1. Significant accounting principles, critical accounting estimates and judgements

SIGNIFICANT ACCOUNTING PRINCIPLES

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

Basis of preparation

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

The accounting principles set out below have been consistently applied to all periods presented, unless otherwise stated, and for all entities included in the consolidated financial statements. The annual report for the Group and for Atlas Copco AB, including financial statements, was approved for issuance on February 28, 2020. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 23, 2020.

Basis of consolidation

The consolidated financial statements have been prepared in accordance with the acquisition method. Accordingly, business combinations are seen as if the Group directly acquires the assets and assumes the liabilities of the entity acquired. The consolidated income statements and balance sheets of the Group include all entities in which the Company, directly or indirectly, has control.

Control exists when the Company has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect its returns. Generally, control and hence consolidation is based on ownership. In a few exceptions, consolidation is based on agreements that give the Group control over an entity. See note A22 for information on the Group's subsidiaries.

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

Business combinations

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

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

Non-controlling interest is initially measured either

- at fair value, or
- at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

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

Associated companies and joint ventures

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

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

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

Functional currency and foreign currency translation

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

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

Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. The exchange gains and losses related to receivables and payables and other operating receivables and liabilities are included in "Other operating income and expenses" and foreign exchange gains and losses attributable to other financial assets and liabilities are included in "Financial income and expenses". Exchange rate differences on translation to functional currency are reported in other comprehensive income in the following cases:

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

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

Segment reporting

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

Revenue recognition

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

Goods sold

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

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

For buy-back commitments where the buy-back price is lower than the original selling price but there is an economic incentive for the customer to use the buy-back commitment option, the transaction is accounted for as a lease.

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

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

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

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

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

Specialty rental
Income from specialty rental is recognized on a straight-line basis over the rental period. The specialty rental business is considered to be a service for the customers as this includes a complete solution to the customers to fulfill the customer needs. Sale of equipment from the specialty rental business is recognized as revenue when the control of the asset has been transferred to the buyer. Indicators of transfer of control is explained under "Goods sold" see page 67. The carrying value of the specialty rental equipment sold is recognized as cost of sales. Investments in and sales of specialty rental equipment are included in cash flows from operating activities.

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

Practical expedients
The Group has elected to apply the following expedients:

For the disclosure of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, the Group does not disclose the value related to the following expedients:
- the performance obligation that is part of the contract that has an original expected duration of one year or less, and
- the entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

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

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

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

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

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

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

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

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

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

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

Intangible assets
Goodwill
Goodwill is recognized at cost, as established at the date of acquisition of a business (see "Business combinations"), less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combination. Impairment testing is made at least annually or whenever the need is indicated. The impairment test is performed at the level on which goodwill is monitored for internal management purposes. The 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 being developed is estimated to be technically and commercially feasible, and
- the Group has the intent and ability to complete and sell or use the product or process.

The expenditure capitalized includes the cost of materials, direct labor, and other costs directly attributable to the project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses. Amortization related to research and development expenditure for 2019

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

amounted to 792 (734). This has been reported as part of research and development costs in the income statement since the Group follows up on the research and development function as a whole.

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

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

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

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

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

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

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

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

Lease – IFRS 16
Transition method
The Group applies the new standard, IFRS 16, from January 1, 2019. The new standard replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The Group has performed the transition by using the modified retrospective approach, which does not require restatement of comparative periods. The comparative information continues to be reported in accordance with IAS 17 and IFRIC 4. The accounting principles for the comparative figures are presented below under the heading "Lease – IAS 17 (comparative figures), page 70. Details of the changes in accounting policies are presented below.

Atlas Copco's lease portfolio consists mainly of leased buildings such as office and warehouse premises, vehicles and production equipment.

Group as a lessee
As a lessee, the Group has elected to apply a number of practical expedients. Recognition exemptions are set per asset category for short-term leases and leases for which the underlying asset is of low value. Leases that, at the commencement date, had a lease term of 12 months or less are not recognized as leases in the balance sheet. The Group has elected to apply the exemption for leases for which the underlying asset is of low value regarding office equipment such as printers and computers.

All finance leases are excluded at transition as well as leases where the lease term ends prior to January 1, 2020. For short-term leases and leases where the underlying asset are of low value, the Group recognized lease payments as an expense on a straight-line basis over the lease term.

Non-lease components such as service components and other variable components that do not depend on an index or price are accounted for as expenses, if they could be separated in the contracts for the leased asset. In most cases service components are variable and based on for example consumption.

For leases of other assets, previously classified as operating leases under IAS 17, the Group recognized right-of-use assets and lease liabilities.

Leases previously classified as finance leases
Leases that were classified as finance leases under IAS 17 were determined at the carrying amount of the right-of-use asset and lease liability at January 1, 2019.

Group as a lessor
Lessor accounting is substantially unchanged from the accounting under IAS 17, except for sub-lease contracts. Under IFRS 16, sub-lease contracts that were previously classified as an operating lease is required to be assessed with reference to the right-of-use asset instead of the underlying asset.

Impacts on financial statements
At transition to IFRS 16, the Group recognized an additional 3 259 MSEK of right-of-use assets and 3 284 MSEK of lease liabilities. The difference between right-of-use assets and lease liabilities refers to prepaid or accrued lease payments and financial lease receivables on agreements from subleasing.

The Group discounted lease payments using its incremental borrowing rate at January 1, 2019, the weighted-average rate for the Group was 2.2% at transition. Incremental borrowing rates are set per country and maturity.

Effect on balance sheet from adoption of IFRS 16, MSEK	Jan. 1, 2019
Rental equipment	2
Other property, plant and equipment	3 257
Financial assets	40
Other receivables	–18
Interest-bearing loans and borrowings, non-current	2 437
Interest -bearing loans and borrowings, current	847
Other liabilities	–3

The table below presents the difference between operating lease commitments under IAS 17 at December 31, 2018 and the initial application for lease liabilities under IFRS 16, discounted using the incremental borrowing rate at January 1, 2019:

Operating lease commitment at December 31, 2018 (note 22)	3 472
Less recognition exemptions	
– Leases of low value assets and short-term leases	–217
– Variable lease components	–142
Discounting effect	–247
Operating lease commitment discounted using the incremental borrowing rate	**2 866**
Finance lease liabilities recognized as at December 31, 2018	20
Residual value guarantees	7
Extension and termination options reasonably certain to be exercised	411
Lease liabilities according to IFRS 16 at January 1, 2019	**3 304**

Recognizing depreciation of right-of-use assets instead of minimum lease payments had a small positive impact on operating profit. Interest on lease liabilities had a small negative impact on net financial items.

Since the principal payment is recognized as financing activities, cash flow

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

from financing activities decreased with a corresponding increase in cash flow from operating activities. The interest portion of the lease payment remains as cash flow from operating activities and is included in net financial items paid.

Group as lessee

Recognition of a lease

Upon initiation, contracts are assessed by the Group, to determine whether a contract is, or contains a lease. If the contract conveys the right to control the use of an identified asset for a certain period of time in exchange for consideration, then it is or contains a lease. The right to control the use of an identifiable asset is assessed by the Group based upon if there is an identifiable asset, if the Group has the right to obtain substantially all economic benefits from the use of the asset and if the Group has the right to steer the use of the asset. The policy is applied to contracts entered into, or changed, on or after January 1, 2019. The Group has elected to separate the non-lease components and also elected to apply a number of practical expedients with regard to short-term leases and leases for which the underlying asset is of low value. In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately.

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

Right-of-use asset

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

The right-of-use asset is depreciated over the lease term, using the straight-line method.

Lease liability

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

The lease liability is measured at amortized cost by using the effective interest rate method.

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

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

Group as a lessor

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

In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head-lease.

Lease – IAS 17 (comparative figures)

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 Group, 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 Group 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 Group. Lease payments are recognized as interest income and repayment of the lease receivable. See note 22 for more details on leases.

Impairment of non-financial assets

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

Inventories

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

Equity

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

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

Supply chain financing

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

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

Provisions

Provisions are recognized:

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

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

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

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

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

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

Post-employment benefits

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

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

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

Share-based compensation

The Group has share-based incentive programs, consisting of share options and share appreciation rights, which have been offered to certain employees based on position and performance. Additionally, the Board is offered synthetic shares. The fair value of share options that can only be settled in shares (equity-settled) is recognized as an employee expense with a corresponding increase in equity. The fair value, measured at grant date using the Black-Scholes formula, is recognized as an expense over the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest. The fair value of the share appreciation rights, synthetic shares, and options with a choice for employees to settle in shares or cash is recognized in accordance with principles for cash-settled share-based payments. The value is recognized as an employee expense with a corresponding increase in liabilities. The fair value, measured at grant date and remeasured at each reporting date using the Black-Scholes formula, is accrued and recognized as an expense over the vesting period. Changes in fair value are, during the vesting period and after the vesting period until settlement, recognized in profit or loss as an employee expense. The accumulated expense recognized equals the cash amount paid at settlement.

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

Financial assets and liabilities – financial instruments

The Group adopted the new Standard, IFRS 9, on the required effective date, January 1, 2018, overall, there was no significant impact on the statement of financial position and equity. The effects on net gain/loss in the 2018 equity are summarized and disclosed below.

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

a) Classification and valuation

All financial assets that were valued to fair value continue to be valued to fair value. Investments in certain debt instruments prior recognized at amortized cost are recognized at fair value through profit or loss. Investments in liquidity funds are valued to fair value through profit or loss. The Group has made the judgement that account receivables fulfill the criteria to be valued at amortized cost.

b) Impairment

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

c) Hedge accounting

The Group determined that all existing hedge relationships that were designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

Recognition and derecognition

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

Gains and losses from derecognition and modifications are recognized in profit or loss.

Measurement of financial instruments

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

Classification and measurement of financial assets

Equity instruments: are classified at fair value through profit or loss (FVTPL).

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

Debt instruments: the classification of financial assets that are debt instruments, including hybrid contracts, is based on the Group's business model for managing the assets and the asset's contractual cash flow characteristics. The instruments are classified at:

- amortized cost,
- fair value through other comprehensive income (FVOCI), or
- fair value through profit or loss (FVTPL).

Financial assets at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method. Assets classified at amortized cost are held under the business model of collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are subject to a loss allowance for expected credit losses.

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

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

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

Classification and measurement of financial liabilities

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

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

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

Impairment of financial assets

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

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

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

The measurement of ECL considers potential collaterals and other credit enhancements in the form of guarantees.

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

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Changes in fair value for derivatives that do not fulfill the criteria for hedge accounting are recognized as operating or financial transactions based on the purpose of the use of the derivative. Interest payments for interest rate swaps are recognized as interest income or expense, whereas changes in fair value of future payments are presented as gains or losses from financial instruments. IFRS 9 Hedge accounting is applied. In order to qualify for hedge accounting the hedging relationship must be:

- formally identified and designated,
- expected to fulfil the effectiveness requirements, and
- documented.

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

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

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

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

Accounting for discontinuation of hedges: Hedge accounting may not be voluntarily discontinued. Hedge accounting is discontinued:

- when the hedging instrument expires or is sold, terminated, or exercised,
- when there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk dominates the value changes that result from the economic relationship, or
- when the hedge accounting no longer meets the risk management objectives.

