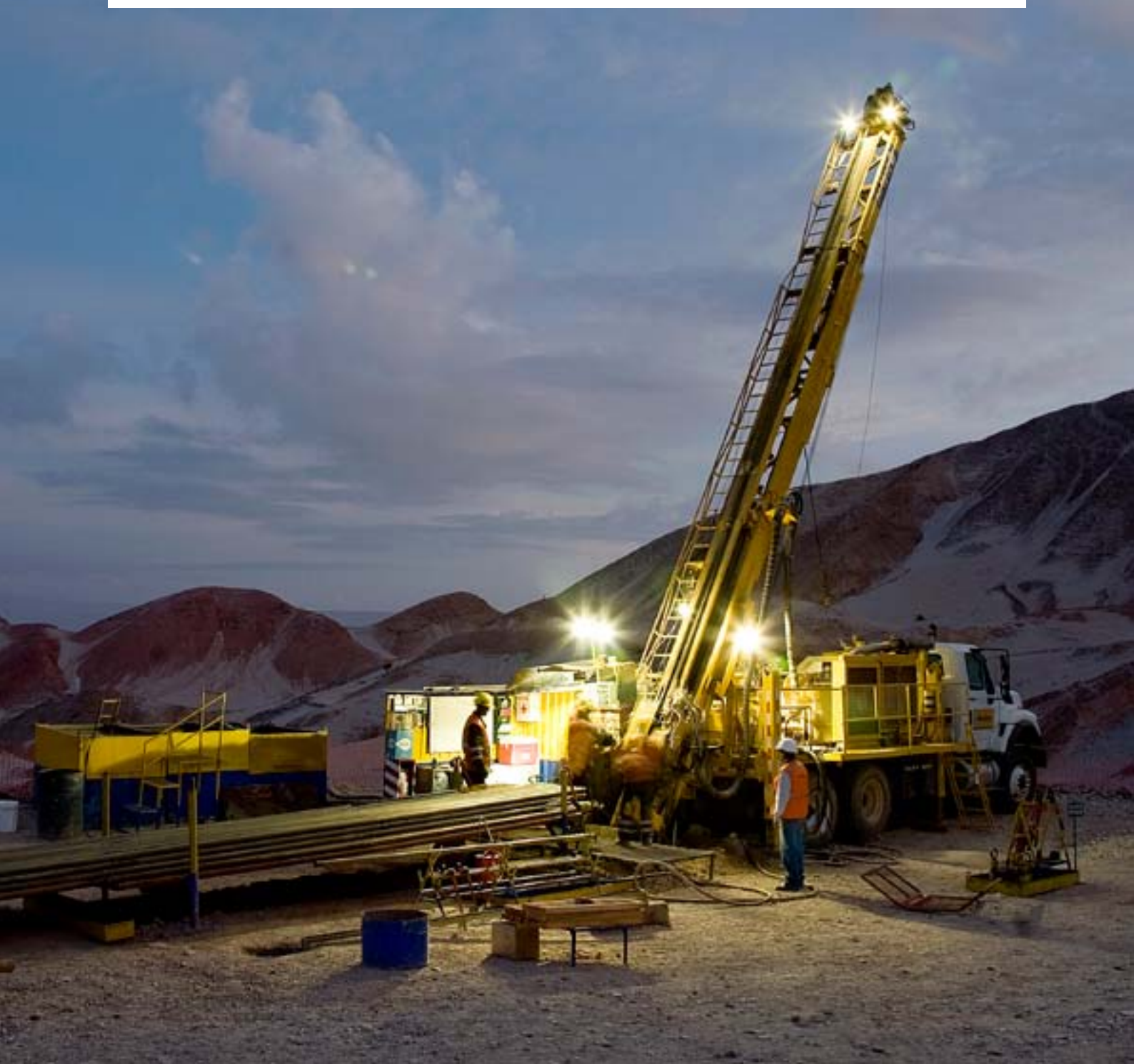
- 1. **Industrial Technique Service** President Lars Eklöf
- 2. **MVI Tools and Assembly Systems** President Tobias Hahn
- 3. **General Industry Tools and Assembly Systems** President Henrik Elmin
- 4. **Chicago Pneumatic Tools** President Philippe Artzet



# MINING AND ROCK EXCAVATION TECHNIQUE

The demand for equipment from customers in the mining industry was weak and equipment orders decreased significantly. The order intake for equipment for infrastructure projects decreased slightly. The service and consumables business, however, remained healthy. Several actions to adjust the capacity to the lower mining equipment demand have been implemented. The business area made three acquisitions.

KEY FIGURES, MSEK	2013	2012	CHANGE, %
Orders received	26 092	33 482	-22
Revenues	29 013	34 054	-15
Operating profit	6 083	8 335	-27
Operating margin, %	21.0	24.5	
Return on capital employed, %	41	59	
Investments	912	1 298	
Average number of employees	13 347	12 766	+5





# THE YEAR IN REVIEW

## Business development

The demand for equipment from customers in the mining industry was weak as customers were hesitant to invest in capital equipment. Order volumes decreased significantly compared to the previous year for all types of equipment and were also affected by cancellations of more than MSEK 500. Geographically, the order intake decreased only moderately in Africa and in Asia, and had the most negative development in the regions with the best development in 2012, Australia and South America.

The order intake for equipment for infrastructure projects decreased slightly and affected both underground and surface drilling equipment. Geographically, orders received increased in Europe and was unchanged in Asia, while it decreased significantly in North and South America.

Demand for service and spare parts remained healthy and the newly created service division continued to invest in the organization and took several initiatives to further develop the business. Volumes were unchanged, as growth in Asia, Africa/Middle East and South America compensated for a negative development in Australia and North America.

The sales of consumables decreased slightly, primarily as the sales of exploration consumables decreased.

Total order intake decreased 18% organically.

## Organizational development

Several actions to adjust capacity to the lower demand for mining equipment were implemented, including insourcing of final assembly. The total workforce for comparable units was reduced with about 1 200 during the year, mostly in manufacturing, but also in other categories.

Johan Halling was appointed President of the business area and member of Group Management, effective August 1, 2013.

## Acquisitions

The business area made three acquisitions in 2013:

- 75% of Shandong Rock Drilling Tools Co., Ltd., a leading Chinese supplier of rock drilling tools with revenues of MSEK 420 and 687 employees.
- Switzerland-based MEYCO Equipment, a manufacturer of shotcreting equipment with revenues of MSEK 190 and about 45 employees.
- The operational assets of Archer Underbalanced Services, a service provider of drilling equipment and compressed air packages to U.S. land-based oil and gas drilling companies, with revenues of MSEK 230 and 75 employees.

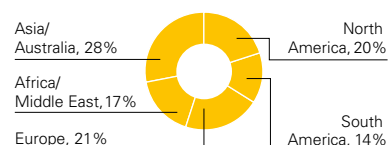
## Revenues, profits and returns

Revenues decreased to MSEK 29 013 (34 054), corresponding to 11% organic decline. Operating profit decreased by 27% to MSEK 6 083 (8 335), including restructuring costs of MSEK 120. The adjusted operating margin was 21.4% (24.5) and was also impacted negatively by lower volumes, currency and dilution from acquisitions. Return on capital employed was 41% (59).

## ORDERS RECEIVED BY CUSTOMER CATEGORY



## REVENUES BY REGION



## SHARE OF REVENUES



## ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



## INNOVATION Several new products and solutions were introduced, including the following examples:

- A dry-drilling system, which is ideal for projects where water is scarce or where it is not possible to use water due to rock conditions or surrounding temperatures.
- An underground loader for large operations, which is expected to be the most productive on the market. Several features contribute to safe operations and to an overall faster and more productive loading cycle.
- An electric loader that consumes less energy, produces less heat, and has a lower noise level than an equivalent diesel machine.
- A compact rig for rock bolting that fits into the smallest tunnels and mines and can improve safety by eliminating the manual bolting, which has been the only option in the segment.



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

REVENUES, MSEK

# 29 013

IN 2013

### The market

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

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

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

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

### Market trends

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

### Demand drivers

#### *Mining*

- Investments in equipment
- Ore production

#### *Civil engineering*

- Infrastructure and public investments
- Non-building construction activity

### Vision and strategy

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

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

### Strategic activities

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

### Competition

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

### MARKET POSITION

Mining and Rock Excavation Technique has a leading market position globally in most of its operations.

# PRODUCTS AND APPLICATIONS

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

### Underground rock drilling equipment

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

### Underground loading and haulage equipment

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

### Underground utility vehicles

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

### Surface drilling equipment

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

### Rock drilling tools

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

### Exploration drilling and ground engineering equipment

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

### Mobile crushers and screeners

Mobile crushers and screeners are used mainly to produce aggregate in quarries and to recycle construction waste.

Rotary blasthole rig for open-pit mining



Bolting rig for small mines and tunnels



Electric underground loader



**Business Area President:**  
Johan Halling



### THE DIVISIONS

January 1, 2014

- 1. Mining and Rock Excavation Service**  
President Markku Teräsvasara
- 2. Underground Rock Excavation**  
President David Shellhammer
- 3. Surface and Exploration Drilling**  
President Victor Tapia
- 4. Drilling Solutions** President Peter Salditt
- 5. Rock Drilling Tools** President Helena Hedblom
- 6. Rocktec** President Scott Barker

# CONSTRUCTION TECHNIQUE

The demand for construction equipment was largely unchanged during 2013. The business area continued to invest in market presence and product development and the number of employees in sales, service, and research and development increased.

KEY FIGURES, MSEK	2013	2012	CHANGE, %
Orders received	12 471	13 001	-4
Revenues	12 257	12 888	-5
Operating profit	1 214	1 332	-9
Operating margin, %	9.9	10.3	
Return on capital employed, %	10	10	
Investments	255	286	
Average number of employees	4 996	5 101	-2



# THE YEAR IN REVIEW

## Business development

The demand for construction equipment was largely unchanged during 2013. Total orders received increased 1% organically as the service business grew somewhat. Solid growth was recorded in South America and in Africa/Middle East. The order intake grew marginally in Asia and in North America while it decreased in Europe.

Orders received for portable energy products, such as portable compressors, generators, pumps and lighting towers, as well as for road construction equipment increased somewhat. For these products, order intake increased in South America and in Africa/Middle East, but decreased in Europe and in the important Chinese market. Orders for construction tools, such as breakers and silenced demolition tools, decreased. The decrease was primarily attributable to a lower order intake in Europe. It was only partly offset by an increase in orders received in United States and in China.

The service business for the business area continued to grow in all major regions of the world, except in Europe, where volumes were somewhat lower. The orders received increased significantly in the United States.

## Market presence and organizational development

The business area increased its presence in targeted markets by continuing to establish dedicated Construction Technique customer centers in several markets. The number of employees increased in North America, Asia, and in Africa/Middle East. The number of sales engineers and service technicians increased, while employees in manufacturing and administration decreased.

The investments in product development remained high and the number of employees in research and development increased by more than 10%.

On January 1, 2014, the Specialty Rental division moved from the Compressor Technique business area to the Construction Technique business area. The objective is to strengthen growth by further developing product and service synergies. Pro-forma data is presented below.

PRO-FORMA, MSEK	2013	2012
Orders received	14 260	14 607
Revenues	13 967	14 658
Operating profit	1 733	1 825
Operating margin, %	12.4	12.5

*Part of the transferred revenues was internal, which explains why the revenues added in Construction Technique are lower than the revenues deducted from Compressor Technique.*

## Acquisitions

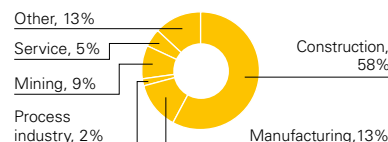
The business area made one acquisition in 2013:

- Pneumatic Holdings Inc., a U.S. provider of pneumatic light construction tools with revenues of MSEK 73 and 16 employees.

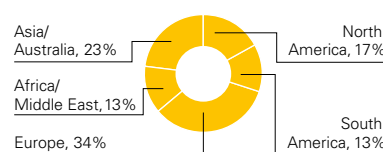
## Revenues, profits and returns

Revenues decreased 5% to MSEK 12 257 (12 888), due to currency effects. Operating profit decreased to MSEK 1 214 (1 332), corresponding to margin of 9.9% (10.3). Previous year's operating profit includes restructuring costs of MSEK 65. The adjusted operating margin was 9.9% (10.8) and was negatively impacted by currency. Return on capital employed was 10% (10).

## ORDERS RECEIVED BY CUSTOMER CATEGORY



## REVENUES BY REGION



## SHARE OF REVENUES



## ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



## INNOVATION Several new products and solutions were introduced, including the following examples:

- A paver suitable for highway paving. The machine is equipped with a number of features for improved operator control. It can be equipped with an engine control feature that can save up to 15% of the fuel cost.
- A range of small submersible pumps primarily intended for the light construction and general equipment rental industries. The pump is low weight, robust and easy to maintain.
- A range of compact rollers for soil compaction with software and features to optimize the compaction performance. These rollers are also easier to service and have lower noise and fuel consumption than their predecessors.
- A range of portable compressors developed for the rental industry. The machines are compact, easy to use, reliable and easy to maintain in order to meet the requirements of the rental industry.





The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The business area offers specialty rental and provides service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works, oil and gas, energy, drilling and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, the United States, China, India and Brazil.

REVENUES, MSEK

# 12 257

IN 2013

### The market

The total market for construction equipment is very large. It has a large number of market participants offering a wide range of products for different applications. The Construction Technique business area, however, offers products and services only for selected applications.

The key customer segment is construction, accounting directly for more than half of revenues. General and civil engineering contractors, often involved in infrastructure projects like road building, other non-building activity and/or demolition work, demand compaction and paving equipment and light construction tools, such as breakers and cutters. Diesel-driven portable compressors and generators are reliable power sources for machines and tools in the construction sector as well as for mining and numerous industrial applications.

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

### Market trends

- Higher requirements for productivity, flexibility and ergonomics
- Increased focus on environment and safety
- Customer and supplier consolidation
- Increased demand for service support/contracts

### Demand drivers

- Infrastructure and public investments
- Demolition and recycling
- Investments in portable energy equipment

### Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of equipment and services for portable energy, road development, and demolition applications to the construction industries.

The strategy is to grow by developing Atlas Copco's market position and presence as a global supplier within the selected niches for the construction industries, in construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The presence is enhanced by utilizing multiple brands. The strategy also includes development of specialty rental services as well as development of the service business; increasing revenues by offering more customers more services. Growth should be achieved in a way that is economically, environmentally and socially responsible.

### Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Capture sales and service synergies between the construction businesses
- Develop new sustainable products and solutions offering enhanced productivity, safety and reduced environmental impact
- Invest in design, development and production capacity in growth markets
- Develop more competitive offerings with different value propositions
- Perform more service on a higher share of the installed base of machines
- Develop the service business
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

### Competition

Construction Technique's principal competitors in the market for portable compressors are Doosan Infracore, Kaeser and Sullair. Volvo, Caterpillar and Wirtgen are the principal competitors for road construction equipment and Sandvik, Furukawa and Wacker Neuson for construction tools. In addition, there is a large number of competitors operating locally, regionally and in certain niche areas. Sany and XCMG are examples of Chinese competitors in the area of road construction equipment.

### MARKET POSITION

The Construction Technique business area has leading or strong market positions globally in most of its operations.

# PRODUCTS AND APPLICATIONS

The Construction Technique business area offers a range of products for selected applications in civil engineering, demolition and road building.

**Portable compressors**

Portable oil-injected compressors are primarily used in construction applications where the compressed air is used as a power source for equipment, such as pneumatic breakers and rock drills. Portable oil-free compressors are used to meet a temporary need for oil-free air, primarily in industrial applications.

**Boosters**

When extra high pressure is needed, boosters are used to boost the air fed by portable compressors. This high-pressure air is mainly used in the drilling industry and in oil and gas applications.

**Generators**

Portable generators fulfill a temporary need for electricity, primarily in construction applications. Other common generator applications are power supply for events, emergency power and power in remote locations.

**Lighting towers**

Light for safe operations 24/7.

**Pumps**

Submersible pumps, primarily for water.

**Compaction and paving equipment**

The business area offers a range of compaction and paving equipment to the road construction market. Rollers are used to compact all types of soil or newly laid asphalt. Planers are used for removing asphalt and pavers for laying out new asphalt. The product range also includes smaller handheld compaction and concrete equipment.

**Construction and demolition tools**

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



Hydraulic breaker



Road construction equipment



High pressure compressor for drilling applications

**Business Area President:**  
Nico Delvaux



1.



2.

**THE DIVISIONS**  
January 1, 2014

- 1. **Construction Technique Service** President Adrian Ridge
- 2. **Specialty Rental** President Ray Löfgren
- 3. **Portable Energy** President Norbert Paprocki
- 4. **Road Construction Equipment** President Peter Lauwers
- 5. **Construction Tools** President Vladimir Kozlovskiy



3.



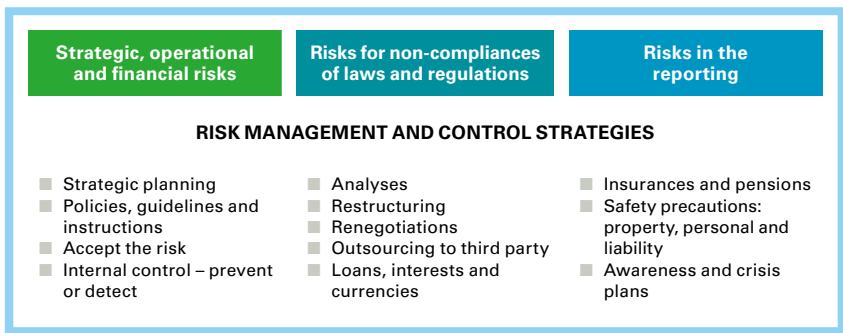
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5.

# RISKS, RISK MANAGEMENT AND OPPORTUNITIES

All business activities involve risks. Atlas Copco has a structured and proactive approach to manage the company’s risks. Well-managed risks can lead to opportunities and add value to the business. Risks that are not well managed can lead to incidents and losses.



*“ ... the ability to prevent, detect and manage the risks is crucial for good governance and control of the business.”*

Atlas Copco’s global and diversified business towards many customer segments gives a good distribution of risks geographically and operationally. However, the ability to prevent, detect and manage the risks is crucial for good governance and control of the business. The aim is to achieve Group goals with well-managed risk taking in line with the strategy and within the frame of *The Way We Do Things*.

Group functions for legal, insurance, treasury, tax, internal audit and controlling and accounting provide policies, guidelines and instructions to support Group companies establish risk management. Risk management is an operational responsibility and is regularly followed-up at business board meetings. The implementation is regularly audited by internal and external audits.

Strategic and operational risks include for example political decisions, market conditions, environment, and change of business behavior and business climate, supplier dependence, price adjustments, material supply, and competence among employees, integration of acquired entities, customer credit risks and IT-risks. It’s a continuous work to address and reduce risks.

Financial risks include currency risks, interest rate risks, financing, liquidity, pension liabilities’ and financial credit risks. The Group’s treasury function is responsible for these risks and also supports Group companies to implement financial policies and guidelines.

Risks for non-compliances of laws and regulations are managed by operations with the support of the Group legal function.

Risks in the reporting cover for example errors in the internal reporting to the Group or in the external reporting to authorities. Read more on Internal control over financial reporting in the Corporate Governance report, pages 64–65.

The enterprise risk management process is managed by the Insurance & Risk Management department. It covers strategic and operational risk assessments on divisional level but gives also a consolidated view of Group risks.

Awareness and management of risks can lead to opportunities. Presented on pages 37–39 are risks, risk mitigating factors and potential opportunities for each category of risk.



## RISKS, RISK MANAGEMENT AND OPPORTUNITIES

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
<b>MARKET RISKS</b>	A widespread financial crisis and economic downturn would not only affect the Group negatively but it could also impact customers' ability to finance their investments. Changes in customers' production levels also have an effect on the Group's sales of spare parts, service and consumables. In developing markets, new smaller competitors continuously appear which may affect Atlas Copco negatively.	<ul style="list-style-type: none"> <li>Well-diversified sales to customers in multiple countries and industries. Sales of spare parts and service are relatively stable in comparison to equipment sales.</li> <li>Monthly follow up of market and sales development enables quick actions.</li> <li>Flexible manufacturing setup makes it possible to quickly adapt to changes in equipment demand.</li> <li>Leading position in most market segments provides economies of scale.</li> </ul>	<ul style="list-style-type: none"> <li>A significant competitive advantage as a result of a strong global presence, including growth markets.</li> <li>Opportunities to positively impact both the society and environment, through the Group's high quality sustainable products and high ethical standards.</li> <li>Continue to develop close, long-term and strategic relationships with customers and suppliers.</li> </ul>
<b>PRODUCT DEVELOPMENT RISKS</b>	One of the challenges for Atlas Copco's long-term growth and profitability will be to continuously develop innovative, sustainable products that consume less resources over the entire life cycle. Atlas Copco's product offering is also affected by national and regional legislation, on issues such as emissions, noise, vibrations, and recycling. However, there may be increased risk of competition in emerging markets where low-cost products are not affected by such rules.	<ul style="list-style-type: none"> <li>Continuous investments in research and development to develop products in line with customer demand and expectations, even during economic downturns.</li> <li>Designing products with a life cycle perspective and measurable efficiency targets for the main product categories for each Division.</li> <li>Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Substantial opportunities to strengthen the competitive edge by innovating high quality, sustainable products and creating an integrated value proposition for customers.</li> </ul>
<b>PRODUCTION RISKS</b>	<p>Core component manufacturing is concentrated in a few locations and if there are interruptions or lack of capacity in these locations, this may have an effect on deliveries or on the quality of products.</p> <p>Production facilities could also have a risk of damaging the environment through operations, e.g. through hazardous waste and emissions.</p> <p>Atlas Copco is directly and indirectly exposed to raw material prices.</p>	<ul style="list-style-type: none"> <li>Manufacturing units continuously monitor the production process, test the safety and quality of the products, make risk assessments, and train employees.</li> <li>Manufacturing units invest in modern equipment that can perform multiple operations.</li> <li>Production units are subject to continuous risk management surveys to safeguard that they comply with the Atlas Copco loss prevention standard.</li> <li>Goal to certify all manufacturing units in accordance with the ISO 14001 standard.</li> </ul>	<ul style="list-style-type: none"> <li>Continued opportunities to extensively promote operational excellence to streamline production, minimize inefficiencies and maintain a high flexibility in the production process.</li> <li>Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be compensated by increased sales to mining customers and by increased market prices.</li> </ul>
<b>SUPPLY CHAIN RISKS</b>	<p>Atlas Copco and its business partners such as suppliers, sub-contractors and joint venture partners, must share the same high standards for the environment, labor and human rights otherwise there is a risk of compromising the Group's reputation and brand. The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may have an undesirable effect on deliveries.</p> <p>The use of many suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. that electronic components contain conflict minerals (whose trade or taxation fund armed groups in conflict areas such as the Democratic Republic of Congo).</p>	<ul style="list-style-type: none"> <li>Select and evaluate business partners on the basis of objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance.</li> <li>Atlas Copco continues the process to investigate and eradicate the presence of conflict minerals in its value chain.</li> <li>Atlas Copco has established a global network of sub-suppliers, to prevent supplier dependency.</li> <li>Business partners are requested to sign a compliance letter to the Business Code of Practice.</li> <li>E-learning for business partners launched in order to raise awareness of the Business Code of Practice.</li> </ul>	<ul style="list-style-type: none"> <li>Further increase business agility and reduce costs by improving supplier inventory management in response to changes in demand.</li> <li>Continue to be a preferred business partner and promote efficiency, sustainability and safety. Good supplier relations help to improve Atlas Copco's competitive position.</li> <li>Opportunity to strengthen customer relationships by being ready to support customers who are impacted by the Dodd Frank legislation on conflict minerals.</li> <li>Promote human rights and work towards improving labor conditions, reducing corruption and conflicts.</li> </ul>
<b>DISTRIBUTION RISKS</b>	<p>Atlas Copco primarily distributes products and services directly to the end customer. If the distribution is not efficient, it may impact customer satisfaction, sales and profits.</p> <p>Some sales are made indirect through distributors and rental companies and their performance can have a negative effect on sales.</p> <p>The distribution of products can result in increased CO<sub>2</sub> emissions from transport.</p>	<ul style="list-style-type: none"> <li>Physical distribution of products is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored.</li> <li>Significant resources are allocated to training and development of the service organization.</li> <li>As indirect sales are local/regional, the negative impact of poor performance is limited.</li> <li>Increased focus on smarter and more effective transports, including optimizing the vehicle loading and sending combined deliveries to reduce the total emissions per transport.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to strengthen its relationship with customers through timely deliveries of products and services.</li> <li>Transport efficiencies can save the customer time and cost while reducing the environmental impact of their own operations.</li> <li>Atlas Copco can reduce its own fuel costs and resource requirements which improves business agility for the Group.</li> </ul>
<b>RISKS WITH ACQUISITIONS AND DIVESTMENTS</b>	<p>The integration of acquired businesses is a difficult process and it is not certain that it will be successful. Costs related to acquisitions can be higher and/or synergies can take longer to materialize.</p> <p>Annual impairment tests are made on acquired goodwill. If goodwill is not deemed justified in such tests it can result in a write-down, affecting the Group's result.</p> <p>Acquisitions and divestments can impact local communities and/or the environment, directly or indirectly.</p>	<ul style="list-style-type: none"> <li>The Group has established an Acquisitions Process Council which provides training and supports all business units prior to, during and post an acquisition.</li> <li>Atlas Copco guidelines and policies are applied to assess and manage the environmental and social impact of operations in the affected communities after an acquisition is complete.</li> <li>Human rights and environmental considerations are integrated when acquisitions and divestments are made.</li> </ul>	<ul style="list-style-type: none"> <li>Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or team building exercises. This would not only result in a smoother integration process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become productive and efficient more rapidly.</li> </ul>

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
<b>FINANCIAL RISKS</b>	<p>Changes in exchange rates can adversely affect Group earnings when revenues from sales and costs for production and sourcing are denominated in different currencies (transaction risks). An adverse effect on Group earnings can also occur when earnings of foreign subsidiaries are translated into SEK and on the value of the Group equity when the net assets of foreign subsidiaries are translated into SEK (translation risks).</p> <p>Atlas Copco's net interest cost is affected by changes in market interest rates.</p> <p>Atlas Copco is exposed to the risk of non-payment by any of its extensive number of end customers to whom sales are made on credit.</p>	<ul style="list-style-type: none"> <li>■ A Financial Risk Management Committee meets regularly to take decisions about how to manage financial risks.</li> <li>■ The Group's operations continuously monitor and adjust sales prices and costs to limit the transaction risk. These measures can be complemented with hedging.</li> <li>■ Translation risks are partially hedged by borrowings in foreign currency and financial derivatives.</li> <li>■ Stringent credit policies are applied and no major concentration of credit risk exists in Atlas Copco. The provision for bad debt is based upon known cases and historical loss levels and is deemed sufficient. In the case of Atlas Copco Customer Finance, an in-house financing operations, risks are mitigated by retaining security in the equipment until full payment is received, by purchasing credit risk insurance and/or by transferring the risk to a third party.</li> </ul>	<ul style="list-style-type: none"> <li>→ Working proactively with financial risks improves the profit margin and also creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco.</li> <li>→ Atlas Copco Customer Finance can improve customer relations and attract more customers.</li> </ul>
<b>RISKS TO REPUTATION</b>	<p>The Group's reputation is a valuable asset which can be affected in part through the operation or actions of the Group and in part through the actions of external stakeholders. Products must deliver the brand promise and be of high quality, safe and have a low negative impact on the environment when used by the customer. There is potential for reputational risk from non-compliance to product labeling standards or if there are cases of false advertising.</p> <p>Unsatisfied employees may also potentially detract the Atlas Copco brand.</p>	<ul style="list-style-type: none"> <li>■ All Atlas Copco products are tested and also quality assured.</li> <li>■ The Group strictly monitors its product labeling and offers communications training.</li> <li>■ The Group actively engages in stakeholder dialogue to address concerns and receive insight into opportunities for improvement.</li> <li>■ The training in the Business Code of Practice including the yearly signing of a Compliance Statement.</li> <li>■ Clear well-known brand promise.</li> <li>■ A comprehensive employee survey is carried out every two years and followed up actively.</li> </ul>	<ul style="list-style-type: none"> <li>→ Brand positioning.</li> <li>→ Stakeholder engagement cannot only mitigate reputational risks in certain cases but it also presents opportunities to increase the awareness and credibility of Atlas Copco's brand through improvements and innovations.</li> <li>→ Delivering tested and quality assured products improve customer satisfaction and promote repeat business.</li> <li>→ Attract, develop and keep people that adhere to the Business Code of Practice.</li> </ul>
<b>REPORTING RISKS</b>	<p>The risk related to the communication of financial information to the capital market is that the reports do not give a fair view of the Group's true financial position and results of operations.</p> <p>Estimations often form a large portion of the sustainability data which is reported, and thus by its nature the numbers presented may not be precise representations of the Group's impact.</p>	<ul style="list-style-type: none"> <li>■ Atlas Copco subsidiaries report their financial statements regularly in accordance with International Financial Reporting Standards (IFRS). The Group's consolidated financial statements, based on those reports, are prepared in accordance with IFRS and applicable parts of the Annual Accounts Act as stated in RFR 1 "Supplementary Rules for Groups".</li> <li>■ The Group has several procedures in place to ensure compliance with Group instructions, standards, laws and regulations, for example internal audits.</li> <li>■ Atlas Copco reports sustainability information according to the GRI 3.0 principles and works with training to improve reporting practices.</li> </ul>	<ul style="list-style-type: none"> <li>→ Integrated reporting identifies and encourages opportunities for business synergies.</li> <li>→ Addressing reporting risks increases transparency and improves the potential to represent the business fairly and accurately.</li> <li>→ Improved reporting also directly results in improved risk management, especially when the data has been integrated to highlight interdependencies.</li> </ul>
<b>RISKS OF CORRUPTION AND FRAUD</b>	<p>Corruption and bribery exist in markets where Atlas Copco conducts business.</p>	<ul style="list-style-type: none"> <li>■ Zero tolerance policy on bribery and corruption, including facilitation payments.</li> <li>■ Internal control routines in place aimed at preventing and detecting deviations. The Internal Audit function is established to ensure compliance with the Group's corporate governance, internal control and risk management policies.</li> <li>■ Control Self Assessment tool to analyze internal control processes.</li> <li>■ Training in the Business Code of Practice, fraud awareness and workshops held to cover business integrity and ethical dilemmas.</li> <li>■ The Group hotline is established globally to report violations confidentially and with no penalties for reporting.</li> <li>■ The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing.</li> </ul>	<ul style="list-style-type: none"> <li>→ By fighting against corruption and fraud, Atlas Copco has the opportunity to work with its industry peers to reshape international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in the society and in markets where the Group operates.</li> <li>→ Working against corruption and fraud improves Atlas Copco's credibility and transparency and creates even more avenues to improve stakeholder relations.</li> </ul>
<b>LEGAL RISKS</b>	<p>Atlas Copco's business operations are affected by numerous laws and regulations as well as commercial and financial agreements with customers, suppliers, and other counterparties, and by licenses, patents and other intangible property rights.</p>	<ul style="list-style-type: none"> <li>■ In-house lawyers present on five continents.</li> <li>■ An yearly legal-risk survey of all companies within the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result of the legal-risk survey is compiled, analyzed, and reported to the Board and the auditors.</li> </ul>	<ul style="list-style-type: none"> <li>→ Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Atlas Copco's reputation. It also creates the chance to develop reliable partnerships and improve business stability.</li> </ul>

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
<b>INSURABLE RISKS</b>	<p>Insurable risks involve the Group's assets and interests e.g. property damage, business interruption, transport insurance, general and product liability and travel insurance.</p> <p>Atlas Copco has a customized insurance program in place to protect all insurable assets and interests of the Group. Each company within the Group is responsible for managing and reporting its insurance-related matters in accordance with guidelines of the Group's insurance program.</p>	<ul style="list-style-type: none"> <li>■ The Atlas Copco Group Insurance Program is provided by the Group in-house insurance company Industria Insurance Company Ltd. which retains part of the risk exposure.</li> <li>■ Insurance capacity is also purchased from leading insurers and reinsurers by way of using international insurance brokers.</li> <li>■ Claims management services are purchased on a global basis from leading providers and a network of local fronting insurers are issuing insurance policies on a local basis to ensure legal compliance in all countries.</li> <li>■ In connection with the insurance program, loss prevention standards have been developed through a large number of risk management surveys.</li> </ul>	<ul style="list-style-type: none"> <li>→ Working with insurable risks minimizes costs.</li> <li>→ By way of control and conformity in terms of level of risk management, the probability of events that can cause material damage and severely impact the business operation of the Atlas Copco Group is reduced and business can proceed without disruption.</li> <li>→ The use of insurance companies owned by Atlas Copco enables a strict control over all insurable interests and liabilities. It also enables a close follow up of each individual insurance claim impacting the Group, which can help to eliminate or reduce future claims.</li> <li>→ Tailor made insurance solutions.</li> </ul>
<b>SAFETY AND HEALTH RISKS</b>	<p>Issues with wellness and sick leave can impact the productivity and efficiency of the operations.</p> <p>Accidents or incidents at the workplace due to lack of proper safety measures can negatively affect productivity and the Atlas Copco employer brand.</p> <p>Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees.</p>	<ul style="list-style-type: none"> <li>■ The Group regularly assesses and manages safety and health risks in operations.</li> <li>■ The Group will implement OHSAS 18001 in all major units.</li> <li>■ Workplace wellness programs to reduce the impact of pandemic HIV/AIDS are in place in southern Africa.</li> <li>■ Atlas Copco's business partners are trained in the Group's policies including the company's approach to health and safety.</li> </ul>	<ul style="list-style-type: none"> <li>→ Improved safety and health in operations increases both employee productivity and morale.</li> <li>→ The Atlas Copco brand continues to be strengthened through safe products, and it is an opportunity for the Group to continue to be seen as industry leaders.</li> <li>→ Atlas Copco can also improve working conditions for customers and suppliers, which can create long lasting relationships and repeat orders.</li> </ul>
<b>ENVIRONMENTAL RISKS (EXTERNAL)</b>	<p>The primary drivers for external environmental risk are from physical changes in climate and natural resources, changes in regulations, taxes and resource prices.</p> <p>From an operational perspective, increased fuel/energy taxes represent a risk for Atlas Copco as it can increase operational costs.</p> <p>Regulations and requirements related to carbon dioxide emissions from products and industrial processes are gradually increasing.</p> <p>Changes in mean precipitation can affect all of Atlas Copco's operations and negatively affect operations either directly or by disrupting the supply chain.</p>	<ul style="list-style-type: none"> <li>■ Atlas Copco consistently develops products with improved energy efficiency and reduced emissions.</li> <li>■ In its own operations, Atlas Copco has several goals that address resource and energy usage in order to minimize the costs and impact on the environment.</li> <li>■ All cooling agents used in Atlas Copco products have a zero ozone-depleting impact during the product's lifecycle, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP).</li> <li>■ Atlas Copco's insurance company assesses the exposure to property risks as a result of extreme weather conditions and the danger of natural disasters. Preventive measures are taken to reduce the risk levels wherever necessary.</li> </ul>	<ul style="list-style-type: none"> <li>→ Working proactively with environmental risks can provide significant opportunities to drive innovation at Atlas Copco.</li> <li>→ Given that many customers are operating in areas of extreme water stress or scarcity, water efficient or water recycling products can have a strong customer appeal. Thus, this presents a strong business opportunity to extend Atlas Copco's innovations to the focused area of water consumption.</li> <li>→ Climate change impacts and predictions can induce changes in consumer's habits and behavior. As a result of climate events Atlas Copco's customers can become more risk averse and demand sustainable products from the Group.</li> </ul>
<b>HUMAN RIGHTS RISKS</b>	<p>Atlas Copco operates in countries where the risk according to Amnesty International is high of human rights abuse, including child labor, forced or compulsory labor.</p> <p>From time to time, Atlas Copco encounters customers, for instance in the mining industry, who are exposed to problems concerning environmental and human rights issues.</p> <p>Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards.</p>	<ul style="list-style-type: none"> <li>■ Guidance and regular interaction to identify risks with well-established NGOs.</li> <li>■ Gap analysis of all policies and procedures to match the standards set forth in the UN Guiding Principles for Business and Human rights, which Atlas Copco has committed to since 2011.</li> <li>■ Due diligence process and the integration of internal controls for human rights violations in all business processes.</li> <li>■ Human rights training is developed to increase employee awareness and competence.</li> <li>■ The Group customer sustainability assessment tool is used internally for evaluation of sustainability risks.</li> <li>■ Supplier evaluations are regularly conducted in accordance with a checklist based on the UN Global Compact.</li> </ul>	<ul style="list-style-type: none"> <li>→ Following the UN Guiding Principles for Business and Human Rights to "do no harm" significantly reduces risks and costs; however a business' ability to "do good" according to these guidelines also creates significant business opportunities while creating a positive societal impact. For example: continuing to develop a diverse workforce can significantly increase Atlas Copco's competitive edge and it can also increase the Group's knowledge and capacity to tailor products to the customer's needs and preferences.</li> <li>→ Working with human rights positively impacts both employer and investor relations.</li> <li>→ Furthermore, strong business ethics promote internal stability while also creating a more stable market place by addressing social concerns, which creates long term business opportunities.</li> </ul>

# ***INNOVATIVE, SUSTAINABLE PRODUCTS AND SERVICES***

In an increasingly resource-restricted world, Atlas Copco's research and development initiatives create value for the Group's customers by continuously innovating sustainable products and services.



# OPTIMIZING CUSTOMERS' PRODUCTIVITY

Atlas Copco delivers cutting-edge technology in the form of safe, reliable and energy-efficient products designed to optimize customers' productivity and competitive advantage. The Group's high quality service offerings ensure that the customers get the most out of every investment, keeping Atlas Copco First in Mind—First in Choice®.

With world-class customers in every corner of the world, Atlas Copco's biggest challenge is to continue to meet their need for sustainable products to increase their productivity. Driving the Group's innovations through cooperation with customers as well as partnerships with universities have proved to be a successful approach to maintaining a leading market position. Atlas Copco's long-lasting relationships with suppliers also allow the Group to leverage their capabilities in order to further develop product and service offerings. Atlas Copco's value chain approach to innovations safeguards its customers' productivity and satisfaction while contributing to Atlas Copco's own sustainability goals to reduce its environmental impact – a clear win-win situation.

## Product development from a lifecycle perspective

Atlas Copco takes a lifecycle approach to innovation, and some business areas have specially dedicated eco-design engineers who assess the impact of the Group's sourcing materials, product energy consumption and disposal options when developing products.

Choosing the right materials during the product design can impact the quality, shelf life and disposal of Atlas Copco's products, but these decisions can have a major impact on society and the environment as well. For example, Atlas Copco's supply chain also represents a large portion of the Group's environmental footprint since much of the resource intensive activities, such as steel manufacturing, are carried out by business partners. Atlas Copco shares its customers' interest in managing human rights and labor concerns in the value chain, to deliver responsibly sourced products and services.