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

Assets held for sale and discontinued operations

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

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

Epiroc was distributed during 2018 and has been recognized according to the rules concerning discontinued operations (IFRS 5). Epiroc's profit for the comparative period and up to the distribution and the capital gain generated by the distribution have been recognized in the line – Profit from discontinued operations, net of tax. The Group's cash flows include Epiroc up to the distribution.

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

Contingent liabilities

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

New or amended accounting standards in 2019

In addition to IFRS 16 Leases, the following new or amended IFRS standards have been applied by the Group from 2019, with none, or no material impact on the Group.

Amendment to IAS 28: Long-term interests in associates and joint ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures for which the equity method is not used. Furthermore, in applying IFRS 9 to long-term interests in associates and joint ventures, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests in associates and joint ventures arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment to IFRS 9 clarifies which financial asset may be measured at amortized cost. This amendment permits more assets to be measured at amortized cost than previously allowed, in particular certain pre-payable financial assets with negative compensation. To qualify for the amortized cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. To be applicable for such handling, the asset must be held within a "hold to collect" business model.

This amendment also clarifies that when there are modifications relating to a financial liability measured at amortized cost, which do not lead to derecognition of the financial liability, a gain or loss should be recognized in the profit and loss. This gain or loss is calculated by comparing the initial contractual cash flow with the modified cash flow discounted at the original effective interest rate.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendment clarifies that the Group must, if a plan amendment, curtailment or settlement occurs, determine the current service cost and the net interest for the period using the assumptions it used for the remeasurement. Furthermore, the amendment clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment applies only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation clarifies the application of recognition and measurement requirements of IAS 12 Income Taxes when there is uncertainty over income tax treatments and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Annual Improvements 2015–2017 Cycle

The annual improvements 2015–2017 cycle sets out amendments to four standards and the related Basis for Conclusion. All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. The standard and amendments are as follows:

IFRS 3 – Business Combinations and IFRS 11 Joint Arrangements

The amendment to IFRS 3 clarifies that when the Group obtains control over the joint operation that is a business, the Group should, according to IFRS 3, remeasure the interest previously held in the joint operation to fair value.

When the Group, that does not have joint control over a joint operation, but reaches joint control over the joint operation, that is a business, the Group should not, according to IFRS 11, remeasure the interest previously held in that joint operation as this does not change the Group's boundaries.

IAS 12 Income Taxes

The amendment clarifies that the Group must recognize all income tax consequences of dividends in profit and loss, other comprehensive income or equity, depending on the nature and where the entity recognized the originating transaction or event.

IAS 23 Borrowing Costs

The amendment to IAS 23 clarifies that when a qualifying asset is ready for its intended use or sale, and some of the specific borrowings related to this asset are still outstanding at that point, those outstanding borrowing should be included in the funds the company borrows generally and hence be included in the borrowing costs used for deciding the capitalization rate.

New or amended accounting standards effective after 2019

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2019 and in some cases had not been adopted by the EU. The Group has not applied the new standards, interpretations or amendments. The current assessment is that these amendments will have none or no material effect on the Group.

Amendment to IFRS 3 – Business Combinations

The amendment clarifies the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also the definition of the term "outputs" is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on January 1, 2020 or after, with early application permitted.

Amendment to IAS 1 and IAS 8 – Definition of Material

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are done to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In particular, the amendment clarifies the concept of "obscuring" material information and the meaning of primary users of general purpose financial statements. Furthermore, IASB also amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term "material" to ensure consistency. The amendments are applied prospectively for annual periods beginning on January 1, 2020 or after, with earlier application permitted.

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

There is an ongoing project to reform interest rate benchmarks, such as EONIA, EURIBOR and LIBOR, and alternative reference rates, known as "risk-free rates"(RFR's) are being developed and will replace existing interest rate benchmarks. In this process IASB has issued amendments to IFRS 7, IFRS 9 and IAS 39 that deals with hedging relationships that are directly affected by the interest rate benchmark reform and provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the reform. The amendments are applied for annual periods beginning on January 1, 2020 or after, with earlier application permitted.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Revenue recognition

Key sources of estimation uncertainty

Revenue for services and for highly customized goods where an enforceable right of payment is present is recognized over time in profit or loss by reference to the progress towards satisfaction of the performance obligation at the balance sheet date. The progress towards satisfaction is determined by the proportion of cost incurred to date compared to the estimated total cost of each performance obligation. There is always an uncertainty if the total estimated expenditure is correctly calculated, and if the expenditure incurred reflects accurately the actual costs incurred, which means that there is uncertainty in the estimates of the degree of completion of the work performed. Management has assessed this method of determining the progress towards satisfaction of the performance obligation as most suitable as it reflects the progression of work performed, and the enforceable right of payment from the customer as the costs are incurred on the performance obligations.

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

Accounting judgement

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

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

Key sources of estimation uncertainty

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

Accounting judgement

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

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

Deferred taxes

Key sources of estimation uncertainty

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

Inventory

Accounting judgement

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

Leases

Accounting judgement

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating the lease term, it considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. For leases of premises, the following factors are normally the most relevant:
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend.
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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

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

Key sources of estimation uncertainty:

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

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

Trade and financial receivable

Key sources of estimation uncertainty:

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

Accounting judgement:

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

Pension and other post-employment benefit valuation assumptions

Key sources of estimation uncertainty

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

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

Legal proceedings and tax claims

Accounting judgement

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

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

Warranty provisions

Key sources of estimation uncertainty

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

2. Acquisitions

The following summarizes the acquisitions during 2019 and 2018:

Closing date		Country	Business area	Revenues [1]	Number of employees [1]
2019 Nov. 6	WestRon	U.S.A.	Compressor Technique	[2]	26
2019 Oct. 18	Accurate Air Engineering and Compressed Air of California	U.S.A.	Compressor Technique	[2]	52
2019 Jul. 2	MGES Inc.	U.S.A.	Compressor Technique	48	11
2019 Jul. 2	Eurochiller S.r.l.	Italy etc.	Compressor Technique	267	90
2019 Jul. 1	Brooks' Semiconductor Cryogenics Business	U.S.A. etc.	Vacuum Technique	1 400	400
2019 Jun. 19	Powerhouse Equipment & Engineering Co. Inc.	U.S.A.	Power Technique	347	95
2019 Jun. 17	Taylor Air Center	U.S.A.	Compressor Technique	[2]	20
2019 May 29	AirCenterSüd GmbH & Co. KG	Germany	Compressor Technique	[2]	6
2019 May 27	Air Compresseur service	France	Compressor Technique	[2]	10
2019 May 3	Bold & Cichos GbR	Germany	Compressor Technique	[2]	15
2019 May 2	Mid South Engine & Power Systems, LLC	U.S.A.	Power Technique	54	28
2019 Apr. 9	PSI Compressors of Brockville Incorporated	Canada	Compressor Technique	[2]	6
2019 Apr. 3	Jacob Drucklufttechnik Vertriebs GmbH	Germany	Compressor Technique	[2]	10
2019 Apr. 2	S.A.S. Air Diffusion	France	Compressor Technique	[2]	15
2019 Mar. 19	Class 1 Incorporated	Canada	Compressor Technique	130	50
2019 Mar. 6	Woodward Compressor Sales	U.S.A.	Compressor Technique	[2]	15
2019 Mar. 1	Appleton Compressor Service & Supply, Inc.	U.S.A.	Compressor Technique	[2]	15
2019 Jan. 4	German Industrie Pumpen Vertriebs GmbH	Germany	Power Technique	50	20
2018 Sep. 4	Reno A/S	Denmark	Compressor Technique	153	60
2018 Aug. 1	QUISS Qualitäts- Inspektionssysteme und Service AG	Germany	Industrial Technique	86	45
2018 Apr. 4	Klingel Joining Technologies	Germany	Industrial Technique	82	23
2018 Mar. 1	Walker Filtration Ltd	United Kingdom	Compressor Technique	330	220
2018 Jan. 17	Location Thermique SAS	France	Power Technique	70	13

[1] Annual revenues and number of employees at the time of acquisition.
[2] Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.

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

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant, except for the Brooks' Semiconductor Cryogenics Business which is disclosed separately. The fair values related to intangible assets other than goodwill are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 10.5%. For more information about the valuation of contingent consideration, see note 27. The Group is in the process of reviewing the final values for certain of the recently acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2018 are included in the following tables.

2. Acquisitions, continued

Compressor Technique	Recognized values	
	2019	2018
Intangible assets	519	158
Property, plant and equipment 1)	47	104
Other assets	266	205
Cash and cash equivalents	28	39
Interest-bearing loans and borrowings	–70	–12
Other liabilities and provisions	–223	–106
Net identifiable assets	**567**	**388**
Goodwill	241	169
Total consideration	**808**	**557**
Deferred consideration	9	–26
Cash and cash equivalents acquired	–28	–39
Net cash outflow	**789**	**492**

1) Includes right-of-use assets.

In March, the Compressor Technique business area acquired Class 1 Incorporated, a Canadian company that offers design, manufacturing, installation, distribution and service of medical gas solutions. The acquisition will further strengthen Atlas Copco's position as supplier and service provider of medical gas solutions. Intangible assets of 38 and goodwill of 15 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In July, Eurochiller, an Italian manufacturer and distributor of industrial cooling equipment and related products, was acquired. The acquisition will complement Atlas Copco's existing product portfolio. Intangible assets of 136 and goodwill of 187 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In July, the Compressor Technique business area also acquired the operating assets of MGES Inc., a service supplier of medical gas solutions including distribution and service of medical gas systems. The acquisition will give the Group the ability to expand local support to healthcare and laboratory customers in the Texas area. Intangible assets of 31 were recorded on the purchase.

During 2019, the Compressor Technique business area also acquired five distributors in the United States and one in Canada. These acquisitions will all increase Atlas Copco's ability to support customers in the North American market. Intangible assets of 240 and goodwill of 32 were recorded on the purchases. The goodwill is deductible for tax purposes.

During 2019, the Compressor Technique business area also acquired two distributors in France and three distributors in Germany. These acquisitions will all increase Atlas Copco's ability to support customers in the European market. Intangible assets of 74 were recorded on the purchases.

Vacuum Technique	Recognized values	
	2019	2018
Intangible assets	2 779	–
Property, plant and equipment 1)	10	–
Other assets	1 369	–
Other liabilities and provisions	–152	–
Net identifiable assets	**4 006**	**–**
Goodwill	2 192	–
Total consideration	**6 198**	**–**
Net cash outflow	**6 198**	**–**

1) Includes right-of-use assets.

In July, the Vacuum Technique business area acquired the Brooks' Semiconductor Cryogenics Business. The acquisition included cryo pump operations located in the United States and Mexico, a worldwide sales and service network, and Brooks Automation's 50% share of Ulvac Cryogenics Inc., (UCI). The acquired business will significantly expand Atlas Copco's technology offering to customers in the semiconductor and general vacuum industries. The acquisition complements Atlas Copco's existing technology portfolio with a new range of high vacuum pumps that optimize the removal of water vapor and hydrogen, which is critical to many semiconductor and industrial processes. Intangible assets of 2 779 and goodwill of 2 192 were recorded on the purchases. The goodwill is deductible for tax purposes.

Industrial Technique	Recognized values	
	2019	2018
Intangible assets	–	186
Property, plant and equipment 1)	–	4
Other assets	–3	46
Cash and cash equivalents	–	24
Other liabilities and provisions	–	–50
Net identifiable assets	**–3**	**210**
Goodwill	3	280
Total consideration	**–**	**490**
Deferred consideration	21	14
Cash and cash equivalents acquired	–	–24
Net cash outflow	**21**	**480**

1) Includes right-of-use assets.

The Industrial Technique business area made no acquisition in 2019. Some minor adjustments were made on the Klingel and QUISS acquisitions made in 2018.

Power Technique	Recognized values	
	2019	2018
Intangible assets	153	29
Property, plant and equipment 1)	193	73
Other assets	146	35
Cash and cash equivalents	9	10
Interest-bearing loans and borrowings	–19	–31
Other liabilities and provisions	–83	–42
Net identifiable assets	**399**	**74**
Goodwill	312	64
Total consideration	**711**	**138**
Deferred consideration	–5	–6
Cash and cash equivalents acquired	–8	–10
Net cash outflow	**698**	**122**

1) Includes right-of-use assets.

In January, the Power Technique business area acquired German Industrie Pumpen Vertriebs GmbH (IPV). The company is a distributor of industrial pumps for the Varisco brand with the chemical industry as main market. This acquisition will help Atlas Copco to further grow the pumps business and strengthen the presence in the north west of Europe. Intangible assets of 5 and goodwill of 12 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In May, Mid South Engine & Power Systems LLC was acquired. The company is based in Texas, United States and mainly serves the oil and gas market in the US Gulf Coast. Mid South has a strong reputation and capabilities to repair and refurbish portable compressors and engines. The acquisition will strengthen the service offering and core competencies in the Group. Intangible assets of 36 and goodwill of 14 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In June, Powerhouse Equipment & Engineering Co. Inc. was acquired. Powerhouse is a steam boiler rental company based in New Jersey, United States. The acquisition will broaden the Power Technique portfolio of temporary utility solutions. Intangible assets of 112 and goodwill of 286 were recorded on the purchase. The goodwill is not deductible for tax purposes.

2. Acquisitions, continued

Total fair value of acquired assets and liabilities	Group recognized values		
	2019	of which Brooks [2]	2018
Intangible assets	3 451	2 779	373
Property, plant and equipment [1]	250	10	181
Other non-current assets	926	909	–
Inventories	431	255	143
Receivables [3]	393	205	117
Other current assets	28	–	26
Cash and cash equivalents	37	–	73
Interest-bearing loans and borrowings	–89	–	–43
Other liabilities and provisions	–360	–161	–126
Deferred tax assets/liabilities, net	–98	9	–72
Net identifiable assets	**4 969**	**4 006**	**672**
Goodwill	2 748	2 192	513
Total consideration	**7 717**	**6 198**	**1 185**
Deferred consideration	25	–	–18
Cash and cash equivalents acquired	–36	–	–73
Net cash outflow	**7 706**	**6 198**	**1 094**

[1] Includes right-of-use assets.
[2] Brooks refers to the acquisition of Brooks' Semiconductor Cryogenics Business.
[3] The gross amount is 408 (121) of which 15 (4) 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 7 717 (1 185). Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2019 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 7 706 (1 094) after deducting cash and cash equivalents acquired of 36 (73).

Acquisition-related costs were included in "Administrative expenses" in the income statement for 33 (22), these include costs for announced acquisitions that will be completed in 2020.

Contribution from businesses acquired in 2019 and 2018 by business area	Compressor Technique		Vacuum Technique		Industrial Technique		Power Technique		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Contribution from date of control										
Revenues	494	355	669	–	–	77	232	100	1 395	532
Operating profit	–	29	104	–	–	–15	10	20	114	34
Profit for the year									82	24
Contribution if the acquisition had occurred on Jan. 1										
Revenues	1 148	520	1 333	–	–	148	381	100	2 862	768
Operating profit	–34	38	204	–	–	–20	17	20	187	38
Profit for the year									157	27

3. Assets held for sale, divestments and discontinued operations

Assets held for sale and divestments

In 2019, there have been no divestments. On February 2, 2018, Atlas Copco's concrete and compaction business, part of the Power Technique business area, was divested to Husqvarna. Some other minor divestments were also made during the year. Net cash effect of these divestments was 404. The divestments resulted in a capital gain of 134 and a result from recycling of accumulated historical translation differences to the income statement of 12. These items are reported under "Other operating income". See note 7. None of these divestments met the criteria to be presented as discontinued operations, and are hence not included in the discontinued operations below.

Carrying value of assets and liabilities held for sale	2019	2018
Property, plant and equipment	1	1
Net carrying value	**1**	**1**

Carrying value of divested assets and liabilities [1]	2019	2018
Intangible assets	–	116
Property, plant and equipment	–	43
Inventories	–	133
Receivables	–	6
Cash and cash equivalents	–	12
Interest bearing loans and borrowings	–	–1
Other liabilities and provisions	–	–27
Net identifiable assets	**–**	**282**

[1] Does not include Epiroc.

Discontinued operations

At the Annual General Meeting on April 24, 2018, it was decided to split the Group and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, the shareholders received one Epiroc share for each Atlas Copco share. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018 and the final prices paid that day were SEK 90.85 per Series A share and SEK 85.80 per Series B share, resulting in a market capitalization of MSEK 108 299. On the distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of MSEK 87 105 representing the difference between the fair value of Epiroc and the carrying value of the net assets of the discontinued operations at the time of the distribution. As part of the distribution, all historical translation differences allocated to Epiroc, amounting to MSEK 934, were recycled to the income statement for discontinued operations.

Discontinued operations below also include the effect of the final settlement in 2018 of the divestment of Atlas Copco's Road Construction Equipment division that took place in October 2017.

Income statement discontinued operations	2019	2018
Revenues	–	15 992
Cost of sales	–	–10 046
Gross profit	**–**	**5 946**
Marketing expenses	–	–1 165
Administrative expenses	–	–1 146
Research and development expenses	–	–439
Other operating income	–	8
Other operating expenses	–	–191
Operating profit	**–**	**3 013**
Financial income	–	84
Financial expenses	–	–197
Net financial items	**–**	**–113**
Profit before tax	**–**	**2 900**
Income tax expense	–	–731
Profit from operations	**–**	**2 169**
Profit on remeasurement to fair value less cost to sell		
Gain/loss from divestments	–	86 996
Translation differences recycled	–	934
Profit for the period from discontinued operations	**–**	**90 099**
Profit attributable to:		
– owners of the parent	–	89 842
– non-controlling interest	–	257
Basic earnings per share, SEK	–	74.04
Diluted earnings per share, SEK	–	73.93

Cash flow discontinued operations	2019	2018
Cash flow from:		
Operating activities	–	748
Investing activities	–	–1 368
Financing activities	–	5 902
Net cash flow for the year	**–**	**5 282**

4. Segment information

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

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

1) Refers to restructuring costs in the Industrial Technique business area.
2) Refers to a change in provision for share-related long-term incentive programs.

4. Segment information, continued

2018	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	43 447	22 007	17 884	11 755	–	–	95 093
Inter-segment revenues	525	–	49	287	–	–591	270 [1]
Total revenues	**43 972**	**22 007**	**17 933**	**12 042**	**–**	**–591**	**95 363**
Operating profit	**10 263**	**5 522**	**4 188**	**2 006**	**–775**	**–17**	**21 187**
– of which share of profit in associated companies and joint ventures	*–*	*–*	*5*	*–*	*–*	*–*	*5*
Net financial items							–343
Income tax expense							–4 508
Profit for the year from continuing operations							16 336
Profit for the year from discontinued operations							90 099
Profit for the year							**106 435**
Non-cash expenses							
Depreciation/amortization	751	846	715	856	145	–23	3 290
Impairment	49	2	–23	5	–	–	33
Other non-cash expenses	202	48	–73	54	–98	–	133
Segment assets	**25 276**	**26 317**	**14 670**	**9 696**	**2 468**	**–1 073**	**77 354**
– of which goodwill	*4 027*	*9 776*	*4 782*	*832*	*–*	*–*	*19 417*
Investments in associated companies and joint ventures	1	–	132	–	–	–	133
Unallocated assets							19 183
Total assets							**96 670**
Segment liabilities	**15 952**	**5 013**	**3 975**	**3 252**	**1 620**	**–991**	**28 821**
Unallocated liabilities							25 377
Total liabilities							**54 198**
Capital expenditures							
Property, plant and equipment	481	844	257	1 205	64	–38	2 813
– of which assets leased	*9*	*–*	*1*	*4*	*–*	*–*	*14*
Intangible assets	132	255	194	64	10	–	655
Total capital expenditures	**613**	**1 099**	**451**	**1 269**	**74**	**–38**	**3 468**
Goodwill acquired	169	–	280	64	–	–	513

[1] Includes sales to discontinued operations eliminated within discontinued operations in accordance with IFRS 5.

2018	Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique	Common group functions	Eliminations	Group
Items affecting comparability in Operating profit	–	–	–	109 [1]	–57 [2]	–	52

[1] Refers to the divestment of the concrete and compaction business in the Power Technique business area.
[2] Refers to a change in provision for share-related long-term incentive programs and also costs associated with the split of the Group.

4. Segment information, continued

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

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

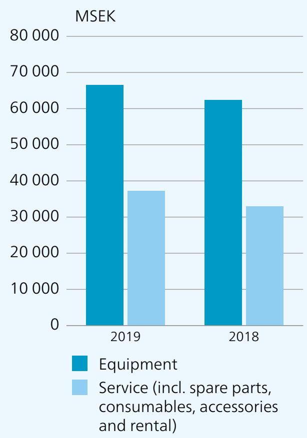
Common group functions, i.e. functions which serve all business areas or the Group as a whole, are not considered a segment.