Another significant portion of Atlas Copco's environmental footprint concerns the use-phase of its products, with energy consumption making the most significant impact. Therefore, Atlas Copco's product development projects have ambitious targets to reduce energy consumption. The Group's objective is to increase customer energy efficiency by 20% by 2020, measured as weighted total energy consumption of the total number of products sold per year. The Group has started to measure customer energy efficiency; however, consolidating the data has presented a

significant challenge given how large and diverse the product portfolio is. Therefore, no Group figure is presented for 2013.

Products such as stationary compressors, drill rigs, hydraulic breakers and industrial tools can be returned, refurbished and resold as used equipment. Used equipment meets the same high standards as when it was new in terms of quality, performance and energy efficiency.

## Customer focused innovations

The wide span of technologies used by Atlas Copco – from advanced computer control systems, hydraulics and pneumatics to specialized technologies such as air compression or rock drilling – creates an exciting working environment for the Group's development engineers in many countries.

Atlas Copco's research and development projects are driven by key criteria focusing on improving productivity, reliability, ergonomics, safety, and energy efficiency, which must be met in order for the solution to be approved. In response to customers' needs to cut energy related costs Atlas Copco took the Variable Speed Drive innovations in compressors further

### RESEARCH & DEVELOPMENT EXPENDITURES, MSEK

2 306

### NUMBER OF EMPLOYEES IN R&D

2 665

### CUSTOMER FOCUSED GOALS

- First in Mind—First in Choice® for customers and prospects for all brands
- Increase customer loyalty
- Increase customer energy efficiency by 20% by 2020
- Offer safe and reliable products and services



→

READ MORE ABOUT ATLAS COPCO'S NEW INNOVATIVE PRODUCTS ON PAGES 21, 25, 29, AND 33

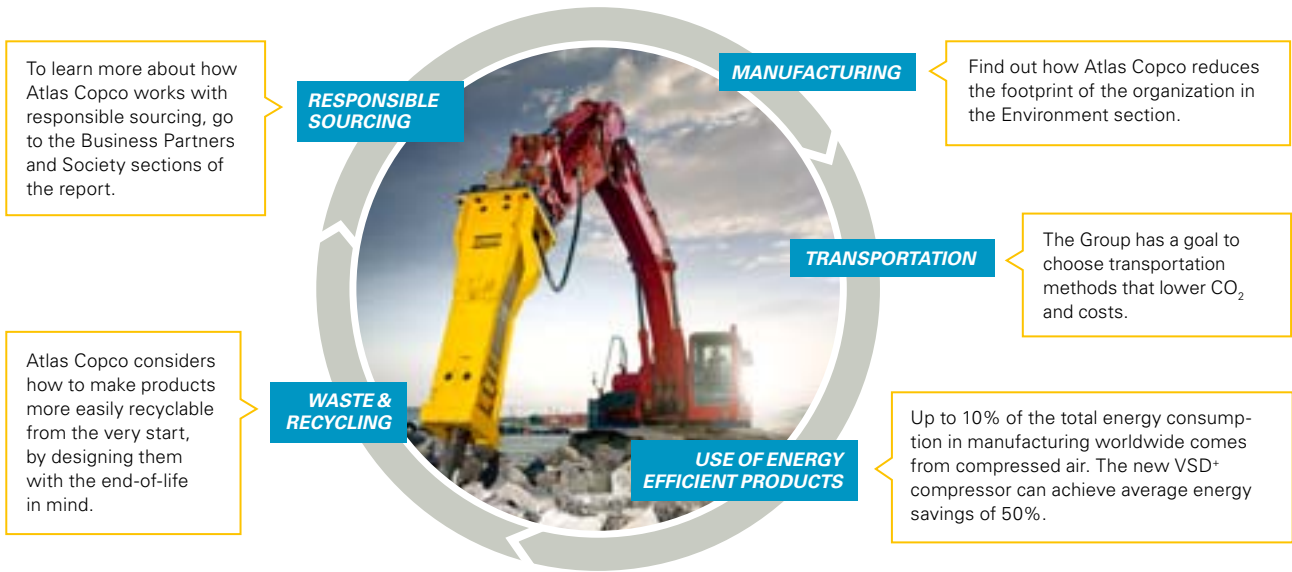
INVESTMENTS

GOALS

REVENUE



**PRODUCT DEVELOPMENT FROM A LIFECYCLE PERSPECTIVE**



**CUSTOMERS VALUE ATLAS COPCO'S LIFECYCLE APPROACH TO SUSTAINABLE PRODUCTIVITY**

Understanding the total footprint of a purchase is important for many of Atlas Copco's customers who work actively with their supply chains. This is why Atlas Copco's eco-design engineers work to reduce the impact through all phases of a product's lifecycle: sourcing, manufacturing, use phase and end-of-life. The Group discloses customer-specific information regarding sustainable productivity upon request, through questionnaires such as the CDP Supply Chain (ESG note 1).

ATLAS COPCO'S CDP DISCLOSURE SCORE (AS A SUPPLIER):

**93/100**

CDP SUPPLY CHAIN AVERAGE: 49\*

to increase average customer savings from 25% to 50%. The Group's certified oil-free compressors deliver pure air for customers in the medical and food manufacturing sectors. Over the years, Atlas Copco has ensured that electric tools with a modular design are flexible, lighter and easier to disassemble. The reduced vibration compared to pneumatic tools not only improves ergonomics, but allows customers to efficiently complete delicate assembly processes with reduced error rates.

Temperatures in mines can soar above 50°C, and Atlas Copco's customers face additional safety challenges like cave-ins and pollution from machinery. Atlas Copco has focused on remote mining, ergonomic cabin design and even electric alternatives for underground equipment. New construction equipment aim to reduce environmental impact by increasing energy efficiency, enhancing perfor-

mance and reducing costs, such as those for fuel, labor and parts.

The number of people employed in research and development increased by 7% to 2 665 in 2013. Most of the employees are based in Europe, but the rate of increase in Asia was very high.

The amount invested in product development, including capitalized expenditures, increased 3% to MSEK 2 306 (2 231) corresponding to 2.7% (2.5) of revenues and 3.5% (3.1) of operating expenses.

**Product responsibility**

As a minimum, all products comply with laws and regulations regarding their environmental impact and they are tested for safety prior to delivery. Further, all Atlas Copco products and services come with relevant product, service and safety information. The product and service informa-

tion required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product. Customer training is included when relevant, to secure safe handling of the products.

In general, a limited proportion of Atlas Copco products fall under the EU Waste Electrical and Electronic Equipment (WEEE) Directive. For example, handheld electric tools and monitoring control instruments qualify but not large mining and other capital equipment. Atlas Copco has a responsibility for the disposal of products that fall under the directive.

Atlas Copco strives to follow laws and regulations regarding safety, health and environmental aspects, product information and labeling. No new cases have been filed in 2013 for non-compliance with laws

\* Disclosure scores are only an assessment of the quality and completeness of a company's response. In 2013, the CDP forwarded information requests on behalf of several Atlas Copco's customers regarding the emissions related to the production and usage of specific products. (ESG note 1)

*“Atlas Copco’s product development projects have ambitious targets to reduce energy consumption.”*

and regulations concerning the provision and use of products and services. A pending case from 2006 was resolved and Atlas Copco paid KSEK 150 in fines for a work related accident at a customer site.

**Sales and market communication**

Atlas Copco’s products and services are marketed and sold on the basis of their quality, productivity, price and service level and other legitimate attributes. The divisions are responsible for marketing and communication as well as training of personnel in features and benefits, customer safety and health, product and service labeling and customer privacy and compliance.

**Customer conduct**

Atlas Copco recognizes the importance of safeguarding its reputation by working with customers who adhere to the same standards for environmental, ethical and

social responsibility. The Group continues to build awareness of its ethical guidelines. The roll out of the customer sustainability assessment tool has started, and Atlas Copco has identified potential avenues for improving the tool and the Group’s overall human rights strategy (ESG note 9). This tool is already in use in cases of financing by credit export agencies.

**Customer loyalty**

Every day, and following sales and/or service interactions with Atlas Copco, thousands of customers receive surveys where they are asked to give their opinion to measure customer loyalty. Customers are often engaged in discussions about their feedback in order to solve problems and to improve products and services. A number of key performance indicators have been established, such as the availability of spare parts, which are continuously followed up to ensure that customer satisfaction improves.

**Increase brand awareness**

To further expand the market and to measure if the Group is First in Mind—First in Choice® among customers and prospects, Atlas Copco conducts brand awareness surveys in different markets. Based on the results actions are put in place to intensify prospecting and to tailor marketing communications to reach the target groups in an attractive and efficient way. The overall objective is to support the growth and strengthen the positioning on a specific market and/or segment.

The driving forces for new product developments are both internal and external.

**EXAMPLES OF EXTERNAL DRIVERS:**

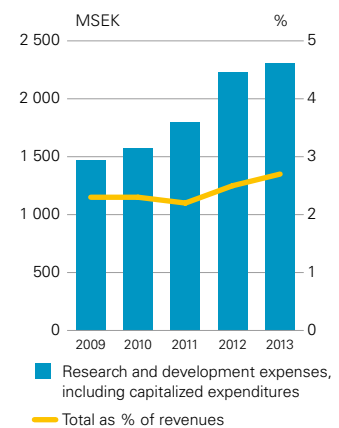
- Customers’ demands and requests
- Laws and regulations
- User trends
- Design trends
- Competition
- Increased safety
- Improved ergonomics
- Environmental impact

**EXAMPLES OF INTERNAL DRIVERS:**

- New technologies
- New applications
- Reduced lead time
- Increased quality
- Increased productivity
- Standardization and modularization
- Increased safety
- Improved ergonomics
- Environmental impact



**RESEARCH AND DEVELOPMENT EXPENDITURES**





## ***EMPLOYEES***

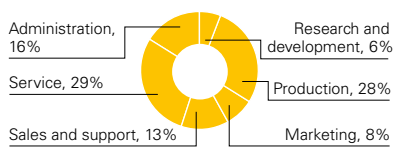
Atlas Copco's success is built on strong values and the talented employees who carry them. The Group believes in providing its people a working environment that sets a high standard for leadership and provides opportunities for each individual to develop professionally. Offering a diverse workplace with good health, safety and labor practices is an important part of Atlas Copco's brand as an employer, and thereby a key success factor for the Group.



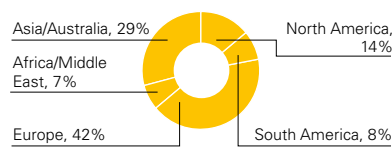
# ATTRACT, RECRUIT AND DEVELOP EMPLOYEES

Atlas Copco’s people management strategy is to attract, recruit and develop skilled coworkers, while expecting managers to take responsibility for developing their employees, their organizations and themselves.

## PROFESSIONAL CATEGORY SPREAD OF EMPLOYEES



## GEOGRAPHICAL SPREAD OF EMPLOYEES



## NUMBER OF EMPLOYEES

**40 241**

DECEMBER 31, 2013

## FATALITIES DURING 2013:

**zero**

2012: 3

## ACCIDENTS PER MILLION WORKING HOURS

**5.4**

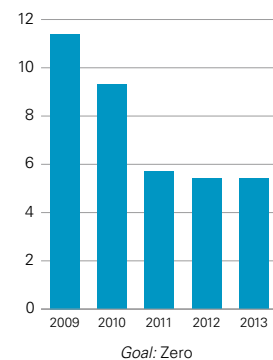
2012: 5.4

## INCIDENTS PER MILLION WORKING HOURS

**21**

2012: 23

## NO. OF ACCIDENTS PER ONE MILLION HOURS WORKED



### Safety and health

Atlas Copco has a global Safety, Health and Environmental (SHE) policy and works hard to continuously improve working conditions, implement corrective and preventative actions and follow up through clear targets set in the Group goals. In 2013, 89% (representing 85% of employees) of the major companies in the Group were certified in accordance with the international standard OHSAS 18001, leaving the Group below its ambition of reaching 100% but in an excellent position to attain the target by 2014. In 2013, 70% of Atlas Copco employees were dedicated to building world-class products for its customers in production sites or delivering high-quality service and sales offerings. This involves working with heavy machinery or driving long distances to reach customers which can often be dangerous if proper safety routines are not followed. Since the Group’s human capital is one of the keys to success, Atlas Copco always ensures that workplaces have robust standards for safety, health and ergonomics. In response to the three unfortunate fatalities in 2012, the Group increased its focused efforts through the Safety First concept designed to promote safe behavior amongst employees. There were zero fatalities reported in 2013 and the number of incidents also decreased. This may be positive outcome of the focused campaign, at least in part, but Atlas Copco will continue to monitor the quality of

incident reporting in order to safeguard that the progress is real. Despite the number of accidents per million working hours remaining stable, an area for improvement will be to address the increase in the total number of accidents, particularly in specific regions such as Asia and Africa. The increase in these regions is partially explained by improved detection and reporting of accidents, which has been highly encouraged by the Group to improve the quality of follow-up activities (ESG note 4). Atlas Copco is committed to strengthening the approach further through training, communication and follow-up in the company review meetings in 2014.

Having a healthy work environment is as important for Atlas Copco’s productivity as supporting our employees with a healthy lifestyle. Atlas Copco companies design health and wellness programs to meet the specific needs of their country or region, for example the HIV/AIDS pandemic is a major concern in some countries where Atlas Copco operates (case story on page 13) and with a high prevalence in the age group (15–49 years) that would impact the workforce the most. In other nations, diseases such as diabetes are a growing concern and employees are offered wellness programs including consultation and medication.

Atlas Copco strives to promote health and wellness but also accommodates for the realistic possibility that employees may

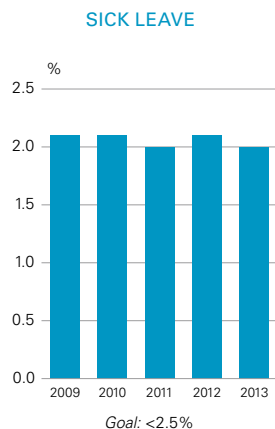




need time off for health reasons. This is reflected in the Group's goals and in 2013 sick leave was at 2.0% (2.1) which is below the accepted level of 2.5%.

**Industrial relations and labor standards**

As a voluntary member of the UN Global Compact, Atlas Copco ensures that advised labor practices such as the right to collective bargaining are included in the Business Code of Practice, which is updated regularly. The Group views trade unions and employee representatives as a necessary and valuable support system for its people, and fosters relationships based on mutual respect and constructive dialogue. In 2013, 41% of all employees were covered by collective bargaining agreements. In countries where no independent labor union may exist, Atlas Copco has taken measures to establish forums for employer/employee relations, for example in China, through environment and safety committees. A non-discrimination policy covers all employees and the Business Code of Practice also covers employee rights.



**Leadership**

Atlas Copco aims to develop a diverse group of managers that have the courage to lead and the engagement to develop committed collaborators. The Group's managers and employees are proud ambassadors of the Atlas Copco values: interaction, commitment and innovation. Atlas Copco continuously offers leadership and people management trainings with the ambition to improve efficiency and processes, and also conducts special training for service managers and team leaders.

Atlas Copco strives to strike a balance between developing the local workforce while also offering international opportunities through internal mobility. Therefore, managers whose nationality differ from the country where they are stationed, focus on developing local leaders while gaining international professional experience which equips them for even more challenging positions within the Group. Overall, Atlas Copco has managers on international assignments coming from 56 countries and working in 61. In 2013, a total of 63% (64) of all senior managers were locally employed. 52 nationalities are represented among the 405 most senior managers worldwide. The share of Swedish managers on international assignments has decreased from 23% in 2001 to 12% in 2013.

The proportion of women in management positions increased to 16.2% (15.1). To increase the proportion, Group policy states that when recruiting managers to positions where a university degree is required there must always be at least one female candidate. Atlas Copco's high-level women's mentorship program continued for its fifth consecutive year and the global professional network, open to motivated women interested in leadership positions, focused on supporting them in their career

development and also on ways to attract future female employees to the Group.

**Equality, fairness and diversity**

Atlas Copco's Business Code states that the Group believes in recruiting and promoting solely on the basis of the qualifications required for the role. Therefore, equal opportunities, fairness and diversity are fundamental pillars of Atlas Copco's people management process. The company aims to have a workforce that reflects the local recruitment base comprising all cultures, religions and nationalities and our Group goal is to increase diversity in both nationality and gender.

Greater diversity fosters an international mindset, stimulates innovation, and improves the ability to work cross culturally and expand into new markets. It also gives a better understanding of the societies in which Atlas Copco operates. A key success factor of this strategy is to encourage diversity and to integrate the Group's basic beliefs and values with the local culture. Atlas Copco companies establish local diversity policies and guidelines in alignment with Group policy, local laws and regulations, and local ambitions. This can include options regarding reduction of working time for childcare or educational leave.

Diversity remains a challenge and is addressed through initiatives such as the launch of a program with short-term assignments abroad to increase competence development and diversity, mentorship programs, a global network and policies. In 2013, women represented 16.8% (16.9) of Atlas Copco's workforce. The proportion of female recent graduates recruited during the year among white-collar workers was 22% (26).

*“ Greater diversity fosters an international mindset, stimulates innovation, and improves the ability to work cross culturally”*



**Competence development**

Competence development is crucial to attracting and keeping satisfied employees and the Group goal is to ensure competence development and coaching for every employee. All employees should receive the training and coaching needed to achieve good results, including on-the-job-training and an appraisal each year, regardless of professional category. In 2013, the average number of training hours per employee was 40 (42) hours and 82% (83) of employees had an appraisal.

All employees receive training in *The Way We Do Things*, the Group’s single most important management tool. Business areas provide targeted skill-based training in accordance with the organization’s needs. One important area is value-based sales training, in which an understanding of the product and the customer’s application is essential. Language training, primarily English, is frequently held in order to facilitate easy communication throughout the organization.

One measure of success of the focus on competence building within Atlas

Copco is the percentage of employees with a university degree. In 2013, 53% (52) of the white-collar employees had a university degree.

**Management resourcing and recruitment**

Competent and committed managers are crucial for realizing the strategy of the Group. The Atlas Copco management resourcing strategy is to have a flow of potential leaders within the Group striving towards more and more challenging positions, thereby safeguarding recruitment to management positions.

When a manager has fulfilled his/her mission, he/she can seek a new mission either in the existing position or in a new position. Competence mapping is done extensively to establish resource needs, particularly in core areas. External recruitment of young high-potential employees is focused through active promotion of the Atlas Copco employer brand.

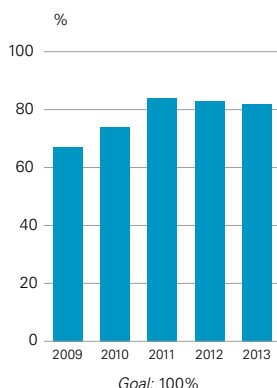
**Mobility and employee turnover**

Atlas Copco’s goal is to encourage mobility, across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced managers in senior positions lead the integration process and make it possible to establish the Group’s Business Code of Practice, values and vision in an efficient and pragmatic manner. The target is to have 85% of managers internally recruited, and the outcome in 2013 was 86%.

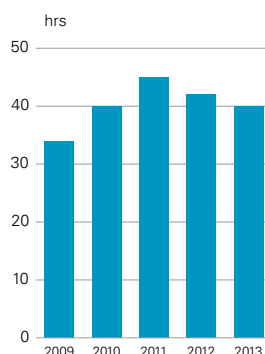
All Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally through the Internal Job Market, which was created in 1992. In 2013, 3 657 positions were advertised, of which 390 were international.

In 2013, internal mobility among employees was 7.7% (8.2). Overall external recruitment reached 10%, excluding acquisitions. Employee turnover remained at 8% (8).

PROPORTION OF APPRAISALS AMONG EMPLOYEES



AVERAGE HOURS OF TRAINING PER EMPLOYEE



INTERNAL MOBILITY

8%

# BUSINESS PARTNERS

Business partners such as suppliers, sub-contractors and joint venture partners are crucial strategic partners for Atlas Copco's success. Nurturing long-term relationships with business partners is mutually beneficial, securing the Group's competitive edge and development potential in a responsible and sustainable way. This is why Atlas Copco is committed to working with business partners who share the Group's high standards of quality, business ethics and resource efficiency.

READ MORE  
ESG NOTE 6



Atlas Copco's purchasing strategies are highly decentralized to give the global organization higher flexibility. Purchasing councils oversee supply chain management at a divisional level, but come together as a part of the Group purchasing council to develop central policies and tools that impact all operations. Local purchasing (non-core) is encouraged to generate societal value in the communities where Atlas Copco operates, by creating job opportunities as well as generating direct and indirect income. This is mostly carried out by individual companies and also facilitates close relationships with local partners to capitalize on opportunities to further improve quality and efficiency, and decrease environmental impact from transport.

However, business partners are not limited to suppliers alone. The Business Code of Practice includes other key players such as subcontractors, agents and distributors in the definition and therefore Atlas Copco has taken a value-chain approach to working with business partner issues.

All business partners are impartially evaluated on parameters including price, quality, reliability as well as key environmental, social and ethical concerns. The main tools for evaluating Business partners are the 10 point checklist based on the UN Global Compact and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, as well through on-site visits (ESG note 6). Tier 1 suppliers are expected to work to safeguard Atlas Copco's standards for Tier 2 suppliers. In addition to this, for agents and distributors, the Group has started using the customer sustainability tool in 2013 in order to investigate potential risks and develop the relationships further (ESG note 9).

## Improved supplier evaluation processes and local training efforts

Atlas Copco has an extremely large international supplier base, which presents significant challenges in maintaining supply chain standards. Atlas Copco prioritizes follow-up activities with suppliers who represent the bulk of the annual purchase value as well as the highest risk in order to safeguard that the Business Code of Practice is being followed while still using our resources efficiently. In 2013, the Group revised its definition of significant suppliers to better integrate human rights and corruption risks. As a result a greater proportion of sourcing from high-risk countries is followed-up through self-assessment questionnaires or on-site audits, even if purchasing volumes are low. Atlas Copco's Business Partner selection letter was also updated in 2013 with the objective to improve compliance as well as to integrate conflict mineral into our human rights based requirements. Compliance with the environmental, social and business ethics clauses in the checklist is required for 100% of new agreements. However for non-red-flag issues (such as having environmental management systems), Atlas Copco tries to work with business partners to set up an action plan to help them meet the criteria within 6–12 months' time.

## Strengthened approach to human rights and corruption risks

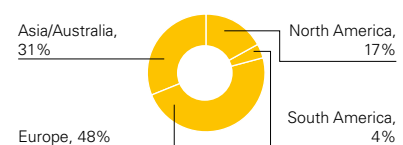
Atlas Copco's business partner network includes markets with a high risk from a human rights and corruption perspective. This risk is particularly heightened in conflict-affected regions, and in 2013 Atlas Copco has initiated processes to ensure that the Group is not complicit in human

rights violations in accordance to its commitment to the Guiding Principles on Business and Human Rights. The lack of enforcement of legal and political infrastructure in some of these complex markets represent a challenge, however Atlas Copco has received support and advice from investors and NGOs through stakeholder dialogue.

## Performance from supplier evaluations

Supplier evaluations are primarily carried out by product companies. A supplier is considered approved if Atlas Copco has performed an assessment at the supplier's site and reported that there is no risk of violating the Code, or that the supplier has acted on all development suggestions for the action plan from a previous evaluation. In 2013, 846 significant suppliers were audited for quality and 670 for safety, health, environmental and ethical standards. Of those, eight significant suppliers were rejected due to quality issues and another eight for safety, health, environmental and ethical standards (ESG note 6).

## GEOGRAPHICAL SPREAD OF SUPPLIERS





## ***SOCIETY***

Given its global reach Atlas Copco has an influence on the economic and social development of the countries in which it operates. The Group is expected to demonstrate that influence in a positive way and strives to be a good and reliable corporate citizen by creating shared value.



➔ In the long-term, sound business practices are economically profitable since business is more efficient and establishes the Group's reputation as a reliable and trustworthy partner that conducts business with integrity. From a short-term perspective, following Atlas Copco's principles could have an adverse impact on some business opportunities.

**Zero tolerance against corruption**

Corruption has very negative global consequences and is both a cause of poverty and a barrier to overcoming it. The fight against corruption is also central to working with human rights and environmental impacts, since corruption can cripple the governmental bodies and processes needed to address the issues. The Atlas Copco Group has a zero tolerance policy regarding corruption and the Board of Directors has explicitly communicated that corruption is never an acceptable excuse for securing a sale. This basic rule strengthens the brand and helps contribute to fair market competition.

*Prevent, detect, react*

Not accepting corruption may sound simple. However, being a global company that operates in many cultures with different norms means that it is a demanding challenge to implement. The goal of no corruption or bribes is supported by a policy, procedures, training and monitoring process. The Business Code of Practice clearly states Atlas Copco's zero tolerance of corruption, including facilitation payments. When incidents are reported, firm action is taken on a case-by-case basis. There are no negative

consequences for employees refusing to receive or pay bribes or for reporting violations. Internal control procedures are set up to minimize the risk of corruption and bribes, e.g. segregation of duty. Internal audits include compliance to the Business Code of Practice. Awareness of, and compliance with, principles of integrity in all business dealings is a priority for Atlas Copco.

The Group hotline can be used by employees to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. It serves as a complement to similar processes on country level. The Group Legal department is responsible for managing the hotline and ensures that reports are treated confidentially. The person reporting is guaranteed anonymity.

**Training**

The Business Code of Practice is given to all new employees and training is provided globally. Managers also receive in-depth classroom training with dilemma cases. The training on corruption developed by the UN Global Compact was taken by managers before signing the Business Code of Practice compliance statement.

**HOTLINE**

47 possible violations of the Code were reported through the hotline during 2013

The nature of the violations was related to organizational changes, economic issues, and personal issues. Activities to address the reports include internal audits, job rotation and communication.

**HOW ATLAS COPCO WORKS WITH HUMAN RIGHTS IN THE VALUE CHAIN**

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

<b>SUPPLIERS</b>	Atlas Copco has integrated Global Compact principles into supplier evaluation and management. Read more in the Business Partners section on page 48.	<i>Examples of focus areas:</i> prohibition of child labor and forced labor, responsible sourcing from high risk or conflict affected regions.
<b>THE GROUP'S OWN OPERATIONS</b>	The Group's operational goals strive to create safe, healthy and fair working environments. Read more in the Employees section on page 44.	<i>Examples of focus areas:</i> ensuring that employees have fair labor and working conditions, diversity in the workplace and the right to join trade unions.
<b>CUSTOMERS</b>	The Group is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more in ESG note 9.	<i>Examples of focus areas:</i> product safety, protecting standard of life by minimizing the environmental impact through usage of products, issues related to community relocation, security concerns.
<b>COMMUNITIES THE GROUP OPERATES IN</b>	Water for all and other community engagement activities promote the access to health, education and safe development of children.	<i>Examples of focus areas:</i> health, education, promoting children's rights, protecting vulnerable groups, disaster relief.



### WATER FOR ALL SUPPORTS THE HUMAN RIGHT TO HEALTH

Since 1984, Atlas Copco has supported the voluntary, employee-managed organization *Water for All*, which raises funds to finance water well drilling activities, sanitation and equipment in order to supply clean drinking water to villages and communities. To date, *Water for All* has provided access to clean water to more than 1.2 million people. The initiative has local representation in 25 countries, with more under way.

Visit [www.water4all.org](http://www.water4all.org) for more information.

### Human rights

Human rights are integrated into the Group goals and policies, and are driven in the organization by the Atlas Copco Business Code of Practice. The Group's Human Rights Statement is published on the Atlas Copco website, and the Group strives to work with human rights through its own operations as well as through its business relations. Atlas Copco's business partners are expected to observe the same high standards regarding human rights as Atlas Copco does. Through internal control processes Atlas Copco ensures that Group companies have internal processes in place to inform customers and business partners about its human rights policies and to assess possible reputational risks. In 2013, Atlas Copco established the Human Rights and Ethics Steering Committee which will commence working from the coming year. The Committee reports to the Compliance Board, which includes two members from Group Management. Starting 2014, the Committee will focus on structuring Atlas Copco's human rights strategy, roll out training and due diligence and also offer support to the organization as work to implement the UN Guiding Principles on Business and Human Rights.

#### *Due diligence on human rights*

A process to assess and manage the social impact of operations on communities and human rights was developed and tested in Ghana and Kazakhstan in 2011. Smaller investigations were launched during 2013 in order to assess the impact of the Group's business from a human rights perspective (ESG note 9).

### Community engagement and charity

Atlas Copco has long engaged in the societies where it operates. The Group's community and charity initiatives selected and supported by local companies, focus on providing education, a safe upbringing for children, and fighting diseases such as HIV/AIDS and malaria. The Group's Community Engagement and Charity Policy also encourages companies to give support following natural and humanitarian disasters. The support can be products, time or money. Employee-led initiatives are supported by a financial 'matching' principle. Group companies match employee financial donations with company funds. *Water for All* is recognized as the main initiative of this type of engagement. The community engagement and charity spend during 2013 was distributed accordingly: cash donations 78%, in kind 4%, and time value 18%. Atlas Copco supported the local community in the aftermath of the Philippines typhoon by contributing lighting towers and other equipment, as well as through monetary donations. For 2013, 4% of Atlas Copco's community and charity investments went towards disaster relief.

### Development and distribution of economic value

Atlas Copco generated employment and financial stability through subcontracting manufacturing and other activities. Operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 49 079 (53 635). Employee wages and benefits paid increased by 1% to MSEK 18 274 (18 108).

The Group's providers of capital, for example shareholders and creditors, provide funds to finance the asset base that is used to create economic value. In turn, these stakeholders receive annual dividend and interest. The costs for providers of capital including dividend, increased by 9% to MSEK 7 853 (7 182).

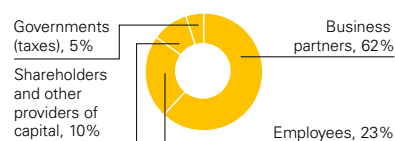
Atlas Copco contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2013, the cost for direct taxes to governments decreased 2% to MSEK 4 286 (4 377). Community investments amounted to MSEK 14.1 (11.7).

The economic value retained decreased by 35% to MSEK 5 311 (8 115), as a result of lower revenues and increased dividend and salaries.

### Taxes

Atlas Copco strives to be a good corporate citizen and to always pay the fair, and legal amount of taxes. The Group has been in dialogue with stakeholders regarding disclosure of taxes by country (note 10 and ESG note 10).

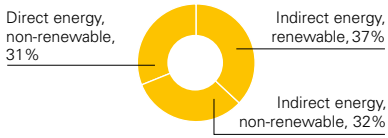
### DISTRIBUTION OF DIRECT ECONOMIC VALUE



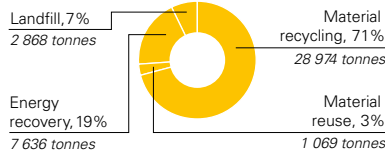
# ENVIRONMENT

Atlas Copco strives to reduce its environmental footprint across the value chain and delivers energy-efficient products designed with a life cycle approach.

## PROPORTION OF ENERGY CONSUMPTION



## WASTE DISPOSAL\*



\* of which regulated waste 4 827 tonnes

[LEARN MORE about Atlas Copco's lifecycle approach to product design on page 41](#)



Atlas Copco has integrated environmental targets into both operational and product related goals. As a result, the Group can responsibly use the limited natural resources while creating operational excellence in the process. This is a value proposition that Atlas Copco can create for its customers as well, since they often operate in resource-intensive industries and the Group's products are specifically designed to reduce energy consumption and their costs.

For Atlas Copco's own operations, energy consumption and emissions of CO<sub>2</sub> are the most significant environmental indicators, but the Group also tracks and reports performance on water consumption, materials, and waste. Atlas Copco also works to reduce the impact from its suppliers, and strives to reduce its environmental footprint across the entire value chain.

### Resource use

Improving resource efficiency in Atlas Copco's manufacturing processes directly adds value to the business, not only by

creating operational excellence but also by helping the Group become and remain First in Mind—First in Choice® for customers with strong supplier standards. Iron and steel are the most important raw materials for Atlas Copco and represent more than 90% of the raw material by weight. However, the parts that Atlas Copco manufactures or assembles during production are predominantly made of recycled steel.

### Energy

There is an ongoing investment in increasing energy efficiency, for example by improving the Group's manufacturing processes. In 2013, more entities started switching to renewable sources such as wind energy, hydropower and solar power for their production sites. In 2013, 37% (22) of the energy consumption came from renewable resources. Part of the increase can be attributed to improved reporting. The total energy used in production decreased by 0.2% in absolute numbers, but the ratio of energy consumed by cost

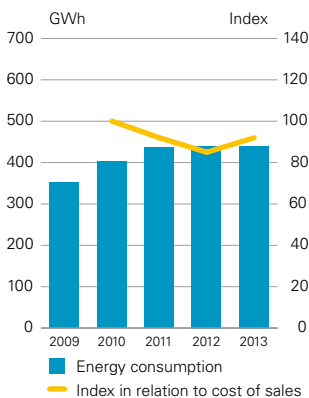
of goods sold increased by 8.5% compared to the previous year. This relative increase is primarily due to the slowdown of business which had a larger impact on the cost of goods sold than it had on the energy consumption.

The Group also has a goal to increase customer energy efficiency by 20% by 2020 related to major product categories, which Atlas Copco started reporting on in 2012. The goal will be achieved by providing customers with innovative energy-efficient products and services, which saves both the environment and energy costs. A few examples of these products are presented on the business area pages in this report.

### Emissions and waste

Atlas Copco reports CO<sub>2</sub> emissions from direct and indirect energy used in production and from transport to and from production sites. The Group's operational goals are to reduce the CO<sub>2</sub> emissions from the energy used in production and transport by 20% by 2020 in relation to cost of

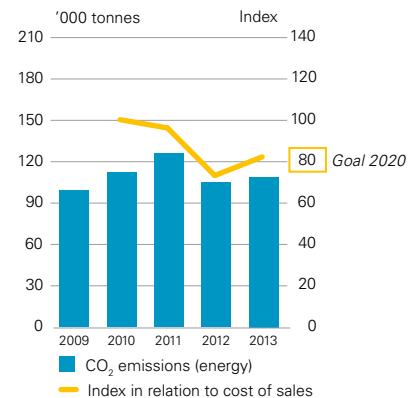
## ENERGY CONSUMPTION



A relative increase in energy consumption primarily due to the slowdown of business which had a larger impact on the cost of goods sold than it had on the energy consumption.

A relative increase in CO<sub>2</sub> emissions from energy consumption, primarily due to acquisitions.

## CO<sub>2</sub> EMISSIONS FROM ENERGY



80 Goal 2020



sales. In 2013, CO<sub>2</sub> emissions from energy at production sites increased by 3.4% in absolute numbers and 12.4% in relation to cost of sales. The primary drivers of this increase were recent acquisitions.

Atlas Copco is using cooling agents in some products (air dryers) and processes (cooling installations). For products, all cooling agents used have a zero ozone-depleting impact, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP). The majority of the cooling agents is in closed-loop systems in the products and therefore not released during the operational life of the products.

**Transport**

Transport of goods to and from production is purchased and is monitored for Scope 3 emissions as defined in the GHG protocol. In 2013, the CO<sub>2</sub> emissions from transport decreased by 4.3% in relation to cost of sales. The decrease is primarily due to decreased airfreight and lower demand from customers over the year.

The Group continues its efforts to monitor emissions caused by business-related travel. Web-based meetings, telephone and video conferences were used to a high extent.

**Waste and hazardous waste**

The goal is to avoid creation of waste and that all waste is reused, recycled or recovered. As the main raw material going into the process is steel, scrap metal represents the most significant portion of waste. Practically all of this scrap is reused or recycled.

In 2013, the amount of waste in relation to cost of sales increased by 13% and the proportion of reused, recycled or recovered waste was 93%. There are initiatives to reduce landfill waste, as well as the waste generated from packaging materials.

Hazardous waste in Atlas Copco's operations includes primarily cadmium, beryllium and lead. Atlas Copco tracks various categories of waste from the production process, including regulated (sometimes referred to as hazardous) waste. Restricted substances are not yet legally excluded from use but should be replaced according to a plan that takes into account technical and financial aspects. Prohibited substances are not allowed in the Group's products or processes. Group companies monitor the handling of hazardous waste by business partners.

**Sustainable construction**

Atlas Copco has a goal to construct its buildings according to a sustainable building standard, such as LEED. This regards both new and reconstructed buildings over 2 000 m<sup>2</sup>. The expected results of the sustainable buildings are reduced environmental impact, reduced maintenance cost and improved working environment for the employees (ESG note 3).

**Water**

With operations in several countries facing water scarcity, Atlas Copco has started to use water indices to identify operations located in water-risk areas. Group companies in these areas should implement a water-risk management plan, from

physical, legislative or cost perspectives. Innovative product design also aims to reduce water use when drilling to explore for minerals, for example. Business areas analyze the data to identify the highest consuming entities in order to focus the efforts to reduce the impact.

Compared to 2012, water consumption for production increased by 14.7% in absolute numbers and by 24.7% in relation to cost of goods sold. One of the reasons for the increase is that a customer center in China has expanded into a production facility, which affected its consumption pattern. Another reason for increased water consumption was the acquisition of a product company in China, which uses water for heat treatment and other processes. Improved water efficiency in this entity will be a focus area for 2014. The leakage issues from 2012 were addressed and sites were monitored to prevent similar occurrences in 2013.

**PERFORMANCE SUMMARY 2013**

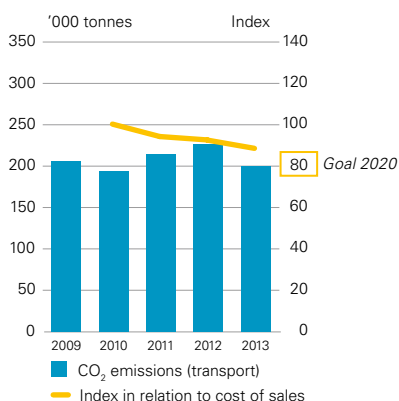
- Total energy usage decreased slightly, but increased in relation to cost of sales due to decreased business.
- A relative increase in water use is primarily due to organizational changes and acquisitions.
- A relative increase in CO<sub>2</sub> emissions from energy consumption, primarily due to acquisitions.
- Waste increased partly due to the generation of more metal scrap, which is all recycled.
- A relative decrease in transport CO<sub>2</sub> emissions is primarily due to improved logistics as well as reduced demand.