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

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

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

Revenues from external customers



Geographical information

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

By geographic area/country	Revenues		Non-current assets	
	2019	2018	2019	2018
North America				
Canada	1 625	1 394	225	85
U.S.A.	22 417	19 533	12 968	6 695
Other countries	1 826	1 627	118	67
	25 868	**22 554**	**13 311**	**6 847**
South America				
Brazil	2 511	2 241	578	486
Chile	601	504	94	73
Other countries	989	964	78	33
	4 101	**3 709**	**750**	**592**
Europe				
Belgium	1 159	1 172	2 379	2 080
France	3 605	3 287	719	482
Germany	6 297	5 946	8 094	7 694
Italy	2 842	2 435	2 147	1 541
Russia	1 548	1 441	107	65
Sweden	1 484	1 454	1 278	939
United Kingdom	2 666	2 630	14 618	14 182
Other countries	12 180	11 518	1 654	1 064
	31 781	**29 883**	**30 996**	**28 047**
Africa/Middle East				
South Africa	671	604	115	66
Other countries	4 957	5 092	480	328
	5 628	**5 696**	**595**	**394**
Asia/Oceania				
Australia	1 121	1 068	196	111
China	19 471	17 348	2 329	2 011
India	4 077	3 197	316	254
Japan	2 932	2 698	492	367
South Korea	4 326	4 761	1 520	1 505
Other countries	4 451	4 449	480	284
	36 378	**33 521**	**5 333**	**4 532**
Total	**103 756**	**95 363**	**50 985**	**40 412**

Geographic distribution	Compressor Technique, %		Vacuum Technique, %		Industrial Technique, %		Power Technique, %		Group, %	
	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues
North America	22	22	25	25	32	31	26	25	25	25
South America	5	5	0	0	3	3	6	6	4	4
Europe	34	35	15	15	38	38	34	35	30	31
Africa/Middle East	7	7	2	2	1	2	12	12	6	5
Asia/Oceania	32	31	58	58	26	26	22	22	35	35
	100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

4. Segment information, continued

Quarterly data

Revenues by business area MSEK	2019 1	2019 2	2019 3	2019 4	2018 1	2018 2	2018 3	2018 4
Compressor Technique	11 397	11 974	12 314	12 601	9 735	11 266	11 269	11 702
– of which external	11 241	11 832	12 146	12 502	9 578	11 121	11 156	11 592
– of which internal	156	142	168	99	157	145	113	110
Vacuum Technique	5 253	5 650	6 107	6 560	5 255	5 740	5 272	5 740
– of which external	5 253	5 650	6 107	6 560	5 255	5 740	5 272	5 740
– of which internal	–	–	–	–	–	–	–	–
Industrial Technique	4 547	4 576	4 783	4 806	4 178	4 519	4 365	4 871
– of which external	4 538	4 567	4 774	4 799	4 163	4 504	4 354	4 863
– of which internal	9	9	9	7	15	15	11	8
Power Technique	3 177	3 555	3 697	3 486	2 894	3 091	2 911	3 146
– of which external	3 149	3 531	3 649	3 458	2 756	2 980	2 893	3 126
– of which internal	28	24	48	28	138	111	18	20
Common Group functions/eliminations	–193	–175	–225	–134	–156	–155	–142	–138
Total	**24 181**	**25 580**	**26 676**	**27 319**	**21 906**	**24 461**	**23 675**	**25 321**

Operating profit by business area MSEK	2019 1	2019 2	2019 3	2019 4	2018 1	2018 2	2018 3	2018 4
Compressor Technique	2 618	2 773	2 897	2 910	2 249	2 638	2 667	2 709
in % of revenues	*23.0%*	*23.2%*	*23.5%*	*23.1%*	*23.1%*	*23.4%*	*23.7%*	*23.1%*
Vacuum Technique	1 292	1 401	1 508	1 591	1 292	1 479	1 315	1 436
in % of revenues	*24.6%*	*24.8%*	*24.7%*	*24.3%*	*24.6%*	*25.8%*	*24.9%*	*25.0%*
Industrial Technique	1 008	1 016	1 051	994	974	1 056	1 018	1 140
in % of revenues	*22.2%*	*22.2%*	*22.0%*	*20.7%*	*23.3%*	*23.4%*	*23.3%*	*23.4%*
Power Technique	524	619	606	559	547	464	480	515
in % of revenues	*16.5%*	*17.4%*	*16.4%*	*16.0%*	*18.9%*	*15.0%*	*16.5%*	*16.4%*
Common Group functions/eliminations	–394	–430	–219	–427	–229	–207	–217	–139
Operating profit	**5 048**	**5 379**	**5 843**	**5 627**	**4 833**	**5 430**	**5 263**	**5 661**
in % of revenues	*20.9%*	*21.0%*	*21.9%*	*20.6%*	*22.1%*	*22.2%*	*22.2%*	*22.4%*
Net financial items	–141	–64	–65	–55	–320	–201	–95	273
Profit before tax	**4 907**	**5 315**	**5 778**	**5 572**	**4 513**	**5 229**	**5 168**	**5 934**
in % of revenues	*20.3%*	*20.8%*	*21.7%*	*20.4%*	*20.6%*	*21.4%*	*21.8%*	*23.4%*

5. Employees and personnel expenses

Average number of employees	2019 Women	2019 Men	2019 Total	2018 Women	2018 Men	2018 Total
Parent Company						
Sweden	61	41	102	62	37	99
Subsidiaries						
North America	1 127	4 474	5 601	1 006	4 154	5 160
South America	369	1 496	1 865	344	1 495	1 839
Europe	3 434	13 933	17 367	3 280	13 447	16 727
– of which Sweden	*292*	*1 020*	*1 312*	*270*	*960*	*1 230*
Africa/Middle East	186	893	1 079	187	865	1 052
Asia/Oceania	2 168	9 623	11 791	1 995	9 022	11 017
Total in subsidiaries	**7 284**	**30 419**	**37 703**	**6 812**	**28 983**	**35 795**
Total	**7 345**	**30 460**	**37 805**	**6 874**	**29 020**	**35 894**

Females in the Board of Directors and Group Management, %	Dec. 31, 2019	Dec. 31, 2018
Parent Company		
Board of Directors [1]	30	30
Group Management	22	22

[1] Which excludes President and CEO, includes employee representatives but excludes employees representatives´ alternate members.

5. Employees and personnel expenses, continued

Remuneration and other benefits	Group	
MSEK	2019	2018
Salaries and other remuneration	20 370	17 804
Contractual pension benefits	1 169	1 122
Other social costs	3 681	3 203
Total	**25 220**	**22 129**
Pension obligations to Board members and Group Management [1]	4	5

[1] 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 [1]	Total fees incl. value of synthetic shares at grant date 2019	Adj. due to vesting and change in stock price [2]	Total expense recognized 2019 [3]	Total expense recognized 2018
Chair:								
Hans Stråberg	1 147	1 163	4 046	409	2 719	931	3 650	2 140 [4]
Other members of the Board:								
Anders Ullberg	730	–	–	178	908	–	908	844
Staffan Bohman	365	370	1 288	401	1 136	296	1 432	1 024 [4]
Johan Forssell	365	370	1 288	198	933	1 226	2 159	440
Tina Donikowski	365	370	1 288	–	735	539	1 274	576
Peter Wallenberg Jr	365	370	1 288	88	823	1 226	2 049	321
Sabine Neuβ	730	–	–	–	730	–	730	690
Gunilla Berg	365	370	1 288	198	933	917	1 850	647
Other members of the Board previous year						687	687	–334
Union representatives (4) [5]	80	–	–	–	80	–	80	56
Total 2019	**4 512**	**3 013**	**10 486**	**1 472**	**8 997**	**5 822**	**14 819**	
Total 2018	4 785	2 850	8 240	1 349	8 984	–2 580		6 404

[1] Refers to fees for membership in board committees.
[2] Refers to synthetic shares received in 2014–2019.
[3] Provision for synthetic shares as at December 31, 2019 amounted to MSEK 15 (9).
[4] Hans Stråberg and Staffan Bohman invoiced their fees for the first quarter 2018. The fees received include compensation for social costs and are cost neutral for the Company.
[5] Union representatives receive compensation to prepare for their participation in board meetings.

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation [1]	Other benefits [2]	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments [3]	Total expense recognized 2019	Total expense recognized 2018
President and CEO								
Mats Rahmström	14 000	7 840	431	4 941	27 212	22 919	50 131	17 020
Other members of Group Management (8 positions)	27 684	13 037	5 012	8 174	53 907	33 308	87 215	35 833
Total 2019	**41 684**	**20 877**	**5 443**	**13 115**	**81 119**	**56 227**	**137 346**	
Total 2018	38 170	22 489	6 282	12 189	79 130	–26 277		52 853
Total remuneration and other benefits to the Board and Group Management							**152 165**	59 257

[1] Refers to variable compensation earned in 2019 to be paid in 2020.
[2] Refers to vacation pay, company car, medical insurance, and other benefits.
[3] Refers to stock options and SARs received in 2015–2019 and includes recognized costs due to change in stock price and vesting period, see also note 23.

5. Employees and personnel expenses, continued

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 2019 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 2019 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 2019 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 2019. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a board member resigns from his or her position before the stipulated payment date as stated above, the board member has the right to request a prepayment. The prepayment will be made twelve months after the date when the board member resigned or otherwise the original payment date is valid.

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

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

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. Non-financial parameters have for example been in relation to Atlas Copco Business Code of Practice. The variable compensation is maximized to 80% of the base salary for the President and CEO, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2019, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums set in line with Atlas Copco Group Pension Policy for Swedish Executives and Atlas Copco terms and conditions for expatriate employments.
- Other benefits consist of company car and medical insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco terms and conditions for expatriate employment.

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

The Board 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 80 % of the base salary. The variable compensation is not included in the basis for pension benefits. According to an agreement, the President and CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution. The President and CEO is a member of the Atlas Copco Group Pension Policy for Swedish Executives, which is a defined contribution plan. The retirement age of the President and CEO is set at the age of 65. The contribution is age related and is 35% of the base salary. These pension plans are vested. In addition, premiums for private health insurance are added.

Other members of Group Management
Members of Group Management have defined contribution pension plans, with contribution up to a maximum of 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. These pension plans are vested. The retirement age is 65.

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

Stock Options/share appreciations rights holdings as at Dec. 31, 2019

Grant Year	President and CEO	Other members of Group Management
2015	–	27 837
2016	–	107 800
2017	147 397	156 547
2018 [1]	128 191	149 899
2019	187 760	233 811
Total	**463 348**	**675 894**

1) Estimated grants for the 2018 stock option program including matching shares. The numbers have been adjusted for the effect of the distribution of Epiroc. See note 23 for additional information.

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

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

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

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

Remuneration and other committees
In 2019, Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg were members of the remuneration committee. The committee proposed compensation to the President and CEO for approval by the Board. The committee also supported the President and CEO in determining the compensation to the other members of Group Management.

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

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

5. Employees and personnel expenses, continued

Workforce profile

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

Geographical spread of employees as at Dec. 31, 2019, %	Employees	Nationality of senior managers
North America	15	8
South America	5	4
Europe	46	72
Africa/Middle East	3	3
Asia/Oceania	31	13
Total	**100**	**100**

Employees by professional category, %	2019	2018
Production	23	24
Marketing	8	9
Sales and support	15	15
Service	29	28
Administration	16	16
Research & development	9	8
Total	**100**	**100**

6. Remuneration to auditors

Audit fees and other services	2019	2018
Deloitte		
Audit fee	70	61
Audit activities other than the audit assignment	1	1
Other services, tax	3	4
Other services, other	6	12
Other audit firms		
Audit fee	8	6
Total	**88**	**84**

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

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

Tax services include tax compliance services.

Other services essentially comprise consultancy services, such as due diligence services in connection with acquisitions, trainings, investigations and other services related to the split of the Group in 2018.

At the Annual General Meeting 2019, Deloitte was elected as auditor for the Group up to and including the Annual General Meeting 2020.

7. Other operating income and expenses

Other operating income	2019	2018
Commissions received	16	9
Income from insurance operations	64	119
Capital gain on sale of property, plant and equipment	55	33
Capital gain on divestment of business	–	146
Exchange-rate differences	–	28
Other operating income	162	170
Total	**297**	**505**

Other operating expenses	2019	2018
Capital loss on sale of property, plant and equipment	–27	–35
Exchange-rate differences	–48	–
Other operating expenses	–98	–132
Total	**–173**	**–167**

Capital gain on divestment of business in 2018 mainly relates to the divestment of Atlas Copco's concrete and compaction business, see note 3.

Additional information on costs by nature

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

Salaries, remunerations and employer contributions amounted to 25 220 (22 129) whereof expenses for post-employment benefits amounted to 1 169 (1 122). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 117 (119). Government grants related to assets have been recognized as deferred income in the balance sheet and will be recognized as income over the useful life of the assets. The remaining value of these grants, at the end of 2019, amounted to 51 (37).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes 42 (34) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 4 700 (3 323). See note 12, 13 and 22 for further details. Costs for research and development amounted to 3 631 (3 166).

8. Financial income and expenses

Financial income and expenses	2019	2018
Interest income		
– cash and cash equivalents	87	77
– derivatives	19	–
– other	8	5
Capital gain		
– other assets	24	23
Foreign exchange gain, net	23	437
Financial income	**161**	**542**
Interest expenses		
– borrowings	–415	–485
– derivatives	–	–194
– pension provisions, net	–51	–40
– deferred considerations	–7	–7
Change in fair value – other liabilities and borrowings	–2	–158
Impairment loss	–11	–1
Financial expenses	**–486**	**–885**
Financial expenses, net	**–325**	**–343**

Foreign exchange gain/loss, net includes foreign exchange gains of 93 (1 189) on financial assets at fair value through profit or loss and foreign exchange losses of –70 (–752) on other liabilities.

9. Taxes

Income tax expense	2019	2018
Current taxes	–4 909	–4 876
Deferred taxes	–120	368
Total	**–5 029**	**–4 508**

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

	2019	2018
Profit before tax	**21 572**	**20 844**
Weighted average tax based on national rates	–5 353	–5 022
– in %	24.8	24.1
Tax effect of:		
Non-deductible expenses	–312	–456
Withholding and other taxes on dividends	–267	–343
Tax-exempt income	697	665
Adjustments from prior years:		
– current taxes	251	663
– deferred taxes	–17	45
Effects of tax losses/credits utilized	20	16
Change in tax rate, deferred tax	33	29
Tax losses not recognized	–1	–9
Other items	–80	–96
Income tax expense	**–5 029**	**–4 508**
Effective tax in %	23.3	21.6

9. Taxes, continued

The effective tax rate was 23.3% (21.6). Withholding and other taxes on dividends of –267 (–343) relate to provisions on retained earnings in countries where Atlas Copco incur withholding and other taxes on dividends. Tax-exempt income of 697 (665) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. Adjustments from prior years - current tax includes the net from tax issues, tax disputes and also one-time positive tax effects in different countries and amounted to 251 (663).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 20 (16). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense.

In 2019, effects of income tax rate changes have affected the result with 33 (29).

European Commission's decision on Belgium's tax rulings

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

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

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

On May 3, 2019, the European Commission appealed the EGC's annulment. On September 16, 2019, the European Commission also announced the decision to open 39 separate, in-depth investigations to assess if each specific decision granted by Belgium between 2005 and 2014 regarding tax rulings granted to multinationals with regard to "Excess Profit" violated the EU rules for state aid. One of these 39 separate in-depth investigations concerns Atlas Copco. It is likely several years before a final decision is made.

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

Change in deferred taxes	2019	2018
Opening net balance, Jan. 1	1 000	1 099
Change in accounting principles	–	14
Business acquisitions	–98	–72
Discontinued operations	–	–349
Charges to profit for the year	–120	368
Tax on amounts recorded to other comprehensive income	–36	–45
Translation differences	1	–15
Net balance, Dec. 31	**747**	**1 000**

9. Taxes, continued

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

Deferred tax assets and liabilities	2019			2018		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	81	2 269	–2 188	148	2 167	–2 019
Property, plant and equipment [1]	271	984	–713	243	473	–230
Other financial assets	26	45	–19	5	60	–55
Inventories	1 242	50	1 192	1 183	42	1 141
Current receivables	170	76	94	177	95	82
Operating liabilities	725	2	723	744	28	716
Provisions	305	8	297	244	6	238
Post-employment benefits	888	10	878	778	37	741
Borrowings [1]	761	4	757	434	–	434
Loss/credit carry-forwards	199	–	199	322	–	322
Other items [2]	72	545	–473	58	428	–370
Deferred tax assets/liabilities	**4 740**	**3 993**	**747**	**4 336**	**3 336**	**1 000**
Netting of assets/liabilities	–3 291	–3 291	–	–2 717	–2 717	–
Net deferred tax balances	**1 449**	**702**	**747**	**1 619**	**619**	**1 000**

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

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

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable results is probable. At December 31, the Group had total tax loss carry-forwards of 2 543 (3 388), of which deferred tax assets were recognized for 798 (1 400). The tax value of reported tax loss carry-forwards totals 199 (322). There is no expiration date for utilization of the major part of the tax losses carry-forwards for which deferred tax assets have been recognized.

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

	2019	2018
Expires after 1–2 years	32	205
Expires after 3–4 years	84	133
Expires after 5–6 years	27	35
No expiry date	1 602	1 615
Total	**1 745**	**1 988**

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

	2019	2018
Intangible assets	–69	158
Property, plant and equipment [1]	–412	–66
Other financial assets	33	–3
Inventories	23	–36
Current receivables	8	80
Operating liabilities	–16	113
Provisions	51	–14
Post-employment benefits	–20	39
Borrowings [1]	511	1
Other items	–103	–29
Changes due to temporary differences	**6**	**243**
Loss/credit carry-forwards	–126	125
Charges to profit for the year	**–120**	**368**

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

10. Other comprehensive income

Other comprehensive income for the year	2019			2018		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit plans	–626	150	–476	150	–65	85
Items that may be reclassified subsequently to profit or loss						
Translation differences						
– on foreign operations	1 577	22	1 599	3 694	310	4 004
– realized and reclassified to income statement	–32	–	–32	–1 308	–	–1 308 [1]
Hedge of net investments in foreign operations	–252	54	–198	–797	166	–631
Cash flow hedges	43	–5	38	42	–9	33
Total other comprehensive income	**710**	**221**	**931**	**1 781**	**402**	**2 183**
Attributable to non-controlling interests						
Translation differences on foreign operations	1	–	1	1	–	1
Total other comprehensive income	**711**	**221**	**932**	**1 782**	**402**	**2 184**

[1] Refers to Epiroc, repatriation to Sweden of Euro-denominated equity and other divested companies.

11. Earnings per share

Amount in SEK	Basic earnings per share		Diluted earnings per share	
	2019	2018	2019	2018
Earnings per share	13.60	87.49	13.59	87.36
– of which continued operations	*13.60*	*13.45*	*13.59*	*13.43*
– of which discontinued operations	–	*74.04*	–	*73.93*

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	2019	2018
Profit for the year	16 522	106 164
– of which continued operations	*16 522*	*16 322*
– of which discontinued operations	–	*89 842*

Average number of shares outstanding	2019	2018
Basic weighted average number of shares outstanding	1 214 711 277	1 213 475 553
Effect of employee stock options	1 043 065	1 777 586
Diluted weighted average number of shares outstanding	1 215 754 342	1 215 253 139

Potentially dilutive instruments

As of December 31, 2019, Atlas Copco had five outstanding employee stock option programs. The exercise price including adjustment for remaining vesting costs for the 2017, 2018 and 2019 programs exceeded the average share price for series A shares, SEK 287.99 per share. These programs are therefore considered anti-dilutive and not included in the calculation of diluted earnings per share. If the average share price, after adjustment with the above, exceeds the strike price in the future, these options will be dilutive.

12. Intangible assets

Impairment tests for cash-generating units with goodwill and for intangible assets with indefinite useful lives

Impairment tests (including sensitivity analyses) are performed as per September 30 each year.

Current goodwill is monitored for internal management purposes at business area level which also represents the Group's operating segments, the goodwill has therefore been tested for impairment at business area level.

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

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

The Group's average weighted cost of capital in 2019 was 8% (8) after tax (approximately 10.5% (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts. The business areas are all relatively diversified and have similar geographical coverage, similar organization and structure and, to a large extent, an industrial customer base. Specific risks, if any, have affected projected cash flows. The same discount rate has therefore been used for all business areas. All business areas are expected to generate a return well above the values to be tested, including sensitivity analyses/worst-case scenarios.

The following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area:

	2019		2018	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	4 389	–	4 027
Vacuum Technique	2 713	12 281	1 915	9 776
Industrial Technique	–	4 931	–	4 782
Power Technique	–	1 156	–	832
Total	**2 713**	**22 757**	**1 915**	**19 417**

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

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

	2019		2018	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	26	36	19	32
Marketing expenses	7	639	7	538
Administrative expenses	82	46	80	69
Research and development expenses	371	421	380	354
Total	**486**	**1 142**	**486**	**993**

Impairment charges on intangible assets totaled 14 (40) of which 0 (2) were classified as cost of sales in the income statement,14 (26) were classified as research and development expenses, 0 (10) were classified as marketing expenses, and 0 (2) as administrative expenses. Furthermore there was a reversal of impairment charges amounting to 0 (32) classified as marketing expenses. Of the impairment charges, 14 (13) were due to capitalized development costs relating to projects discontinued.

12. Intangible assets, continued

2019	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	**Total**
Cost								
Opening balance, Jan. 1	3 923	1 148	198	3 481	6 402	5 524	19 448	40 124
Investments	761	157	2	–	–	96	–	1 016
Business acquisitions	–	–	411	854	954	1 232	2 748	6 199
Disposals	–188	–8	–29	–1	–2	–26	–	–254
Reclassifications	57	–2	–49	–	2	13	–	21
Translation differences	58	26	5	99	193	191	593	1 165
Closing balance, Dec. 31	**4 611**	**1 321**	**538**	**4 433**	**7 549**	**7 030**	**22 789**	**48 271**
Amortization and impairment losses								
Opening balance, Jan. 1	2 566	622	48	1 029	3 348	2 455	31	10 099
Amortization for the period	357	116	15	115	529	482	–	1 614
Impairment charge for the period	13	–	–	–	–	1	–	14
Disposals	–188	–7	–29	–1	–2	–25	–	–252
Reclassifications	7	–20	–7	–1	2	19	–	–
Translation differences	33	16	1	24	98	74	1	247
Closing balance, Dec. 31	**2 788**	**727**	**28**	**1 166**	**3 975**	**3 006**	**32**	**11 722**
Carrying amounts								
At Jan. 1	1 357	526	150	2 452	3 054	3 069	19 417	30 025
At Dec. 31	**1 823**	**594**	**510**	**3 267**	**3 574**	**4 024**	**22 757**	**36 549**

2018	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	**Total**
Cost								
Opening balance, Jan. 1	6 161	1 541	81	3 370	6 198	5 514	23 256	46 121
Discontinued operations	–2 543	–304	–	–125	–293	–629	–5 577	–9 471
Investments	501	64	5	–	–	85	–	655
Business acquisitions	–	–	–	80	176	117	513	886
Divestment of business	–	–	–	–	–22	–2	–1	–25
Disposals	–182	–6	–	–51	–52	–36	–	–327
Reclassifications	–115	–195	105	–	–2	185	–	–22
Translation differences	101	48	7	207	397	290	1 257	2 307
Closing balance, Dec. 31	**3 923**	**1 148**	**198**	**3 481**	**6 402**	**5 524**	**19 448**	**40 124**
Amortization and impairment losses								
Opening balance, Jan. 1	3 825	948	35	995	2 967	2 163	37	10 970
Discontinued operations	–1 514	–259	–	–66	–220	–351	–7	–2 417
Amortization for the period	358	112	17	103	472	409	–	1 471
Impairment charge for the period	13	3	–	1	6	–15	–	8
Divestment of business	–	–	–	–	–9	–1	–	–10
Disposals	–179	–6	–	–51	–52	–36	–	–324
Reclassifications	–7	–195	–3	–	–2	185	–	–22
Translation differences	70	19	–1	47	186	101	1	423
Closing balance, Dec. 31	**2 566**	**622**	**48**	**1 029**	**3 348**	**2 455**	**31**	**10 099**
Carrying amounts								
At Jan. 1	2 336	593	46	2 375	3 231	3 351	23 219	35 151
At Dec. 31	**1 357**	**526**	**150**	**2 452**	**3 054**	**3 069**	**19 417**	**30 025**

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 principles, see note 1.