*A relative decrease in CO<sub>2</sub> emissions due to improved logistics as well as reduced demand.*

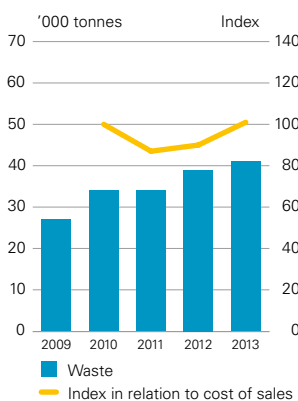
*An increase due to generation of more metal scrap, which is all being recycled.*

*A relative increase in water use is primarily due to acquisitions.*

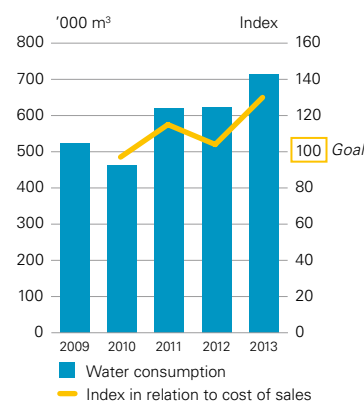
**CO<sub>2</sub> EMISSIONS FROM TRANSPORT**



**WASTE**



**WATER CONSUMPTION**



# THE ATLAS COPCO SHARE

## Share price development and returns

During 2013, the price of the A share was unchanged at SEK 178.30 and the price of the B share increased by 3% to SEK 163.20. The annual total return on the Atlas Copco A share, equal to dividend, redemption and the appreciation of the share price, was on average 21.4% for the past ten years and 26.1% for the past five years. The corresponding total return for NASDAQ OMX Stockholm was 12.0% (2004–2013) and 20.0% (2009–2013), respectively.

## Trading

The Atlas Copco shares are listed on NASDAQ OMX Stockholm, which represented 36% of the total trading in 2013. Other markets, so called Multilateral Trading Facilities (MTF), e.g. BATS Chi-X, Turquoise and Burgundy accounted for some 22%, and the remaining 42% were traded outside public markets, for example through over-the-counter trading. The market capitalization at year end was MSEK 213 348 (211 397) and the company represented 4.4% (5.4) of the total market value of NASDAQ OMX Stockholm. Atlas Copco was the 2nd (3rd) most traded name in 2013 by total turnover. The beta value of the Atlas Copco A share for the past five years and during 2013 was 1.4 and 1.3 respectively.

### More information:

- More data per share can be found on page 133 in the five year summary.
- Information on distribution of shares, option programs and repurchase of own shares, see notes 5 and 21.
- Detailed information on the share and debt structures can be found on [www.atlascopco.com/ir](http://www.atlascopco.com/ir).

### Investor relations contact

- [www.atlascopco.com/ir](http://www.atlascopco.com/ir)
- [ir@se.atlascopco.com](mailto:ir@se.atlascopco.com) / phone +46 8 743 8291

## SHARE INFORMATION

	A SHARE	B SHARE
NASDAQ OMX Stockholm	ATCO A	ATCO B
ISIN code	SE0000101032	SE0000122467
ADR	ATLKY.OTC	ATLCY.OTC
Outstanding shares	839 394 096	390 219 008
% of votes	95.6	4.4
% of capital	68.3	31.7
Whereof shares held by Atlas Copco	15 414 812	645 379
% of votes	1.8	0.1
% of capital	1.3	0.1

## ADRs in the United States

A program for American Depositary Receipts (ADRs) was established in the United States in 1990. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year-end 2013, there were 9 040 293 ADRs outstanding, of which 7 617 466 represented A shares and 1 422 827 B shares.

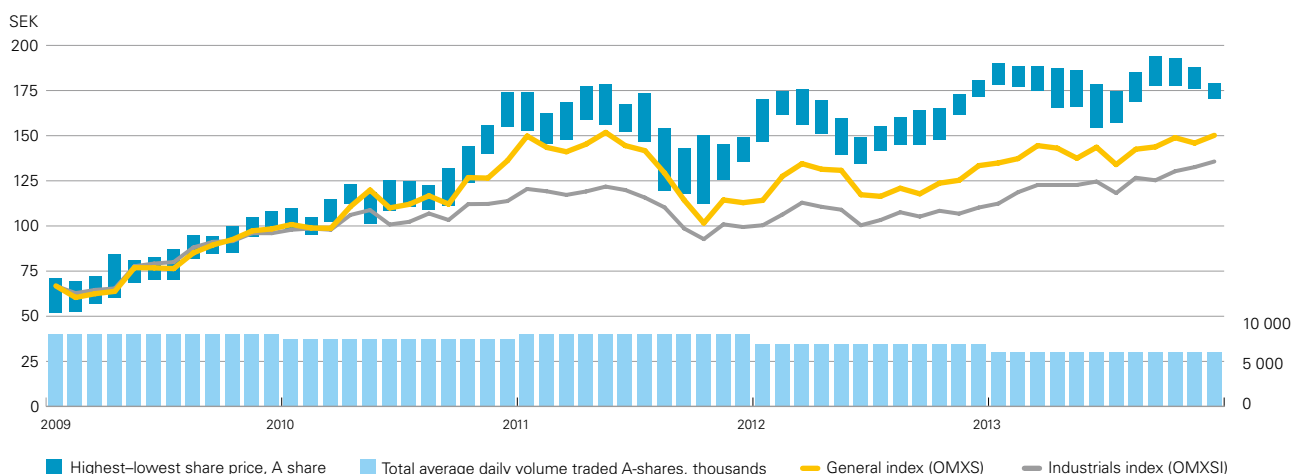
## Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the AGM 2014 a similar performance-based long-term incentive program as in previous years. The intention is to cover the plan through the repurchase of the company's own shares. The company's holding of own shares on December 31, 2013 appears in the table "share information".

## Dividend

The Board of Directors proposes to the AGM that a dividend of SEK 5.50 (5.50) per share be paid for the 2013 fiscal year. This corresponds to 55% (48) of earnings per share and a total of MSEK 6 675 (6 668) if the shares held by the company are excluded. If the shareholders approve the Board of Directors' proposal for a dividend of SEK 5.50 per share, the annual dividend growth for the five-year period 2009–2013 will equal 13%. During the same period, the dividend has averaged 51% of basic earnings per share.

## SHARE PRICE



## Ownership structure

At year-end 2013, Atlas Copco had 72 738 (69 272) shareholders. The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (33) of the voting rights and 34% (33) of the number of shares. Swedish investors held 53% (51) of the shares and represented 51% (48) of the voting rights.

### TEN LARGEST SHAREHOLDERS\*

December 31, 2013	% of votes	% of capital
Investor AB	22.3	16.8
Swedbank	3.7	5.0
Alecta	2.7	3.4
AMF	1.3	2.8
SEB	1.2	1.1
AP4	1.0	1.1
Handelsbanken	0.9	1.2
AP1	0.9	1.0
Folksam	0.8	0.8
SPP Fonder	0.6	0.6
Others	64.6	66.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
– of which shares held by Atlas Copco	1.8	1.3
<b>Total, net of shares held by Atlas Copco</b>	<b>98.2</b>	<b>98.7</b>

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

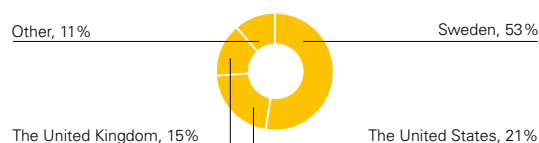
### OWNERSHIP STRUCTURE, DECEMBER 31, 2013

Number of shares	% of shareholders	% of capital
1–500	58.5	0.6
501–2 000	26.9	1.7
2 001–10 000	11.4	2.9
10 001–50 000	2.1	2.7
50 001–100 000	0.3	1.4
>100 000	0.8	90.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### OWNERSHIP CATEGORY

	% of capital
Shareholders domiciled abroad (legal entities and individuals)	47.3
Financial companies	38.2
Swedish individuals	5.8
Other Swedish legal entities	3.7
Social insurance funds	3.4
Trade organizations	1.3
Government	0.3
<b>Total shareholders</b>	<b>100.0</b>

### SHAREHOLDERS BY COUNTRY DECEMBER 31, 2013 PERCENT OF CAPITAL

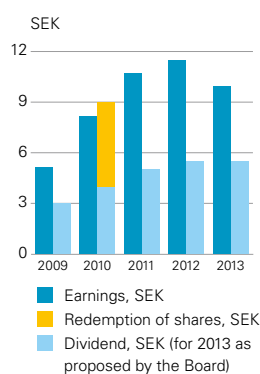


### SHARE ISSUES 2003–2013<sup>1)</sup>

		Change of share capital, MSEK	Amount paid/distributed, MSEK
2005	Split	4:1 quota value SEK 1.25	
	Share redemption	209 602 184 shares at SEK 20	–262.0
2007	Split	3:1 quota value SEK 0.417	
	Share redemption <sup>2)</sup>	628 806 552 shares at SEK 40	–262.0
	Bonus issue	No new shares issued, quota value SEK 0.625	262.0
	Redemption of shares held by Atlas Copco	28 000 000 shares	–17.5
	Bonus issue	No new shares issued, quota value SEK 0.639	17.5
2011	Split	2:1 quota value SEK 0.320	
	Share redemption <sup>3)</sup>	1 229 613 104 shares at SEK 5	–393.0
	Bonus issue	No new shares issued, quota value SEK 0.639	393.0

<sup>1)</sup> For information before 2003 please visit [www.atlascopco.com/ir](http://www.atlascopco.com/ir) <sup>2)</sup> 610 392 352 shares net of shares held by Atlas Copco. <sup>3)</sup> 1 213 493 751 shares net of shares held by Atlas Copco.

### EARNINGS AND DISTRIBUTION PER SHARE



### IMPORTANT DATES

<b>2014</b>	
<b>April 29</b>	Annual General Meeting
	First quarter results
<b>April 30</b>	Shares trade excluding right to dividend*
<b>May 8</b>	Dividend distribution date (preliminary)
<b>July 16</b>	Second quarter results
<b>October 20</b>	Third quarter results
<b>November 19</b>	Capital Markets Day
<b>2015</b>	
<b>January 29</b>	Preliminary 2014 report
	Fourth quarter results 2014

\*Board of Directors proposal to the AGM

### Atlas Copco named a Leader in FTSE4Good index

In 2013, Atlas Copco again was selected as a member of the FTSE4Good index, which includes world-leading companies that score well on environmental, social and governance practices. The company was also named a "Leader" within the index's Industrial Goods & Services segment, which includes only five companies globally. Atlas Copco is also included in several other sustainable indices. E.g. Dow Jones Sustainability Indices.

# CORPORATE GOVERNANCE

In the corporate governance report Atlas Copco presents how applicable rules are implemented in efficient control systems to achieve long term growth. Good corporate governance is not only about following applicable rules, it is also about doing what is right. Atlas Copco works with the challenge of finding the right balance between risk and control in a decentralized management model. The goal is sustainability in productivity and profitability as well as in governance.

Atlas Copco is incorporated under the laws of Sweden with a public listing at NASDAQ OMX Stockholm AB (OMX Stockholm). Atlas Copco is governed by Swedish legislation and regulations, primarily the Swedish Companies Act, but also the rules of OMX Stockholm, the Swedish Corporate Governance Code, the Articles of Association and other relevant rules.

*Atlas Copco does not report any deviations from the Swedish Corporate Governance Code for the financial year 2013.*

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

**The following information is available at [www.atlascopco.com](http://www.atlascopco.com):**

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

**More information on corporate governance:**

- The Swedish Corporate Governance Code is available at [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se)
- The Swedish Companies Act is available at [www.government.se](http://www.government.se)
- The Listing Forms for Nasdaq OMX are available at [www.nasdaqomx.com](http://www.nasdaqomx.com)

**Important event in 2013:**

- Election of Hans Stråberg as new Board member and Vice Chair

*Good corporate governance is not only about following applicable rules, it is also about doing what is right.*



**CHAIR OF THE BOARD COMMENTS:**

In 1997, I was elected to the Board of Atlas Copco and since 2003, Chair. I am very proud of being a part of the Group and its achievements. The consistent strategy and the strive to always improve was not only on the top of the agenda in the Board, it was, and still is, the way of working in the Group. It is my firm belief that the success of Atlas Copco is based on a strong strategy implemented by balancing risk and control, continuous adaption to an ever changing global environment and above all, hard work by committed personnel.

During my years as Chair, the shareholders have received an annual total return of around 22%. Today Atlas Copco sells innovative products in more than 180 countries. It is with full confidence I step back and let the Board and Atlas Copco continue the good work for sustainable productivity and profitability onwards.

**Sune Carlsson**



## GOVERNANCE STRUCTURE

### 1. SHAREHOLDERS

At the end of December 2013, Atlas Copco had 72 738 shareholders (69 272 at year-end 2012). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (33) of the voting rights and 34% (33) of the number of shares. Swedish investors held 53% (51) of the shares and represented 51% (48) of the voting rights.

The largest shareholder is Investor AB, holding 17% of capital and 22% of votes. More information on Atlas Copco’s shareholders is found in the chapter “The Atlas Copco share” on pages 54–55.

### 2. ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is Atlas Copco’s supreme decision-making body in which all shareholders are entitled to take part. The shareholders may exercise their voting rights in a number of important issues, such as the election of Board members, approval of financial statements, discharge of liability for the President and CEO and the Board, and the adoption of the proposed distribution of profits. All shareholders registered in the shareholders’ register who have given due notification to the company of their intention to attend, may join the meeting and vote for their total shareholdings.

Atlas Copco encourages all shareholders to attend the AGM and shareholders who cannot participate personally may be represented by proxy holders. A shareholder or a proxy holder may be accompanied by two assistants and a proxy form can be found prior to the AGM at [www.atlascopco.com/aggm](http://www.atlascopco.com/aggm).

The AGM 2013 was held on April 29, 2013 in Stockholm, Sweden and 59.3% of the total number of votes in the company and 57.7% of the shares were represented.

#### Decisions at the AGM 2013 included:

- adoption of the income statements and balance sheets of the company and the Group for 2012
- discharge of liability of the company’s affairs during the 2012 financial year for the President and CEO, and the Board of Directors
- adoption of the Board’s proposal for profit distribution with a dividend of SEK 5.50 per share
- that the number of directors elected by the annual general meeting for a term ending at the next annual general meeting would be ten directors and no alternates
- resolution of the Board of Directors’ fee
- approval of the guidelines for remuneration to management
- approval of the reported scope and principals for a performance based employee stock option plan for 2013.

Shareholders who wish to contact the Nomination Committee or have a matter addressed by the Board of Directors at the AGM may submit their proposals by ordinary mail or e-mail to the following addresses:

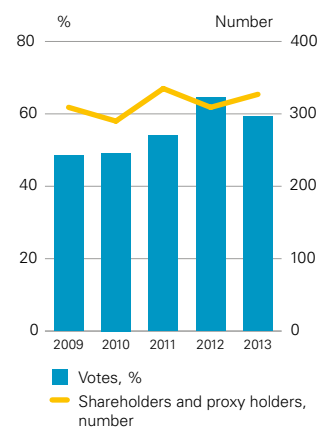
Atlas Copco AB, Att: General Counsel  
SE-105 23 Stockholm, Sweden  
[nominations@atlascopco.com](mailto:nominations@atlascopco.com) or  
[board@atlascopco.com](mailto:board@atlascopco.com).

Proposals have to be received by the Board of Directors and the Nomination Committee respectively, no later than seven weeks prior to the AGM to be included in the notice to the AGM and the agenda.

#### ANNUAL GENERAL MEETING 2014

The Annual General Meeting 2014 will be held on April 29, 2014 at 4 p.m. in Aula Magna, Stockholm University, Frescativägen 6, Stockholm, Sweden.

#### ANNUAL GENERAL MEETING ATTENDANCE



## GOVERNANCE STRUCTURE, CONTINUED

**3. NOMINATION COMMITTEE**

The Nomination Committee is responsible to ensure that the Board of Directors represents the knowledge, experience and diversity most suitable to achieve a sustainable and profitable development of Atlas Copco.

Based on the findings of the Chair of the Board, the Nomination Committee annually evaluates the work of the Board. The Nomination Committee also prepares a proposal regarding number and names of Board members, as well as Chair and Vice Chair of the Board. Further, the Nomination Committee also submits its proposal for remuneration to the Chair, the Vice Chair and other Board members not employed by the company, as well as a proposal for remuneration for Board committee work.

For the AGM 2014, the Nomination Committee will also propose an audit company and the fee for such an audit. The various proposals and the Nomination Committee statement will be published at the latest with the notice to the AGM 2014.

In compliance with the Swedish Corporate Governance Code and the adopted procedures by the AGM 2012, the representatives of the four largest shareholders, listed in the shareholders' register as of September 30, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2014 were announced on October 25, 2013 and they represented approximately 30% of all votes in the company. The Nomination Committee met at two occasions during the year. The members of the Nomination Committee receive no compensation for their work in the Nomination Committee.

**Nomination Committee members for the AGM 2014**

*Petra Hedengran*, Investor AB (Chair)  
*Jan Andersson*, Swedbank Robur Fonder  
*Ramsay Brufer*, Alecta  
*Peder Hasslev*, AMF  
*Sune Carlsson*, Atlas Copco AB

**4. BOARD OF DIRECTORS**

The Board of Directors is overall responsible for the organization, administration and management of Atlas Copco in the best interest of the Company and of the shareholders. The Board is responsible to follow applicable rules and implement efficient control systems in the decentralized organization. An efficient control system offers the correct balance between risk and control. The long-term growth incentive is regularly evaluated by the Board based on the Group's financial situation and financial, legal, social and environmental risk. The mission is to achieve a sustainable and profitable development of the Group.

**Board of Directors' members**

The Board of Directors consists of ten elected Board members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2013 requirements of OMX Stockholm and the rules of the Swedish Corporate Governance Code regarding independence of board members. All Board members have participated in training sessions arranged by OMX Stockholm.

**The Board of Directors' work**

The Board continuously addresses the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Group. Further, the Board regularly ensures that efficient control systems are in place. In 2013, the Board also emphasized topics such as safety and the acquisition of Edwards Group. Besides the general distribution of responsibilities that apply in accordance with the Swedish Companies Act, the Board and its committees (Audit Committee, Remuneration Committee and others) annually review and adopt "The Rules of Procedure" and "The Written Instructions", which are documents that govern the Boards' work and distribution of tasks between the Board and the President as well as the Company's reporting processes.

The Board had nine meetings in 2013, six times at Atlas Copco AB in Nacka, Sweden, two per capsulam and one in Antwerp, Belgium. The attendance of Board members is presented on pages 60–61. No dissenting opinions in relation to a decision have been reported in the Minutes during the year. The Board

*"The Board continuously addresses the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Group."*

continuously evaluates the performance of the CEO, Ronnie Leten. For the Annual Audit, the company's principal auditor, Jan Berntsson, Deloitte, reported his observations and the Board also had a separate session with the auditor where members of Group Management were not present.

**Evaluation of the Board of Directors' work**

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

**Remuneration to the Board of Directors**

Remuneration and fees are based on the work performed by the Board. The 2013 AGM decided to adopt the Nomination Committee's proposal for remuneration to the Chair and other Board members not employed by the company, and the proposed remuneration for committee work. See also note 5.

- The Chair received SEK 1 850 000
- The Vice Chair SEK 750 000
- Each of the other Board members not employed by the company SEK 555 000
- An amount of SEK 200 000 was granted to the Chair of the Audit Committee and SEK 125 000 to each of the other members of this committee
- An amount of SEK 60 000 was granted to each one of the members of the Remuneration Committee
- An amount of SEK 60 000 to each non-executive director who, in addition, participates in committee work decided upon by the Board
- The meeting further resolved that 50% of the director's Board fee could be received in the form of synthetic shares.

## 5. AUDIT COMMITTEE

The Audit Committee's primary task is to support the Board of Directors in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and risk management as well as to supervise the financial structure and operations of the Group and approve financial guarantees, delegated by the Board. The Audit Committee work further includes reviewing internal audit procedures. The work of the Audit Committee is directed by the Audit Committee Charter, which is reviewed and approved annually. The Chair of the committee has the accounting competence required by the Swedish Companies Act and two of the members are independent from the company and its main shareholder.

During the year, the committee convened six times. All members were present at these meetings. During the autumn 2013, the Audit Committee initiated the process to elect auditors at the AGM 2014. All meetings of the Audit Committee have been reported to the Board of Directors and the corresponding Minutes have been distributed.

### Audit Committee 2013–2014

*Ulla Litzén*, Chair

*Sune Carlsson*, until April 28, 2013

*Hans Stråberg*, from April 29, 2013

*Staffan Bohman*

*Johan Forssell*

## 6. REMUNERATION COMMITTEE

The Remuneration Committee's primary task is to propose to the Board the remuneration to the President and CEO and a long-term incentive plan for key employees. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders. The Remuneration Policy for Group Management aims to establish principles for a fair and consistent remuneration with respect to compensation, benefits, and termination. The base salary is determined by position and performance and the variable compensation is for the achievement of

individual goals. The Remuneration Policy is reviewed annually and the AGM 2013 approved the guidelines for remuneration. See more information in note 24.

The Remuneration Committee had one meeting in 2013. All members were present. During the year, the Remuneration Committee also supported the President and CEO in determining remuneration to the other members of Group Management. The corresponding Minutes have been distributed to the Board.

### Remuneration Committee 2013–2014

*Sune Carlsson*, Chair

*Peter Wallenberg Jr*

*Anders Ullberg*

## 7. EXTERNAL AUDITOR

The task of the external auditor is to examine Atlas Copco's Annual accounts and accounting practices, as well as to review the Board and the CEO's management of the company. At the AGM 2010 the audit firm Deloitte AB, Sweden was elected external auditor until the AGM 2014 in compliance with a proposal from the Nomination Committee. The principal auditor is Jan Berntsson, Authorized Public Accountant at Deloitte AB.

At the AGM 2013 Jan Berntsson referred to the auditor's report for the Company and the Group in the Annual Report and explained the process applied when performing the audit. He also recommended adoption of the presented income statements and balance sheets, discharge of liability for the President and CEO and the Board of Directors, and adoption of the proposed distribution of profits.

## 8. INTERNAL AUDIT AND ASSURANCE

The Board of Directors is responsible that Atlas Copco has adequate internal control systems in place for financial reporting. Read more on pages 64–65.

## 9. GROUP MANAGEMENT

Besides the President and CEO, the Group Management consists of four business area executives and executives responsible for the main Group functions; Corporate Communication and Governmental Affairs, Organizational Development and Human Resources, Controlling and Finance and Legal. The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions.

### Remuneration to Group Management

The Remuneration Policy is reviewed and presented to the AGM by the Board of Directors for approval every year. In 2013, the AGM decided to adopt the Board's proposal.

The remuneration covers an annual base salary, variable compensation, possible long-term incentive (personnel options), pension premium and other benefits. The variable compensation is limited to a maximum percentage of the base salary. No fees are paid for Board memberships in Group companies or for other duties performed.

## BOARD OF DIRECTORS



Name Born Function	Sune Carlsson 1941 Board member and Chair since 2003	Hans Stråberg 1957, Board member and Vice Chair since 2013	Ronnie Leten 1956 Board member President and CEO	Ulla Litzén 1956 Board member	Anders Ullberg 1946 Board member
<b>Education</b>	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg.	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg.	M.Sc. in Applied Economics, University of Hasselt, Belgium.	M.Sc. in Economics and Business Administration, Stockholm School of Economics, and MBA, Massachusetts Institute of Technology, the U.S.	M.Sc. in Economics and Business Administration, Stockholm School of Economics.
<b>Nationality / Elected</b>	Swedish / 1997	Swedish / 2013	Belgian / 2009	Swedish / 1999	Swedish / 2003
<b>Board membership</b>	Vice Chair of Investor AB and board member of Wärtsilä Oyj, Finland.	Member of the Board of Investor AB, Stora Enso Oyj, Finland, N Holding AB, Mellby Gärd AB and Chair of Roxtec AB, CTEK and Orchid Orthopedics.	Vice Chair of Electrolux AB.	Board member of SKF AB, Boliden AB, Alfa Laval AB, NCC AB and Husqvarna AB.	Chair of BE Group AB, Boliden AB, Natur & Kultur, and Studsvik AB. Board member of Beijer Alma, Valedo Partners, and Åkers AB. Chair of the Swedish Financial Reporting Board.
<b>Principal work experience and other information</b>	President and CEO of AB SKF, and Executive Vice President of ASEA AB, and ABB Ltd., Switzerland.	Chief Executive Officer and President for Electrolux AB. Various executive positions in the Electrolux Group based in Sweden and the U.S. EU Co-Chair TABD, Trans-Atlantic Business Dialogue.	President and CEO of Atlas Copco AB.* Business Area President for Atlas Copco Compressor Technique. Division president for the divisions Airtec and Industrial Air as well as several management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area in Belgium.	President of W Capital Management AB (wholly owned by the Wallenberg Foundations) and Managing Director and member of the Management Group, Investor AB.	Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel and President and CEO of SSAB Swedish Steel.
<b>Total fees 2013, KSEK <sup>1)</sup></b>	1 898	750	–	929	611
<b>Board meeting attendance</b>	9 of 9 Chair	6 of 6 as of AGM 2013	9 of 9	9 of 9	9 of 9
<b>Remuneration Committee attendance</b>	1 of 1 Chair	–	–	–	1 of 1
<b>Audit Committee attendance</b>	3 of 3 until AGM 2013	3 of 3 as of AGM 2013	–	6 of 6 Chair	–
<b>Holdings in Atlas Copco AB <sup>2)</sup></b>	20 000 class A shares, 34 284 class B shares 24 452 synthetic shares	2 182 synthetic shares	19 166 class A shares 24 000 class B shares 389 345 synthetic shares/ employee stock options	75 800 class A shares 3 000 class B shares 5 658 synthetic shares	14 000 class A shares 10 000 class B shares 5 658 synthetic shares
<b>Independence to Atlas Copco and its management</b>	Yes	Yes	No <sup>3)</sup>	Yes	Yes
<b>Independence to major shareholders</b>	No <sup>5)</sup>	No <sup>5)</sup>	Yes	Yes	Yes
<b>Annual Meeting attendance</b>	Yes	Yes	Yes	Yes	Yes

## Board members appointed by the unions



**Bengt Lindgren**  
Board member  
Born 1957  
Chair of IF Metall, Atlas Copco Secoroc AB, Fagersta, Sweden  
Elected 1990  
Board meeting attendance 8 of 9



**Mikael Bergstedt**  
Board member  
Born 1960  
Chair of PTK, Atlas Copco Tools AB, Tierp, Sweden  
Elected 2004  
Board meeting attendance 9 of 9





**Staffan Bohman**  
1949  
Board member

M.Sc. in Economics and Business Administration, Stockholm School of Economics and Stanford Executive Program, the U.S.

Swedish / 2003

Chair of Höganäs AB and Cibes Lift Group AB, Vice Chair of Rezidor Hotel Group AB and of the Board of trustees of SNS, Board member of Inter IKEA Holding N.V., the Netherlands, Ratos AB, Boliden AB, and member of the Swedish Corporate Governance Board.

CEO of Sapa AB, Gränges AB and DeLaval AB.

768

9 of 9

–

6 of 6

10 000 class A shares  
30 000 class B shares  
7 483 synthetic shares

Yes

Yes

Yes



**Margareth Øvrum**  
1958  
Board member

M.Sc. in Technical Physics, Norwegian University of Science and Technology, Trondheim, Norway.

Norwegian / 2008

Board member of Ratos AB.

Executive Vice President for Statoil ASA.\* Several leading positions within technology, projects, production, maintenance, health/safety/environment, and procurement in Statoil. All positions in Norway.

553

9 of 9

–

–

10 771 synthetic shares

Yes

Yes

Yes



**Johan Forssell**  
1971  
Board member

M.Sc. in Economics and Business Administration, Stockholm School of Economics.

Swedish / 2008

Board member of Saab AB.

Managing Director, Head of Core Investments and member of the management group of Investor AB.\*

678

9 of 9

–

6 of 6

5 000 class B shares  
10 771 synthetic shares

Yes

No<sup>6)</sup>

Yes



**Gunilla Nordström**  
1959  
Board member

M.Sc. in Electronics, Industrial Marketing Management, Linköping University.

Swedish / 2010

Board member of Wärtsilä Oyj., Finland.

President and CEO of Electrolux Major Appliances Asia/Pacific, based in Singapore, and Executive Vice President of Electrolux AB.\* Senior management positions with telefonaktiebolaget LM Ericsson and Sony Ericsson in Europe, Latin America and Asia.

620

9 of 9

–

–

5 526 synthetic shares

No<sup>4)</sup>

Yes

Yes



**Peter Wallenberg Jr**  
1959  
Board member

BSBA Hotel Administration, University of Denver, the U.S. and International Bacheloria, American School, Leysin, Switzerland.

Swedish / 2012

Chair of Foundation Administration Management Sweden AB, The Grand Group, The Royal Swedish Automobile Club. Vice Chair of the Knut and Alice Wallenberg Foundation. Board member of Aleris Holding AB, Foundation Asset Management Sweden AB, Investor AB, Scania AB.

President and CEO of The Grand Hotel Holdings, General Manager The Grand Hotel, President Hotel Division Stockholm-Saltsjön.

613

9 of 9

1 of 1

–

3 439 synthetic shares

Yes

No<sup>5)</sup>

Yes

## Honorary Chair

### Dr. Peter Wallenberg

Econ. Dr. h.c. and Dr. of Laws h.c., Bachelor of Law, University of Stockholm. Honorary Chair of Investor AB. Chair of the nonprofit Knut and Alice Wallenberg Foundation. Held various positions within the Atlas Copco Group 1953–1974 and was Chair of the Board 1974–1996.



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

<sup>1)</sup> See note 5 to the consolidated financial statements.

<sup>2)</sup> Holdings as per end of 2013, including those of close relatives or legal entities and grant for 2013.

<sup>3)</sup> President and CEO of Atlas Copco.

<sup>4)</sup> Member of Group Management in a company where the President and CEO is the Vice Chair (Electrolux AB).

<sup>5)</sup> Board member in a company which is a larger owner (Investor AB).

<sup>6)</sup> Employed by a company which is a larger owner (Investor AB).

\*) Current work experience.



**Ulf Ström**  
Deputy  
Born 1961  
Chair of IF Metall, Atlas Copco Rock Drills AB, Örebro, Sweden  
Elected 2008  
Board meeting attendance 9 of 9



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

GROUP  
MANAGEMENT

Name	<b>Ronnie Leten</b>	<b>Stephan Kuhn</b>	<b>Mats Rahmström</b>	<b>Johan Halling</b>	<b>Nico Delvaux</b>
<b>Position</b>	President and CEO	Senior Executive Vice President for Atlas Copco AB and Business Area President Compressor Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Industrial Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Mining and Rock Excavation Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Construction Technique
<b>In current position since</b>	2009	2009	2008	2013	2011
<b>Nationality / Employed</b>	Belgian / 1997	German / 2009	Swedish / 1988	Swedish / 1998	Belgian / 1991
<b>Born</b>	1956	1962	1965	1952	1966
<b>Education</b>	M.Sc. in Applied Economics, University of Hasselt, Belgium.	MBA from Bentley College in Waltham MA, U.S.	MBA from the Henley Management College, the United Kingdom.	M.Sc. in Mechanical Engineering from the University of Lund.	M.Sc. in Electromechanics from the University of Brussels and an MBA from the Handelshogeschool in Antwerp, Belgium.
<b>Principal work experience and other information</b>	Ronnie Leten was first employed by Atlas Copco in 1985. Since then he has been Business Area President for Atlas Copco Compressor Technique and Division President for the divisions Airtec and Industrial Air. He has also held management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area. All positions in Belgium.	Stephan Kuhn started his career at Atlas Copco in 1995 as manager of an electric tools joint venture in China, and later held General Manager positions in Belgium and Germany. He was President of the Surface Drilling Equipment division within the former Construction and Mining Technique business area until 2008, when he took a position outside the Group for a short period of time.	Mats Rahmström has held positions in sales, service, marketing and general management within the Industrial Technique business area. Between 1998 and 2006 he held the position as General Manager for customer centers in Sweden, Canada, and the United Kingdom. Between 2006 and 2008 he was President of the Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique.	Johan Halling joined Atlas Copco in 1998 as President of one of the electric tool divisions within Industrial Technique that Atlas Copco owned at the time. Between 2002 and 2013 he was President of Atlas Copco's Rock Drilling Tools division. Prior to joining Atlas Copco, he was President of VOAC Hydraulics, a joint venture between Atlas Copco and Volvo. Between 1981 and 1990 he worked for power and automation technologies group ABB, in different positions, including divisional president for ABB Robotics and Factory Automation.	Nico Delvaux started his career with Atlas Copco in 1991 and has had positions in sales, marketing, service, acquisition-integration management and general management, in markets including Benelux, Italy, Canada and the United States. Between 2008 and 2011 he was President of the Compressor Technique Service division.
<b>External directorships</b>	Vice Chair of Electrolux AB.		Board member of Permobil Holding AB.	Chair of Eson Pac Group AB.	
<b>Holdings in Atlas Copco AB <sup>1)</sup></b>	19 166 class A shares 24 000 class B shares 389 345 synthetic shares/ employee stock options	6 682 class A shares 151 744 synthetic shares/ employee stock options	6 680 class A shares 151 568 synthetic shares/ employee stock options	6 277 class A shares 109 326 synthetic shares/ employee stock options	5 776 class A shares 80 319 synthetic shares/ employee stock options

<sup>1)</sup> Holdings as per December 31, 2013, including those held by related natural or legal persons. See note 24 for more information on the option programs and matching shares. The President and CEO, Ronnie Leten, has no major shareholdings or part ownership in enterprises with which Atlas Copco has significant business relations. All educational institutions and companies are based in Sweden, unless otherwise indicated.

**Annika Berglund**

Senior Vice President  
Corporate Communications  
and Governmental Affairs

**Jeanette Livijn**

Senior Vice President  
Organizational Develop-  
ment and Human  
Resources

**Hans Ola Meyer**

Senior Vice President  
Controlling and Finance

**Håkan Osvald**

Senior Vice President  
General Counsel

1997

2007

1999

2012

Swedish / 1979

Swedish / 1987

Swedish / 1991

Swedish / 1985

1954

1963

1955

1954

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

M.Sc. in Business  
Administration from Växjö  
högskola.

M.Sc. in Economics and  
Business Administration  
from Stockholm School of  
Economics.

Master of Law from  
Uppsala University.

Annika Berglund began her career in marketing analysis and market research with Atlas Copco in 1979. Since then, she has held a number of positions in the Group related to marketing, sales, and business controlling in Europe. Prior to her current position, she was Marketing Manager for the electronic company Atlas Copco Controls (Danaher Motion).

Jeanette Livijn started to work for Atlas Copco in the field of financial and business controlling in 1987 and held various positions in this function. Since 1997 Jeanette Livijn has held managerial positions within human resource management. Before she took up this present position she was Vice President Human Resources for the Industrial Technique business area.

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

Håkan Osvald joined Atlas Copco in 1985 as Legal Counsel. From 1989 he was General Counsel for Atlas Copco North America Inc. and Chicago Pneumatic Tool Company, the United States. In 1991 he was appointed Vice President Deputy General Counsel Atlas Copco Group, with a special responsibility for acquisitions. Prior to his current position, he was General Counsel Operations. Since 2012 he is Secretary of the Board of Directors for Atlas Copco AB.

Member of The Swedish  
Financial Reporting Board  
and member of the Board  
of Trustees for The Bank of  
Sweden Tercentenary.

Chair of ICC Sweden,  
reference group  
Competition.

10 467 class A shares  
7 900 class B shares  
97 111 synthetic shares/  
employee stock options

3 414 class A shares  
52 268 synthetic shares/  
employee stock options

7 286 class A shares  
18 021 class B shares  
131 181 synthetic shares/  
employee stock options

2 569 class A shares  
2 600 class B shares  
55 796 synthetic shares/  
employee stock options

# INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The internal control process is based on a control environment that creates discipline and provides structure for the other four components of the process – risk assessment, control activities, information and communication as well as monitoring. The starting point for the process is the regulatory framework for internal control issued by the Committee of Sponsoring Organi-

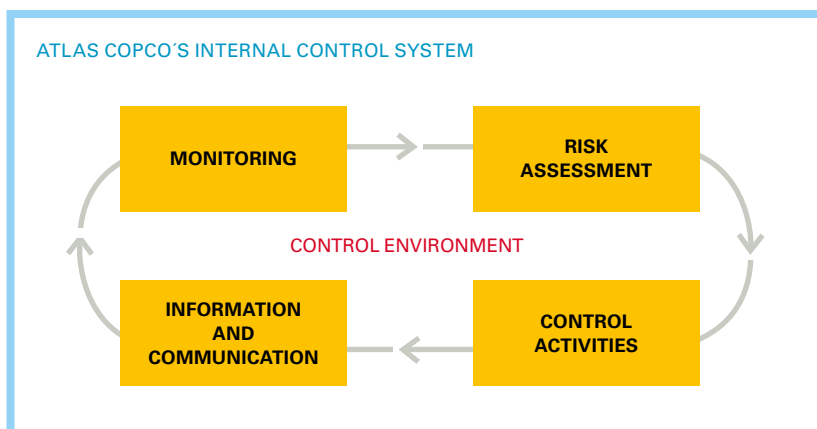
zations of the Treadway Commission (COSO), [www.coso.org](http://www.coso.org).

The basis for the internal control is defined by the overall *control environment*. The Board of Directors is responsible for establishing an efficient system for internal control and governs the work through the CEO. Group Management sets the tone for the organization, influencing the con-

trol consciousness of the people. One key success factor for a strong control environment lies in ensuring that the organizational structure, decision hierarchy, corporate values in terms of ethics and integrity as well as authority to act, are clearly defined and communicated through guiding documents such as internal policies, guidelines, manuals, and codes. All employees must follow these policies and guidelines.

The company applies different processes to assess and identify the main risks relating to financial reporting misstatements. The *risk assessment process* is regularly performed to identify new risks and follow up that internal control is improved over previously identified risks.

Identified risks are managed through the *control activities* in the company, which are documented in processes and internal control descriptions on the Company, Division, Business area, and Group levels. These aim to prevent, detect and correct



## PROCESSES AND TOOLS

### PROKURA

Prokura is the delegation of the authority to act both with respect to a third party and internally. It defines how responsibility is allocated to positions and, reflecting this, to individuals.

**FREQUENCY:** When a person is recruited to a new position

### BUSINESS BOARD

The internal board structure, organized according to operational responsibilities (i.e. parallel to the legal company board structure), and Company Review Meetings between local management and responsible division management are essential tools to follow up the adherence to internal policies, guidelines, instructions and codes as well as the efficiency in the control activities over financial reporting.

**FREQUENCY:** 3–4 times per year

### REPORTING

Monthly operative reports are prepared to measure and analyze profitability per product category, company, business line, division, and business area. Each division consolidates its units and reports adjustments and eliminations. Quarterly, these reports are completed with additional information and specifications. The reports constitute the basis for the Group’s quarterly and annual consolidated reports. Reporting is also prepared to measure progress in fields related to environmental and social performance.

The Group uses a common system for consolidation of the reports, which also provides certain system-based validation reports. It includes a series of standardized scorecards used to analyze and follow up key indicators and trends in relation to the set targets.

**FREQUENCY:** Monthly, quarterly, annually

### BUSINESS CONTROL

Each unit has a business controller responsible for ensuring adequate internal control processes over financial reporting, implementing Group control processes. The controller is also responsible for ensuring the application of *The Way We Do Things* and that reporting is correct, complete, and delivered on time. There are also controllers at the Division, Business area, and Group levels with corresponding responsibilities for these aggregated levels.

**FREQUENCY:** Continuously

errors and non-compliances and include for example instructions for attestations and authority to pay, controls in business systems as well as accounting and business reporting processes.

The company has *information and communication channels* designed to ensure that information is identified, captured and communicated in a form and timeframe that enable employees and managers to carry out their responsibilities. Reporting instructions and accounting guidelines are communicated to personnel concerned in the internal database *The Way We Do Things*, supported by, for example, training programs for different categories of employees.

The company continuously *monitors* the adherence to internal policies, guidelines, manuals, and codes as well as efficiency in the control activities. Internal control is continuously evaluated and followed up on in the operations, including regular management reviews and supervi-

sory activities as well as through internal audits, and control self assessments. The Audit Committee has an important role in supporting the Board of Directors to monitor whether the internal control processes facilitate adequate internal control over financial reporting.

**Activities in 2013**

In 2013, the Group internal audit function conducted internal audits in 107 (88) units out of 452 (438). The audits were conducted in 38 countries. A risk-based internal audit plan was executed. A majority of the internal audits were conducted under leadership of Group internal audit staff with team members having competences in accounting, controlling, purchasing, marketing, human resources, legal, etc. Internal audits covered many countries of operation and all processes, with additional focus on areas such as human resources, sustainability and IT security. IT Security audits were carried out by the

Group IT Security function and covered 61 units.

**Focus in 2014**

In 2014, the Group internal audit function will continue the work to review and improve processes and tools as well as on risk-based planning of internal audits with focus areas on protecting Group assets, compliance in the purchasing process and recommending leading practices.

INTERNAL CONTROL STATISTICS	2013	2012
Operative units in the Group	452	438
Internal audits conducted	107	88
Control self assessments completed	318	299

**PROCESSES AND TOOLS**

**INTERNAL AUDITS**

The Internal Audit process is intended to add value to each operational unit by providing an independent and objective assurance and consulting function as well as to identify and recommend improvements. Further, the process aims to serve as a tool for employee professional development and to identify and recommend leading practices within the Group.

Internal audits are annually planned or initiated by the Group internal audit function with a risk-based approach. This includes for example when there is a change of General Manager in a company, after major negative events or structural changes, remarks from external auditors, when a new company is formed or acquired, or if a long time has passed since the last audit. Internal audits are normally performed by an inter-disciplinary team of people appointed from the organization.

Atlas Copco has operations in several complex markets, where the risk of human rights abuses and corruption is high. Therefore, the adherence to the Business Code of Practice is evaluated in the internal audit process, including environmental aspects and business partner relationships.

**FREQUENCY:** All units at least once every five years

**CONTROL SELF ASSESSMENT**

The objective of this process is primarily to support local unit managers evaluating the status of their control routines and to address weak areas. One of the areas is internal control, which includes internal control over financial reporting. Other areas include legal issues, communication and branding, and the Business Code of Practice. On Group level the aggregated assessments of the control routines give a base for improvement of Group processes, instructions, etc.

**FREQUENCY:** Annually

**HOTLINE**

The Group has a process where employees and other stakeholders can report on behavior or actions that are possible violations of laws or of Group policies, including violation of accounting and financial reporting guidelines and policies. This also includes perceived cases of human rights violation, discrimination or corruption. This process serves as a complement to similar procedures that exist on country level in certain countries. The reports are treated confidentially and the person who is reporting is guaranteed anonymity. There have been efforts to increase awareness of this process among all employees and managers, e.g. through training in the Business Code of Practice and fraud awareness.

**FREQUENCY:** As required

**COMPLIANCE STATEMENT**

In the compliance process Group Management, divisional managements and all managers responsible for an operational or holding unit and certain other key positions are requested to sign a statement confirming compliance to the Business Code of Practice and applicable laws and regulations.

**FREQUENCY:** Annually

# FINANCIAL STATEMENTS AND NOTES

MSEK unless otherwise stated

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## Consolidated income statement

For the year ended December 31, Amounts in MSEK	Note	2013	2012
Revenues	4	83 888	90 533
Cost of sales	7	-51 766	-55 771
<b>Gross profit</b>		<b>32 122</b>	<b>34 762</b>
Marketing expenses		-8 338	-8 646
Administrative expenses		-4 801	-4 973
Research and development expenses		-2 117	-2 034
Other operating income	8	514	475
Other operating expenses	8	-331	-319
Share of profit in associated companies	15	7	1
<b>Operating profit</b>	4, 5, 6, 7, 17	<b>17 056</b>	<b>19 266</b>
Financial income	9	394	408
Financial expenses	9	-1 184	-1 112
<b>Net financial items</b>		<b>-790</b>	<b>-704</b>
<b>Profit before tax</b>		<b>16 266</b>	<b>18 562</b>
Income tax expense	10	-4 184	-4 629
<b>Profit for the year</b>		<b>12 082</b>	<b>13 933</b>
<b>Profit attributable to:</b>			
- owners of the parent		12 072	13 920
- non-controlling interests		10	13
Basic earnings per share, SEK	12	9.95	11.47
Diluted earnings per share, SEK	12	9.92	11.44

## Consolidated statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2013	2012
<b>Profit for the year</b>		<b>12 082</b>	<b>13 933</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurments of defined benefit plans		45	-479
Income tax relating to items that will not be reclassified		-18	116
		<b>27</b>	<b>-363</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Translation differences on foreign operations		444	-1 903
- realized and reclassified to income statement		16	-
Hedge of net investments in foreign operations		-712	645
Cash flow hedges		-31	-22
Income tax relating to items that may be reclassified	11	410	-265
		<b>127</b>	<b>-1 545</b>
<b>Other comprehensive income for the year, net of tax</b>	11	<b>154</b>	<b>-1 908</b>
<b>Total comprehensive income for the year</b>		<b>12 236</b>	<b>12 025</b>
<b>Total comprehensive income attributable to:</b>			
- owners of the parent		12 229	12 016
- non-controlling interests		7	9

## Consolidated balance sheet

Amounts in MSEK	Note	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	13	17 279	15 879	15 352
Rental equipment	14	2 420	2 030	2 117
Other property, plant and equipment	14	6 907	6 846	6 538
Investments in associated companies	15	101	107	124
Other financial assets	16	2 316	2 074	2 283
Other receivables		23	38	94
Deferred tax assets	10	961	1 262	1 114
<b>Total non-current assets</b>		<b>30 007</b>	<b>28 236</b>	<b>27 622</b>
<b>Current assets</b>				
Inventories	17	16 826	17 653	17 579
Trade receivables	18	16 619	15 960	16 783
Income tax receivables		309	632	533
Other receivables	19	4 798	4 563	4 680
Other financial assets	16	1 697	1 333	1 773
Cash and cash equivalents	20	17 633	12 416	5 716
Assets classified as held for sale		2	1	55
<b>Total current assets</b>		<b>57 884</b>	<b>52 558</b>	<b>47 119</b>
<b>TOTAL ASSETS</b>		<b>87 891</b>	<b>80 794</b>	<b>74 741</b>
<b>EQUITY</b>				
	Page 69			
Share capital		786	786	786
Other paid-in capital		5 743	5 628	5 412
Reserves		-963	-1 093	448
Retained earnings		34 081	28 810	21 513
<b>Total equity attributable to owners of the parent</b>		<b>39 647</b>	<b>34 131</b>	<b>28 159</b>
Non-controlling interests		147	54	63
<b>TOTAL EQUITY</b>		<b>39 794</b>	<b>34 185</b>	<b>28 222</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	22	19 997	20 150	17 013
Post-employment benefits	24	1 414	2 149	1 878
Other liabilities		392	342	368
Provisions	26	682	785	717
Deferred tax liabilities	10	1 027	1 678	1 207
<b>Total non-current liabilities</b>		<b>23 512</b>	<b>25 104</b>	<b>21 183</b>
<b>Current liabilities</b>				
Borrowings	22	5 595	902	3 422
Trade payables		6 418	6 700	7 696
Income tax liabilities		845	1 642	2 005
Other liabilities	25	10 662	11 070	11 007
Provisions	26	1 065	1 191	1 206
<b>Total current liabilities</b>		<b>24 585</b>	<b>21 505</b>	<b>25 336</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>87 891</b>	<b>80 794</b>	<b>74 741</b>

Information concerning pledged assets and contingent liabilities is disclosed in note 27.



## Consolidated statement of changes in equity

2013	Equity attributable to owners of the parent							
	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
<b>Amounts in MSEK</b>								
Opening balance, Jan. 1	786	5 628	-46	-1 047	28 810	34 131	54	34 185
Profit for the year					12 072	12 072	10	12 082
Other comprehensive income for the year			-19	149	27	157	-3	154
<b>Total comprehensive income for the year</b>			<b>-19</b>	<b>149</b>	<b>12 099</b>	<b>12 229</b>	<b>7</b>	<b>12 236</b>
Dividends					-6 668	-6 668	-1	-6 669
Change in non-controlling interests					-2	-2	87	85
Acquisition of series A shares					-390	-390		-390
Divestment of series A shares held by Atlas Copco AB		98			287	385		385
Divestment of series B shares held by Atlas Copco AB		17			12	29		29
Share-based payment, equity settled								
- expense during the year					39	39		39
- exercise of options					-106	-106		-106
<b>Closing balance, Dec. 31</b>	<b>786</b>	<b>5 743</b>	<b>-65</b>	<b>-898</b>	<b>34 081</b>	<b>39 647</b>	<b>147</b>	<b>39 794</b>

2012	Equity attributable to owners of the parent							
	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
<b>Amounts in MSEK</b>								
Opening balance, Jan. 1	786	5 412	-25	473	22 130	28 776	63	28 839
-Change in accounting principle					-617	-617		-617
Restated opening balance, Jan. 1	786	5 412	-25	473	21 513	28 159	63	28 222
Profit for the year					13 920	13 920	13	13 933
Other comprehensive income for the year			-21	-1 520	-363	-1 904	-4	-1 908
<b>Total comprehensive income for the year</b>			<b>-21</b>	<b>-1 520</b>	<b>13 557</b>	<b>12 016</b>	<b>9</b>	<b>12 025</b>
Dividends					-6 069	-6 069	-1	-6 070
Change in non-controlling interests					-90	-90	-17	-107
Acquisition of series A shares					-477	-477		-477
Divestment of series A shares held by Atlas Copco AB		178			498	676		676
Divestment of series B shares held by Atlas Copco AB		38			34	72		72
Share-based payment, equity settled								
- expense during the year					50	50		50
- exercise of options					-206	-206		-206
<b>Closing balance, Dec. 31</b>	<b>786</b>	<b>5 628</b>	<b>-46</b>	<b>-1 047</b>	<b>28 810</b>	<b>34 131</b>	<b>54</b>	<b>34 185</b>

See note 11 and 21 for additional information.

## Consolidated statement of cash flows

For the year ended December 31, Amounts in MSEK	Note	2013	2012
<b>Cash flows from operating activities</b>			
Operating profit		17 056	19 266
Adjustments for:			
Depreciation, amortization and impairment	7	2 703	2 664
Capital gain/loss and other non-cash items		-554	-347
Operating cash surplus		19 205	21 583
Net financial items received/paid		-523	-592
Taxes paid		-4 622	-5 053
Pension funding and payment of pension to employees		-634	-119
<b>Cash flow before change in working capital</b>		<b>13 426</b>	<b>15 819</b>
<b>Change in:</b>			
Inventories		577	-639
Operating receivables		-651	-71
Operating liabilities		-464	-656
<b>Change in working capital</b>		<b>-538</b>	<b>-1 366</b>
Increase in rental equipment		-1 456	-1 299
Sale of rental equipment		435	550
<b>Net cash from operating activities</b>		<b>11 867</b>	<b>13 704</b>
<b>Cash flows from investing activities</b>			
Investments in other property, plant and equipment		-1 255	-1 672
Sale of other property, plant and equipment		64	67
Investments in intangible assets		-1 009	-920
Sale of intangible assets		12	7
Sale of investments		-	1 455
Acquisition of subsidiaries	2	-1 493	-1 195
Divestment of subsidiaries	3	-56	-
Investment in other financial assets, net		-735	-474
<b>Net cash from investing activities</b>		<b>-4 472</b>	<b>-2 732</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-6 668	-6 069
Dividend paid to non-controlling interests		-1	-1
Acquisition of non-controlling interests		-3	-107
Repurchase and divestment of own shares		24	271
Borrowings		4 334	6 857
Repayment of borrowings		-181	-5 097
Payment of finance lease liabilities		-40	-58
<b>Net cash from financing activities</b>		<b>-2 535</b>	<b>-4 204</b>
<b>Net cash flow for the year</b>		<b>4 860</b>	<b>6 768</b>
Cash and cash equivalents, Jan. 1		12 416	5 716
Net cash flow for the year		4 860	6 768
Exchange-rate difference in cash and cash equivalents		357	-68
<b>Cash and cash equivalents, Dec. 31</b>	20	<b>17 633</b>	<b>12 416</b>

## 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 called “the Group” or Atlas Copco) and the Group’s interest in associated companies. 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 detail 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 March 4, 2014. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 29, 2014.

### 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 companies in which the Company, directly or indirectly, has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. 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 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

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. Investments in associated

companies are reported according to the equity method. This means that the carrying value of interests in an associate corresponds to the Group’s share of reported equity of the associate, any goodwill, and any other remaining fair value adjustments recognized at acquisition date.

“Shares of profit in associated companies”, included in the income statements, comprises the Group’s share of the associate’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 reduce the carrying value of the investment.

Unrealized gains and losses arising from transactions with an associate 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 equals or exceeds its interest in the associate, 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. 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 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 available-for sale equity instruments,
- translation of a financial liability designated as a hedge of the net investment in a foreign operation,
- translation of intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation,
- cash flow hedges of foreign currency to the extent that the hedge is effective.

In the consolidation, the balance sheets of foreign subsidiaries are translated to SEK using exchange rates at the end of the reporting period and the income statements are translated at the average rates for the reporting period. Foreign exchange differences arising on such translation are recognized in “Other comprehensive income” and are accumulated in the currency translation reserve in equity. Exchange rates for major currencies that have been used for the consolidated financial statements are shown in note 28.

### 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

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

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.

### 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.

### 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 net within "Other operating income" and "Other operating expenses". See note 8 for additional information.

### Government grants

A government grant is recognized when there is a reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Government grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which expenses are incurred and are presented net of the related expense.

### 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 9 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.

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 and associated companies to the extent that they will probably not reverse in the foreseeable future.

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.

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 10.

### 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 12 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 four 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 is technically and commercially feasible, and
- the Group has the intent and ability to complete and sell or use the intangible.

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.

#### 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 13.

#### 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. 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 there-

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

after 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 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 definite 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 14.

### 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 23 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 17 for more details.

### Equity

Shares 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 share capital recognized as equity is 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 26.

### 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

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

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 is 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 24 for additional information

### Share-based compensation

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

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

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

Social security charges are paid in cash and are accounted for in 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 24 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 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 28.

*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 28.

*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 income statement. 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 the 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.

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

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. The Group applies fair value hedge accounting for interest rate swaps used for hedging fixed interest risk on borrowings.

**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. Any cumulative gain or loss that at that time remains in equity 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. 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.

### **Asset held for sale**

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, assets and liabilities are measured at the lower of fair value less selling expenses and the carrying amount. Following reclassification, the assets are no longer depreciated or amortized. Gains and losses recognized on remeasurements and disposals are reported in profit or loss.

### **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 provisions, 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 2013**

The following revised and amended IFRS standards have been applied by the Group from 2013.

#### *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

This amendment changed the way other comprehensive income is presented. Separate subtotals are required for elements which may be “recycled” and those elements that will not.

#### *Amendments to IAS 19 Employee Benefits*

The amendments to IAS 19 Employee Benefits were adopted by Atlas Copco as from January 1, 2013 with full retrospective application. The corridor method is no longer permitted and all actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated financial statements to reflect the full value of the plan deficit or surplus. In addition, interest cost and expected return on plan assets is replaced with net interest on the net defined benefit liability/asset. As a consequence, the consolidated income statements and balance sheets for previous years have been restated. See note 24 for details.

#### *Amendments to IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the disclosure requirements about rights to offset financial assets and financial liabilities. The amendments have not had any significant impact on the financial statements.

#### *IFRS 13 Fair Value Measurement*

The standard establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. The standard does not change when an entity is required to use fair value. The standard has not had any material effect for the Group except for additional disclosures.

#### *Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets*

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. The amendments are effective from January 1, 2014. The amendments to IAS 36 have been early applied by the Group.

#### *Improvements to IFRSs 2009–2011 issued in May 2012*

The improvements include a number of amendments to various IFRSs. The amendments have had no material impact on the consolidated financial statements.

### **New or amended accounting standards effective after 2013**

The following standards, interpretations, and amendments have been issued but not become effective as of December 31, 2013 and have not been applied by the Group. The assessment of the effect that the implementation of these standards and interpretations could have on the consolidated financial statements is preliminary.

#### *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*

The standard clarifies existing application issues relating to the requirements for offset of financial assets and financial liabilities. The effective date is January 1, 2014 and the impact is not expected to have any material effects for the Group.

#### *IFRS 9 Financial Instruments\**

The standard is intended to replace IAS 39 Financial Instruments: Recognition and Measurements, and addresses the classification and measurement of financial instruments. It is likely to affect the Group's accounting of financial assets and financial liabilities. The effective date is still to be decided but will not be earlier than January 1, 2017 and the Group is yet to assess the full impact of IFRS 9.

#### *“The package of five”*

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (Revised 2011) and IAS 28 Investments in Associates and Joint Ventures (Revised 2011) are called “The package of five”. In EU, these standards will be effective for annual periods beginning on or after January 1, 2014. These are not expected to have any material impact on the consolidated financial statements.

#### *Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting*

This amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The effective date is January 1, 2014. The amendment is not expected to have any material impact for the Group.

#### *IFRIC 21 Levies\**

The interpretation addresses when a liability to pay a levy to a govern-

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

ment should be recognized. The Interpretation is effective from January 1, 2014 and is not expected to have any material impact for the Group.

*Improvements to IFRSs 2010–2012 and IFRSs 2011–2013 issued in December 2013\**

The improvements include a number of amendments to various IFRSs. The improvements are not expected to have any material impact for the Group.

*Amendments to IAS 19 (2011) issued in November 2013\**

The amendments permit contributions that are independent of the number of years of service to be recognized as a reduction in the service cost in the period in which the service is rendered. The improvements are not expected to have any material impact for the Group.

\* Indicates that the standard has not yet been endorsed by the EU.

### 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. Revision of accounting estimates are recognized in the period which they are revised and in any future periods affected.

Following are 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.

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

#### Key sources of estimation uncertainty

In accordance with IFRS, 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, and
- the appropriate assumptions to be applied in preparing cash flow projections.

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 13.

### 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 24 for additional information regarding assumptions used in the calculation of pension and post-employment obligations.

### 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 28.

### 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 over-stock articles, out-dated 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 17 for additional information.

### Legal proceedings

#### Accounting judgment

In accordance with IFRS, 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.

### 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 10.

### 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.

### 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 26.



## 2. Acquisitions

The following summarizes the significant acquisitions during 2013 and 2012:

Closing date		Country	Business area	Revenues <sup>1)</sup>	Number of employees <sup>1)</sup>
2013 Nov. 22	Tentec Ltd.	United Kingdom	Industrial Technique	105	65
2013 Oct. 17	Archer Underbalanced Services	U.S.A.	Mining and Rock Excavation Technique	230	75
2013 Oct. 14	Synatec	Germany	Industrial Technique	105	120
2013 Sep. 10	Pneumatic Holdings	U.S.A.	Construction Technique	73	16
2013 Sep. 9	Dost Kompresör, Distributor	Turkey	Compressor Technique	<sup>2)</sup>	16
2013 May 3	National Pump & Compressor, Distributor	U.S.A.	Compressor Technique	<sup>2)</sup>	45
2013 May 2	Saltus-Werk Max Forst GmbH	Germany	Industrial Technique	70	65
2013 Apr. 23	Rapid-Torc	U.S.A. and Belgium	Industrial Technique	75	30
2013 Apr. 3	MEYCO	Switzerland	Mining and Rock Excavation Technique	190	45
2013 Mar. 5	Shandong Rock Drilling Tools Co., Ltd.	China	Mining and Rock Excavation Technique	420	687
2013 Feb. 28	Air et Techniques Energies Provence, Distributor	France	Compressor Technique	<sup>2)</sup>	30
2012 Oct. 26	NewTech Drilling Products	U.S.A.	Mining and Rock Excavation Technique	45	20
2012 Aug. 2	Ekomak	Turkey and others	Compressor Technique	200	160
2012 Aug. 1	Gazcon A/S	Denmark	Compressor Technique	30	21
2012 Mar. 16	Guangzhou Linghein Compressor	China	Compressor Technique	100	160
2012 Feb. 13	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd.	China	Compressor Technique	85	130
2012 Jan. 31	Neumatica, Distributor	Colombia	Mining and Rock Excavation Technique	<sup>2)</sup>	15
2012 Jan. 31	GIA Industri AB	Sweden	Mining and Rock Excavation Technique	230	113
2012 Jan. 12	Perfora S.p.A.	Italy	Mining and Rock Excavation Technique	90	43
2012 Jan. 4	Houston Service Industries, Inc.	U.S.A.	Compressor Technique	240	123

<sup>1)</sup> Annual revenues and number of employees at time of acquisition.

<sup>2)</sup> Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.

With exception of the acquisition of Shandong (75% of shares acquired), all acquisitions above were made through the purchase of 100% of shares and voting rights or through the purchase of the net assets of the acquired operations. The Group received control over the operations upon the date of 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%. The Group is in the process of reviewing the final values for the acquired businesses. No adjustments are expected to be material.

Compressor Technique	Recognized values	
	2013	2012
Intangible assets	64	292
Property, plant and equipment	10	74
Other assets	34	267
Cash and cash equivalents	14	24
Interest-bearing loans and borrowings	-2	-132
Other liabilities and provisions	-38	-150
<b>Net identifiable assets</b>	<b>82</b>	<b>375</b>
Goodwill	21	274
<b>Total consideration</b>	<b>103</b>	<b>649</b>
Deferred consideration	-	14
Cash and cash equivalents acquired	-14	-24
<b>Net cash outflow</b>	<b>89</b>	<b>639</b>

The Compressor Technique business area made three acquisitions in 2013, all of which were distributors. French Air et Techniques Energies Provence was acquired in February. The company sells and provides high-quality service for industrial compressors and ancillary equipment to a broad range of industrial customers. The acquisition is expected to further strengthen Atlas Copco's presence in France. Intangible assets of 7 were recorded on the purchase.

In May, National Pump & Compressor's air compressor business in the state of Illinois, U.S.A., was acquired. The acquired business has distributed Quincy products for more than 60 years and with the acquisition, Atlas Copco intends to build on the work done by National Pump & Compressor by further increasing its market presence and developing the service business. Intangible assets of 26 were recorded on the purchase.

Dost Kompresör ve Endüstri Makinaları İmal Bakım ve Ticaret A.Ş., based in Istanbul, Turkey, was acquired in September. The acquisition is expected to expand Atlas Copco's presence in the increasingly important Turkish market. Intangible assets of 30 were recorded on the purchase.

Total consideration for all acquisitions was 103.

## 2. Acquisitions, continued

Industrial Technique	Recognized values	
	2013	2012
Intangible assets	225	1
Property, plant and equipment	35	–
Other assets	125	1
Cash and cash equivalents	6	–
Interest-bearing loans and borrowings	–33	–
Other liabilities and provisions	–95	–11
<b>Net identifiable assets</b>	<b>263</b>	<b>–9</b>
Goodwill	308	–15
<b>Total consideration</b>	<b>571</b>	<b>–24</b>
Deferred consideration	–5	244
Cash and cash equivalents acquired	–6	–
<b>Net cash outflow</b>	<b>560</b>	<b>220</b>

The Industrial Technique business area made four acquisitions in 2013. U.S.-based Rapid-Torc, which develops and markets hydraulic torque wrenches, was acquired in April. The acquisition broadens Atlas Copco's offering for existing customers and provides the opportunity to serve new customers in the oil and gas, and power generation segment. Intangible assets of 46 and goodwill of 18 were recorded on the purchase. The goodwill is tax deductible.

In May, Saltus-Werk Max Forst GmbH, a manufacturer of mechanical and electric torque solutions based in Germany, was acquired. The acquisition extends Atlas Copco's product and service offers to the motor vehicle segment and general industry, and ensures that the Group becomes a more complete supplier of torque wrenches within quality assurance. Intangible assets of 17 and goodwill of 21 were recorded on the purchase. The goodwill is tax deductible.

German Synatec GmbH, which provides quality improvement solutions mainly to the automotive industry, was acquired in October. This acquisition fits well with Atlas Copco's strategy to strengthen the portfolio of productivity solutions offered to the automotive and other manufacturing industries. Intangible assets of 103 and goodwill of 146 were recorded on the purchase. The goodwill is not tax deductible.

In November, Atlas Copco acquired UK-based Tentec Ltd., which develops and markets bolt-tightening solutions. The acquisition broadens Atlas Copco's range of products and services offered to the oil and gas, power generation and mining industries. Intangible assets of 59 and goodwill of 123 were recorded on the purchase. The goodwill is not tax deductible.

Total consideration for all acquisitions was 571. This includes contingent consideration with a fair value of 114 related to the Rapid-Torc and Synatec acquisitions. In order for the maximum amount related to Rapid-Torc to be paid, certain revenue targets must be met the first two years after the acquisition. The fair value of the contingent consideration has been calculated based on the assumption that the maximum amount will be paid out. The agreement for the Synatec acquisition includes a contingent consideration arrangement that is based on the revenues in the coming three and a half years. The fair value has been calculated based on the assumption that, in principle, the maximum amount will be paid out.

Mining and Rock Excavation Technique	Recognized values	
	2013	2012
Intangible assets	196	121
Property, plant and equipment	121	9
Other assets	343	174
Cash and cash equivalents	1	9
Interest-bearing loans and borrowings	–	–117
Other liabilities and provisions	–52	–62
<b>Net identifiable assets</b>	<b>609</b>	<b>134</b>
Non-controlling interests	–89	–
Goodwill	275	229
<b>Total consideration</b>	<b>795</b>	<b>363</b>
Deferred consideration	–2	–21
Cash and cash equivalents acquired	–1	–9
<b>Net cash outflow</b>	<b>792</b>	<b>333</b>

The Mining and Rock Excavation Technique business area made three acquisitions in 2013. In March, 75% of Shandong Rock Drilling Tools Co., Ltd., a leading Chinese supplier of rock drilling tools, was acquired. The acquisition strengthens Atlas Copco's position in the local market in mining and construction consumables. Intangible assets of 119 and goodwill of 245 were recorded on the purchase. The goodwill is not tax deductible. Non-controlling interest amounted to 89 and has been valued at the proportionate share of the acquired net assets.

The equipment business of Switzerland-based MEYCO was acquired in April. The acquisition broadens Atlas Copco's offering with mobile equipment for applying sprayed concrete (shotcreting) in underground operations. Intangible assets of 38 and goodwill of 32 were recorded on the purchase. The goodwill is tax deductible.

In October, the operational assets of Archer Underbalanced Services, a leading service provider of down-the-hole hammers, drill bits and compressed air packages to U.S. land-based oil and gas drilling companies, was acquired. The acquisition enhances Atlas Copco's distribution and supports presence in the U.S. land-based oil and gas drilling industry. Intangible assets of 39 were recorded on the purchase.

Total consideration for all acquisitions was 795. This includes contingent consideration with a fair value of 21 related to the acquisition of Archer Underbalanced Services. The agreement for this acquisition includes a contingent consideration arrangement that is based on the revenues in 2014. The fair value has been calculated based on the assumption that the maximum amount will be paid out.

Construction Technique	Recognized values	
	2013	2012
Intangible assets	28	–
Other assets	22	1
Other liabilities and provisions	–12	–5
<b>Net identifiable assets</b>	<b>38</b>	<b>–4</b>
Goodwill	13	7
<b>Total consideration</b>	<b>51</b>	<b>3</b>
<b>Net cash outflow</b>	<b>51</b>	<b>3</b>

The Construction Technique business area made one acquisition in 2013. In September, Pneumatic Holdings Inc., a leading U.S. provider of pneumatic light construction tools, was acquired. The acquisition strengthens Atlas Copco's distribution and presence in the North American construction market. Intangible assets of 28 and goodwill of 13 were recorded on the purchase. The goodwill is tax deductible. Consideration paid was 51.

## 2. Acquisitions, continued

Total fair value of acquired assets and liabilities	Group recognized values	
	2013	2012
Intangible assets	513	414
Property, plant and equipment	166	83
Inventories	283	209
Receivables*	240	233
Other current assets	1	1
Cash and cash equivalents	21	33
Interest-bearing loans and borrowings	-35	-249
Other liabilities and provisions	-88	-184
Deferred tax liabilities, net	-109	-44
<b>Net identifiable assets</b>	<b>992</b>	<b>496</b>
Non-controlling interests	-89	-
Goodwill	617	495
<b>Total consideration</b>	<b>1 520</b>	<b>991</b>
Deferred consideration	-7	237
Cash and cash equivalents acquired	-21	-33
<b>Net cash outflow</b>	<b>1 492</b>	<b>1 195</b>

\* The gross amount is 240 (243) of which 0 (10) 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 1 520. Total consideration includes deferred consideration not yet paid for acquisitions made in 2013 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 1 492 after deducting cash and cash equivalents acquired of 21.

Acquisition-related costs amounted to 57 (11) and were included in "Administrative expenses" in the income statement for 2013. These include costs related to the Edwards acquisition that was finalized in January 2014.

Contribution from businesses acquired in 2013 and 2012 by business area	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique		Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
<b>Contribution from date of control</b>										
Revenues	68	497	140	-	346	306	18	-	572	803
Operating profit	-10	-30	7	-	-10	-20	-1	-	-14	-50
Profit for the year									-11	-42
<b>Contribution if the acquisition had occurred on Jan. 1</b>										
Revenues	154	724	346	-	487	309	63	-	1 050	1 033
Operating profit	-13	-13	16	-	-14	-19	1	-	-10	-32
Profit for the year									-7	-28

On January 9, 2014, the acquisition of Edwards, a leading global supplier of vacuum and abatement solutions, was completed. See note 30 for more information.

## 3. Divestments

### Divestments

As a response to the financial trade sanctions against Iran and the reduced business for Atlas Copco that has been the consequence, the Group divested its business in the country in May to a local distributor.

In December, Atlas Copco consolidated its in-house insurance operations and divested Atlas Copco Reinsurance SA, the Luxembourg captive company. The insurance capacity remains unchanged, but is now fully concentrated to the Swedish-based captive.

The result from these divestments is reported under "Other operating income". See note 8.

Carrying value of divested assets and liabilities	2013	2012
Other property, plant and equipment	1	-
Inventories	7	-
Receivables	6	-
Cash and cash equivalents	585	-
Other liabilities and provisions	-173	-
<b>Net identifiable assets</b>	<b>426</b>	<b>-</b>
Capital gain	87	-
Translation differences recycled	16	-
Cash and cash equivalents divested	-585	-
<b>Net cash effect</b>	<b>-56</b>	<b>-</b>

## 4. Segment information

2013	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	33 791	9 463	28 981	11 436	217	–	83 888
Inter-segment revenues	48	38	32	821	84	–1 023	–
<b>Total revenues</b>	<b>33 839</b>	<b>9 501</b>	<b>29 013</b>	<b>12 257</b>	<b>301</b>	<b>–1 023</b>	<b>83 888</b>
<b>Operating profit</b>	<b>7 823</b>	<b>2 138</b>	<b>6 083</b>	<b>1 214</b>	<b>–132</b>	<b>–70</b>	<b>17 056</b>
– of which share of profit in associated companies	–	4	3	–	–	–	7
Net financial items							–790
Income tax expense							–4 184
<b>Profit for the year</b>							<b>12 082</b>
<b>Non-cash expenses</b>							
Depreciation/amortization	1 062	263	839	295	342	–114	2 687
Impairment	5	–	7	4	–	–	16
Other non-cash expenses	–10	30	–60	–5	–115	–	–160
<b>Segment assets</b>	<b>21 972</b>	<b>7 544</b>	<b>19 325</b>	<b>14 551</b>	<b>3 834</b>	<b>–2 480</b>	<b>64 746</b>
– of which goodwill	2 712	1 836	1 317	4 973	–	–	10 838
Investments in associated companies	1	88	12	–	–	–	101
Unallocated assets							23 044
<b>Total assets</b>							<b>87 891</b>
<b>Segment liabilities</b>	<b>8 794</b>	<b>1 960</b>	<b>4 613</b>	<b>2 158</b>	<b>2 372</b>	<b>–1 263</b>	<b>18 634</b>
Unallocated liabilities							29 463
<b>Total liabilities</b>							<b>48 097</b>
<b>Capital expenditures</b>							
Property, plant and equipment	1 092	123	941	264	585	–247	2 758
– of which assets leased	7	2	29	9	–	–	47
Intangible assets	142	75	427	156	209	–	1 009
<b>Total capital expenditures</b>	<b>1 234</b>	<b>198</b>	<b>1 368</b>	<b>420</b>	<b>794</b>	<b>–247</b>	<b>3 767</b>
Goodwill acquired	21	308	275	13	–	–	617

2012	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	34 638	9 536	33 998	12 119	242	–	90 533
Inter-segment revenues	76	30	56	769	77	–1 008	–
<b>Total revenues</b>	<b>34 714</b>	<b>9 566</b>	<b>34 054</b>	<b>12 888</b>	<b>319</b>	<b>–1 008</b>	<b>90 533</b>
<b>Operating profit</b>	<b>8 017</b>	<b>2 158</b>	<b>8 335</b>	<b>1 332</b>	<b>–618</b>	<b>42</b>	<b>19 266</b>
– of which share of profit in associated companies	–	–1	2	–	–	–	1
Net financial items							–704
Income tax expense							–4 629
<b>Profit for the year</b>							<b>13 933</b>
<b>Non-cash expenses</b>							
Depreciation/amortization	1 030	250	798	280	361	–129	2 590
Impairment	16	–	53	5	–	–	74
Other non-cash expenses	73	23	–7	13	26	–	128
<b>Segment assets</b>	<b>21 081</b>	<b>6 686</b>	<b>19 702</b>	<b>14 075</b>	<b>3 636</b>	<b>–1 960</b>	<b>63 220</b>
– of which goodwill	2 678	1 481	1 079	4 942	–	–	10 180
Investments in associated companies	1	98	8	–	–	–	107
Unallocated assets							17 467
<b>Total assets</b>							<b>80 794</b>
<b>Segment liabilities</b>	<b>8 124</b>	<b>1 852</b>	<b>5 560</b>	<b>1 939</b>	<b>3 902</b>	<b>–1 584</b>	<b>19 793</b>
Unallocated liabilities							26 816
<b>Total liabilities</b>							<b>46 609</b>
<b>Capital expenditures</b>							
Property, plant and equipment	1 003	171	1 337	289	499	–269	3 030
– of which assets leased	16	1	39	3	–	–	59
Intangible assets	189	102	332	138	159	–	920
<b>Total capital expenditures</b>	<b>1 192</b>	<b>273</b>	<b>1 669</b>	<b>427</b>	<b>658</b>	<b>–269</b>	<b>3 950</b>
Goodwill acquired	274	–15	229	7	–	–	495

#### 4. Segment information, continued

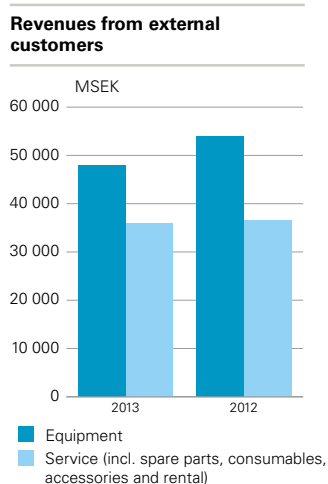
The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the 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 20–35.

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 of 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.



#### 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, deferred tax assets, and post-employment benefit assets.

By geographic area/country	Revenues		Non-current assets	
	2013	2012	2013	2012
<b>North America</b>				
Canada	3 217	4 029	261	258
U.S.A.	11 268	11 231	4 286	4 042
Other countries	2 215	2 931	105	83
	<b>16 700</b>	<b>18 191</b>	<b>4 652</b>	<b>4 383</b>
<b>South America</b>				
Brazil	3 783	3 839	327	304
Chile	2 058	2 411	111	112
Other countries	2 677	3 128	51	46
	<b>8 518</b>	<b>9 378</b>	<b>489</b>	<b>462</b>
<b>Europe</b>				
Belgium	743	823	1 654	1 425
France	2 469	2 409	243	234
Germany	3 854	3 888	3 034	2 743
Italy	1 533	1 633	969	995
Russia	3 283	4 196	156	158
Sweden	1 910	2 041	9 507	9 157
Other countries	11 677	11 970	1 897	1 642
	<b>25 469</b>	<b>26 960</b>	<b>17 460</b>	<b>16 354</b>
<b>Africa/Middle East</b>				
South Africa	2 591	3 443	162	158
Other countries	6 883	7 207	256	230
	<b>9 474</b>	<b>10 650</b>	<b>418</b>	<b>388</b>
<b>Asia/Australia</b>				
Australia	4 986	5 708	317	236
China	9 724	10 199	2 186	1 686
India	2 887	3 182	505	558
Other countries	6 130	6 265	579	688
	<b>23 727</b>	<b>25 354</b>	<b>3 587</b>	<b>3 168</b>
<b>Total</b>	<b>83 888</b>	<b>90 533</b>	<b>26 606</b>	<b>24 755</b>

## 4. Segment information, continued

## Quarterly data

Revenues by business area MSEK	2013				2012			
	1	2	3	4	1	2	3	4
Compressor Technique	7 842	8 556	8 334	9 107	8 306	8 692	8 599	9 117
– of which external	7 825	8 539	8 333	9 094	8 287	8 672	8 584	9 095
– of which internal	17	17	1	13	19	20	15	22
Industrial Technique	2 183	2 243	2 383	2 692	2 471	2 420	2 280	2 395
– of which external	2 177	2 233	2 374	2 679	2 464	2 414	2 271	2 387
– of which internal	6	10	9	13	7	6	9	8
Mining and Rock Excavation Technique	7 562	7 857	6 885	6 709	8 434	8 846	8 278	8 496
– of which external	7 545	7 851	6 882	6 704	8 418	8 807	8 265	8 508
– of which internal	17	6	3	5	16	39	13	–12
Construction Technique	2 761	3 403	3 090	3 003	3 206	3 697	3 074	2 911
– of which external	2 613	3 188	2 867	2 768	3 006	3 477	2 910	2 726
– of which internal	148	215	223	235	200	220	164	185
Common Group functions/eliminations	–121	–216	–140	–245	–163	–218	–137	–171
<b>Total</b>	<b>20 227</b>	<b>21 843</b>	<b>20 552</b>	<b>21 266</b>	<b>22 254</b>	<b>23 437</b>	<b>22 094</b>	<b>22 748</b>

Operating profit by business area MSEK	2013				2012			
	1	2	3	4	1	2	3	4
Compressor Technique	1 792	1 969	1 970	2 092	1 834	1 911	2 065	2 207
<i>in % of revenues</i>	22.9	23.0	23.6	23.0	22.1	22.0	24.0	24.2
Industrial Technique	487	482	548	621	593	552	480	533
<i>in % of revenues</i>	22.3	21.5	23.0	23.1	24.0	22.8	21.1	22.3
Mining and Rock Excavation Technique	1 771	1 738	1 384	1 190	2 077	2 196	2 036	2 026
<i>in % of revenues</i>	23.4	22.1	20.1	17.7	24.6	24.8	24.6	23.8
Construction Technique	263	381	316	254	344	489	356	143
<i>in % of revenues</i>	9.5	11.2	10.2	8.5	10.7	13.2	11.6	4.9
Common Group functions/eliminations	–157	–37	–6	–2	–234	–120	–12	–210
<b>Operating profit</b>	<b>4 156</b>	<b>4 533</b>	<b>4 212</b>	<b>4 155</b>	<b>4 614</b>	<b>5 028</b>	<b>4 925</b>	<b>4 699</b>
<i>in % of revenues</i>	20.5	20.8	20.5	19.5	20.7	21.5	22.3	20.7
Net financial items	–111	–254	–195	–230	–120	–185	–188	–211
<b>Profit before tax</b>	<b>4 045</b>	<b>4 279</b>	<b>4 017</b>	<b>3 925</b>	<b>4 494</b>	<b>4 843</b>	<b>4 737</b>	<b>4 488</b>
<i>in % of revenues</i>	20.0	19.6	19.5	18.5	20.2	20.7	21.4	19.7

## 5. Employees and personnel expenses

Average number of employees	2013			2012		
	Women	Men	Total	Women	Men	Total
<b>Parent Company</b>						
Sweden	60	49	109	61	48	109
<b>Subsidiaries</b>						
North America	912	4 877	5 789	974	4 603	5 577
South America	461	2 757	3 218	468	2 653	3 121
Europe	2 883	13 997	16 880	2 810	14 123	16 933
– of which Sweden	768	3 620	4 388	783	3 810	4 593
Africa/Middle East	408	2 311	2 719	393	2 211	2 604
Asia/Australia	2 021	9 423	11 444	1 901	8 868	10 769
<b>Total in subsidiaries</b>	<b>6 685</b>	<b>33 365</b>	<b>40 050</b>	<b>6 546</b>	<b>32 458</b>	<b>39 004</b>
<b>Total</b>	<b>6 745</b>	<b>33 414</b>	<b>40 159</b>	<b>6 607</b>	<b>32 506</b>	<b>39 113</b>

Females in the Board of Directors and Group Management, %	Dec. 31, 2013	Dec. 31, 2012
<b>Parent Company</b>		
Board of Directors excl. union representatives	30	33
Group Management	22	22

## 5. Employees and personnel expenses, continued

Remuneration and other benefits MSEK	Group		Parent Company	
	2013	2012	2013	2012
Salaries and other remuneration	14 565	14 419	132	161
Contractual pension benefits	907	881	15	15
Other social costs	2 802	2 808	61	69
<b>Total</b>	<b>18 274</b>	<b>18 108</b>	<b>208</b>	<b>245</b>
Pension obligations to Board members and Group Management <sup>1)</sup>	14	15	14	15

<sup>1)</sup> Refers to former members of Group Management.