See note 2 for information on business acquisitions.

13. Property, plant and equipment

2019	Buildings and land	Machinery and equipment	Construction in progress and advances	**Total**	Rental equipment
Cost					
Opening balance, Jan. 1 [1]	6 371	10 997	706	18 074	5 005
Investments	208	682	772	1 662	1 140
Business acquisitions	21	34	5	60	151
Disposals	–716	–594	–	–1 310	–447
Reclassifications	300	651	–940	11	–36
Translation differences	169	230	22	421	167
Closing balance, Dec. 31	**6 353**	**12 000**	**565**	**18 918**	**5 980**
Depreciation and impairment losses					
Opening balance, Jan. 1 [1]	2 381	7 625	–	10 006	2 719
Depreciation for the period	253	1 042	–	1 295	725
Impairment charge for the period	–	–	–	–	2
Disposals	–94	–541	–	–635	–406
Reclassifications	–	27	–	27	–21
Translation differences	53	151	–	204	103
Closing balance, Dec. 31	**2 593**	**8 304**	**–**	**10 897**	**3 122**
Carrying amounts					
At Jan. 1 [1]	3 990	3 372	706	8 068	2 286
At Dec. 31	**3 760**	**3 696**	**565**	**8 021**	**2 858**

[1] Finance leases from 2018, previously included in note 13 Property, plant and equipment are presented in note 22 Leases.

2018	Buildings and land	Machinery and equipment	Construction in progress and advances	**Total**	Rental equipment
Cost					
Opening balance, Jan. 1	6 934	14 852	752	22 538	6 455
Discontinued operations	–1 126	–5 063	–218	–6 407	–2 261
Investments	120	690	941	1 751	1 062
Business acquisitions	57	52	–	109	72
Divestment of business	–	–8	–	–8	–
Disposals	–118	–465	–8	–591	–433
Reclassifications	253	607	–784	76	–33
Translation differences	260	400	23	683	158
Closing balance, Dec. 31	**6 380**	**11 065**	**706**	**18 151**	**5 020**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 610	10 405	–	13 015	3 521
Discontinued operations	–457	–3 678	–	–4 135	–1 046
Depreciation for the period	231	998	–	1 229	590
Impairment charge for the period	–	22	–	22	3
Divestment of business	–	–4	–	–4	–
Disposals	–112	–413	–	–525	–398
Reclassifications	19	66	–	85	–27
Translation differences	93	272	–	365	89
Closing balance, Dec. 31	**2 384**	**7 668**	**–**	**10 052**	**2 732**
Carrying amounts					
At Jan. 1	4 324	4 447	752	9 523	2 934
At Dec. 31	**3 996**	**3 397**	**706**	**8 099**	**2 288**

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

Accumulated capital participation	2019	2018
Opening balance, Jan. 1	133	212
Discontinued operations	–	–94
Acquisitions of joint ventures	909	–
Dividends	–38	–2
Profit for the year after income tax	16	5
Translation differences	17	12
Closing balance, Dec. 31	**1 037**	**133**

2019 Summary of financial information for associated companies and joint ventures	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % [1]
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	74	22	52	39	–3	25
Reintube S.L.	Spain	6	3	3	9	0	47
Joint ventures							
Toku-Hanbai Group	Japan	423	186	237	799	–4	50
Ulvac Cryogenics Inc.	Japan	1 272	506	766	331 [2]	39 [2]	50

2018 Summary of financial information for associated companies and joint ventures	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % [1]
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	77	22	55	44	1	25
Reintube S.L.	Spain	6	3	3	8	0	47
Joint ventures							
Toku-Hanbai Group	Japan	414	181	233	730	8	50

[1] The Atlas Copco percentage share of each holding represents both ownership interest and voting power.
[2] Included from the date of acquisition.

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

On July 1, 2019, Atlas Copco completed the acquisition of Brooks' Semiconductor Cryogenics Business. Included in the acquisition was a 50% share of Japan based Ulvac Cryogenics Inc. (UCI). UCI manufactures and sells cryopumps and cryogenic equipment such as cryogenic refrigerators and provides various support services in advanced technology fields such as analysis equipment and medical care.

15. Other financial assets

The fair value of financial instruments under other financial assets corresponds to their carrying value.

	2019	2018
Non-current		
Pension and other similar benefit assets (note 23)	478	535
Financial asset at fair value through OCI	13	12
Financial assets at fair value through profit or loss	20	97
Financial assets measured at amortized cost		
– lease receivables	94	3
– other financial receivables	37	29
Closing balance, Dec. 31	**642**	**676**
Current		
Financial assets at fair value through profit or loss	73	–
Financial assets measured at amortized cost		
– lease receivables	32	1
– other financial receivables	20	101
Closing balance, Dec. 31	**125**	**102**

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

16. Inventories

	2019	2018
Raw materials	1 886	1 591
Work in progress	2 833	2 569
Semi-finished goods	3 720	3 337
Finished goods	6 062	5 221
Closing balance, Dec. 31	**14 501**	**12 718**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 411 (510). Reversals of write-downs which were recognized in earnings totaled 43 (155). Previous write-downs have been reversed as a result of improved market conditions in certain markets. Inventories recognized as expense amounted to 42 893 (40 886).

17. Trade receivables

The fair value for trade receivables corresponds to their carrying value. Trade receivables are measured at amortized cost.

	2019	2018
Provisions for bad debts, trade		
Provisions at Jan. 1	716	1 017
Discontinued operations	–	–336
Business acquisitions and divestments	15	4
Provisions recognized for potential losses	337	325
Amounts used for established losses	–211	–180
Release of unnecessary provisions	–162	–135
Translation differences	16	21
Closing balance, Dec. 31	**711**	**716**

Trade receivables of 20 590 (18 906) are reported net of provisions for doubtful accounts and other impairments amounting to 711 (716).

Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 125 (325).

For credit risk information, see note 27.

18. Other receivables

The fair value for other receivables corresponds to their carrying value.

	2019	2018
Derivatives		
– at fair value through profit or loss	277	24
– at fair value through OCI	78	–
Financial assets measured at amortized cost		
– other receivables	2 461	2 558
– contract assets	2 393	2 024
Prepaid expenses	689	599
Closing balance, Dec. 31	**5 898**	**5 205**

Other receivables consist primarily of VAT claims and advances to suppliers. Contract assets relate mainly to service and construction projects. Impairment losses recognized on contract assets were insignificant. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs.

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

19. Cash and cash equivalents

The fair value of cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are measured at amortized cost.

	2019	2018
Cash	13 421	9 978
Cash equivalents	1 584	6 436
Closing balance, Dec. 31	**15 005**	**16 414**

During 2019, cash and cash equivalents had an estimated average effective interest rate of 0.66% (0.45). Estimated average effective interest rate remained at a low level due to a generally low interest environment. The committed, but unutilized, credit lines were MEUR 1 440 (1 440), which equaled to MSEK 15 030 (14 816).

See note 27 for additional information.

20. Equity

	2019			2018		
Shares outstanding	A shares	B shares	Total	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104	839 394 096	390 219 008	1 229 613 104
Split of shares 2:1	–	–	–	839 394 096	390 219 008	1 229 613 104
	839 394 096	**390 219 008**	**1 229 613 104**	**1 678 788 192**	**780 438 016**	**2 459 226 208**
Redemption of shares	–	–	–	–823 107 846	–389 972 849	–1 213 080 695
Redemption of shares held by Atlas Copco	–	–	–	–16 286 250	–246 159	–16 532 409
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–12 557 941	–8 899	–12 566 840	–16 779 903	–119 159	–16 899 062
Total shares outstanding, Dec. 31	**826 836 155**	**390 210 109**	**1 217 046 264**	**822 614 193**	**390 099 849**	**1 212 714 042**

At December 31, 2019 Atlas Copco AB's share capital amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately SEK 0.64 (0.64). Series A shares entitle the holder to one voting right and series B shares entitle the holder to one-tenth of a voting right per share.

20. Equity, continued

	Number of shares held by Atlas Copco						Cost value affecting equity	
Repurchases/ Divestment of shares	**2019**	AGM mandate 2019 Apr.–Dec.	AGM mandate 2018 Jan.–Mar.	**2018**	AGM mandate 2018 Apr.–Dec.	AGM mandate 2017 Jan.–Mar.	**2019**	**2018**
Opening balance, Jan. 1	16 899 062			15 887 755			4 077	3 699
Repurchase of A shares	3 000 000	1 200 000	1 800 000	3 000 000	1 500 000	1 500 000	897	843
Divestment of A shares	–7 221 962	–5 439 956	–1 782 006	–1 861 693	–1 724 672	–137 021	–1 755	–456
Divestment of B shares	–110 260	–110 260	–	–127 000	–127 000	–	–8	–9
Closing balance, Dec. 31	**12 566 840**			**16 899 062**			**3 211**	**4 077**
Percentage of shares outstanding	1.0%			1.4%				

The 2019 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate is valid until the next AGM and allows:

- The purchase of not more than 4 250 000 series A shares, whereof a maximum 4 150 000 may be transferred to personnel stock option holders under the performance stock option plan 2019.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 11 000 000 series A and B shares in order to cover the obligations under the performance stock option plans 2014, 2015 and 2016.

At the Annual General Meeting on April 24 2018, it was decided to spin-off and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, 2018, the shareholders received one Epiroc share for each of their Atlas Copco shares. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018. For further information see note 3.

Atlas Copco has generated significant cash flows in recent years, resulting in a strong financial position. To adjust the Group's capital structure without jeopardizing the capacity to finance further growth, the 2018 Annual General Meeting approved a redemption procedure and the following transactions were performed in 2018:

- Split of each series A and series B shares into one ordinary share and one redemption share.
- Reduction of the share capital for repayment to the shareholders by way of redemption of 1 229 613 104 redemption shares at SEK 8 per share. This corresponded to a total distribution of SEK 9 704 644 888 to the shareholders taking into account that 16 532 409 shares were held by Atlas Copco and thus not eligible for repayment.
- Increase of share capital by MSEK 393 by way of a bonus issue whereby the Company's non-restricted equity was used.