Remuneration and other benefits to the Board KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees <sup>1)</sup>	Total fees incl. value of synthetic shares at grant date 2013	Adj. due to change in stock price and vesting period <sup>2)</sup>	Total expense recognized 2013 <sup>3)</sup>	Total expense recognized 2012 <sup>3)</sup>
<b>Chairman:</b>								
Sune Carlsson	1 838	–	–	60	1 898	127	2 025	3 108
<b>Vice Chairman:</b>								
Hans Stråberg (new April 2013)	281	375	2 182	94	750	–83	667	–
<b>Other members of the Board:</b>								
Staffan Bohman <sup>4)</sup>	614	–	–	154	768	118	887	987
Peter Wallenberg Jr	276	277	1 614	60	613	27	640	484
Margareth Øvrum	276	277	1 614	–	553	65	618	912
Johan Forsell	276	277	1 614	125	678	65	743	1 037
Ulla Litzén <sup>4)</sup>	682	–	–	247	929	29	958	1 089
Anders Ullberg	551	–	–	60	611	29	640	949
Gunilla Nordström	343	277	1 614	–	620	–40	580	661
Other members of the Board previous year						–78	–78	577
Union representatives (4 pers)	34	–	–	–	34	–	34	48
<b>Total 2013</b>	<b>5 171</b>	<b>1 483</b>	<b>8 638</b>	<b>800</b>	<b>7 454</b>	<b>259</b>	<b>7 713</b>	
Total 2012	4 314	1 080	7 072	860	6 254	3 598		9 852

<sup>1)</sup> Refers to fees for membership in board committees.

<sup>2)</sup> Refers to synthetic shares received in 2008–2013.

<sup>3)</sup> Provision for synthetic shares as at December 31, 2013, amounted to 13 (18).

<sup>4)</sup> Ulla Litzén and Staffan Bohman invoiced their fees. The fees received include compensation for social costs.

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation <sup>1)4)</sup>	Other benefits <sup>2)</sup>	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments <sup>3)</sup>	Total expense recognized 2013	Total expense recognized 2012
<b>President and CEO</b>								
Ronnie Leten	10 000	3 000	1 745	3 500	18 245	1 367	19 612	25 754
<b>Other members of Group Management (8 positions) <sup>5)</sup></b>	<b>22 957</b>	<b>7 114</b>	<b>3 643</b>	<b>6 986</b>	<b>40 700</b>	<b>4 370</b>	<b>45 070</b>	<b>54 161</b>
<b>Total 2013</b>	<b>32 957</b>	<b>10 114</b>	<b>5 388</b>	<b>10 486</b>	<b>58 945</b>	<b>5 737</b>	<b>64 682</b>	
Total 2012	32 599	16 589	5 231	10 203	64 622	15 293		79 915
<b>Total remuneration and other benefits to the Board and Group Management</b>							<b>72 395</b>	<b>89 767</b>

<sup>1)</sup> Refers to variable compensation earned in 2013 to be paid in 2014.

<sup>2)</sup> Refers to vacation pay, company car, medical insurance, and house allowance.

<sup>3)</sup> Refers to stock options and SARs received in 2008–2013 and includes recognized costs due to change in stock price and vesting period, see also note 24.

<sup>4)</sup> The CEO has exercised the option to have 50% of the Variable Compensation for 2012, paid in 2013, as an additional pension contribution.

<sup>5)</sup> Bob Fassl left the company on July 31, 2013 and Johan Halling became member of Group Management on August 1, 2013.

## 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 2013 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 2013 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 2013 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 2013. 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.

Five 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 President and the other eight members of the Management 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. The variable compensation is maximized to 70% of the base salary for the Group President, 50% for Business Area Presidents, and 40% for other members of the Management Committee.
- Performance related personnel option program for 2013, see note 24.
- Pension premiums are paid in accordance with a defined contribution plan with premiums ranging between 25 and 35% of base salary depending on age.
- 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. Compensation for termination is maximized to an amount corresponding to 24 months base salary.

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 Airpower N.V. pension plan and the contributions follow the Atlas Copco pension policy for Swedish executives, which is a defined contribution plan. The President and CEO is entitled to retire at the age of 60. The contribution is age related and is 35% of the base salary and includes provisions for a survivors' pension. These pension plans are vested and are lifetime payments upon retirement.

#### 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 and are lifetime payments upon retirement. 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, 2013		
Grant Year	CEO	Other members of Group Management
2008	–	40 510
2009	54 459	54 460
2010	126 857	235 994
2011	93 175	218 831
2012	109 383	267 070
2013 <sup>1)</sup>	5 471	12 448
<b>Total</b>	<b>389 345</b>	<b>829 313</b>

<sup>1)</sup> Estimated grants for the 2013 stock option program including matching shares. See note 24 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 twelve 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 2013, the Chair of the Board, Sune Carlsson and Board Members 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.

In addition, three members of the Board participated in a committee regarding repurchase and sale of Atlas Copco shares.



## 6. Remuneration to auditors

Audit fees and other services	2013	2012
<b>Deloitte</b>		
Audit fee	52	51
Audit activities other than the audit assignment	1	1
Other services, tax	7	5
Other services, other	5	12
<b>Other audit firms</b>		
Audit fee	2	2
<b>Total</b>	<b>67</b>	<b>71</b>

At the Annual General Meeting 2010, Deloitte was elected as auditor for the Group for a four year period. Audit fees and consultancy fees for advice or assistance other than audit are detailed above.

## 7. Operating expenses

Amortization, depreciation and impairment	2013	2012
Product development	318	320
Trademark	95	114
Marketing and customer related assets	187	190
Other technology and contract based assets	213	236
Buildings	183	184
Machinery and equipment	1 012	939
Rental equipment	695	681
<b>Total</b>	<b>2 703</b>	<b>2 664</b>

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

	2013		2012	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	17	37	16	23
Marketing expenses	11	280	23	293
Administrative expenses	33	24	54	47
Research and development expenses	313	98	312	92
<b>Total</b>	<b>374</b>	<b>439</b>	<b>405</b>	<b>455</b>

Impairment charges on intangible assets totaled 12 (54) of which 12 (19) were classified as research and development expenses in the income statement, 0 (34) as marketing expenses, and 0 (1) as cost of sales. Of the impairment charges, 12 (18) were due to capitalized development costs relating to projects discontinued.

## 8. Other operating income and expenses

Other operating income	2013	2012
Commissions received	22	24
Income from insurance operations	171	175
Capital gain on assets held for sale	–	137
Capital gain on sale of fixed assets	21	19
Capital gain on divestment of business	87	–
Other operating income	213	120
<b>Total</b>	<b>514</b>	<b>475</b>

Other operating expenses	2013	2012
Capital loss on sale of fixed assets	–8	–19
Exchange-rate differences, net	–248	–183
Other operating expenses	–75	–117
<b>Total</b>	<b>–331</b>	<b>–319</b>

The operating profit includes 127 (–36) of realized foreign exchange hedging result, which were previously recognized in equity.

## 9. Financial income and expenses

Financial income and expenses	2013	2012
Interest income		
– cash and cash equivalents	156	129
– finance lease receivables	196	217
– other	9	8
Capital gain		
– other assets	12	3
Change in fair value – other assets	21	–
Foreign exchange gain, net	–	51
<b>Financial income</b>	<b>394</b>	<b>408</b>
Interest expense		
– borrowings	–829	–753
– derivatives for fair value hedges	–191	–175
– pension provisions, net	–71	–84
Change in fair value – other liabilities and borrowings	–	–83
Foreign exchange loss, net	–76	–
Impairment loss	–17	–17
<b>Financial expenses</b>	<b>–1 184</b>	<b>–1 112</b>
<b>Financial expenses, net</b>	<b>–790</b>	<b>–704</b>

The borrowings were higher in 2013, resulting in higher interest expenses. “Foreign exchange loss, net” includes foreign exchange gains of 1 235 (387) on financial assets at fair value through profit and loss and foreign exchange losses of 1 311 (336) on other liabilities.

See note 28 for additional information.

## 10. Taxes

Income tax expense	2013	2012
Current taxes	–4 286	–4 377
Deferred taxes	102	–252
<b>Total</b>	<b>–4 184</b>	<b>–4 629</b>

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

	2013	2012
Profit before tax	16 266	18 562
Weighted average tax based on national rates	–4 696	–5 491
– in %	28.9	29.6
Tax effect of:		
Non-deductible expenses	–408	–417
Withholding tax on dividends	–172	–117
Tax-exempt income	1 304	1 145
Adjustments from prior years:		
– current taxes	–243	7
– deferred taxes	74	63
Effects of tax losses/credits utilized	7	23
Change in tax rate, deferred tax	7	186
Tax losses not valued	–33	–24
Other items	–24	–4
<b>Income tax expense</b>	<b>–4 184</b>	<b>–4 629</b>
Effective tax in %	25.7	24.9

The effective tax rate was 25.7% (24.9). Withholding tax on dividends relates to provisions on increased profits in countries where Atlas Copco incurs withholding taxes on repatriation of income. The net from tax issues and disputes in different countries, including Belgium, amounted to –243 (7).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 7 (23). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense. The decrease in tax rate in Sweden from 26.3% to 22%, effective from January 1, 2013, had a positive impact for the year 2012 included in “Change in tax rate, deferred tax” in the table above.

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

Change in deferred taxes	2013	2012
Net balance, Jan. 1	–416	–338
Change in accounting principle	–	245
<b>Restated balance, Jan. 1</b>	<b>–416</b>	<b>–93</b>
Business acquisitions	–109	–44
Divestments, discontinued operations	161	–
Charges to profit for the year	102	–252
Tax on amounts recorded to equity	236	50
Translation differences	–40	–77
<b>Net closing balance, Dec. 31</b>	<b>–66</b>	<b>–416</b>

## 10. Taxes, continued

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

Deferred tax assets and liabilities	2013			2012		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	31	931	-900	14	790	-776
Property, plant and equipment	290	649	-359	267	559	-292
Other financial assets	6	8	-2	5	41	-36
Inventories	1 562	47	1 515	1 492	6	1 486
Current receivables	197	277	-80	212	195	17
Operating liabilities	495	133	362	533	80	453
Provisions	265	1	264	289	1	288
Post-employment benefits	350	-	350	343	7	336
Borrowings	12	601	-589	12	838	-826
Loss/credit carry-forwards	184	-	184	221	-	221
Other items <sup>1)</sup>	4	815	-811	3	1 290	-1 287
<b>Deferred tax assets/liabilities</b>	<b>3 396</b>	<b>3 462</b>	<b>-66</b>	<b>3 391</b>	<b>3 807</b>	<b>-416</b>
Netting of assets/liabilities	-2 435	-2 435	-	-2 129	-2 129	-
<b>Net deferred tax balances</b>	<b>961</b>	<b>1 027</b>	<b>-66</b>	<b>1 262</b>	<b>1 678</b>	<b>-416</b>

<sup>1)</sup> Other items primarily include tax deductions which are not related to specific balance sheet items.

At December 31, the Group had total tax loss carry-forwards of 3 347 (2 297), of which deferred tax assets were not recognized for 1 569 (1 518) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiration date for utilization of the major part of the tax losses for which no deferred tax assets have been recorded.

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

	2013	2012
Intangible assets	-20	15
Property, plant and equipment	-86	-21
Other financial assets	38	-
Inventories	16	-22
Current receivables	-80	-6
Operating liabilities	-65	-53
Provisions	-10	33
Post-employment benefits	18	-12
Borrowings	-13	65
Other items	328	-318
<b>Changes due to temporary differences</b>	<b>126</b>	<b>-319</b>
Loss/credit carry-forwards	-24	67
<b>Charges to profit for the year</b>	<b>102</b>	<b>-252</b>

## 11. Other comprehensive income

Other comprehensive income for the year	2013			2012		
	Before tax	Tax	After Tax	Before tax	Tax	After Tax
<b>Attributable to owners of the parent</b>						
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurments of defined benefit plans	45	-18	27	-479	116	-363
<b>Items that may be reclassified subsequently to profit or loss</b>						
Translation differences on foreign operations	447	241	688	-1 899	-124	-2 023
- realized and reclassified to income statement	16	-	16	-	-	-
Hedge of net investments in foreign operations	-712	157	-555	645	-142	503
Cash flow hedges	-31	12	-19	-22	1	-21
	<b>-235</b>	<b>392</b>	<b>157</b>	<b>-1 755</b>	<b>-149</b>	<b>-1 904</b>
<b>Attributable to non-controlling interests</b>						
Translation differences on foreign operations	-3	-	-3	-4	-	-4
<b>Total other comprehensive income</b>	<b>-238</b>	<b>392</b>	<b>154</b>	<b>-1 759</b>	<b>-149</b>	<b>-1 908</b>

## 12. Earnings per share

Amounts in SEK	Basic earnings per share		Diluted earnings per share	
	2013	2012	2013	2012
Earnings per share	9.95	11.47	9.92	11.44

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	2013	2012
Profit for the year	12 072	13 920

Average number of shares outstanding	2013	2012
Basic weighted average number of shares outstanding	1 212 768 391	1 213 848 110
Effect of employee stock options	1 392 042	1 746 377
<b>Diluted weighted average number of shares outstanding</b>	<b>1 214 160 433</b>	<b>1 215 594 487</b>

### Potentially dilutive instruments

As of December 31, 2013, Atlas Copco had six outstanding employee stock option programs, of which the exercise price for the 2011, 2012 and 2013 programs exceeded the average share price for series A shares, SEK 179 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 exceeds the strike price in the future, these options will be dilutive.

## 13. 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.

All businesses acquired in 2013 as well as those in previous years, and their related cash flows, have been integrated with other Atlas Copco operations soon after the acquisition. In instances where the acquired business would not be integrated and hence be monitored separately, the associated goodwill will be 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 percentage for the period after five years is estimated at 3%. The Group's average weighted cost of capital in 2013 was 8% (8) after tax (approximately 10.5% (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts.

The 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	2013		2012	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	2 712	–	2 678
Industrial Technique	–	1 836	–	1 481
Mining and Rock Excavation Technique	–	1 317	–	1 079
Construction Technique	1 225	4 973	1 225	4 942
<b>Total</b>	<b>1 225</b>	<b>10 838</b>	<b>1 225</b>	<b>10 180</b>

The trademark Dynapac in the Road Construction Equipment division represents a strong trademark that has been used for a long time in its industry. Management's intention is that this trademark will be used indefinitely.

## 13. Intangible assets, continued

2013	Internally generated intangible assets		Acquired intangible assets					Goodwill	Total
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based			
<b>Cost</b>									
Opening balance, Jan. 1	3 880	692	64	2 293	1 941	1 539	10 206	20 615	
Investments	702	231	2	–	–	74	–	1 009	
Business acquisitions	–	–	–	125	254	135	617	1 131	
Disposals	–39	–5	–	–	–	–22	–	–66	
Reclassifications	–	39	1	–	–1	–38	–	1	
Translation differences	61	15	–	3	8	17	42	146	
<b>Closing balance, Dec. 31</b>	<b>4 604</b>	<b>972</b>	<b>67</b>	<b>2 421</b>	<b>2 202</b>	<b>1 705</b>	<b>10 865</b>	<b>22 836</b>	
<b>Amortization and impairment losses</b>									
Opening balance, Jan. 1	2 300	352	57	375	916	710	26	4 736	
Amortization for the period	308	54	–2	95	187	159	–	801	
Impairment charge for the period	12	–	–	–	–	–	–	12	
Disposals	–28	–3	–	–	–	–22	–	–53	
Reclassifications	–6	36	6	–	–	–36	–	–	
Translation differences	48	2	–	1	8	1	1	61	
<b>Closing balance, Dec. 31</b>	<b>2 634</b>	<b>441</b>	<b>61</b>	<b>471</b>	<b>1 111</b>	<b>812</b>	<b>27</b>	<b>5 557</b>	
<b>Carrying amounts</b>									
At Jan. 1	1 580	340	7	1 918	1 025	829	10 180	15 879	
At Dec. 31	1 970	531	6	1 950	1 091	893	10 838	17 279	

2012	Internally generated intangible assets		Acquired intangible assets					Goodwill	Total
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based			
<b>Cost</b>									
Opening balance, Jan. 1	3 404	538	61	2 261	1 804	1 472	9 979	19 519	
Investments	636	221	–	–	–	63	–	920	
Business acquisitions	–	–	3	83	222	107	495	910	
Disposals	–72	–68	–1	–4	–1	–29	–	–175	
Reclassifications	–8	15	–	–	–	–7	–	–	
Translation differences	–80	–14	1	–47	–84	–67	–268	–559	
<b>Closing balance, Dec. 31</b>	<b>3 880</b>	<b>692</b>	<b>64</b>	<b>2 293</b>	<b>1 941</b>	<b>1 539</b>	<b>10 206</b>	<b>20 615</b>	
<b>Amortization and impairment losses</b>									
Opening balance, Jan. 1	2 091	342	57	280	761	609	27	4 167	
Amortization for the period	300	89	2	88	183	144	–	806	
Impairment charge for the period	16	–	2	26	7	3	–	54	
Business acquisitions	–	–	–	–	–	1	–	1	
Disposals	–65	–68	–	–4	–1	–29	–	–167	
Reclassifications	6	–4	–5	–	–	12	–	9	
Translation differences	–48	–7	1	–15	–34	–30	–1	–134	
<b>Closing balance, Dec. 31</b>	<b>2 300</b>	<b>352</b>	<b>57</b>	<b>375</b>	<b>916</b>	<b>710</b>	<b>26</b>	<b>4 736</b>	
<b>Carrying amounts</b>									
At Jan. 1	1 313	196	4	1 981	1 043	863	9 952	15 352	
At Dec. 31	1 580	340	7	1 918	1 025	829	10 180	15 879	

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.

For information regarding amortization and impairment, see notes 1 and 7. See note 2 for information on business acquisitions.

## 14. Property, plant and equipment

2013	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
<b>Cost</b>					
Opening balance, Jan. 1	4 291	10 694	857	15 842	4 257
Investments	88	766	443	1 297	1 461
Business acquisitions	47	93	–	140	92
Divestments	–	–8	–	–8	–
Disposals	–51	–380	–	–431	–625
Reclassifications	186	632	–848	–30	–336
Translation differences	–23	–25	–3	–51	–142
<b>Closing balance, Dec. 31</b>	<b>4 538</b>	<b>11 772</b>	<b>449</b>	<b>16 759</b>	<b>4 707</b>
<b>Depreciation and impairment losses</b>					
Opening balance, Jan. 1	1 770	7 226	–	8 996	2 227
Depreciation for the period	183	1 008	–	1 191	695
Impairment charge for the period	–	4	–	4	–
Business acquisitions	11	28	–	39	27
Divestments	–	–7	–	–7	–
Disposals	–41	–338	–	–379	–354
Reclassifications	5	–8	–	–3	–239
Translation differences	8	3	–	11	–69
<b>Closing balance, Dec. 31</b>	<b>1 936</b>	<b>7 916</b>	<b>–</b>	<b>9 852</b>	<b>2 287</b>
<b>Carrying amounts</b>					
At Jan. 1	2 521	3 468	857	6 846	2 030
At Dec. 31	2 602	3 856	449	6 907	2 420

2012	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
<b>Cost</b>					
Opening balance, Jan. 1	4 203	10 191	648	15 042	4 455
Investments	119	829	781	1 729	1 301
Business acquisitions	49	61	–	110	–
Disposals	–23	–386	–	–409	–753
Reclassifications <sup>1)</sup>	140	355	–554	–59	–572
Translation differences	–197	–356	–18	–571	–174
<b>Closing balance, Dec. 31</b>	<b>4 291</b>	<b>10 694</b>	<b>857</b>	<b>15 842</b>	<b>4 257</b>
<b>Depreciation and impairment losses</b>					
Opening balance, Jan. 1	1 672	6 832	–	8 504	2 338
Depreciation for the period	181	922	–	1 103	681
Impairment charge for the period	3	17	–	20	–
Business acquisitions	5	22	–	27	–
Disposals	–14	–331	–	–345	–421
Reclassifications <sup>1)</sup>	–5	–5	–	–10	–275
Translation differences	–72	–231	–	–303	–96
<b>Closing balance, Dec. 31</b>	<b>1 770</b>	<b>7 226</b>	<b>–</b>	<b>8 996</b>	<b>2 227</b>
<b>Carrying amounts</b>					
At Jan. 1	2 531	3 359	648	6 538	2 117
At Dec. 31	2 521	3 468	857	6 846	2 030

<sup>1)</sup> A portfolio of financing and leasing contracts related to Atlas Copco Customer Finance was reclassified to assets held for sale in 2012. The net book value of the rental equipment reclassified amounted to 258.

For information regarding depreciation, see notes 1 and 7. See note 23 for information on finance leases.

## 15. Investments in associated companies

Accumulated capital participation	2013	2012
Opening balance, Jan. 1	107	124
Acquisitions of associated companies	1	–
Dividends	–1	–4
Profit for the year after income tax	7	1
Translation differences	–13	–14
<b>Closing balance, Dec. 31</b>	<b>101</b>	<b>107</b>

<sup>1)</sup> The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

Summary of financial information for associated companies	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % <sup>1)</sup>
<b>2013</b>							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	50	6	44	36	–1	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	109	53	56	138	16	25
Yanggu Wuyue Special Steel Co. Ltd.	China	589	635	–46	132	–56	25
Toku-Hanbai Group	Japan	288	134	154	631	8	50
Reintube S.L.	Spain	6	4	2	9	–	47
<b>2012</b>							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	49	5	44	35	–2	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	81	42	39	137	6	25
Toku-Hanbai Group	Japan	280	106	174	677	–	50
Reintube S.L.	Spain	6	4	2	13	–	47

The above table is based on the most recent financial reporting available from associated companies.

## 16. Other financial assets

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

	2013	2012
<b>Non-current</b>		
Pension and other similar benefit assets (note 24)	132	214
Derivatives		
– not designated for hedge accounting	3	1
– designated for hedge accounting	186	257
Available-for-sale investments	2	2
Held-to-maturity investments	156	182
Financial asset at fair value through profit and loss	368	–
Financial assets classified as loans and receivables		
– finance lease receivables	438	503
– other financial receivables	1 031	915
<b>Closing balance, Dec. 31</b>	<b>2 316</b>	<b>2 074</b>
<b>Current</b>		
Held-to-maturity investments	170	18
Financial assets classified as loans and receivables		
– finance lease receivables	362	429
– other financial receivables	1 165	886
<b>Closing balance, Dec. 31</b>	<b>1 697</b>	<b>1 333</b>

Financial assets at fair value through profit and loss contains an investment in a bond.

See note 23 on finance leases and note 28 for information on derivatives and credit risk.

## 17. Inventories

	2013	2012
Raw materials	598	608
Work in progress	2 522	2 840
Semi-finished goods	4 229	4 530
Finished goods	9 477	9 675
<b>Closing balance, Dec. 31</b>	<b>16 826</b>	<b>17 653</b>

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 451 (527). Reversals of write-downs which were recognized in earnings totaled 189 (146). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 38 906 (41 823). Inventories pledged as security for liabilities amounted to 17 (23), see note 27 for additional information.

## 18. 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	2013	2012
Provisions at Jan. 1	767	705
Business acquisitions and divestments	-6	10
Provisions recognized for potential losses	504	417
Amounts used for established losses	-348	-199
Release of unnecessary provisions	-149	-130
Change in discounted amounts	1	-
Translation differences	-10	-36
<b>Closing balance, Dec. 31</b>	<b>759</b>	<b>767</b>

Trade receivables of 16 619 (15 960) are reported net of provisions for doubtful accounts and other impairments amounting to 759 (767). Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 504 (417).

For credit risk information, see note 28.

## 19. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2013	2012
Derivatives		
- not designated for hedge accounting	107	180
- designated for hedge accounting	143	20
Financial assets classified as loans and receivables		
- other receivables	2 137	2 240
- accrued income	1 803	1 336
Prepaid expenses	608	787
<b>Closing balance, Dec. 31</b>	<b>4 798</b>	<b>4 563</b>

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income consists primarily of work in progress. This item is larger during 2013 due to higher service volumes and increased project based revenues. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs.

See note 28 for information on derivatives.

## 20. 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.

	2013	2012
Cash	4 990	5 377
Cash equivalents	12 643	7 039
<b>Closing balance, Dec. 31</b>	<b>17 633</b>	<b>12 416</b>

Cash and cash equivalents totaled 17 633 (12 416) at December 31. The increase in cash and cash equivalents was the result of continued profitability. During 2013, cash and cash equivalents had an estimated average effective interest rate of 0.34% (0.73). The committed, but unutilized, credit lines equaled 12 902 (6 390).

See note 28 for additional information.



## 21. Equity

Shares outstanding	2013			2012		
	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
<b>Total number of shares, Dec. 31</b>	<b>839 394 096</b>	<b>390 219 008</b>	<b>1 229 613 104</b>	<b>839 394 096</b>	<b>390 219 008</b>	<b>1 229 613 104</b>
– of which held by Atlas Copco	–15 414 812	–645 379	–16 060 191	–15 372 649	–818 280	–16 190 929
<b>Total shares outstanding, Dec. 31</b>	<b>823 979 284</b>	<b>389 573 629</b>	<b>1 213 552 913</b>	<b>824 021 447</b>	<b>389 400 728</b>	<b>1 213 422 175</b>

At December 31, 2013, Atlas Copco AB's share capital amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately SEK 0.64 (0.64). Series A shares entitle the holder to one voting right and series B shares entitle the holder to one-tenth of a voting right per share.

Repurchases/ Divestment of shares	2013	Number of shares				Cost value affecting equity		
		AGM mandate 2013 Apr.–Dec.	AGM mandate 2012 Jan.–Mar.	2012	AGM mandate 2012 Apr.–Dec.	AGM mandate 2011 Jan.–Mar.	2013	2012
Opening balance, Jan. 1	16 190 929			17 999 076			2 061	2 116
Repurchase of A shares	2 148 475	–	2 148 475	2 751 525	2 451 525	300 000	390	477
Divestment of A shares	–2 106 312	–1 106 096	–1 000 216	–4 066 506	–1 798 487	–2 268 019	–287	–498
Divestment of B shares	–172 901	–113 500	–59 401	–493 166	–320 599	–172 567	–12	–34
<b>Closing balance, Dec. 31</b>	<b>16 060 191</b>			<b>16 190 929</b>			<b>2 152</b>	<b>2 061</b>
Percentage of shares outstanding	1.3%			1.3%				

The 2013 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on the NASDAQ OMX 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 4 250 000 series A shares, whereof a maximum 3 500 000 may be transferred to personnel stock option holders under the performance stock option plan 2013.
- 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 55 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 8 100 000 series A and B shares in order to cover the obligations under the performance stock option plans 2008, 2009 and 2010.

The 2012 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate was valid until the 2013 AGM and allowed:

- The purchase of not more than 4 550 000 series A shares, whereof a maximum 3 500 000 may be transferred to personnel stock option holders under the performance stock option plan 2012.
- 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 15 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 4 700 000 series A shares in order to cover the obligations under the performance stock option plans 2008 and 2009, and the sale of maximum 1 200 000 series B shares to cover the corresponding costs for the plan 2007.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2013, 42 163 series A shares were repurchased, net, and 172 901 series B shares were divested, net, in accordance with mandates granted by the 2012 and 2013 AGMs. 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 2008–2013 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.

#### Appropriation of profit

The Board of Directors proposes a dividend of SEK 5.50 (5.50) per share, totaling SEK 6 674 541 022 if shares held by the company on December 31, 2013 are excluded. For further information, see appropriation of profit on page 19.

The proposed dividend for 2012 of SEK 5.50 per share, as approved by the AGM on April 29, 2013, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 6 667 833 243.

## 22. Borrowings

	Maturity	Repurchased nominal amount	2013		2012	
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current</b>						
Medium Term Note Program MEUR 600	2014	MEUR 260	3 079	3 132	3 042	3 173
Medium Term Note Program MEUR 500	2019		4 480	4 771	4 307	4 731
Medium Term Note Program MEUR 500	2023		4 453	4 424	–	–
Capital market borrowings MUSD 800	2017		5 689	6 220	5 860	6 604
Capital market borrowings MUSD 150	2019	MUSD 7.5	928	1 246	931	1 358
Bilateral borrowings EIB MEUR 213	2014		1 908	1 908	1 834	1 837
Bilateral borrowings EIB MEUR 275	2019		2 464	2 543	2 369	2 460
Bilateral borrowings NIB MEUR 100	2015		896	898	862	866
Bilateral borrowings NIB MSEK 705	2016		705	714	705	718
Other bank loans			305	305	392	392
Less current portion of long-term borrowings			–5 043	–5 096	–272	–272
<b>Total non-current bonds and loans</b>			<b>19 864</b>	<b>21 065</b>	<b>20 030</b>	<b>21 867</b>
Financial lease liabilities			66	66	72	72
Other financial liabilities			67	67	48	48
<b>Total non-current borrowings</b>			<b>19 997</b>	<b>21 198</b>	<b>20 150</b>	<b>21 987</b>
<b>Current</b>						
Current portion of long-term borrowings			5 043	5 096	272	272
Short term loans			505	504	593	593
Financial lease liabilities			47	47	37	37
<b>Total current borrowings</b>			<b>5 595</b>	<b>5 647</b>	<b>902</b>	<b>902</b>
<b>Closing balance, Dec 31</b>			<b>25 592</b>	<b>26 845</b>	<b>21 052</b>	<b>22 889</b>

The difference between carrying value and fair value is due to that certain liabilities are reported at their amortized cost, and not at fair value. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 28.

Atlas Copco has a long-term debt rating of A2 (A2) from Moody's Investor Service, Inc. and A (A) from Standard & Poor's Corporation. Other than standard undertakings such as negative pledge and pari passu, the various interest-bearing loans and borrowings do not contain any financial covenants.

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

Back-up facilities	Nominal amount	Maturity	Utilized
Medium Term Note Program 1, 3)	MUSD 3 000	–	MUSD 2 201
Commercial papers 1, 2)	MSEK 16 098	–	–
Credit-line	MEUR 1 440	2018	–
<b>Equivalent in SEK</b>	<b>MSEK 48 544</b>		<b>MSEK 14 338</b>

1) Interest is based on market conditions at the time when the facility is utilized.

Maturity date is set when the facility is utilized.

2) The maximum amounts available under these programs total MUSD 1 000, MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 16 098 (15 977).

3) Utilized nominal amounts MEUR 1 600, which corresponds to MUSD 2 201.

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

Currency	2013			2012		
	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	1 946	17 438	68	1 451	12 502	59
SEK	710	710	3	820	820	4
USD	1 053	6 853	27	1 051	6 865	33
Other	–	591	2	–	865	4
<b>Total loans</b>	<b>25 592</b>	<b>100</b>		<b>21 052</b>	<b>100</b>	

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

2013 Maturity	Fixed	Floating	Carrying amount	Fair value
2014	3 079	2 516	5 595	5 647
2015	–	1 190	1 190	1 192
2016	–	758	758	768
2017	4 267	1 446	5 713	6 244
2018	–	7	7	7
2019	7 872	1	7 873	8 561
2020	–	1	1	1
2023	4 453	2	4 455	4 425
<b>Total loans</b>	<b>19 671</b>	<b>5 921</b>	<b>25 592</b>	<b>26 845</b>

## 23. Leases

### Operating leases – lessee

The leasing costs of assets under operating leases amounted to 816 (803), 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. The total leasing cost includes minimum lease payments of 780 (768), contingent rent of 48 (47), and sublease payments received of 12 (12). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2013	2012
Less than one year	597	588
Between one and five years	1 100	1 080
More than five years	247	218
<b>Total</b>	<b>1 944</b>	<b>1 886</b>

The total of future minimum sublease payments expected to be received was 25 (36).

### Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2013	119	7
Carrying amounts, Dec. 31, 2013	112	8
Carrying amounts, Jan. 1, 2012	114	12
Carrying amounts, Dec. 31, 2012	119	7

Assets utilized under finance leases are comprised primarily of vehicles.

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

	2013			2012		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	51	4	47	43	6	37
Between one and five years	74	8	66	80	10	70
More than five years	–	–	–	2	–	2
<b>Total</b>	<b>125</b>	<b>12</b>	<b>113</b>	<b>125</b>	<b>16</b>	<b>109</b>

### Finance leases – lessor

The Group offers lease financing to customers via Atlas Copco Customer Finance and certain other subsidiaries.

Future lease payments to be received fall due as follows:

	2013		2012	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	393	362	451	429
Between one and five years	477	423	534	485
More than five years	18	15	20	18
	<b>888</b>	<b>800</b>	<b>1 005</b>	<b>932</b>
Unearned finance income	–	88	–	73
<b>Total</b>	<b>888</b>	<b>888</b>	<b>1 005</b>	<b>1 005</b>

## 24. 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. All of the plans are 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.

The German plans include those for pensions, early retirements and jubilee. The plans are funded as of 2013.

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 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 assets classes, markets and issuers should be utilized. Investments should, as

much as possible, be inflation linked. 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 sheets as follows:

	2013	2012
Financial assets (note 16)	-132	-214
Post-employment benefits	1 414	2 149
Other provisions (note 26)	40	119
<b>Closing Balance, net</b>	<b>1 322</b>	<b>2 054</b>

The amended version of IAS 19 Employee Benefits was adopted by Atlas Copco as from January 1, 2013 with full retrospective application. As a consequence, the income statement and balance sheet for previous year have been restated. The effects on relevant lines are detailed in the table below.

Balance sheet	Dec. 31, 2012
Other financial assets	-507
Deferred tax assets	152
Equity	-947
Post-employment benefits	748
Deferred tax liabilities	-198
Other liabilities and provisions	42
Income statement	Dec. 31, 2012
Operating profit	38
Profit before tax	24
Profit for the period	19

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 1 322 (2 054). The decrease of 732 is primarily due to plan funding in Germany. The weighted average duration of the obligation is 15.8 (14.9) years.

Post-employment benefits	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
<b>2013</b>					
Present value of defined benefit obligations	6 600	928	84	169	7 781
Fair value of plan assets	-6 442	-	-81	-	-6 523
<b>Present value of net obligations</b>	<b>158</b>	<b>928</b>	<b>3</b>	<b>169</b>	<b>1 258</b>
Other long-term service obligations	-	-	-	19	19
Effect of asset ceiling	45	-	-	-	45
<b>Net amount recognized in balance sheet</b>	<b>203</b>	<b>928</b>	<b>3</b>	<b>188</b>	<b>1 322</b>
<b>2012</b>					
Present value of defined benefit obligations	5 924	1 509	-	269	7 702
Fair value of plan assets	-5 659	-	-	-	-5 659
<b>Present value of net obligations</b>	<b>265</b>	<b>1 509</b>	<b>-</b>	<b>269</b>	<b>2 043</b>
Other long-term service obligations	-	-	-	11	11
<b>Net amount recognized in balance sheet</b>	<b>265</b>	<b>1 509</b>	<b>-</b>	<b>280</b>	<b>2 054</b>

## 24. Employee benefits, continued

Plan assets consist of the following:	2013			2012
	Quoted market price	Unquoted market price	Total	
Debt instruments	2 438	1 064	3 502	3 282
Equity instruments	800	351	1 151	679
Cash	976	59	1 035	623
Property	200	106	306	340
Other	230	299	529	735
<b>Closing balance, Dec 31</b>	<b>4 643</b>	<b>1 880</b>	<b>6 523</b>	<b>5 659</b>

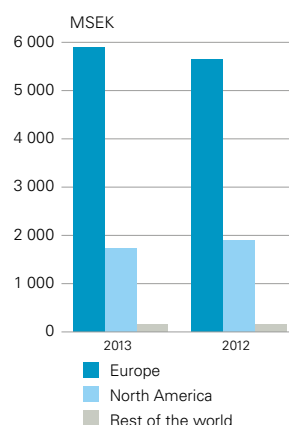
Movement in plan assets	2013	2012
Fair value of plan assets at Jan 1	5 659	5 553
Acquired company	65	–
Interest income	212	231
Remeasurement – Return on plan assets	14	27
Settlements	–1	–32
Employer contributions	786	195
Participant contributions	17	16
Administrative expenses	–5	–6
Benefit paid by the plan	–241	–205
Translation differences	17	–120
<b>Fair value of plan assets, Dec. 31</b>	<b>6 523</b>	<b>5 659</b>

The plan assets are allocated among the following geographic areas:	2013	2012
Europe	4 981	4 042
North America	1 485	1 566
Rest of the world	57	51
<b>Total</b>	<b>6 523</b>	<b>5 659</b>

Asset ceiling	2013	2012
Asset ceiling at Jan. 1	–	–
Remeasurements – asset ceiling	43	–
Translation differences	2	–
<b>Asset ceiling, Dec. 31</b>	<b>45</b>	<b>–</b>

Movement in present value of the obligations for defined benefits	2013	2012
Defined benefit obligations at Jan. 1	7 702	7 301
Current service cost	217	183
Past service cost	–5	–
Interest expense (+)	283	315
Actuarial gains (–) / losses (+) arising from experience adjustments	17	100
Actuarial gains (–) / losses (+) arising from changes in financial assumption	–231	432
Actuarial gains (–) / losses (+) arising from changes in demographic assumption	150	–11
Business acquisitions / divestments	66	23
Settlements	–1	–32
Benefits paid from plan or company assets	–456	–417
Translation differences	39	–192
<b>Defined benefit obligations, Dec. 31</b>	<b>7 781</b>	<b>7 702</b>

Remeasurements recognized in other comprehensive income amounts to –45 (479) and 9 (14) in profit and loss. The Group expects to pay 321 in contributions to defined benefit plans in 2014. Expenses related to defined contribution plans amounted to 685 (677).



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

Expenses recognized in the income statement	2013	2012
Current service cost	217	183
Past service cost	–5	–
Net interest cost	71	84
Participant contributions	–17	–16
Remeasurement of other long-term benefits	9	14
Administrative expenses	5	6
<b>Total</b>	<b>280</b>	<b>271</b>

The total benefit expense for defined benefit plans amounted to 280 (271), whereof 209 (187) has been charged to operating expenses and 71 (84) to financial expenses.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages, in %)	2013	2012
<b>Discount rate</b>		
Europe	3.76	3.64
North America	4.57	3.92
<b>Future salary increases</b>		
Europe	2.97	2.84
North America	3.53	3.51
<b>Medical cost trend rate</b>		
North America	8.20	9.00

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%	–507	–109
Change in discount rate – 0.50%	450	102
Increase in life expectancy, +1 year	138	38

## 24. Employee benefits, continued

### Share value based incentive programs

In 2008–2012, 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 2013, the Annual General Meeting decided on a performance based personnel stock option program for 2013 similar to the 2008–2012 programs.

### Option programs 2008–2013

At the Annual General Meeting 2008–2013 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in May/June 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 2013 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 issued in 2008 remain the property of the employee also if the employment is terminated. For the 2009–2013 programs, the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2008–2009 programs have a term of five years from the issue date and the options are not transferable. The 2010–2013 programs have a term of five years from the grant date and the options are not transferable. The options in the programs 2008–2009 are exercisable at a rate of one third per year, starting one year after the issue date. The options in the 2010–2013 programs become exercisable at 100% three years after grant.

The 2010–2013 programs include a requirement for senior executives (31 in total) to purchase Atlas Copco A shares for 10% of their gross base salary in order to be granted options. In the 2011–2013 programs there is also a choice to deposit privately owned shares as an alternative to purchase shares. 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 or deposited (2010–2013 programs) 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 2008–2013 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. Since the issue date for the 2013 program will be in March 2014, the fair value has been simulated through a Monte Carlo model of what it may be established at in March 2014. For the programs in 2012 and 2013, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2013 Program (Dec. 31, 2013)	2012 Program (At issue date)
Expected exercise price	SEK 198/135 <sup>1)</sup>	SEK 200/136 <sup>1) 2)</sup>
Expected volatility	33%	33%
Expected options life (years)	3.05	3.10
Expected share price	SEK 180.03	SEK 184.00
Expected dividend (growth)	SEK 6.10 (10%)	SEK 5.50 (10%)
Risk free interest rate	1.18%	1.10%
Expected average grant value	SEK 26.36/48.94 <sup>1)</sup>	SEK 28.30/52.30 <sup>1) 2)</sup>
Maximum number of options	4 072 858	4 385 494
– of which forfeited	4 072 858	241 475
Number of matching shares	45 036	42 289

<sup>1)</sup> Matching shares for senior executives. <sup>2)</sup> 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.

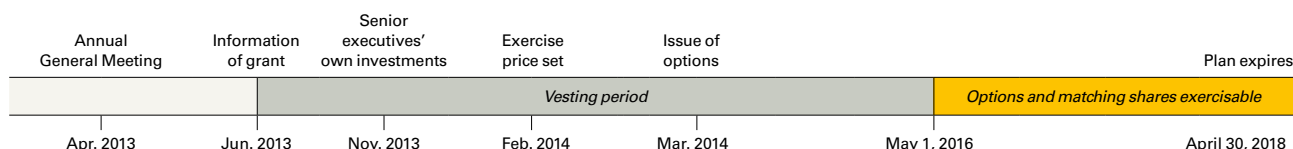
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in 2008–2013 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
	From	To	From	To
2008	May 2008	March 2009	March 2010	March 2014
2009	June 2009	March 2013	March 2011	March 2015
2010	June 2010	April 2013	May 2013	April 2015
2011	June 2011	April 2014	May 2014	April 2016
2012	June 2012	April 2015	May 2015	April 2017
2013	June 2013	April 2016	May 2016	April 2018

For the 2013 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

### Timeline 2013 option plan



## 24. 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 2013 for all share-based incentive programs amounted to 56 (184) excluding social costs of which 39 (50) 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 186 (223). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2008–2013, see also note 21.

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
<b>Stock options</b>							
2006	183	3 297 784	Mar. 30, 12	107.83	A	32.78	–
2007	177	3 222 149	Mar. 30, 13	101.94	A	132.50	–
2008	198	3 570 079	Mar. 20, 14	68.93	A	22.32	–
2009	222	3 902 878	Mar. 20, 15	104.86	A	28.59	–
2010	221	3 796 922	Apr. 30, 15	166.99	A	28.32	–
2011	224	2 735 804	Apr. 30, 16	184.00	A	22.47	–
2012	248	3 440 015	Apr. 30, 17	200.00	A	28.30	–
<b>Matching shares</b>							
2010	21	38 334	Apr. 30, 15	113.59	A	53.40	–
2011	20	39 495	Apr. 30, 16	125.00	A	41.23	–
2012	28	42 289	Apr. 30, 17	136.00	A	52.30	–
<b>Share appreciation rights</b>							
2006	36	559 608	Mar. 30, 12	107.83	A	–	70.47
2007	38	589 966	Mar. 30, 13	101.94	A	–	76.36
2008	41	635 348	Mar. 20, 14	68.93	A	–	109.37
2009	47	741 240	Mar. 20, 15	104.86	A	–	73.44
2010	49	756 351	Apr. 30, 15	166.99	A	–	11.31
2011	48	530 524	Apr. 30, 16	184.00	A	–	–
2012	56	704 004	Apr. 30, 17	200.00	A	–	–

Number of options/rights 2013								
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
<b>Stock options</b>								
2007	443 102	–	443 102	–	–	–	–	184
2008 <sup>1)</sup>	1 355 874	–	667 703	–	668 171	668 171	3	182
2009 <sup>2)</sup>	1 200 730	–	315 541	9 076	876 113	876 113	15	181
2010 <sup>3)</sup>	3 524 615	–	324 195	45 381	3 155 039	3 155 039	16	184
2011 <sup>4)</sup>	2 703 323	–	–	108 272	2 595 051	–	28	–
2012 <sup>5)</sup>	3 440 015	–	–	72 162	3 367 853	–	40	–
<b>Matching shares</b>								
2010	27 780	–	2 465	–	25 315	25 315	16	176
2011	39 495	–	–	2 973	36 522	–	28	–
2012	42 289	–	–	–	42 289	–	40	–
<b>Share appreciation rights</b>								
2007	53 008	–	53 008	–	–	–	–	185
2008	171 402	–	97 014	–	74 388	74 388	3	184
2009	231 978	–	66 221	6 807	158 950	158 950	15	181
2010	756 351	–	146 271	30 254	579 826	579 826	16	183
2011	519 697	–	–	32 481	487 216	–	28	–
2012	704 004	–	–	12 027	691 977	–	40	–

All numbers have been adjusted for the effect of the share split in 2007 and the redemption in 2011 in line with the method used by NASDAQ OMX Stockholm to adjust exchange-traded options contracts.

<sup>1)</sup> Of which 374 399 have been accounted for as cash settled.

<sup>2)</sup> Of which 352 049 have been accounted for as cash settled.

<sup>3)</sup> Of which 1 235 303 have been accounted for as cash settled.

<sup>4)</sup> Of which 981 821 have been accounted for as cash settled.

<sup>5)</sup> Of which 1 177 649 have been accounted for as cash settled.

## 24. Employee benefits, continued

Number of options/rights 2012								
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
<b>Stock options</b>								
2006	893 092	-	771 949	121 143	-	-	-	168
2007	1 813 790	-	1 370 688	-	443 102	443 102	3	167
2008	2 635 218	-	1 279 344	-	1 355 874	1 355 874	15	165
2009	1 573 712	-	359 368	13 614	1 200 730	658 419	27	166
2010	3 615 378	-	-	90 763	3 524 615	-	28	-
2011	2 735 804	-	-	32 481	2 703 323	-	40	-
2012	-	3 440 015	-	-	3 440 015	-	52	-
<b>Matching shares</b>								
2010	31 344	-	-	3 564	27 780	-	28	-
2011	39 495	-	-	-	39 495	-	40	-
2012	-	42 289	-	-	42 289	-	52	-
<b>Share appreciation rights</b>								
2006	82 746	-	82 746	-	-	-	-	169
2007	211 146	-	158 138	-	53 008	53 008	3	168
2008	395 834	-	224 432	-	171 402	171 402	15	167
2009	292 703	-	60 725	-	231 978	125 333	27	167
2010	756 351	-	-	-	756 351	-	28	-
2011	530 524	-	-	10 827	519 697	-	40	-
2012	-	704 004	-	-	704 004	-	52	-

All numbers have been adjusted for the effect of the share split in 2007 and the redemption in 2011 in line with the method used by NASDAQ OMX Stockholm to adjust exchange-traded options contracts.

## 25. Other liabilities

Fair value for other liabilities corresponds to carrying value.

Other current liabilities	2013	2012
Derivatives		
- not designated for hedge accounting	34	40
- designated for hedge accounting	209	741
Other financial liabilities		
- other liabilities	2 245	2 320
- accrued expenses	5 159	4 908
Advances from customers	1 798	2 289
Prepaid income	47	63
Deferred revenues construction contracts	313	140
Deferred revenues service contracts	857	569
<b>Closing balance, Dec 31</b>	<b>10 662</b>	<b>11 070</b>

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

See note 28 for information on the Group's derivatives.



## 26. Provisions

2013	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	925	150	901	1 976
During the year				
– provisions made	830	85	320	1 235
– provisions used	–697	–100	–334	–1 131
– provisions reversed	–187	–24	–95	–306
Business acquisitions	1	–	–	1
Translation differences	–4	–3	–21	–28
<b>Closing balance, Dec. 31</b>	<b>868</b>	<b>108</b>	<b>771</b>	<b>1 747</b>
Non-current	123	32	527	682
Current	745	76	244	1 065
<b>Total</b>	<b>868</b>	<b>108</b>	<b>771</b>	<b>1 747</b>

2012	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	938	156	829	1 923
During the year				
– provisions made	988	117	321	1 426
– provisions used	–839	–89	–183	–1 111
– provisions reversed	–134	–31	–37	–202
Business acquisitions	12	–	5	17
Translation differences	–40	–3	–34	–77
<b>Closing balance, Dec. 31</b>	<b>925</b>	<b>150</b>	<b>901</b>	<b>1 976</b>
Non-current	107	35	643	785
Current	818	115	258	1 191
<b>Total</b>	<b>925</b>	<b>150</b>	<b>901</b>	<b>1 976</b>

2013, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	745	76	244	1 065
Between one and five years	121	13	452	586
More than five years	2	19	75	96
<b>Total</b>	<b>868</b>	<b>108</b>	<b>771</b>	<b>1 747</b>

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 24), and environmental remediation obligations.

## 27. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2013	2012
Inventory and tangible fixed assets	22	32
Endowment insurances	78	55
Other receivables	121	38
<b>Total</b>	<b>221</b>	<b>125</b>

Contingent liabilities	2013	2012
Notes discounted	15	7
Sureties and other contingent liabilities	188	155
<b>Total</b>	<b>203</b>	<b>162</b>

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

## 28. Financial exposure and principles for control of financial risks

### Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled 65 386 (55 237). The Group's policy is to have an adequate capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's opinion is that the dividend over a business cycle should 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

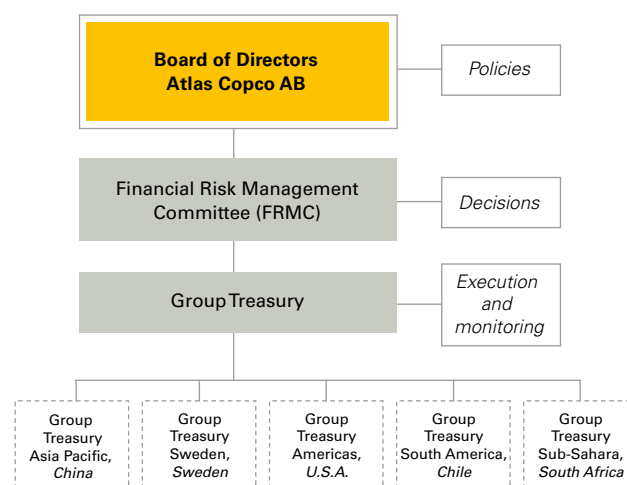
The Group is exposed to various financial risks in its operations.

These financial risks include:

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

The Group's Financial Risk Management Committee (FRMC) establishes the overall policies and systems to ensure the monitoring and management of the Group's financial risks. The members of the FRMC are the CEO, CFO, Group Treasurer, and Head of Treasury Control. The FRMC meets on a quarterly basis or more often if circumstances require.

Group Treasury has the operational responsibility for financial risk management in the Group. Group Treasury 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.

### Group funding risk policy

- The Group should maintain a minimum of MSEK 6 000 committed credit facilities to meet operational, strategic and rating objectives. Actual amount at year-end was 12 902 (6 390).
- The average tenor (i.e. time until maturity) of the external debt should be at least 3 years. Actual tenor at year-end was 4.4 years (4.3).
- No more than MSEK 5 000 of Atlas Copco AB's and Atlas Copco Airpower N.V.'s external debt may mature within the next 12 months. During 2014 MSEK 4 987 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 17 633 (12 416). 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,

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

and available back-up credit facilities from banks. Please refer to note 22 for information on utilized borrowings, maturity, and back-up facilities.

The following table shows maturity structure of the Group's financial assets and liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay or eligible to receive, and includes both interest and nominal amounts.

Financial Instruments	up to 1 year	1–5 years	Over 5 years
<b>Assets</b>			
Financial assets	21	2 218	30
Other receivables	–	23	–
Derivatives	63	158	–
<b>Non-current financial assets</b>	<b>84</b>	<b>2 399</b>	<b>30</b>
Trade receivables	16 619	–	–
Financial assets	1 832	–	–
Other receivables	1 734	–	–
Derivatives	250	–	–
Other accrued income	1 803	–	–
Cash and cash equivalents	17 633	–	–
<b>Current financial assets</b>	<b>39 871</b>	–	–
<b>Financial assets</b>	<b>39 955</b>	<b>2 399</b>	<b>30</b>
<b>Liabilities</b>			
Liabilities to credit institutions	833	9 681	13 013
Other financial liabilities	–	68	–
Derivatives	28	118	28
Other liabilities	–	214	–
<b>Non-current financial liabilities</b>	<b>861</b>	<b>10 081</b>	<b>13 041</b>
Liabilities to credit institutions	555	–	–
Current portion of interest-bearing liabilities	4 999	–	–
Derivatives	243	–	–
Other accrued expenses	5 159	–	–
Trade payables	6 418	–	–
Other liabilities	2 245	–	–
<b>Current financial liabilities</b>	<b>19 619</b>	–	–
<b>Financial liabilities</b>	<b>20 480</b>	<b>10 081</b>	<b>13 041</b>

Derivatives classified as assets dedicated for hedge accounting amount to 329 (277) and derivatives classified as liabilities classified for hedge accounting amount to 224 (808). 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 level.

#### 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 (6) and a maximum of 48 months (48).

#### Status at year-end

To manage interest rate risk, the Group uses interest rate swap agreements to convert interest on loans. The Group has entered into interest rate swaps to convert fixed interest rates to variable interest rates. These swaps are designated as fair value hedging instruments, with a nominal amount of MUSD 200 (unchanged from previous year). The Group has also interest rate swaps to convert variable interest rates to fixed interest rates on the loan of MEUR 275 (for more information about loans, see note 22). These swaps are designated as cash-flow hedging instruments.

Including the effect of the derivatives, the effective interest rate and interest duration of the Group's borrowings at year-end was 2.5% (2.8) and 44 months (41) respectively. Excluding any derivatives, the Group's effective interest rate was 3.5% (3.7) and the average interest duration was 36 months (33).

Outstanding derivative instruments related to interest rate risk	2013		2012	
	Fair value	Nominal amount	Fair value	Nominal amount
<b>Interest rate swaps, fair value hedge</b>				
Assets	MSEK 186	MUSD 200	MSEK 257	MUSD 200
Liabilities	–	–	–	–
<b>Interest rate swaps, cash-flow hedge</b>				
Assets	–	–	–	–
Liabilities	MSEK 15	MEUR 275	MSEK 68	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. The second table shows the fair value effect on loans and interest rate swaps reported at fair value. Certain loans are reported at their amortized cost and are therefore not affected by changes in interest rate levels. For the main part of the interest rate swaps, hedge accounting is applied and fair value is recognized in other comprehensive income, therefore earnings impact is low.

Interest sensitivity, earnings	2013	2012
	Earnings impact	Earnings impact
Market interest rate +1%	–48	–51
Market interest rate –1%	48	51

Fair value interest sensitivity	2013		2012	
	Earnings impact	OCI impact	Earnings impact	OCI impact
Market interest rate +1%	4	127	4	146
Market interest rate –1%	–4	–135	–4	–158

### Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and consequently exposures to exchange rate fluctuations arise. This affects both transaction exposure (cash flow) and translation exposure (balance sheet). These two different 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 are created. The value of these net positions fluctuates with the changes in currency rates and, thus, a transaction exposure is created. The following describes the Group's general policies for managing transaction exposure:

- Exposures should 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 positive or negative effect on the Group's results over the long term, the policy does not recommend transaction exposures to be hedged on an ongoing basis. Business areas and divisions should normally 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.
- The FRMC can from time to time decide if parts of the transaction exposure should be hedged. Transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

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

Status at year-end

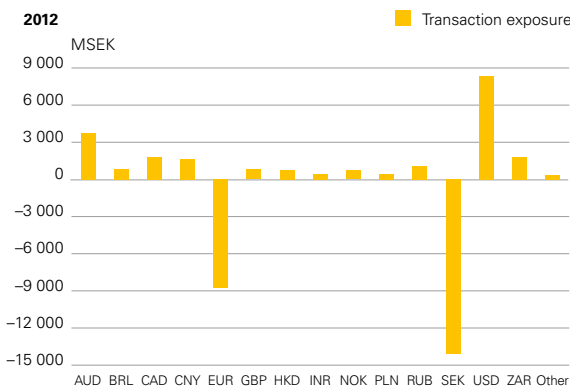
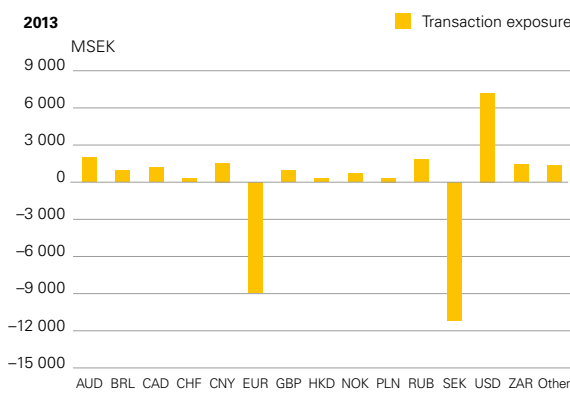
The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. Derivative instruments have only been used to a limited extent to hedge operational flows and have primarily been used to hedge transactions in Australian dollars. The nominal outstanding amount in Australian dollar is 48 (176). The fair value of the outstanding foreign currency forward contracts at December 31 was 42 (18).

In addition, the Group has foreign exchange forward contracts, to a limited extent, hedging transaction exposure in other currencies than AUD. The Group has bought currencies to a nominal amount of 445 (389) and sold currencies to a nominal amount of 436 (399). These nominal amounts have been translated to SEK from the original currency with the year-end exchange rate. In the table below, fair value for all outstanding derivative instruments related to transaction exposure is shown.

Outstanding derivative instruments related to transaction exposure	2013 Fair value	2012 Fair value
<b>Foreign exchange forwards</b>		
Assets	56	32
Liabilities	5	4

The largest operational surplus and deficit currencies are shown in Graph 1. The amounts presented in Graph 1 represent the estimate of the net amounts the Group has to exchange in different currencies. The 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 11 162 (14 054) and is calculated as the net operational exposed cash flows.

**Graph 1** Estimated operational transaction exposure in the Group's most important currencies 2013 and 2012

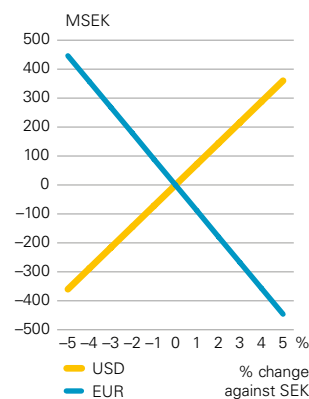


The following table illustrates the effect that one percentage point weakening or strengthening of the SEK against all other currencies would have on the transaction exposure.

Transaction exposure sensitivity	2013	2012
Currency rate +1%	-93	-133
Currency rate -1%	93	133

Graph 2 illustrates the effect on the Group pre-tax earnings of one-sided fluctuations in USD and EUR exchange rates if no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The graph indicates for example that the Group's pre-tax earnings of estimated net USD flows would decrease by approximately 360 (420) if the USD would weaken by 5%.

**Graph 2** Operational transaction exposure effect of EUR and USD before hedging



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 exposure is the net of assets and liabilities denominated in the specific currency. The effect of currency rate fluctuation 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 and derivatives to reduce the translation exposure on net investments in USD and 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 Group has a cross currency swap to convert an underlying MUSD 800 loan to a EUR liability. Including the MUSD 800 loan converted to EUR, the external loans used to hedge EUR-denominated net assets amount to MEUR 2 010 (2 080). As of December 31, the change in fair value of the EUR-denominated hedging instruments was 45 (-98), of which the currency effect was 469 (554). The Group also uses loans totaling MUSD 58 (58) to hedge the corresponding net assets in USD. The fair value of the USD-denominated hedging instruments as of December 31, 2013 was -27 (-72).

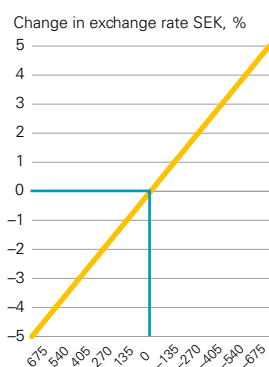
## 28. Financial exposure and principles for control of financial risks, continued

Outstanding derivative instruments related to translation exposure	2013		2012	
	Fair value	Nominal amount	Fair value	Nominal amount
<b>Cross currency swap</b>				
Assets	MSEK 1	MUSD 800	–	
Liabilities	–	–	MSEK 389	MUSD 800

The Group's loan portfolio is also exposed to movement in currency rates. Although the impact on the net income would be very limited as substantially all of the Group's loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income (see also note 1, Accounting principles, Financial assets and liabilities).

Graph 3 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 –135 (–135) if SEK strengthen by 1%. A SEK weakening by 1% would affect the Group's pretax earnings by 135 (135).

**Graph 3** Translation effect on earnings before tax



### 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 exposure related to financial assets as at December 31.

Credit risk	2013	2012
Loans and receivables		
– trade receivables	16 642	15 998
– finance lease receivables	800	932
– other financial receivables	2 196	1 801
– other receivables	1 734	1 870
– accrued income	1 803	1 336
– cash and cash equivalents	17 633	12 416
Held to maturity investments	326	200
Available-for-sale assets	2	2
Derivatives	439	458
	<b>41 575</b>	<b>35 013</b>

### Operational credit risk

#### Group credit risk policy

Operational credit risk is the risk that the Group's customers will 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 thousands of customers, of which 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.

The Group has an in-house customer finance operation (Atlas Copco Customer Finance) as a means of supporting equipment sales. At Decem-

ber 31, the credit portfolio of the customer finance operations totaled approximately 2 707 (2 672) consisting of 100 (83) reported as trade receivables, 822 (917) reported as financial lease receivables, and 1 785 (1 672) reported as other financial receivables. In addition, Atlas Copco Customer Finance also has non-cancelable operating lease contracts of 641 (550). 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 23.

Atlas Copco Customer Finance 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 impairment of credit risks

The business units establish provisions for impairment that represent 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 data of default statistics for similar financial assets. At year-end 2013, the provision for bad debt amounted to 4.4% (4.6) of gross total customer receivables. The following table presents the gross value of trade receivables by ageing category together with the related impairment provisions.

Trade receivables	2013		2012	
	Gross	Impairment	Gross	Impairment
Not past due	11 138	5	11 057	15
<b>Past due but not impaired</b>				
0–30 days	2 916	–	2 617	–
31–60 days	908	–	831	–
61–90 days	544	–	432	–
More than 90 days	1 410	–	1 288	–
<b>Past due and individually impaired</b>				
0–30 days	140	2	120	2
31–60 days	43	3	37	3
61–90 days	21	5	22	3
More than 90 days	281	215	361	267
Collective impairment	–	529	–	477
	<b>17 401</b>	<b>759</b>	<b>16 765</b>	<b>767</b>

The total estimated fair value of collateral for trade receivables amounted to 617 (692). Approximately 59% of collateral consisted of repossession rights and 41% of 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 822 (944), of which 22 (12) have been impaired, and the gross amount of other financial receivables amounted to 2 247 (1 849), of which 51 (48) have been impaired. There are no significant amounts past due that are not impaired. The total estimated fair value of collateral to finance lease receivables and other finance receivables was 575 (485) and 1 620 (1 091), 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 the 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 or Moody's) of the approved counterpart or underlying investment is at least A-/A3 in case of financial counterparties, funds or sovereigns and BBB-/Baa3 in case of non-financial counterparties. Investments in structured financial derivatives are not allowed even if they meet the rating criteria, unless approved by the FRMC. Other criteria which are considered when investing include

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

limiting the exposure with any single counterparty, the tenor, and liquidity of the investment. A list of approved counterparties with a maximum exposure limit for each counterparty is maintained and monitored.

### Derivative transactions

As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparties. Such transactions may only be undertaken with approved counterparties for which credit limits have been 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 Group Treasury or in rare cases by another entity, but only after the approval of 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 2013, the measured credit risk on derivatives, taking into account the market-to-market value and collaterals amounted to 254 (400).

The table below presents the Group's total holdings in derivatives.

Outstanding derivative instruments related to financial exposures	2013	2012
<b>Cross currency swaps</b>		
Assets	1	–
Liabilities	–	389
<b>Interest rate swaps</b>		
Assets	187	258
Liabilities	25	84
<b>Foreign exchange forwards</b>		
Assets	195	168
Liabilities	237	387
<b>Outstanding derivative instruments related to operational exposures</b>	<b>2013</b>	<b>2012</b>
Assets	56	32
Liabilities	5	4

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements and the fair value of derivatives that are not offset in the balance sheet are 439 for assets and 267 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
<b>Assets</b>						
Derivatives	439	–	439	–182	–3	254
<b>Liabilities</b>						
Derivatives	267	–	267	–182	–80	5

### 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. According to IFRS 13 Fair Value Measurement, fair value is established according to a fair value hierarchy consisting of three levels. These 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 in the fair value hierarchy and also valuation methods used for each financial instrument.

#### Level 1

Level 1 comprises financial instruments for which 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

Level 2 comprises financial instruments for which 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). Example of observable data is data that can serve as a basis for assessing prices, such as market interest rates and yield curves.

#### Level 3

Level 3 comprises financial instruments for which fair value is based on a valuation model, whereby significant input is based on unobservable market data.

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

Financial assets and liabilities by fair value hierarchy				
	Fair value	Level 1	Level 2	Level 3
Financial assets	658	368	290	–
Other receivables	1 469	–	1 469	–
Derivatives	188	–	188	–
<b>Non-current financial assets</b>	<b>2 315</b>	<b>368</b>	<b>1 947</b>	–
Trade receivables	16 619	–	16 619	–
Financial assets	1 697	–	1 696	–
Other receivables	2 137	–	2 137	–
Derivatives	250	–	250	–
Other accrued income	1 803	18	1 785	–
Cash and cash equivalent	17 633	–	17 633	–
<b>Current financial assets</b>	<b>40 139</b>	<b>18</b>	<b>40 120</b>	–
<b>Financial assets</b>	<b>42 454</b>	<b>386</b>	<b>42 067</b>	–
Borrowings	21 303	16 661	4 642	–
Other financial liabilities	68	–	68	–
Derivatives	24	–	24	–
Other liabilities	214	–	214	–
<b>Non-current financial liabilities</b>	<b>21 609</b>	<b>16 661</b>	<b>4 948</b>	–
Borrowings	5 647	3 132	2 515	–
Derivatives	243	–	243	–
Other accrued expenses	5 159	326	4 833	–
Trade payables	6 417	–	6 417	–
Other liabilities	2 245	–	2 245	–
<b>Current financial liabilities</b>	<b>19 711</b>	<b>3 458</b>	<b>16 253</b>	–
<b>Financial liabilities</b>	<b>41 320</b>	<b>20 119</b>	<b>21 201</b>	–

**Valuation methods***Derivatives*

Fair values of forward exchange contracts are calculated based on pre-vailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

*Interest-bearing liabilities*

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

*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 category**

The carrying value for the Group's financial instruments corresponds to fair value in all categories except for borrowings. See note 22 for additional information.

Currency rates used in the financial statements				Year-end rate		Average rate	
	Value	Code		2013	2012	2013	2012
Australia	1	AUD		5.77	6.78	6.29	6.99
Canada	1	CAD		6.08	6.56	6.32	6.74
EU	1	EUR		8.96	8.61	8.67	8.71
Hong Kong	100	HKD		84.11	84.25	84.01	86.84
United Kingdom	1	GBP		10.74	10.51	10.23	10.70
U.S.A.	1	USD		6.51	6.53	6.52	6.74

## 29. Related parties

### Relationships

The Group has related party relationships with the Company's largest shareholder, its associates 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 is found in note 15. Information about Board members and Group Management is presented on pages 60–63.

### 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

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

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

	2013	2012
Revenues	79	74
Goods purchased	135	30
Services purchased	31	30
At Dec. 31:		
Trade receivables	–	2
Trade payables	14	7
Other interest-bearing liabilities	16	8
Guarantees	10	10

### Compensation to key management personnel

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

## 30. Subsequent events

### Atlas Copco acquires Edwards, expanding into process vacuum solutions

On January 9, 2014, the acquisition of Edwards, a leading global supplier of vacuum and abatement solutions, was completed, and USD 9.25 per share was paid to Edwards's shareholders.

Based on Edwards' preliminary unaudited income statement for 2013, revenues reached approximately MGBP 680 (MSEK 6 950), and the adjusted EBITDA approximately MGBP 160 (MSEK 1 640).

If the preliminary statement is confirmed, the requirements as per the merger agreement dated August 19, 2013 for a maximum additional payment to Edwards' shareholders of USD 1.25 are met. Payment will be made immediately upon such confirmation which is expected within the first quarter of 2014.

In such a case, the total purchase price of USD 10.50 per share would correspond to an enterprise value of MSEK 9 900 (MUSD 1 500), whereof approximately MSEK 2 100 (MUSD 300) of net debt at the time of closing, and a preliminary purchase price allocation as outlined in the table below.

Preliminary values, MSEK	
Intangible assets	4 100
Property, plant and equipment	1 300
Other assets	2 700
Cash and cash equivalents	900
Interest-bearing loans and borrowings	–3 000
Other liabilities and provisions	–3 200
<b>Net identifiable assets</b>	<b>2 800</b>
Goodwill	5 000
<b>Total consideration</b>	<b>7 800</b>

Edwards will be consolidated as from January 2014 and is part of Atlas Copco's new Vacuum Solutions division within the Compressor Technique business area.

Atlas Copco estimates, based on above preliminary values, that amortization of intangibles will be approximately MSEK 250 in 2014.

# FINANCIAL STATEMENTS, PARENT COMPANY

## Income statement

For the year ended December 31, Amounts in MSEK	Note	2013	2012
Administrative expenses	A2	-379	-453
Other operating income	A3	337	218
Other operating expenses	A3	0	-1
<b>Operating loss</b>		<b>-42</b>	<b>-236</b>
Financial income	A4	11 068	1 375
Financial expenses	A4	-1 966	-1 907
<b>Profit after financial items</b>		<b>9 060</b>	<b>-768</b>
Appropriations	A5	5 070	4 728
<b>Profit before tax</b>		<b>14 130</b>	<b>3 960</b>
Income tax	A6	-855	-936
<b>Profit for the year</b>		<b>13 275</b>	<b>3 024</b>

## Statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2013	2012
<b>Profit for the year</b>		<b>13 275</b>	<b>3 024</b>
<b>Other comprehensive income</b>			
Translation of net investment		-822	872
<b>Other comprehensive income of the year, net of tax</b>		<b>-822</b>	<b>872</b>
<b>Total comprehensive income for the year</b>		<b>12 453</b>	<b>3 896</b>

## Balance sheet

As at December 31, Amounts in MSEK	Note	2013	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	A7	15	20
Tangible assets	A8	30	38
Financial assets			
Shares in Group companies	A10, A21	93 004	92 903
Other financial assets	A11	721	398
<b>Total non-current assets</b>		<b>93 770</b>	<b>93 359</b>
<b>Current assets</b>			
Income tax receivable		95	-
Other receivables	A12	6 729	7 803
Cash and cash equivalents	A13	13 302	7 579
<b>Total current assets</b>		<b>20 126</b>	<b>15 382</b>
<b>TOTAL ASSETS</b>		<b>113 896</b>	<b>108 741</b>
<b>EQUITY</b>			
<b>Restricted equity</b>			
Share capital		786	786
Legal reserve		4 999	4 999
<b>Total restricted equity</b>		<b>5 785</b>	<b>5 785</b>
<b>Non-restricted equity</b>			
Reserve for fair value		1 866	2 688
Retained earnings		26 053	29 740
Profit for the year		13 275	3 024
<b>Total non-restricted equity</b>		<b>41 194</b>	<b>35 452</b>
<b>TOTAL EQUITY</b>		<b>46 979</b>	<b>41 237</b>
<b>Untaxed reserves</b>	A5	-	<b>1 255</b>
<b>PROVISIONS</b>			
Post-employment benefits	A15	96	75
Other provisions	A16	249	307
Deferred tax liabilities	A9	452	674
<b>Total provisions</b>		<b>797</b>	<b>1 056</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	A17	39 432	48 863
Other liabilities		24	82
<b>Total non-current liabilities</b>		<b>39 456</b>	<b>48 945</b>
<b>Current liabilities</b>			
Borrowings	A17	25 547	14 622
Income tax liabilities		-	140
Other liabilities	A18	1 117	1 486
<b>Total current liabilities</b>		<b>26 664</b>	<b>16 248</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>113 896</b>	<b>108 741</b>
<b>Assets pledged</b>	A20	<b>198</b>	<b>94</b>
<b>Contingent liabilities</b>	A20	<b>7 570</b>	<b>368</b>



## Statement of changes in equity

MSEK unless otherwise stated	Number of shares outstanding	Share capital	Legal reserve	Reserve for fair value – translation reserve	Retained earnings	Total
Opening balance, Jan. 1, 2013	1 213 422 175	786	4 999	2 688	32 764	41 237
Total comprehensive income for the year				-822	13 275	12 453
Dividends					-6 668	-6 668
Acquisition series A shares	-2 148 475				-390	-390
Divestment series A shares	2 106 312				385	385
Divestment series B shares	172 901				29	29
Share-based payment, equity settled						
– expense during the year					39	39
– exercise of options					-106	-106
<b>Closing balance, Dec. 31, 2013</b>	<b>1 213 552 913</b>	<b>786</b>	<b>4 999</b>	<b>1 866</b>	<b>39 328</b>	<b>46 979</b>
Opening balance, Jan. 1, 2012	1 211 614 028	786	4 999	1 816	35 694	43 295
Total comprehensive income for the year				872	3 024	3 896
Dividends					-6 069	-6 069
Acquisition series A shares	-2 751 525				-477	-477
Divestment series A shares	4 066 506				676	676
Divestment series B shares	493 166				72	72
Share-based payment, equity settled						
– expense during the year					50	50
– exercise of options					-206	-206
<b>Closing balance, Dec. 31, 2012</b>	<b>1 213 422 175</b>	<b>786</b>	<b>4 999</b>	<b>2 688</b>	<b>32 764</b>	<b>41 237</b>

See note A14 for additional information.

## Statement of cash flows

For the year ended December 31, Amounts in MSEK	2013	2012	For the year ended December 31, Amounts in MSEK	2013	2012
<b>Cash flows from operating activities</b>			<b>Cash flow from investing activities</b>		
Operating loss	-42	-236	Investments in tangible assets	-1	-1
Adjustments for:			Investments in subsidiaries	-122	-1 625
Depreciation	14	13	Investments in financial assets	-370	396
Capital gain/loss and other non-cash items	-177	949	<b>Net cash from investing activities</b>	<b>-493</b>	<b>-1 230</b>
<b>Operating cash deficit/-surplus</b>	<b>-205</b>	<b>726</b>	<b>Cash flow from financing activities</b>		
Net financial items received/paid	9 315	-130	Dividends paid	-6 668	-6 069
Group contributions received/paid	5 982	4 314	Repurchase and divestment of own shares	24	271
Taxes paid	-1 064	-1 742	Change in interest-bearing liabilities	-5 009	6 592
<b>Cash flow before change in working capital</b>	<b>14 028</b>	<b>3 168</b>	<b>Net cash from financing activities</b>	<b>-11 653</b>	<b>794</b>
<b>Change in</b>			<b>Net cash flow for the year</b>	<b>5 723</b>	<b>4 791</b>
Operating receivables	-1 550	1 770	Cash and cash equivalents, Jan. 1	7 579	2 788
Operating liabilities	5 391	289	Net cash flow for the year	5 723	4 791
<b>Change in working capital</b>	<b>3 841</b>	<b>2 059</b>	<b>Cash and cash equivalents, Dec. 31</b>	<b>13 302</b>	<b>7 579</b>
<b>Net cash from operating activities</b>	<b>17 869</b>	<b>5 227</b>			

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

MSEK unless otherwise stated

## A1. Significant accounting principles

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden. Its operations include administrative functions, holding company functions as well as part of Group Treasury.