The 2018 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate was valid until the next AGM and allowed:

- The purchase of not more than 3 300 000 series A shares, whereof a maximum 2 300 000 may be transferred to personnel stock option holders under the performance stock option plan 2018.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 6 200 000 series A and B shares in order to cover the obligations under the performance stock option plans 2013, 2014 and 2015.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2019, 3 000 000 series A shares were repurchased while 7 221 962 series A shares and 110 260 series B shares were divested in accordance with mandates granted by the 2018 and 2019 AGM. Further information regarding repurchases and sales in accordance with AGM mandates is presented in the table above. The series A shares are held for possible delivery under the 2015–2019 personnel stock option programs.

The series B shares held can be divested over time to cover costs related to the personnel stock option programs, including social insurance charges, cash settlements or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable. The total number of shares of series A and series B held by Atlas Copco is presented in the table above.

Reserves

Consolidated equity includes certain reserves which are described below:

Hedging reserve

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

Translation reserve

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

Non-controlling interest

Non-controlling interest amounts to 59 (47). Five subsidiaries have non-controlling interest, one of which is Atlas Copco (India) Ltd. The non-controlling interests are not material to the Group.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 7.00 (6.30) per share, totaling SEK 8 519 323 848 if shares held by the company on December 31, 2019 are excluded.

SEK	
Retained earnings including reserve for fair value	132 874 385 406
Profit for the year	11 341 490 775
	144 215 876 181
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 7.00 per share	8 519 323 848
To be retained in the business	135 696 552 333
Total	**144 215 876 181**

The proposed dividend for 2018 of SEK 6.30 per share, as approved by the AGM on April 25, 2019, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 7 652 662 988.

21. Borrowings

	Maturity	Repurchased nominal amount	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		–	–	5 145	5 170
Medium Term Note Program MEUR 500	2023		5 207	5 655	5 130	5 604
Medium Term Note Program MEUR 500	2026		5 212	5 352	5 137	4 997
Medium Term Note Program MEUR 300	2029		3 105	3 050	–	–
Bilateral borrowings NIB MEUR 200	2024		2 088	2 140	2 058	2 120
Bilateral borrowings EIB MEUR 300	2022	MEUR 100	2 088	2 103	2 058	2 078
Other bank loans			15	15	18	18
Less current portion of long-term borrowings			–11	–11	–5 154	–5 179
Total non-current bonds and loans			**17 704**	**18 304**	**14 392**	**14 808**
Lease liabilities			2 670	2 670	10	10
Other financial liabilities			26	26	13	13
Total non-current borrowings			**20 400**	**21 000**	**14 415**	**14 831**
Current						
Current portion of long-term borrowings			11	11	5 154	5 179
Short term loans			2 271	2 271	802	802
Lease liabilities			973	973	10	10
Total current borrowings			**3 255**	**3 255**	**5 966**	**5 991**
Closing balance, Dec. 31			**23 655**	**24 255**	**20 381**	**20 822**

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

In 2019, a MEUR 500 bond matured and was repaid. During the year, Atlas Copco AB entered into a 7-year MEUR 300 loan agreement with the European Investment Bank. The facility is undrawn. In September, Atlas Copco Finance DAC issued a 10-year MEUR 300 bond.

Lease liabilities increased by MSEK 3 284 on January 1, 2019 due to transition from IAS17 to IFRS16. Short term loans include supply chain financing contracts with remaining payment terms exceeding 180 days.

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

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

Back-up facilities	Nominal amount	Maturity	Utilized
Commercial papers [1, 2]	MSEK 10 175	–	–
Credit-line	MEUR 640	2024	–
Credit-line	MEUR 800	2021	–
Equivalent in SEK	**MSEK 25 205**		–

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

2) The maximum amounts available under these programs total MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 10 175 (10 116).

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

Currency	2019 Local currency (millions)	2019 MSEK	2019 %	2018 Local currency (millions)	2018 MSEK	2018 %
EUR	1 950	20 354	86	1 912	19 677	96
SEK	307	307	1	–	–	–
USD	104	968	4	12	108	1
Other	–	2 026	9	–	596	3
Total		**23 655**	**100**		**20 381**	**100**

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

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2020	2 231	1 024	3 255	3 255
2021	797	–	797	797
2022	588	2 088	2 676	2 691
2023	5 621	–	5 621	6 068
2024	289	2 088	2 377	2 429
2025	207	–	207	207
2026	5 334	–	5 334	5 474
2027	102	–	102	102
2028 and after	3 286	–	3 286	3 232
Total	**18 455**	**5 200**	**23 655**	**24 255**

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

21. **Borrowings,** continued

2019			Cash changes	Non cash changes							
Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Change in accounting principles, IFRS 16	Financing cash flows	Lease additions	Lease deductions	Acquired/ divested companies	Fair value change through P/L	Fair value change through equity	FX change	Reclassi-fication	Closing balance, Dec. 31
Non-current											
Non-current bonds and loans	14 392	–	3 122	–	–	48	–22	165	5	– 6	17 704
Lease liabilities	10	2 437	–	898	–76	29	34	–	66	–728	2 670
Other financial liabilities	13	–	–	–	–	12	1	–	0	–	26
Total non-current	**14 415**	**2 437**	**3 122**	**898**	**–76**	**89**	**13**	**165**	**71**	**–734**	**20 400**
Current											
Current portion of long term borrowings	5 154	–	–5 250	–	–	–	–	105	1	1	11
Short term loans	802	–	1 147	–	–	1	0	–	15	5	1 970
Lease liabilities	10	847	–1 098	496	–85	11	41	–	23	728	973
Total current	**5 966**	**847**	**–5 201**	**496**	**–85**	**12**	**41**	**105**	**39**	**734**	**2 954**
Total	**20 381**	**3 284**	**–2 079**	**1 394**	**–161**	**101**	**54**	**270**	**110**	**–**	**23 354**

2018			Cash changes	Non cash changes							
Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Discontinued operations	Financing cash flows	Lease additions	Lease deductions	Acquired/ divested companies	Fair value change through P/L	Fair value change through equity	FX change	Reclassi-fication	Closing balance, Dec. 31
Non-current											
Non-current bonds and loans	23 558	–19	–5 020	–	–	17	5	797	214	–5 160	14 392
Lease liabilities	76	–62	–16	5	–	10	–	–	–	–3	10
Other financial liabilities	1	0	–1	–	–	–	13	–	0	0	13
Total non-current	**23 635**	**–81**	**–5 037**	**5**	**–**	**27**	**18**	**797**	**214**	**–5 163**	**14 415**
Current											
Current portion of long term borrowings	6	–1	–14	–	–	0	–	–	1	5 162	5 154
Short term loans	1 281	–659	148	–	–	11	–2	–	24	–1	802
Lease liabilities	55	–41	–18	9	–	5	–	–	2	–2	10
Total current	**1 342**	**–701**	**116**	**9**	**–**	**16**	**–2**	**–**	**27**	**5 159**	**5 966**
Total	**24 977**	**–782**	**–4 921**	**14**	**–**	**43**	**16**	**797**	**241**	**–4**	**20 381**

Cash flow from financing activities also includes net "Settlement of CSA" (Credit Support Annex) of MSEK 367 (–181) which is not included in the table above. In December 2019, the financial liability related to CSA amounted to MSEK 301 (0).

22. Leases

Group as a lessee

Atlas Copco´s lease portfolio consists mainly of leased buildings such as offices and warehouses, vehicles and production equipment. There are several lease contracts with extension options and variable lease payments.

Carrying amounts and movements of the right-of-use asset are presented in the below table:

Right-of-use assets 2019	Buildings and land	Machinery and equipment	Rental equipment	Total
Cost				
Opening balance, Jan. 1 [1)]	9	68	15	92
Change in accounting principles, IFRS 16	2 350	907	2	3 259
Additions	782	594	11	1 387
Business acquisitions	33	6	–	39
Deductions	–66	–161	–	–227
Reclassifications	11	–32	19	–2
Translation differences	57	26	–	83
Closing balance, Dec. 31	**3 176**	**1 408**	**47**	**4 631**
Depreciation and impairment losses				
Opening balance, Jan. 1 [1)]	3	43	13	59
Depreciation for the period	614	427	9	1 050
Deductions	–5	–9	–	–14
Reclassifications	2	–16	–	–14
Translation differences	–4	–3	–	–7
Closing balance, Dec. 31	**610**	**442**	**22**	**1 074**
Carrying amounts				
At Jan. 1 [1)]	6	25	2	33
At Dec. 31	**2 566**	**966**	**25**	**3 557**

[1)] Finance leases 2018 were presented in note 13 Property, plant and equipment.

For carrying amounts and movements of lease liabilities related to the right-of-use assets, see note 21. The maturity analysis of lease liabilities is disclosed in note 27.

The following amounts have been recognized in profit or loss:

Leasing in income statement	2019
Depreciation expense on right-of-use assets	–1 050
Interest expense on lease liabilities	–75
Expense relating to leases of low value assets	–43
Expense relating to short-term leases	–146
Expense relating to variable lease payments	–49
Income from subleasing right-of-use assets	12
Gains or losses from sale and leaseback transactions	20
Total amount recognized in profit or loss	**–1 331**

For cash outflows related to leases, the principal payment amounts to 1 034 and the interest portion of lease payments to 64. The principal payment is recognized as cash flow from financing activities and the interest portion of the lease payment as cash flow from operating activities, net financial items paid. For further information, see consolidated statements of cash flow and note 21.

Lease contracts that include extension options are mainly related to premises, machinery and equipment. Management uses significant judgement in determining whether these extension options are reasonably certain to be exercised. Extension options reasonably certain to be exercised are included in the lease term. Future cash outflow relating to extension options expected not to be exercised amounts to 167. For leases that have not yet commenced, the future cash outflow amounts to 31.

22. Leases, continued

Group as a lessor
As a lessor, the Group has finance and operating lease contracts, see note 1 for further information.

Finance lease – lessor
Atlas Copco has equipment which is leased to customers under finance leases. Future payments to be received fall due as follows:

	2019		2018	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	34	32	1	1
Between one and five years	83	77	3	3
More than five years	11	11	1	0
Total	**128**	**120**	**5**	**4**
Unearned finance income	–	2	–	1
Unguaranteed residual value	–	6	–	–
Total	**128**	**128**	**5**	**5**

Operating leases – lessor
Atlas Copco has equipment which is leased to customers under operating leases. Future payments for non-cancellable operating leasing contracts fall due as follows:

	2019	2018
Less than one year	78	79
Between one and five years	118	89
More than five years	23	10
Total	**219**	**178**

Contingent rent recognized as income amounted to 3 (6).

Comparative information for 2018 in accordance with IAS 17
Atlas Copco has chosen to perform the transition to IFRS 16 by use of the modified retrospective approach, which does not require restatement of comparative periods. The comparative information continues to be reported in accordance with IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The operating lease commitment as per December 2018 included low-value and short-term leases as well as variable lease payments.