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities", hereafter referred to as "RFR 2", issued by the Swedish Financial Reporting Board. In accordance with RFR 2, parent companies that issue consolidated financial statements according to International Financial Reporting Standards (IFRS), as endorsed by the European Union, shall present their financial statements in accordance with IFRS, to the extent these accounting principles comply with the Swedish Annual Accounts Act and may use exemptions from IFRS provided by RFR 2 due to Swedish tax legislation.

The financial statements are presented in Swedish kronor (SEK), rounded to the nearest million. The parent company's accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 to the Group's consolidated financial statements, except for those disclosed in the following sections.

For discussion regarding accounting estimates and judgments, see page 76.

### Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. The carrying amounts of participations in subsidiaries are reviewed for impairment in accordance with IAS 36, Impairment of Assets. See the Group's accounting policies, Impairment of financial assets, for further details.

Transaction costs incurred in connection with a business combination are by the Parent Company accounted for as part of the acquisition costs and are not expensed.

### Lease contracts

All lease contracts entered into by the Parent Company are accounted for as operating leases.

### Employee benefits

#### Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19, but are accounted for according to Swedish GAAP which are based on the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Authority. The primary differences as compared to IAS 19 is the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

#### Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the Group's consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but as an increase of Shares in Group companies. This increase is accrued over the same period as in the Group and with a corresponding increase in Equity for equity-settled programs and as an increase in liabilities for cash-settled programs.

### Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

### Hedge accounting

External interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares of foreign subsidiaries are not translated using the foreign exchange rates on the balance sheet date, but measured based on the exchange rate the day that the hedging relation was established.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss.

### Group and shareholder's contributions

In Sweden, Group contributions are deductible for tax purposes but shareholder's contributions are not. Group contributions are recognized as appropriations in the income statement.

## A2. Employees and personnel expenses and remunerations to auditors

	Average number of employees					
	2013			2012		
	Women	Men	Total	Women	Men	Total
Sweden	60	49	109	61	48	109

	Dec. 31, 2013	Dec. 31, 2012
<b>Women in Atlas Copco Board and Management, %</b>		
Board of Directors excl. union representatives	30	33
Group Management	22	22

	2013		2012	
	Board members and Group Management <sup>1)</sup>	Other employees	Board members and Group Management <sup>1)</sup>	Other employees
	Sweden	42	87	58
of which variable compensation	7		12	

<sup>1)</sup> Includes 9 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (6) members of Group Management who are employed by and receive salary and other remuneration from the Company.

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

	2013	2012
<b>Pension benefits and other social costs</b>		
Contractual pension benefits for Board members and Group Management	8	8
Contractual pension benefits for other employees	21	22
Other social costs	61	69
<b>Total</b>	<b>90</b>	<b>99</b>
Capitalized pension obligations to Board members and Group Management	14	14

### Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2013	2012
<b>Deloitte</b>		
– audit fee	7	7
– other	3	1
<b>Total</b>	<b>10</b>	<b>8</b>

At the Annual General Meeting in 2010, Deloitte was elected as auditor for the Parent Company for a four year period.

Other fees are primarily consultancy for tax and accounting matters.

## A3. Other operating income and expenses

	2013	2012
Commissions received	171	218
Other operating income <sup>1)</sup>	160	–
Exchange-rate differences, net	6	–
<b>Total other operating income</b>	<b>337</b>	<b>218</b>
Exchange-rate differences, net	0	–1
<b>Total other operating expenses</b>	<b>0</b>	<b>–1</b>

<sup>1)</sup> Other operating income refers to insurance reimbursements.

## A4. Financial income and expenses

	2013	2012
Interest income		
– cash and cash equivalents	96	87
– Group Companies	206	237
Dividend income from Group Companies	10 227	1 004
Change in fair value – other assets	3	–
Capital gain	512	–
Foreign exchange gain, net	24	47
<b>Financial income</b>	<b>11 068</b>	<b>1 375</b>
Interest expense		
– borrowings	–708	–660
– derivatives for fair value hedges	–185	–174
– Group Companies	–824	–1 013
– pension provisions, net	–1	–1
– other	–4	–
Change in fair value – other liabilities and borrowings	–	–59
Impairment loss -writedown of shares in Group companies	–244	–
<b>Financial expenses</b>	<b>–1 966</b>	<b>–1 907</b>
<b>Financial income and expenses, net</b>	<b>9 102</b>	<b>–532</b>

The increase in net financial income and expenses is primarily due to higher dividend income from Group Companies. The capital gain of 512 results from a sale of a Group company. The above financial income and expenses include the following in respect of assets and liabilities not at fair value through profit or loss:

	2013	2012
Total interest income on financial assets	302	324
Total interest expense on financial liabilities	–1 537	–1 674

The following table presents the net gain or loss by financial instrument category:

	2013	2012
<b>Net gain/loss on</b>		
– cash and cash equivalents	326	371
– other assets	3	–
– other liabilities	–1 537	–1 733
– fair value hedge	–185	–174
Profit from shares in Group companies	10 495	1 004
<b>Total</b>	<b>9 102</b>	<b>–532</b>

For further information about the hedges, see note 28 of the consolidated financial statements.

## A5. Appropriations

	2013	2012
<b>Untaxed provisions</b>		
Allocation to accrual fund	–	1 255
<b>Appropriations</b>		
Group contributions paid	–259	–167
Group contributions received	4 074	6 150
Reversal/allocation to accrual fund	1 255	–1 255
<b>Total</b>	<b>5 070</b>	<b>4 728</b>

**A6. Income tax**

	2013	2012
Current tax	-845	-1 001
Deferred tax	-10	65
<b>Total</b>	<b>-855</b>	<b>-936</b>
Profit before taxes	14 130	3 960
The Swedish corporate tax rate, %	22.0	26.3
National tax based on profit before taxes	-3 109	-1 041
Tax effects of:		
Non-deductible expenses	-234	-3
Tax exempt income	2 363	265
Deductible expenses, not recognized in Income statement	144	-176
Prior year adjustment, deferred tax	-	88
Change in tax rate, deferred tax	-	-17
Controlled Foreign Company taxation	-33	-54
Adjustments from prior years	14	2
<b>Total</b>	<b>-855</b>	<b>-936</b>
<b>Effective tax in %</b>	<b>6.0</b>	<b>23.6</b>

The Parent Company's effective tax rate of 6.0% (23.6) is primarily affected by non-taxable income such as dividends from Group Companies.

**A7. Intangible assets**

	Capitalized expenditures for computer programs	
	2013	2012
<b>Accumulated cost</b>		
Opening balance, Jan. 1	36	36
Investments	-	-
<b>Closing balance, Dec. 31</b>	<b>36</b>	<b>36</b>
<b>Accumulated depreciation</b>		
Opening balance, Jan. 1	16	12
Depreciation for the year	5	4
<b>Closing balance, Dec. 31</b>	<b>21</b>	<b>16</b>
<b>Carrying amount</b>		
Closing balance, Dec. 31	15	20
Opening balance, Jan. 1	20	24

**A8. Tangible assets**

	2013			2012		
	Buildings and land	Machinery and equipment	Total	Buildings and land	Machinery and equipment	Total
<b>Accumulated cost</b>						
Opening balance, Jan. 1	23	39	62	23	38	61
Investments	-	-	-	-	1	1
<b>Closing balance, Dec. 31</b>	<b>23</b>	<b>39</b>	<b>62</b>	<b>23</b>	<b>39</b>	<b>62</b>
<b>Accumulated depreciation</b>						
Opening balance, Jan. 1	3	21	24	1	14	15
Depreciation for the year	2	6	8	2	7	9
<b>Closing balance, Dec. 31</b>	<b>5</b>	<b>27</b>	<b>32</b>	<b>3</b>	<b>21</b>	<b>24</b>
<b>Carrying amount</b>						
Closing balance, Dec. 31	18	12	30	20	18	38
Opening balance, Jan. 1	20	18	38	22	24	46

The asset Buildings and land relates to improvements in leased properties. Depreciation is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 39 (29). Future payments for non-cancelable leasing contracts amounted to 252 (251) and fall due as follows:

	2013	2012
Less than one year	38	30
Between one and five years	140	118
More than five years	74	103
<b>Total</b>	<b>252</b>	<b>251</b>

**A9. Deferred tax assets and liabilities**

	2013			2012		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Fixed assets	1	–	1	0	–	0
Post-employment benefits	21	–	21	16	–	16
Other provisions	14	–	14	14	–	14
Non-current liabilities	–	–488	–488	–	–704	–704
<b>Total</b>	<b>36</b>	<b>–488</b>	<b>–452</b>	<b>30</b>	<b>–704</b>	<b>–674</b>

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

	2013	2012
Net balance, Jan. 1	–674	–629
Charges to other comprehensive income	232	–110
Charges to profit for the year	–10	65
<b>Net balance, Dec. 31</b>	<b>–452</b>	<b>–674</b>

**A10. Shares in Group Companies**

	2013	2012
<b>Accumulated cost</b>		
Opening balance, Jan. 1	93 427	91 822
Investments	38	1 263
Net investment hedge	208	–186
Shareholder's contribution	135	528
Divestments	–36	–
<b>Closing balance, Dec. 31</b>	<b>93 772</b>	<b>93 427</b>
<b>Accumulated write-up</b>		
Opening balance, Jan. 1	600	600
<b>Closing balance, Dec. 31</b>	<b>600</b>	<b>600</b>
<b>Accumulated write-down</b>		
Opening balance, Jan. 1	–1 124	–1 124
Write-down	–244	–
<b>Closing balance, Dec. 31</b>	<b>–1 368</b>	<b>–1 124</b>
<b>Total</b>	<b>93 004</b>	<b>92 903</b>

For further information about Group Companies, see note A21.

**A11. Other financial assets**

	2013	2012
Receivables from Group Companies	20	20
Derivatives		
– not designated for hedge accounting	3	1
– designated for hedge accounting	186	257
Endowment insurances	78	56
Financial assets at fair value through profit and loss	368	–
Financial assets classified as loans and receivables		
– other financial receivables	66	64
<b>Closing balance, Dec. 31</b>	<b>721</b>	<b>398</b>

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

**A12. Other receivables**

	2013	2012
Receivables from Group Companies	6 284	7 495
Derivatives		
– not designated for hedge accounting	186	180
– designated for hedge accounting	63	20
Financial assets classified as loans and receivables		
– other receivables	128	36
Prepaid expenses and accrued income	68	72
<b>Closing balance, Dec. 31</b>	<b>6 729</b>	<b>7 803</b>

**A13. Cash and cash equivalents**

	2013	2012
Cash and cash equivalents classified as loans and receivables		
– cash	2 438	1 937
– cash equivalents	10 864	5 642
<b>Closing balance, Dec. 31</b>	<b>13 302</b>	<b>7 579</b>

The Parent Company's guaranteed, but unutilized, credit lines equalled 5 734 (6 390).

**A14. Equity**

For information on share transactions and mandates approved by the Annual General Meeting, see note 21 in the consolidated financial statements.

**Reserves**

The Parent Company's equity includes certain reserves which are described as follows:

**Legal reserve**

The legal reserve is a part of the restricted equity and is not available for distribution.

**Reserve for fair value – Translation reserve**

The reserve comprises translation of intragroup receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations.

**A15. Post-employment benefits**

	2013			2012		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	56	19	75	55	19	74
Provision made	22	–	22	1	–	1
Provision used	–	–1	–1	–	–	–
<b>Closing balance, Dec. 31</b>	<b>78</b>	<b>18</b>	<b>96</b>	<b>56</b>	<b>19</b>	<b>75</b>

The Parent Company has endowment insurances of 78 (56) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

**Description of defined benefit pension plans**

The Parent Company has three defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Atlas Copco AB which benefits are secured through the Atlas Copco pension trust. The second plan relates to a group of employees earning more than 10 income base amounts who have opted out from the ITP plan. This plan is insured. The third plan relates to retired former senior employees. These pension arrangements are provided for.

	2013			2012		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	130	18	148	131	19	150
Fair value of plan assets	–236	–	–236	–221	–	–221
Present value of net obligations	–106	18	–88	–90	19	–71
Not recognized surplus	106	–	106	90	–	90
<b>Net amount recognized in balance sheet</b>	<b>–</b>	<b>18</b>	<b>18</b>	<b>–</b>	<b>19</b>	<b>19</b>

<b>Reconciliation of defined benefit obligations</b>	2013			2012		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	131	19	150	133	19	152
Service cost	4	2	6	5	2	7
Interest expense	4	–	4	4	1	5
Other changes in obligations	1	–	1	–1	–	–1
Benefits paid from plan	–10	–3	–13	–10	–3	–13
<b>Defined benefit obligations at Dec. 31</b>	<b>130</b>	<b>18</b>	<b>148</b>	<b>131</b>	<b>19</b>	<b>150</b>

<b>Reconciliation of plan assets</b>	2013			2012		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	221	–	221	208	–	208
Return on plan assets	15	–	15	13	–	13
Payments	–	–	–	–	–	–
<b>Fair value of plan assets at Dec. 31</b>	<b>236</b>	<b>–</b>	<b>236</b>	<b>221</b>	<b>–</b>	<b>221</b>

**A15. Post-employment benefits, continued**

	2013	2012
<b>Pension commitments provided for in the balance sheet</b>		
Costs excluding interest	11	13
Interest expense	1	1
<b>Total</b>	<b>12</b>	<b>14</b>
<b>Pension commitments provided for through insurance contracts</b>		
Service cost	16	17
<b>Total</b>	<b>16</b>	<b>17</b>
<b>Reimbursement from the Atlas Copco pension trust</b>		
	–	–
	–	–
<b>Net cost for pensions, excluding taxes</b>	<b>28</b>	<b>31</b>
Special employer's contribution	10	7
Credit insurance costs	–	0
<b>Total</b>	<b>38</b>	<b>38</b>

Pension expenses for the year included within administrative expenses amounted to 29 (30) of which the Board members and Group Management 8 (8) and others 21 (22).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 236 (221) and is allocated as follows:

	2013	2012
Equity securities	21	30
Bonds	175	140
Real estate	40	30
Cash and cash equivalents	–	21
<b>Total</b>	<b>236</b>	<b>221</b>

The plan assets of the Atlas Copco pension trust are not included in the financial assets of the Parent Company.

The return on plan assets in the Atlas Copco pension trust amounted to 7.2% (7.2).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.8% (3.8).

The Parent Company estimates 13 will be paid to defined benefit pension plans during 2014.

**A16. Other provisions**

	2013	2012
Opening balance, Jan. 1	307	274
During the year		
– provisions made	16	170
– provisions used	–74	–137
– provisions reversed	–	–
<b>Closing balance, Dec. 31</b>	<b>249</b>	<b>307</b>

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

**A17. Borrowings**

	Maturity	Repurchased nominal amount	2013		2012	
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current</b>						
Medium Term Note Program MEUR 600	2014	MEUR 260	3 336	3 132	3 416	3 173
Medium Term Note Program MEUR 500	2019		4 458	4 771	4 458	4 731
Medium Term Note Program MEUR 500	2023		4 454	4 424	–	–
Capital market borrowings MUSD 800	2017		5 689	6 220	5 860	6 604
Capital market borrowings MUSD 150	2019	MUSD 7.5	973	1 246	973	1 358
Bilateral borrowings EIB MEUR 213	2014		2 008	1 908	2 008	1 837
Bilateral borrowings EIB MEUR 275	2019		2 329	2 543	2 329	2 460
Bilateral borrowings NIB MEUR 100	2015		943	898	943	866
Bilateral borrowings NIB MSEK 705	2016		705	714	705	718
Non-current borrowings from Group Companies			19 881	21 072	28 171	29 991
Less current portion of long-term borrowings			–5 344	–5 040	–	–
<b>Total non-current loans</b>			<b>39 432</b>	<b>41 888</b>	<b>48 863</b>	<b>51 738</b>
<b>Current</b>						
Current portion of long-term borrowings			5 344	5 040	–	–
Short term loans			–	–	25	25
Current borrowings from Group Companies			20 203	20 204	14 597	14 606
<b>Total current loans</b>			<b>25 547</b>	<b>25 244</b>	<b>14 622</b>	<b>14 631</b>
<b>Total borrowings</b>			<b>64 979</b>	<b>67 132</b>	<b>63 485</b>	<b>66 369</b>
<b>Whereof external loans</b>			<b>24 895</b>	<b>25 856</b>	<b>20 717</b>	<b>21 772</b>

The difference between carrying value and fair value is because certain liabilities are reported at their amortized cost, and not at fair value.

**A17. Borrowings, continued**

The following table shows the maturity structure of the Parent Company's loans and includes the effect of interest rate swaps.

2013 Maturity	Fixed	Float	Carrying amount	Fair value
2014	3 336	2 008	5 344	5 040
2015	–	943	943	898
2016	–	705	705	714
2017	4 267	1 422	5 689	6 220
2018	–	–	–	–
2019	7 760	–	7 760	8 560
2023	4 454	–	4 454	4 424
<b>Total</b>	<b>19 817</b>	<b>5 078</b>	<b>24 895</b>	<b>25 856</b>

**A18. Other liabilities**

	2013	2012
Accounts payable	18	18
Liabilities to Group Companies	369	341
Derivatives		
– not designated for hedge accounting	243	40
– designated for hedge accounting	–	741
Other financial liabilities		
– other liabilities	49	4
Accrued expenses and prepaid income	438	342
<b>Closing balance, Dec. 31</b>	<b>1 117</b>	<b>1 486</b>

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



## A19. Financial exposure and principles for control of financial risks

### Parent Company borrowings

Atlas Copco AB had MSEK 24 895 (20 717) of external borrowings and MSEK 40 084 (42 768) of internal borrowings at December 31, 2013. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 28 in the consolidated financial statements.

### Hedge accounting

The Parent Company hedges shares in subsidiaries through external loans of MEUR 1 428 (1 428) and MUS\$ 142 (142), and derivatives of MEUR 582 (652). The deferral hedge accounting of the external loans is based on a RFR 2 exemption. The derivatives are accounted as fair value hedges.

The interest rate risk is managed with interest rate swaps, designated as fair value hedges and cash flow hedges. Note 28 of the consolidated financial statements includes fair value of these swaps and further details.

### Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparties related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see Note 28 of the consolidated financial statements.

The table below shows the actual exposure of financial instruments as at December 31:

Financial credit risk	2013	2012
Cash and cash equivalents	13 302	7 579
Receivables from Group companies	6 304	7 515
Derivatives	438	458
Other	262	172
<b>Total</b>	<b>20 306</b>	<b>15 724</b>

## A19. Financial exposure and principles for control of financial risks, continued

### Fair value hierarchy

Fair values are based on observable market prices or, in the case that such prices are not available, on observable inputs or other valuation techniques. Amounts shown in other notes are unrealized and will not necessarily be realized.

For more information about fair value hierarchy, see note 28 of the consolidated financial statements.

### Valuation methods

#### Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

#### Interest-bearing liabilities

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

### The Parent Company's financial instruments by category

The carrying value for the Parent Company's financial instruments corresponds to fair value in all categories except for borrowings. See A17 for additional information.

## A20. Assets pledged and contingent liabilities

	2013	2012
<b>Assets pledged for pension commitments</b>		
Other receivables	120	38
Endowment insurances	78	56
<b>Total</b>	<b>198</b>	<b>94</b>
<b>Contingent liabilities</b>		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	7 567	365
<b>Total</b>	<b>7 570</b>	<b>368</b>

Sureties and other contingent liabilities include bank and commercial guarantees, credit support annex and performance bonds. Sureties and other contingent liabilities for Group companies has increased since Atlas Copco Airpower n.v Belgium has a new financial guarantee of 800 MEUR.

## A21. Directly owned subsidiaries

	2013			2012		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
<b>Directly owned product companies</b>						
Atlas Copco Airpower n.v., Wilrijk	76 415	100	45 972	76 415	100	45 826
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	2 044	60 000	100	116
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	45	200 000	100	44
Atlas Copco GIA AB, 556040-0870, Grängesberg	50 000	100	176	50 000	100	138
Atlas Copco MAI GmbH, Feistritz an der Drau	1	100	34	1	100	129
Atlas Copco Meyco AG, Switzerland	5 000	100	34	–	–	–
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	432	1 000 000	100	426
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	168	2 325 000	100	169
Gazcon A/S, Lynge	500	100	23	500	100	23
Dynapac Compaction Equipment AB, 556068-6577, Karlskrona	80 000	100	1 105	80 000	100	915
Dynapac Brasil Industria e Comercio Ltda, São Paulo	25 777 505	100	619	25 777 505	100	82

## A21. Directly owned subsidiaries, continued

	2013			2012		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
<b>Directly owned customer centers</b>						
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	99 998	100	0
Atlas Copco Argentina S.A.C.I., Buenos Aires	525 000	75/100 <sup>1)</sup>	11	525 000	75/100 <sup>1)</sup>	11
Atlas Copco (India) Ltd., Mumbai	21 731 128	96	1 815	21 723 714	96	1 700
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	28	250 000	100	90
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	14	1 000 000	100	15
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	6	121 995	100	6
Atlas Copco (Switzerland) AG., Studen/Biel	8 000	100	51	8 000	100	51
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	6	1 500 000	100	5
Atlas Copco Brasil Ltda., São Paulo	70 358 841	100	237	70 358 841	100	234
Atlas Copco Chilena S.A.C., Santiago	24 998	100	9	24 998	100	9
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	94	103 000	100	14
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	11	60 000	100	12
Atlas Copco Customer Finance Chile Ltd., Santiago	6 317 500	95/100 <sup>1)</sup>	0	6 317 500	95/100 <sup>1)</sup>	0
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100 <sup>1)</sup>	2	5	0/100 <sup>1)</sup>	2
Atlas Copco Ges.m.b.H., Vienna	1	100	333	1	100	332
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	25	3 500	100	32
Atlas Copco Eastern Africa Ltd., Nairobi	482 999	100	6	482 999	100	5
Atlas Copco KK, Tokyo	375 001	100	29	375 001	100	29
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	3	4 000	100	3
Atlas Copco Maroc SA., Casablanca	3 854	96	2	3 854	96	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	4	500	100	4
Atlas Copco Venezuela S.A., Caracas	38 000	100	15	38 000	100	15
Chicago Pneumatic Construction Equipment AB, 556197-5375, Stockholm	30 000	100	31	30 000	100	62
CP Scanrotor Aktiebolag, 556103-0080, Tanum	1 500	100	2	1 500	100	2
Servatechnik AG., Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	25	1	100	24
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	29	200 000	100	29
<b>Directly owned holding companies and others</b>						
Atlas Copco A/S, Langhus	2 498	100	39	2 498	100	18
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	2 411	15 712	100	718
Atlas Copco Dynapac AB, 556655-0413, Nacka	86 993 823	100	0	86 993 823	100	5 512
Atlas Copco Finance Belgium bvba, Wilrijk	1	0/100 <sup>1)</sup>	0	1	0/100 <sup>1)</sup>	0
Atlas Copco Finance Europe n.v., Wilrijk	1	0/100 <sup>1)</sup>	1	1	0/100 <sup>1)</sup>	1
Atlas Copco France Holding S.A., St. Ouen l'Áumône	278 255	100	255	278 255	100	179
Atlas Copco Holding GmbH, Essen	1	100	1 044	1	100	290
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 570
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	721	700 500	100	721
Atlas Copco Reinsurance SA, Luxembourg	–	–	–	4 999	100	16
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	10 615	1 000	100	10 620
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	310	50 623 666	100	299
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 415	100	100	3 411
Dynapac Nordic AB, 556653-3658, Stockholm	–	–	–	1 000	100	19
Econus S A, Montevideo	21 582 605	100	17	21 582 605	100	17
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	32	150	100	31
Power Tools Distribution n.v., Hoeselt	1	0/100 <sup>1)</sup>	1	1	0/100 <sup>1)</sup>	1
16 dormant companies		100	33		100	33
Net investment hedge			42			–166
<b>Carrying amount, Dec. 31</b>			<b>93 004</b>			<b>92 903</b>

<sup>1)</sup> First figure; percentage held by Parent Company, second figure; percentage held by Atlas Copco Group.

## A22. Related parties

### Relationships

The Parent Company has related party relationships with its largest shareholder, its subsidiaries and its associates and with its Board members and Group Management.

The Parent Company's largest shareholder, Investor AB, controls approximately 22 % of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 60–63.

### Transactions and outstanding balances

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

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

The following table summarizes the Parent Company's transactions with Group companies:

	2013	2012
<b>Revenues</b>		
Dividends	10 227	1 004
Group contribution	4 074	6 150
Interest income	206	237
<b>Expenses</b>		
Group contribution	-259	-167
Interest expenses	-824	-1 013
<b>Receivables</b>	<b>6 304</b>	<b>7 515</b>
<b>Liabilities</b>	<b>40 454</b>	<b>43 109</b>
<b>Guarantees</b>	<b>7 570</b>	<b>365</b>

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)
<b>Algeria</b>	SPA Atlas Copco Algérie	Alger
<b>Angola</b>	Atlas Copco Angola Lda	Luanda
<b>Argentina</b>	Atlas Copco Argentina S.A.C.I	Buenos Aires
	Atlas Copco Servicios Mineros S.A.	Buenos Aires
<b>Australia</b>	Atlas Copco Australia Pty Limited	Blacktown
	Atlas Copco Customer Finance Australia Pty Limited	Blacktown
	Atlas Copco South Pacific Holdings Pty Ltd.	Blacktown
<b>Austria</b>	AGRE Kompressoren GmbH	Garsten-st. Ulrich
	Atlas Copco Ges.m.b.H.	Wien
	Atlas Copco Powercrusher GmbH	St. Valentin
<b>Bahrain</b>	Atlas Copco Services Middle East OMC	Bahrain
<b>Bangladesh</b>	Atlas Copco Bangladesh Ltd.	Dhaka
<b>Belgium</b>	Atlas Copco Airpower n.v.	Wilrijk
	Atlas Copco Business Services n.v.	Wilrijk
	Atlas Copco Belgium n.v.	Overijse
	Atlas Copco Finance Belgium BVBA	Wilrijk
	Atlas Copco Finance Europe n.v.	Wilrijk
	Atlas Copco Rental Europe n.v.	Wilrijk
	EDMAC Europe n.v.	Wilrijk
	International Compressor Distribution NV	Wilrijk
	Power Tools Distribution n.v.	Hoeselt
<b>Bolivia</b>	Atlas Copco Boliviana SA	La Paz
<b>Bosnia and Herzegovina</b>	Atlas Copco BH d.o.o.	Sarajevo
<b>Botswana</b>	Atlas Copco (Botswana) (Pty) Ltd.	Gaborone
<b>Brazil</b>	Atlas Copco Brasil Ltda	São Paulo
	Chicago Pneumatic Brasil Ltda	São Carlos
	Atlas Copco Construction Technique Brasil Ltda	São Paulo
	Schucker do Brasil Ltda	São José dos Pinais
	Synatec Group of South America Inc.	São Paulo
<b>Bulgaria</b>	Atlas Copco Bulgaria EOOD	Sofia
	Atlas Copco Lifton EOOD	Rouse
<b>Burkina Faso</b>	Atlas Copco Burkina Faso SARL	Ouagadougou

Country	Company	Location (City)
<b>Cameroon</b>	Atlas Copco Afrique Centrale SA	Douala
<b>Canada</b>	Atlas Copco Canada Inc.	Dorval
	Chicago Pneumatic Tool Co. Canada Ltd.	Toronto
<b>Chile</b>	Atlas Copco Chilena S.A.C.	Santiago
	Atlas Copco Customer Finance Chile Ltda	Santiago
<b>China</b>	Atlas Copco (China) Investment Co., Ltd.	Shanghai
	Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	Nanjing
	Atlas Copco (Shanghai) Equipment Rental Co., Ltd.	Shanghai
	Atlas Copco (Shanghai) Process Equipment Co., Ltd.	Shanghai
	Atlas Copco (Shanghai) Trading Co., Ltd.	Shanghai
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	Shenyang
	Atlas Copco (Wuxi) Compressor Co., Ltd.	Wuxi
	Atlas Copco (Wuxi) Exploration Equipment Ltd.	Wuxi
	Atlas Copco (Wuxi) Research and Development Center Co., Ltd.	Wuxi
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	Zhangjiakou City
	Bolaite (Shanghai) Compressor Co., Ltd.	Shanghai
	Dynapac (China) Compaction & Paving Eq Co., Ltd.	Tiajin
	Edmac (Shanghai) Trading Co., Ltd.	Shanghai
	Guangzhou Linghein Compressor Co., Ltd	Guangzhou
	Kunshan Q-Tech Air System Technologies Ltd.	Kunshan
	Liuzhou Tech Machinery Co., Ltd.	Liuzhou City
	SCA Schucker Automation Equipment (Shanghai) Co., Ltd.	Shanghai
	Shandong Rock Drilling Tools Co. Ltd.	Yanggu
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	Shanghai
	Shanghai Tooltec Industrial Tool Co., Ltd.	Shanghai

## A22. Related parties, continued

Country	Company	Location (City)	Country	Company	Location (City)
<b>China</b>	Atlas Copco Industrial Technique (Qingdao) Tool Co., Ltd.	Qingdao	<b>Hong Kong</b>	Atlas Copco China/Hong Kong Ltd.	Kowloon
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	Wuxi		CP China/Hong Kong Ltd.	Kowloon
	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd	Wuxi	<b>Hungary</b>	Atlas Copco Kft.	Budapest
<b>Colombia</b>	Atlas Copco Colombia Ltda	Bogotá	Industrial Technique Hungary Kft.	Budapest	
	Atlas Copco d.o.o.	Zagreb	Synatec Group of Eastern Europe Kft.	Budapest	
<b>Croatia</b>	Atlas Copco d.o.o.	Zagreb	<b>India</b>	Atlas Copco (India) Ltd.	Bombay
<b>Cyprus</b>	Atlas Copco (Cyprus) Ltd.	Nicosia	<b>Indonesia</b>	PT Atlas Copco Indonesia	Jakarta
<b>Czech Republic</b>	ALUP CZ spol. S.r.o	Breclav	PT Atlas Copco Nusantara	Jakarta	
	Atlas Copco s.r.o.	Praha	<b>Iraq</b>	Atlas Copco Iraq LLC	Erbil
<b>Democratic Republic of the Congo</b>	Atlas Copco DRC sprl	Lubumbashi	<b>Ireland</b>	Atlas Copco (Ireland) Ltd.	Dublin
	Atlas Copco Kompressor teknik A/S	Copenhagen	<b>Italy</b>	ABAC Aria Compressa S.p.A	Robassomero
<b>Denmark</b>	Gazcon A/S	Lynge	Atlas Copco BLM S.r.l.	Milan	
<b>Egypt</b>	Atlas Copco Equipment Egypt S.A.E.	Cairo	Atlas Copco Customer Finance Italia S.p.A	Milan	
<b>Finland</b>	Oy Atlas Copco Ab	Masaby	Atlas Copco Italia S.p.A.	Milan	
	Oy Atlas Copco Kompressorit Ab	Masaby	Atlas Copco Stonetec S.r.L	Bagnolo	
	Oy Atlas Copco Louhintateknikka Ab	Masaby	Ceccato Aria Compressa S.p.A.	Vicenza	
	Oy Atlas Copco Rotex Ab	Tammerfors	MultiAir Italia S.r.l.	Cinisello Balsamo	
	Oy Atlas Copco Tools Ab	Masaby	<b>Japan</b>	Atlas Copco KK	Tokyo
<b>France</b>	ABAC France S.A.S.	Valence	Fuji Industrial Technique Co., Ltd.	Osaka	
	Atlas Copco Applications Industrielles S.A.S.	Franconville	SCA Schucker Japan Co., Ltd.	Yokohama	
	Atlas Copco Compresseurs S.A.S	Franconville	<b>Kazakhstan</b>	Atlas Copco Central Asia LLP	Almaty
	Atlas Copco Crépelle S.A.S.	Lille	<b>Kenya</b>	Atlas Copco Eastern Africa Limited	Nairobi
	Atlas Copco Forage et Construction S.A.S.	Franconville	<b>Latvia</b>	Atlas Copco Baltic SIA	Riga
	Atlas Copco France Holding S.A.	Franconville	<b>Lebanon</b>	Atlas Copco Levant S.A.L.	Beirut
	Compresseurs Maugière S.A.S.	Sermamagny	<b>Luxembourg</b>	Atlas Copco Finance S.á.r.l.	Luxembourg
	Compresseurs Worthington Creyssensac S.A.S.	Meru	<b>Malaysia</b>	Atlas Copco (Malaysia) Sdn. Bhd.	Kuala Lumpur
	ETS Georges Renault S.A.S.	Nantes	<b>Mali</b>	Atlas Copco Mali Sarl	Bamako
	EXLAIR S.A.S.	Chereng	<b>Mexico</b>	Atlas Copco Mexicana S.A. de C.V.	Tlalnepantla
	Seti-Tec S.A.S.	Lognes	Atlas Copco Rental Mexico	Monterrey	
<b>Germany</b>	ALUP Kompressoren GmbH	Köngen	Desarrollos Tecnológicos ACMSA S.A. de C.V.	Tlalnepantla	
	Atlas Copco ACE GmbH	Essen	SCA Schucker de Mexico S.A. de C.V.	Puebla	
	Saltus Industrial Technique GmbH	Essen	<b>Mongolia</b>	Atlas Copco Mongolia LLC	Ulaanbaatar
	Atlas Copco Beteiligungs GmbH	Essen	<b>Morocco</b>	Atlas Copco Maroc SA	Casablanca
	Atlas Copco Construction Tools GmbH	Essen	<b>Mozambique</b>	Atlas Copco Mozambique	Maputo
	Atlas Copco Energas GmbH	Cologne	<b>Namibia</b>	Atlas Copco Namibia (Pty) Ltd.	Windhoek
	Atlas Copco Holding GmbH	Essen	<b>Netherlands</b>	ALUP Kompressoren B.V.	Nieuwegein
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	Essen	Atlas Copco Beheer B.V.	Zwijndrecht	
	Atlas Copco MCT GmbH	Essen	Atlas Copco Internationaal B.V.	Zwijndrecht	
	Atlas Copco Tools Central Europe GmbH	Essen	Atlas Copco Nederland B.V.	Zwijndrecht	
	Desoutter GmbH	Maintal	Cirmac International B.V.	Apeldoorn	
	Ekompak Kompressoren GmbH	Moers	Creemers Compressors B.V.	Eindhoven	
	Dynapac GmbH	Wardenburg	Grass-Air Compressoren B.V.	Oss	
	Dynapac Holding GmbH	Wardenburg	<b>New Zealand</b>	Atlas Copco (N.Z.) Ltd.	Lower Hutt
	IRMER + ELZE Kompressoren GmbH	Oyenhhausen	<b>Nigeria</b>	Atlas Copco Nigeria Ltd.	Abuja
	SCA Schucker GmbH & Co KG	Bretten	<b>Norway</b>	Atlas Copco Anlegg- og Gruveteknikk A/S	Langhus
	SCA Schucker Verwaltungs-GmbH	Bretten	Atlas Copco A/S	Langhus	
	Synatec GmbH	Leinfelden-Echterdingen	Atlas Copco Kompressor teknik A/S	Langhus	
	Synatec Electronic GmbH	Leinfelden-Echterdingen	Atlas Copco Tools A/S	Langhus	
	Datan Software & Analyse GmbH	Leinfelden-Echterdingen	Berema A/S	Langhus	
	Gefahard Industrie Electronic GmbH	Michelstadt	<b>Pakistan</b>	Atlas Copco Pakistan (Pvt) Ltd.	Lahore
	<b>Ghana</b>	Atlas Copco Ghana Ltd.	<b>Panama</b>	Atlas Copco Central América SA	Panama
	<b>Greece</b>	Atlas Copco Hellas AE	Atlas Copco Panama SA	Panama	
		<b>Peru</b>	Atlas Copco Peruana SA	Lima	
		<b>Philippines</b>	Atlas Copco (Philippines) Inc.	Binan	
		<b>Poland</b>	ALUP Kompressoren Polska sp. z o.o.	Warszawa	
			Atlas Copco Polska Sp. z o.o.	Warszawa	
		<b>Portugal</b>	Sociedade Atlas Copco de Portugal Lda	Lisbon	
		<b>Romania</b>	Atlas Copco Romania S.R.L.	Bucharest	

## A22. Related parties, continued

Country	Company	Location (City)	Country	Company	Location (City)
<b>Russia</b>	Ekopak Industrial	Moscow	<b>Uruguay</b>	Econus S A	Montevideo
	ZAO Atlas Copco	Moscow		<b>USA</b>	Atlas Copco Assembly Systems LLC
<b>Senegal</b>	Atlas Copco Senegal SARL	Dakar	Atlas Copco Compressors LLC		Rock Hill, SC
<b>Serbia</b>	Atlas Copco A.D.	Beograd	Atlas Copco Comptec LLC	Voorheesville, NY	
<b>Singapore</b>	ABAC DMS Air Compressors Pte. Ltd.	Singapore	Atlas Copco Construction Mining Technique USA LLC	Commerce City, CO	
	Atlas Copco (South East Asia) Pte. Ltd.	Singapore	Atlas Copco Customer Finance USA LLC	Parsippany, NJ	
	Fluidcon Services Pte. Ltd.	Singapore	Atlas Copco Drilling Solutions LLC	Garland, TX	
<b>Slovakia</b>	Atlas Copco Compressors Slovakia s.r.o	Trenčín	Atlas Copco Hurricane LLC	Franklin, IN	
	Industrial Technique s.r.o.	Bratislava	Atlas Copco Mafi-Trench Company LLC	Santa Maria, CA	
<b>Slovenia</b>	Atlas Copco d.o.o.	Trzin	Atlas Copco North America LLC	Parsippany, nj	
<b>South Africa</b>	Atlas Copco Holdings South Africa (Pty) Ltd.	Boksburg	Atlas Copco Rental LLC	Laporte, tx	
	Atlas Copco Investment Company (Pty) Ltd.	Johannesburg	Atlas Copco Secoroc LLC	Grand Prairie, TX	
	Atlas Copco South Africa (Pty) Ltd.	Boksburg	Atlas Copco Specialty Rental LLC	Humble, TX	
	ZAQ Coalfields Drilling Services (Pty) Ltd.	Middelburg	Atlas Copco Tools & Assembly Systems LLC	Auburn Hills, MI	
<b>South Korea</b>	Atlas Copco Mfg. Korea Co., Ltd.	Seoul	Atlas Copco USA Holdings Inc.	Parsippany, NJ	
	CP Tools Korea Co., Ltd.	Seoul	BeaconMedaes LLC	Rock hill, SC	
	SCA Korea Co., Ltd.	Gyunggi-do	Bond Acquisition LLC	Parsippany, NJ	
<b>Spain</b>	Aire Comprimido Industrial Iberia, S.L.	Pinto (Madrid)	Chicago Pneumatic International Inc.	Rock Hill, SC	
	Atlas Copco S.A.E.	Madrid	Chicago Pneumatic Tool Company LLC	Rock Hill, SC	
	Grupos Electrógenos Europa, S.A.	Zaragoza	Houston Service Industries	Houston, TX	
<b>Sweden</b>	Atlas Copco Compressor AB	Nacka	Quincy Compressor LLC	Bay Minette, AL	
	Atlas Copco Construction Tools AB	Kalmar	Pneumatic Holdings	Santa Fe Springs, CA	
	Atlas Copco Craelius AB	Märsta	<b>Uzbekistan</b>	Atlas Copco Compressors and Mining Technique LLC	Tashkent
	Atlas Copco Customer Finance AB	Nacka		<b>Venezuela</b>	Atlas Copco Venezuela SA
	Atlas Copco Dynapac AB	Nacka	<b>Vietnam</b>		Atlas Copco Vietnam Company Ltd.
	Atlas Copco GIA AB	Grängesberg	<b>Zambia</b>	Atlas Copco (Zambia) Ltd.	Chingola
	Atlas Copco Industrial Technique AB	Nacka	<b>Zimbabwe</b>	Atlas Copco Zimbabwe (Private) Ltd.	Harare
	Atlas Copco Järila Holding AB	Nacka			
	Atlas Copco Lugnet Treasury AB	Nacka			
	Atlas Copco Rock Drills AB	Örebro			
	Atlas Copco Secoroc AB	Fagersta			
	Atlas Copco Sickla Holding AB	Nacka			
	Chicago Pneumatic Construction Equipment AB	Nacka			
	Dynapac Compaction Equipment AB	Karlskrona			
	Dynapac International AB	Malmö			
	Industria Försäkringsaktiebolag	Nacka			
<b>Switzerland</b>	Atlas Copco (Schweiz) AG	Studen			
	Servatechnik AG	Oftringen			
<b>Taiwan</b>	Atlas Copco Taiwan Ltd.	Taipei			
<b>Tanzania</b>	Atlas Copco Tanzania Limited	Geita			
<b>Thailand</b>	Atlas Copco (Thailand) Limited	Bangkok			
<b>Turkey</b>	Atlas Copco Makinalari Imalat AS	Istanbul			
	Eko Teknik Endüstriyel	Istanbul			
	Ekopak Endüstriyel	Istanbul			
	Ekoser Endüstriyel	Istanbul			
	Scanrotor Otomotiv Ticaret A.S.	Istanbul			
<b>Ukraine</b>	LLC Atlas Copco Ukraine	Kiev			
<b>United Arab Emirates</b>	Atlas Copco Middle East FZE	Jebel Ali free zone, Dubai			
	Atlas Copco Services Middle East SPC	Abu Dhabi			
<b>United Kingdom</b>	Air Compressors and Tools Ltd.	Hemel Hempstead			
	Atlas Copco Ltd.	Hemel Hempstead			
	Atlas Copco UK Holdings Ltd.	Hemel Hempstead			
	Atlas Copco (NI) Ltd.	Lisburn			
	Medaes Limited	Staveley			
	SCA Schucker UK Ltd.	Didcot			
	Tentec Ltd.	Birmingham			

# SIGNATURES OF THE BOARD OF DIRECTORS

The Parent Company financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, March 4, 2014

Sune Carlsson  
*Chair*

Hans Stråberg  
*Vice Chair*

Ronnie Leten  
*President and CEO*

Ulla Litzén  
*Board Member*

Anders Ullberg  
*Board Member*

Staffan Bohman  
*Board Member*

Margareth Øvrum  
*Board Member*

Johan Forssell  
*Board Member*

Gunilla Nordström  
*Board Member*

Peter Wallenberg Jr  
*Board Member*

Bengt Lindgren  
*Union representative*

Mikael Bergstedt  
*Union representative*

Our audit report was submitted on March 4, 2014  
Deloitte AB

Jan Berntsson  
*Authorized Public Accountant*

Atlas Copco AB is required to publish information included in this annual report in accordance with the Swedish Securities Market Act. The information was made public on March 13, 2014.

# AUDIT REPORT

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

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year 2013, except for the corporate governance statement on pages 56–65. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 14–47 and 56–122.

## Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President 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.

## Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

## Opinions

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 2013 and of its financial performance and its cash flows 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 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 56–65.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Atlas Copco AB for the financial year 2013. We have also conducted a statutory examination of the corporate governance report.

## Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act and that the corporate governance report has been prepared in accordance with the Annual Accounts Act.

## Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Furthermore, we have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance report 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.

## Opinions

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

A corporate governance report has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Nacka, March 4, 2014

Deloitte AB

Jan Berntsson  
Authorized Public Accountant

# FINANCIAL DEFINITIONS

## **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.

## **Interest coverage ratio**

Profit before tax plus interest paid and foreign exchange differences divided by interest paid and foreign exchange differences.

## **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 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.

## **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.

## **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%.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE <sup>1)</sup>

The environmental, social and governance information has been subject to external assurance in 2012 and 2013. This can to some extent influence comparisons between these years' and previous years' performance.

Economic value	Note	2009	2010	2011	2012	2013	Change, %
<i>Direct economic value</i>							
Revenues <sup>2)</sup>		65 374	70 490	82 274	91 417	84 803	-7
<i>Economic value distributed</i>							
Operating costs <sup>3)</sup>		41 593	41 466	48 032	53 635	49 079	-8
Employee wages and benefits, including other social costs		13 339	14 699	15 910	18 108	18 274	1
Costs for providers of capital <sup>4)</sup>		5 819	4 489	5 913	7 182	7 853	9
Costs for direct taxes to governments		2 095	3 619	3 902	4 377	4 286	-2
Economic value retained		2 528	6 217	8 517	8 115	5 311	-35
- Redemption of shares		-	-	6 067	-	-	
- Repurchase of own shares		-	-	-	-	-	

Environmental performance (production units and distribution centers)	Note	2009	2010	2011	2012	2013	Goal <sup>5)</sup>
Material* use in '000 tonnes (iron and steel)	3	104	141	135	142	138	N/a ●
Packaging material '000 tonnes	3	26	30	35	36	35	N/a ●
Direct energy use in GWh <sup>6)</sup>	3	101	116	132	140	136	N/a ●
Indirect energy use in GWh <sup>6)</sup>	3	251	287	305	301	304	N/a ●
Total energy use in GWh	3	352	403	437	441	440	N/a ●
Water consumption in '000 m <sup>3</sup>		523	464	619	623	714	+/-0/COS <sup>7)</sup> ●
CO <sub>2</sub> emissions '000 tonnes (direct energy) – scope 1**		21	24	28	29	29	-20%/COS (2020) <sup>7)</sup> ●
CO <sub>2</sub> emissions '000 tonnes (indirect energy) – scope 2**		78	88	98	76	80	-20%/COS (2020) <sup>7)</sup> ●
CO <sub>2</sub> emissions '000 tonnes (total energy) – scope 1+2**		99	112	126	105	109	-20%/COS (2020) <sup>7)</sup> ●
CO <sub>2</sub> emissions '000 tonnes (transport) – scope 3**		206	194	214	227	200	-20%/COS (2020) <sup>7)</sup> ●
Waste in '000 tonnes	3	27	34	34	39	41	Reuse or recycle all waste ●
Proportion of reused or recycled waste, %	3	87	88	95	92	93	100 ●
ISO 14001 certification, % of cost of sales <sup>7)</sup>		95	97	95	94	97	100 ●
ISO 14001 certification, % employees					88	91	100 ●

Social performance, employees, health and safety	Note	2009	2010	2011	2012	2013	Goal <sup>5)</sup>
White-collar employees, %	4	67	61	62	62	63	N/a
Blue-collar employees, %	4	33	39	38	38	37	N/a
Employee turnover white-collar employees, %	4	10.0	7.0	7.4	7.4	7.4	N/a
Employee turnover blue-collar employees, %	4			7.7	9.2	9.5	N/a
Internal mobility, %	4			9.3	8.2	7.7	Encourage ●
Work-related accidents, number	5	652	561	370	391	415	0 ●
Work-related accidents, number per one million working hours	5	11.4	9.3	5.7	5.4	5.4	0 ●
Lost days due to accidents, number per one million working hours	5			101	104	140	0 ●
Work-related incidents, number per one million working hours	5			22.8	23.4	21.0	N/a ●
Fatalities	5	2	0	1	3	0	0 ●
Sick leave due to diseases, %		2.1	2.1	2.0	2.1	2.0	<2.5 ●
Sick leave due to diseases and accidents, %				2.1	2.2	2.1	<2.5 ●
Training, average number of hours per employee		34	40	45	42	40	N/a ●
Training, average number of hours, white-collar employees		36	44	48	42	41	N/a ●
Training, average number of hours, blue-collar employees		30	34	41	42	39	N/a ●
Appraisal, %		67	74	84	83	82	100 ●
Proportion of women employees, %		17.7	16.3	16.8	16.9	16.8	Increase ●
Proportion of women managers, %		13.6	13.5	14.6	15.1	16.2	Increase ●
Nationalities among senior managers, number	4	39	40	44	49	52	Increase ●
OHSAS 18001 certification, % of cost of sales <sup>7)</sup>			61	67	72	89	100 ●
OHSAS 18001 certification, % employees					69	85	100 ●

Governance performance	Note	2009	2010	2011	2012	2013	Goal <sup>5)</sup>
Significant suppliers committed to the Business Code of Practice, %	6			N/a	N/a	72	100 ●
ISO 9001 certification, % of cost of sales					88	93	100 ●
Reports to hotline, number	7		20	25	39	47	Encourage ●

● Positive trend / goal achieved    ● Neutral    ● Negative trend / goal not achieved

See footnotes on next page

# NOTES TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE

## 1. Reporting principles of the environmental, social and governance performance

Since 2001, the report has been prepared yearly in accordance with the Global Reporting Initiative (GRI) guidelines. Since 2006 the report has followed the GRI 3.0 version guidelines. The most recent sustainability report was published in March 2013 as part of the annual report 2012.

This report is also Atlas Copco's Communication on Progress (COP), a report on performance in relation to the UN Global Compact's ten principles. It can be found at [www.atlascopco.com/ir](http://www.atlascopco.com/ir) and on UN Global Compact's website at [unglobalcompact.org/COP](http://unglobalcompact.org/COP).

Atlas Copco adheres to the following internationally recognized voluntary standards and principles:

- UN Global Compact. As a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.
- Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. The guidelines (G3) include an internationally recognized set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance. Atlas Copco's reporting according to the reporting principles and guidance, including required disclosures, can be found at [www.atlascopco.com/ir](http://www.atlascopco.com/ir).

### Reporting data collection and reporting

The sustainability report and the corporate governance report are integrated in the 2013 annual report. Sustainability information in the annual report is primarily presented on pages 3–5, 10–13, 40–53 and 125–131, and in the GRI Compliance Index. Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. Reported values are not corrected retroactively. Environmental data covers production units and distribution centers. Business partner data covers production units and employee data covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

The reporting of greenhouse gas emissions is done in accordance with the Greenhouse Gas Reporting (GHG) protocol, [www.ghgprotocol.org](http://www.ghgprotocol.org). The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline of CO<sub>2</sub> emissions from transport.

### Scope

The Annual Report includes information regarding all three aspects of the Group's strategy i.e. where Atlas Copco has a significant economic, environmental and social impact. The report covers Atlas Copco's operations for the fiscal year 2013, unless otherwise stated. Operations divested during the year are excluded; units that were acquired are included. This may at times

cause major changes in reported performance. Limitations and reporting principles as well as any restatement of the reporting are explained in the relevant section of the report. For the reporting period of 2013 all publicly disclosed sustainability information can be found in the publication Atlas Copco's annual report 2013, except for the GRI Compliance Index, which is available on the Atlas Copco website, [www.atlascopco.com/ir](http://www.atlascopco.com/ir).

Atlas Copco's annual report 2013 includes a general overview of the Group's environmental situation in accordance with the requirements of Swedish legislation regarding environmental information in the Board of Director's Report. In addition, environmental and social information has been integrated into the annual report where appropriate in order to provide a more complete picture of the Group. In addition, Atlas Copco reports with reference to the content elements and guiding principles of the Inaugural Integrated Reporting Framework developed by the International Integrated Reporting Council.

The reason for integrating the sustainability information in the annual report is to provide investors and stakeholders with a relatively complete and easily accessible overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing shareholder value.

### Materiality

The GRI core indicators reported and analyzed are those that are understood to be relevant and material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense. Key issues are identified through ongoing stakeholder engagement and are addressed by programs or action plans with clear measurable targets.

### Stakeholder dialogue

As a global Group, it's vital for Atlas Copco to ensure accountability for its actual and potential impact on its stakeholders. In discussions with for example NGO's, GO's and other influencers, it takes advice and/or learns from listening to their views. In 2013, one formal stakeholder dialogue was conducted with major shareholders, with the participation of members of Group management. Other stakeholder dialogues are conducted at different levels in the Group. Major issues are collected and form the basis for development of strategic responses to challenges. One result from stakeholder influence is that the report integrates financial, environmental and social aspects in the annual report.

### Review/audit

Atlas Copco has self-declared the report to be GRI B+ level compliant. The report covers all Profile Disclosures, all Disclosures on Management Approach and at least 20 Performance Indicators. The annual report has been reviewed and approved by Atlas Copco's Group Management and the Atlas Copco Board. The sustainability information in the annual report 2013 has been subject to limited assurance by Deloitte.

### Footnotes to page 125

- <sup>1)</sup> Calculations according to GRI Guidelines, [www.globalreporting.org](http://www.globalreporting.org). Changes reflect both changes in volume, consumption and an increase in the number of reporting units.
  - <sup>2)</sup> Revenues include revenues, other operating income, financial income, profit from divested companies and share of profit in associated companies.
  - <sup>3)</sup> Operating costs include cost of sales, marketing expenses, administration expenses, research and development expenses, other operating expenses, deducted for employee wages and benefits.
  - <sup>4)</sup> Costs for providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.
  - <sup>5)</sup> Goal base year is 2010.
  - <sup>6)</sup> Direct and indirect energy is reported in detail on the Atlas Copco website: [www.atlascopco.com/corporateresponsibility](http://www.atlascopco.com/corporateresponsibility).
  - <sup>7)</sup> Cost of sales (COS) in relation to ISO includes production units, while COS in other cases includes the entire Group. COS when presented in relation to sustainability information refers to cost of sales at standard cost.
- \* The finished products include parts or components which are not accounted for.  
 \*\* Standardized conversion factors published by the Greenhouse Gas Protocol Initiative are used to calculate CO<sub>2</sub> emissions, see [www.ghgprotocol.org](http://www.ghgprotocol.org).

## 1. Reporting principles of the environmental, social and governance performance, continued

### Additional ESG Disclosure

In addition to producing an integrated report, Atlas Copco also discloses its environmental, social and governance performance to investors through questionnaires and interviews with analysts. This disclosure is in line with the contents published in the annual report.

Atlas Copco applies for inclusion in a select few, reputable and internationally established sustainability focused indices such as the FTSE4Good and the RobecoSAM Dow Jones Sustainability Index.

The CDP is an international non-profit organization that provides self-reported climate change, water and forest risk data to investors representing USD 87 trillion in assets. In 2013, the CDP began its collaboration with the Dow Jones Sustainability Index to streamline the environmental disclosure component. The scoring is out of a maximum of 100 with A being the highest grade for disclosure, the top scoring companies are included in the Carbon Disclosure Leadership Index (CDLI)

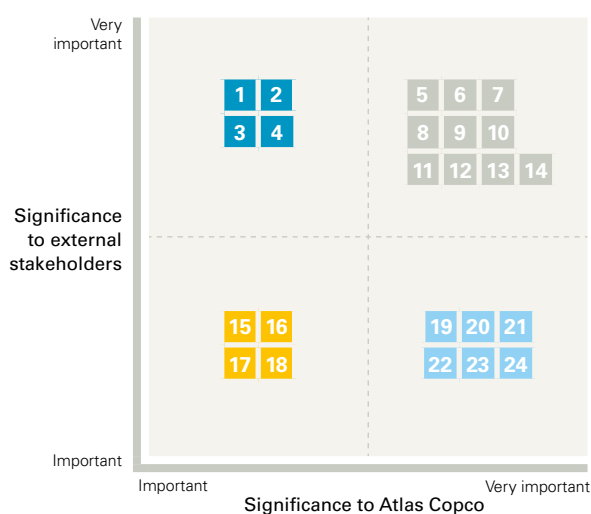
In addition to this, the CDP allows participating companies to request emissions data from select suppliers. In 2013, the CDP Supply Chain questionnaire was sent by the CDP on the behalf of 65 companies representing USD 1 trillion in purchasing spend. PwC Global analyzed the responses collected.

Index/Ranking/List	Atlas Copco Score	Remarks
CDP Investor	93 B	Nordic CDLI
CDP Supply Chain	93	N/a
DJSI		Included in index
FTSE4Good	96/100	ESG Sector Leader
Ethisphere WME	N/a	Included in list

## 2. Materiality

Atlas Copco takes inspiration from the GRI criteria for materiality to ensure that the annual report addresses all the sustainability issues that impact or are influenced by the Group's operations. The materiality analysis identifies relevant indicators that present significant risks or opportunities to the Group, and whether their impact can be reasonably estimated through reliable and sound investigative methods. Indicators which do not qualify on all accounts are regarded as immaterial and not reported. The remaining material indicators are prioritized based on their relevance to internal and external stakeholders. The issues that have the greatest relevance to both stakeholder groups and deemed business critical are included in the annual report. Other material issues with less priority are published on the Atlas Copco website, [www.atlascopco.com/corporateresponsibility](http://www.atlascopco.com/corporateresponsibility).

The result from stakeholder dialogues is illustrated in the materiality matrix below and reflected in this report.



- 1 Supply chain management and responsible sourcing
- 2 Water risk management
- 3 Climate change impact
- 4 Employer/employee relations
- 5 Operating margin
- 6 Energy and resource consumption/efficiency
- 7 Product innovation
- 8 Marketing of sustainable products and solutions
- 9 Hazardous substances in products and components
- 10 Reduce emissions to air and water
- 11 Corruption or bribery
- 12 Safety and health
- 13 Shared value/economic value added
- 14 Operational excellence
- 15 Transparent communication
- 16 Waste reuse and recovery
- 17 Sustainable construction
- 18 Public Policy and lobbying
- 19 Corporate governance
- 20 Risk and crisis management
- 21 Human rights/diversity
- 22 Investments and acquisitions
- 23 Community engagement
- 24 Talent attraction, retention and development

### 3. Environmental impact <sup>1)</sup>

The major part of the Group's environmental impact from operations comes from the materials and energy consumed as part of the production and the waste resulting from these operations. The resource use follows to a great extent the business development for example regarding the use of steel. Atlas Copco strives to reduce the carbon dioxide emissions from operations. As a result of corrected reporting and efforts taken within this area, the share of indirect energy originating from renewable sources slightly increased in 2013.

The waste increased both in total volumes and in relation to cost of sales. This was largely influenced by a recent acquisition and also the generation of more metal scrap waste. A decline in the business also affected the cost of goods sold. All of the metal scrap is being recycled.

Material use	2013
Material use <sup>2)</sup> in tonnes (iron and steel)	138 266
Aluminum	1 114
Rubber	478
Hydrocarbons	1 864
Volatile organic compounds	291
Gas	4 501

<sup>1)</sup> Production units and distribution centers.

<sup>2)</sup> The finished products include parts or components which are not accounted for.

Energy consumption*, %	2013
Direct energy, renewable	0
Direct energy, non-renewable	31
Indirect energy, renewable	37
Indirect energy, non-renewable	32

\* Direct energy is defined as purchased and consumed fuel for own production; this includes oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example energy required to produce and deliver purchased electricity and district heating.

Waste disposal, tonnes and (%)*	2013
Energy recovery	7 636 (19)
Material reuse	1 069 (3)
Material recycling	28 974 (71)
Landfill	2 868 (7)

\* Of which regulated or hazardous waste 4 827 tonnes.

Atlas Copco follows applicable environmental laws in all countries where the Group operates. Incidents or fines are reported for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages. In 2013, there were no major incidents reported concerning these aspects.

Five Swedish companies require permits based on Swedish environmental regulations. These operations account for approximately 20% of the Group's manufacturing and mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. The Group has been granted all permits needed to conduct its business and none were under revision in 2013. No penalties relating to environmental permits have been imposed during 2013.

#### Environmental management systems

To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has a target to implement environmental management systems (EMS) in all operations. All product companies should be certified according to ISO 14001 in order to manage and reduce their environmental impact. Acquired product companies are normally certified within a two-year period. In 2013, the proportion of product companies with ISO 14001-certification represents 97% of cost of sales and 91% of their employees.

### 4. Employees

The internal database *The Way We Do Things* gives employees information on the Group's people management process, including guidance on recruitment, compensation, performance reviews and competence development.

#### Employee satisfaction surveys

Atlas Copco conducts a Group employee survey at least every second year, the most recent one was carried out in 2012. In 2013, local management has been following up on areas identified for improvement and holding employee workshops to improve weaknesses and capitalize on strengths.

#### Wages and benefits

Atlas Copco's aim is to provide wages and benefits that are fair, consistent and competitive, and in line with industry standards, in order to attract and retain the best people. A fair salary structure is determined through a classification system based on a specific compensation level for each position, and is benchmarked against similar companies using the same system. For temporary employees, benefits provided are in line with national laws and regulations. This is also valid regarding minimum wages and the minimum notice period in cases of operational changes.

#### 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, 50% of all employees work in marketing, sales or service.

Geographical spread of employees, %	Employees	Nationality of senior managers
North America	14	9
South America	8	4
Europe	42	69
Africa/Middle East	7	6
Asia/Australia	29	12
<b>Total</b>	<b>100</b>	<b>100</b>

Employees by professional category, %	2013
Production	28
Marketing	8
Sales and support	13
Service	29
Administration	16
Research & development	6
<b>Total</b>	<b>100</b>

### 5. Safety and health

Atlas Copco has a focused work on safety. The number of accidents increased to 415 (391). Improved reporting from Asia and Africa partially explains the increased number of accidents. The relative number of accidents stayed the same at 5.4 (5.4) per one million working hours. The number of incidents decreased to 1 620 (1 710). Atlas Copco will continue to focus on improving the reporting and take action to reduce the number of accidents and incidents within the Group.

Geographical spread of incidents and accidents, %	Work-related incidents	Work-related accidents
North America	13	13
South America	3	9
Europe	70	55
Africa/Middle East	4	9
Asia/Australia	10	14
<b>Total</b>	<b>100</b>	<b>100</b>

## 6. Business partners

Business partner	Role in value chain	Primary responsible for risk management and compliance
Suppliers, subcontractors	Provide key parts as well as manufacturing services	Purchasing councils
Joint ventures	Partly owned companies that provide complementary products and services	Legal department and local managers
Agents, distributors	Sell and distribute products to customers on the Group's behalf	Marketing councils

Supply chain management process: Suppliers are evaluated during and after selection by product companies, primarily by personnel in the Purchasing function. Internal training on how to carry out supplier evaluations is published in the Group database *The Way We Do Things*. The supplier evaluation process examines:

- Business partners' record of governance, ethics and stance against corruption
- Labor issues: Rejection of forced, compulsory or child labor, elimination of discrimination, safeguarding employee health and safety, collective bargaining rights
- Environmental performance: Managing waste, minimizing emissions, reducing consumption of natural resources
- Human rights issues: Responsible sourcing and respect for human rights in operations

At times self-assessment checklists are sent to suppliers and on-site evaluations are conducted either at regular intervals or when deemed necessary. These result in a report with concrete suggestions in the form of an action plan or improvement to be followed up on at an agreed time. Atlas Copco can provide experience and know-how to suppliers who require support in order to comply with the minimum standards set forth in the 10 criteria checklist; however suppliers who fail to meet red-flag criteria (such as zero-tolerance of corruption) or do not show a willingness to improve are rejected. Supplier evaluations regarding safety, health, social and environment aspects including objective factors such as quality and financial data are performed throughout the Group.

**Definition of significant supplier for reporting:** All external suppliers of goods and services, direct and indirect, with a purchasing value above a set threshold, based on 12 month values from October prior year to September current year. For suppliers in high risk countries listed below, suppliers are determined to be significant based on a significantly lower purchasing threshold (approximately 13% of set value) and are reported.

**High Risk Countries:** Angola, Bolivia, China, Colombia, Democratic Republic of Congo, Indonesia, Iran, Nigeria, Russia, Saudi Arabia, Uzbekistan, Zimbabwe. These countries are identified as having a heightened risk of human rights violations or corruption based on risk mapping provided by Amnesty International and Transparency International in 2011. The adaptation of the definition has resulted in a lower number of significant suppliers in 2013 compared to previous years.

Supplier's commitment	2013	Goal
Significant suppliers, number	4 070	N/a
Safety, health and social (SHS) and environment evaluated suppliers <sup>1)</sup> , %	16	N/a
Approved suppliers (no need to follow up), %	90	N/a
Conditionally approved suppliers (monitored), %	9	N/a
Rejected suppliers (relationship ended) <sup>2)</sup> , %	1	N/a
Suppliers asked on commitment to the Business Code of Practice, number	3 315	N/a
Significant suppliers that have confirmed their commitment to the Code, %	72	100

<sup>1)</sup> Evaluations or audits are conducted by Atlas Copco teams directly at the suppliers' sites.

<sup>2)</sup> Reasons for rejection include for example safety in the workplace, personal protection for workers and no fulfillment of environmental laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep any black lists of its business partners.

## 6. Business partners, continued

### Prohibited or restricted substances

Atlas Copco maintains lists of substances which are either prohibited or restricted due to their potential negative impact on health or the environment. Prohibited substances are not allowed in the Group's products or processes. Restricted substances are not yet legally excluded for use but should be replaced according to a plan that takes into account technical and financial aspects. Suppliers' use of such substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with approved alternatives. The lists are continuously revised according to applicable legislation, including REACH. The lists on prohibited and restricted substances are published on the Atlas Copco website.

## 7. Governance

Atlas Copco's hotline is the Group's whistleblower function of the Business Code of Practice. The Group is positive to receiving reports through the hotline since it provides the possibility to act on potential misconduct to the Business Code of Practice. During the year the hotline has been promoted globally among employees and business partners.

Reported potential violations, number	2013
Fraud	10
Labor relations	23
Corruption	8
Discrimination	4
Other (personal, organizational issues)	2
<b>Total</b>	<b>47</b>

Seven cases are still under investigation, of which three are related to fraud, three to labor relations and one to corruption. Cases of fraud and labor relations were substantiated in three cases and led to disciplinary actions such as dismissal or are pending legal proceedings. The alleged cases of discrimination were not substantiated and closed after investigation. There have been no other instances of anti-competitive behavior brought to the attention of Group management. No fines related to the hotline have been paid during the year.

## 8. Public policy

Atlas Copco belongs to trade organizations such as The Association of Swedish Engineering Industries, the Federation for the Technology Industry in Belgium, the Compressed Air and Gas Institute in the United States, the German Engineering Federation, and many others. Since 1959, Atlas Copco has been actively involved in Pneurop, the European committee of manufacturers of compressors, vacuum pumps, pneumatic tools and allied equipment. Pneurop acts on behalf of members in European and international forums regarding the harmonization of technical, normative and legislative development.

Atlas Copco is a member of the Committee for the European Construction Equipment Industry (CECE) which works, for example, in removing technical barriers and improving safety standards and environmental aspects of construction equipment. In addition, the company participates in ongoing development of international standards, including the ISO committee ISO/TC 118 and the CEN committee CEN 232.

The Atlas Copco Group does not take political stands and does not use Group funds or assets to support political campaigns or candidates, or otherwise provides services to political endeavors. Atlas Copco does not receive any significant assistance from governments.

## 9. Human rights

### Commitment to human rights

Atlas Copco's central guiding policy is the Business Code of Practice which was updated in 2012 to support the United Nations International Bill of Human Rights. Atlas Copco is also a signatory of the UN Global Compact and is committed to working with the ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. The Atlas Copco Business Code also supports the International Labour Organization Declaration on Fundamental Principles and Rights at Work, as well as the OECD's Guidelines for Multinational Enterprises. In 2011, Atlas Copco took on the commitment to protect, respect and provide access to remedy with regards to human rights as proposed in the UN Guiding Principles on Business and Human Rights. In accordance with requirements of the framework, Atlas Copco has:

- **Policy commitment:** The Business Code of Practice is the central policy document, based on which Atlas Copco has a public human rights statement. This can be found on the website.
- **Human Rights due diligence:** An ongoing process to identify, prevent, mitigate and account for the human rights impacts related to Atlas Copco's business or business relations.
- **Access to remedy:** The Atlas Copco Hotline can be used to report perceived human rights violations and in cases where the stakeholder(s) or employee(s) are not satisfied with the solution provided by the Ethical Hotline, Atlas Copco will provide for mediation at the Stockholm Chamber of Commerce Arbitration Institute.

### Integrating the rights of children, women and special vulnerable groups

Atlas Copco strives to be inclusive in its human rights work to ensure that the rights of vulnerable groups such as children or minorities are covered by policies and processes. The Group works to integrate this into the broader human rights approach, and assess the direct and indirect impacts the business can have on relevant groups.

### Atlas Copco's Human Rights approach

Working with human rights is a continuous process of learning, development and implementation. Atlas Copco strives to work with issues within its scope across the value chain. Atlas Copco does not view human rights as an isolated issue, but rather a cross-connected issue which can be impacted by working with corruption and environmental issues according to the Business Code of Practice. The Group strives to work with its commitment to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business processes. Further details can be found in the Society, Business Partner and Employee sections of the report.

In the end of 2013, Atlas Copco set up an interdisciplinary Human Rights and Ethics Steering Committee which reports to the Compliance Board. The members of the Steering committee also overlap partially with the Safety, Health, Environment, and Quality Council. The Compliance Board contains two members of the Group Management. The steering committee will begin work in 2014 to address issues such as training needs, impact assessment and Atlas Copco's work with the Guiding Principles. The committee strives to work with an internal and external reference panel which has not yet been finalized.

### Conflict minerals

Atlas Copco is a supplier to customers required to report on the Dodd Frank Act, section 1502 in the United States. In 2013, all business areas began working with the standard template developed in joint collaboration by the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI) to map the minerals and sourcing processes used by tier 1 suppliers.

Issues	Activities in 2013	Planned for 2014
Potential distribution (direct and indirect sales) of Atlas Copco products in projects violating human rights in non-self-governing and/or occupied territories	<p>Internal Audit conducted to assess risks and evaluate current processes.</p> <p>Action plan developed with local management to train and monitor distributors and to prevent future sales to such projects.</p> <p>Interdisciplinary human rights and ethics committee formed to proactively monitor and address issues throughout the value chain.</p>	<p>Group Management to approve guidelines focused on conflict-affected regions and complex markets.</p> <p>Follow up with local managers on action plan.</p> <p>Public-private partnerships to be developed to provide local management with adequate support and insight on managing human rights risks.</p>
Potential distribution (indirect sales) of Atlas Copco products in conflict-affected regions: specifically Sudan	Dialogue with EIRIS Conflict Network regarding distribution of products in Sudan with the conclusion that Atlas Copco is classified as "Substantial Action," which means investors following the targeted Sudan legislative model do not need to take divestment measures.	Continue humanitarian efforts in Sudan through Water for All projects and conduct a third-party evaluation to certify that project is substantial in relationship to Atlas Copco's "Sudan Business Operations".

## 10. Taxes

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Atlas Copco strives to be a good and reliable corporate citizen, observing the spirit as well as the letter of the laws of the countries in which the Group operates. The Group recognizes the key role that tax plays in the area of advancing economic development, but also considers it vital to combat corruption and support environmentally sound business practices in order to create the most value for society. Atlas Copco acts in accordance with all applicable laws and are at all times guided by relevant international standards, chiefly the OECD and UN guidelines. Atlas Copco believes in good corporate practice in the area of tax management, balancing the interests of various stakeholders, including customers, investors and the governments and communities in the countries in which the Group operates. See note 10 of the financial notes for the details of taxes paid, reported according to the international accounting standards.

### **Opinion on disclosing tax by country**

Atlas Copco has been in dialogue with investors, NGOs and peers regarding the disclosure or tax per country. At present there is no international standard for reporting taxes paid by country and therefore the resulting data is not comparable between different companies. Atlas Copco is not opposed to report tax paid by country if guidelines are broadened to apply to all companies in the industry so that the data is comparable and can be analyzed fairly.

### **Presence in countries classified as tax-havens**

Atlas Copco has companies in over 90 countries. Sometimes these companies are in countries that can be classified as tax havens, such as Panama. However, the reason for Atlas Copco's presence in these markets is that the Group has customers with ongoing projects, such as expanding the Panama Canal.

# AUDITOR'S LIMITED ASSURANCE REPORT ON ATLAS COPCO AB'S SUSTAINABILITY REPORT

To the readers of Atlas Copco AB's Sustainability Report

## Introduction

We have been engaged by the Board of Directors and the President of Atlas Copco AB to undertake a limited assurance engagement of the Atlas Copco AB Sustainability Report for the year 2013. The company has defined the scope of the Sustainability Report on page 126.

## Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for ongoing activities regarding the environment, health & safety, quality, social responsibility and sustainable development, and for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria, as explained on page 126 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines G3, published by The Global Reporting Initiative (GRI), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed and disclosed.

## Responsibilities of the auditor

Our responsibility is to express a limited assurance conclusion on the Sustainability Report based on the procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited

assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express a reasonable assurance opinion.

The criteria on which our procedures are based are the parts of the Sustainability Reporting Guidelines G3, published by The Global Reporting Initiative (GRI), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed and disclosed. These criteria are presented on page 126. We consider these criteria suitable for the preparation of the Sustainability Report.

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

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the above stated criteria.

Nacka, March 4, 2014  
Deloitte AB

Jan Berntsson  
*Authorized Public Accountant*

Lennart Nordqvist  
*Expert Member of FAR*



# FIVE YEARS IN SUMMARY

MSEK	2009	2010	2011	2012	2013	Average growth, five years
<b>Orders, revenues and profit</b>						
Orders	58 451	75 178	86 955	90 570	81 290	2.0%
Revenues	63 762	69 875	81 203	90 533	83 888	2.5%
Change, organic from volume and price, %	-22	12	22	9	-4	
EBITDA	11 560	16 413	20 082	21 930	19 759	4.5%
EBITDA margin, %	18.1	23.5	24.7	24.2	23.6	
Operating profit	9 090	13 915	17 560	19 266	17 056	4.3%
Operating profit margin, %	14.3	19.9	21.6	21.3	20.3	
Net interest expense	-808	-423	-506	-658	-730	
Profit before tax	8 271	13 495	17 276	18 562	16 266	4.4%
Profit margin, %	13.0	19.3	21.3	20.5	19.4	
Profit for the year	6 276	9 944	12 988	13 933	12 082	3.5%
<b>Employees</b>						
Average number of employees	31 085	31 214	35 131	39 113	40 159	
Revenues per employee, SEK thousands	2 051	2 239	2 311	2 315	2 089	
<b>Cash flow<sup>1)</sup></b>						
Operating cash surplus	11 434	16 673	19 906	21 583	19 205	
Cash flow before change in working capital	7 889	12 555	14 536	15 819	13 426	
Change in working capital	6 715	-1 730	-6 115	-1 366	-538	
Cash flow from investing activities	-1 014	-2 818	-4 335	-2 732	-4 472	
Gross investments in other property, plant and equipment	-954	-868	-1 728	-1 672	-1 255	
Gross investments in rental equipment <sup>1)</sup>	-769	-825	-1 332	-1 299	-1 456	
Net investments in rental equipment <sup>1)</sup>	-212	-345	-788	-749	-1 021	
Cash flow from financing activities	-6 804	-4 740	-12 735	-4 204	-2 535	
of which dividends paid <sup>2)</sup>	-3 652	-3 650	-10 920	-6 070	-6 669	
Operating cash flow	13 761	9 698	6 292	12 286	9 931	
<b>Financial position and return</b>						
Total assets	67 874	71 622	75 109	80 794	87 891	
Capital turnover ratio	0.89	1.02	1.14	1.15	0.98	
Capital employed	53 160	50 006	49 086	54 354	62 683	
Capital employed turnover ratio	1.20	1.40	1.65	1.67	1.34	
Return on capital employed, %	17.7	28.6	37.2	35.9	27.8	
Net indebtedness	10 906	5 510	14 194	9 262	7 504	
Net debt/EBITDA	0.94	0.34	0.71	0.42	0.38	
Interest coverage ratio	8.2	18.1	18.9	20.3	14.9	
Equity	25 671	29 321	28 839	34 185	39 794	
Debt/equity ratio, %	42.5	18.8	49.2	27.1	18.9	
Equity/assets ratio, %	37.8	40.9	38.4	42.3	45.3	
Return on equity, %	25.8	37.6	47.6	45.5	33.6	
<b>Key figures per share</b>						
Basic earnings / Diluted earnings, SEK	5.14 / 5.13	8.16 / 8.15	10.68 / 10.62	11.47 / 11.44	9.95 / 9.92	3.6%
Dividend, SEK	3.00	4.00	5.00	5.50	5.50 <sup>3)</sup>	12.9%
Dividend as % of basic earnings	58.4%	49.0%	46.8%	48.0%	55.3%	
Dividend yield %	3.7%	3.3%	3.4%	3.1%	3.1%	
Redemption of shares, SEK	-	5.00	-	-	-	
Operating cash flow, SEK	11.32	7.98	5.18	10.12	8.19	
Equity, SEK	21	24	24	28	33	
Share price, December 31, A share / B share, SEK	105.3 / 93.5	169.7 / 152.1	148.0 / 130.8	178.3 / 158.2	178.3 / 163.2	14.1% / 15.0%
Highest price quoted, A share / B share, SEK	108.4 / 96.5	174.0 / 156.2	178.5 / 161.2	180.9 / 160.3	194.1 / 176.4	
Lowest price quoted, A share / B share, SEK	51.8 / 46.3	95.3 / 86.2	112.3 / 99.2	134.4 / 118.6	154.3 / 136.2	
Average closing price, A share / B share, SEK	80.5 / 71.8	122.6 / 111.0	150.4 / 134.7	158.6 / 141.1	179.0 / 160.6	
Average number of shares, millions	1 215.9	1 215.9	1 214.3	1 213.8	1 212.8	
Diluted average number of shares, millions	1 216.3	1 217.3	1 217.3	1 215.6	1 214.4	
Number of shareholders, December 31	61 645	69 275	71 379	69 272	72 738	
Market capitalization, December 31, MSEK	124 854	201 797	175 271	211 397	213 348	14.3%
Average daily volume traded A and B shares, total	10 526 139	9 950 630	11 005 232	9 486 974	8 544 643	

For definitions, see page 124. Key financial data is published also on [www.atlascopco.com/ir](http://www.atlascopco.com/ir).

<sup>1)</sup> Cash flow from increase and sale of rental equipment has been reclassified from investing to operating activities as from 2009.

<sup>2)</sup> Includes share redemption in 2011.

<sup>3)</sup> Proposed by the Board of Directors.

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