Operating leases – lessee
The leasing costs of assets under operating leases amounted to 1 190, and were derived primarily from leased premises, machinery, computer and office equipment. The total leasing cost included minimum lease payments of 1 188, contingent rent of 17, and sublease payments received of –15. Future payments for non-cancellable operating leasing contracts fell due as follows:

	2018
Less than one year	1 078
Between one and five years	2 131
More than five years	263
Total	**3 472**

The total of future minimum sublease payments expected to be received were –34.

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2018	55	5
Carrying amounts, Dec. 31, 2018	31	2

Assets utilized under finance leases primarily consisted of vehicles.

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

	2018		
	Minimum lease payments	Interest	Principal
Less than one year	11	1	10
Between one and five years	11	1	10
More than five years	–	–	–
Total	**22**	**2**	**20**

23. Employee benefits

Post-employment benefits

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

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

In Canada, the pension plan and the supplemental retirement pension benefit plan for executives, both funded, were wound up in 2019. There are also two unfunded plans, a post-retirement benefit plan and a post-employment plan.

The plans in Germany cover pensions, early retirements and jubilee. The plans are funded.

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

In the United Kingdom, there is a final salary pension plan. This plan is funded. In 2010, the plan was converted to a defined contribution plan for future services.

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

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

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

	2019	2018
Financial assets (note 15)	–478	–535
Post-employment benefits	3 488	2 837
Other provisions (note 25)	91	84
Closing balance, net	**3 101**	**2 386**

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 3 101 (2 386). The weighted average duration of the obligation is 15.5 (14.5) years.

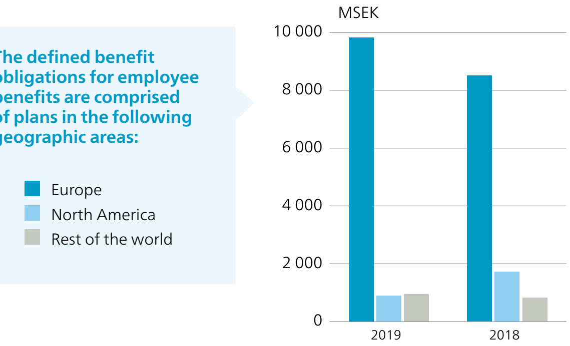
Post-employment benefits 2019	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	**Total**
Present value of defined benefit obligations	10 151	1 268	77	169	11 665
Fair value of plan assets	–8 511	–	–75	–	–8 586
Present value of net obligations	**1 640**	**1 268**	**2**	**169**	**3 079**
Other long-term service obligations	–	–	22	–	22
Net amount recognized in the balance sheet	**1 640**	**1 268**	**24**	**169**	**3 101**

Post-employment benefits 2018	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	**Total**
Present value of defined benefit obligations	9 602	1 199	76	176	11 053
Fair value of plan assets	–8 656	–	–75	–	–8 731
Present value of net obligations	**946**	**1 199**	**1**	**176**	**2 322**
Effect of asset ceiling	42	–	–	–	42
Other long-term service obligations	–	–	22	–	22
Net amount recognized in the balance sheet	**988**	**1 199**	**23**	**176**	**2 386**

23. Employee benefits, continued

Plan assets consist of the following:	2019			
	Quoted market price	Unquoted market price	Total	2018
Debt instruments	1 968	–	1 968	3 844
Equity instruments	673	–	673	584
Property	620	331	951	632
Assets held by insurance companies	259	1 704	1 963	938
Cash	484	–	484	718
Investment funds	1 553	–	1 553	1 442
Derivatives	7	–	7	–18
Others	987	–	987	591
Closing balance, Dec 31	**6 551**	**2 035**	**8 586**	**8 731**

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



Movements in plan assets	2019	2018
Fair value of plan assets at Jan. 1	8 731	9 786
Discontinued operations	–	– 1 149
Interest income	217	208
Remeasurement – return on plan assets	430	–355
Settlements	–943	–50
Employer contributions	128	188
Plan members contributions	16	22
Administrative expenses	–9	–14
Benefit paid by the plan	–372	–352
Reclassifications	22	138
Translation differences	366	309
Fair value of plan assets, Dec 31	**8 586**	**8 731**

The plan assets are allocated among the following geographic areas:	2019	2018
Europe	7 285	6 709
North America	708	1 506
Rest of the world	593	516
Total	**8 586**	**8 731**

Asset ceiling	2019	2018
Asset ceiling at Jan. 1	42	–
Remeasurements – asset ceiling	–44	41
Translation difference	2	1
Asset ceiling, Dec. 31	**–**	**42**

Movement in present value of the obligations for defined benefits	2019	2018
Defined benefit obligations at Jan. 1	11 053	12 335
Discontinued operations	–	–1 338
Current service cost	336	345
Past service cost	–52	41
Interest expense (+)	269	248
Actuarial gains (–)/ losses (+) arising from experience adjustments	32	29
Actuarial gains (–)/ losses (+) arising from financial assumptions	1 232	–407
Actuarial gains (–)/ losses (+) arising from demographic assumptions	–150	–165
Business acquisitions	21	–
Settlements	–943	–51
Benefits paid from plan or company assets	–600	–586
Reclassifications	56	165
Translation differences	411	437
Defined benefit obligations, Dec. 31	**11 665**	**11 053**

For continuing operations, remeasurements recognized in other comprehensive income amounted to 626 (–149) and 14 (2) in profit and loss. The Group expects to pay 352 (304) in contributions to defined benefit plans in 2020.

Expenses recognized in the income statement	2019	2018
Current service cost	336	345
Past service cost	–52	41
Net interest cost	52	40
Employee contribution/ participant contribution	–16	–23
Remeasurement of other long-term benefits	14	2
Administrative expenses	8	13
Total	**342**	**418**

The total benefit expense for defined benefit plans amounted to 342 (418), whereof 290 (379) have been charged to operating expenses and 52 (40) to financial expenses. Expenses related to defined contribution plans amounted to 879 (743).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages in %)	2019	2018
Discount rate		
Europe	1.32	2.24
North America	2.98	3.28
Future salary increases		
Europe	1.57	1.69
North America	0.41	0.18
Medical cost trend rate		
North America	7.01	7.01

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

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

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

Sensitivity analysis	Europe	North America
Change in discount rate +0.5%	–784	–38
Change in discount rate –0.5%	882	40
Increase in life expectancy, +1 year	388	19

23. Employee benefits, continued

Share value based incentive programs

In 2015–2018, 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 2019, the Annual General Meeting decided on a performance-based personnel stock option program for 2019 similar to the 2015–2018 programs.

Option programs 2015–2019

At the Annual General Meeting 2015–2019 respectively, it was decided to implement performance-based personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued for each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2019 option program, the number of options varies on a linear basis within a preset EVA interval. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long-term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2015 program has a term of five years from the grant date whereas the 2016–2019 programs have a term of seven years. The options in the 2014–2019 programs are not transferable and become exercisable at 100% three years after grant.

The 2015–2019 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. A lower amount of investment will reduce the number of options proportionately. Further, senior executives who have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

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

In the 2015–2018 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

The Black-Scholes model is used to calculate the fair value of the options/SARs in the programs at issue date. For the programs in 2018 and 2019, the fair value of the options/SARs was based on the following assumptions:

Financial income and expenses	2019 Program (Dec. 31, 2019)	2018 Program (at issue date)
Expected exercise price	SEK 411/280 [1]	SEK 264/180 [1,2]
Expected volatility	30%	30%
Expected options life (years)	4.6	4.4
Expected share price	SEK 373.60	SEK 275.60
Expected dividend (growth)	SEK 6.3 (6%)	SEK 6.3 (6%)
Risk free interest rate	1.00%	1.00%
Expected average grant value	SEK 66.90/111.90	SEK 58.70/92.80
Maximum number of options	4 081 165	2 915 027 [3]
– of which forfeited	21 259	79 865
Number of matching shares	27 622	41 616

1) Matching shares for senior executives.
2) Actual.
3) Adjusted for the effect of the distribution of Epiroc

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

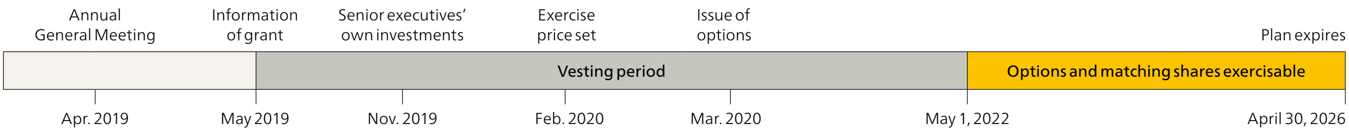
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in the 2015–2019 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
Stock options	From	To	From	To
2015	May 2015	April 2018	May 2018	April 2020
2016	May 2016	April 2019	May 2019	April 2023
2017	May 2017	April 2020	May 2020	April 2024
2018	May 2018	April 2021	May 2021	April 2025
2019	May 2019	April 2022	May 2022	April 2026

For the 2019 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2019 option plan



23. Employee benefits, continued

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

In accordance with IFRS 2, the expense in 2019 for all share-based incentive programs, excluding social costs, amounted to 525 (73) of which 135 (101) refer to equity-settled options. The related costs for social security contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses.

In the balance sheet, the provision for share appreciation rights and stock options classified as cash-settled as of December 31 amounted to 264 (120). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2015–2019, see also note 20.

Summary of share value based incentive programs

Program	Initial number of employees	Initial number of options	Expiration date	Exercise price, SEK	Type of share	Fair value on grant date	Intrinsic value for vested SARs
Stock options							
2013	250	–	N/a	N/a	N/a	N/a	–
2014	263	5 100 614	Apr. 30, 19	199.66	A	52.90	–
2015	254	3 430 049	Apr. 30, 20	144.14	A	33.90	–
2016	256	7 279 231	Apr. 30, 23	230.18	A	66.70	–
2017	262	3 046 532	Apr. 30, 24	286.81	A	64.20	–
2018	269	2 401 107	Apr. 30, 25	264.00	A	58.70	–
Matching shares							
2013	28	44 704	Apr. 30, 18	128.91	A	58.00	–
2014	28	53 259	Apr. 30, 19	136.46	A	96.30	–
2015	29	52 357	Apr. 30, 20	98.54	A	63.20	–
2016	27	41 048	Apr. 30, 23	157.38	A	106.20	–
2017	34	36 743	Apr. 30, 24	195.62	A	108.40	–
2018	29	41 616	Apr. 30, 25	180.00	A	92.80	–
Share appreciation rights							
2013	58	–	N/a	N/a	N/a	N/a	–
2014	59	1 014 107	Apr. 30, 19	199.66	A	–	173.94
2015	64	748 096	Apr. 30, 20	144.14	A	–	229.46
2016	64	1 586 550	Apr. 30, 23	230.18	A	–	143.42
2017	61	606 994	Apr. 30, 24	286.81	A	–	–
2018	57	434 055	Apr. 30, 25	264.00	A	–	–

Number of options/rights 2019

Program	Outstanding Jan. 1	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options							
2014	1 191 496	1 191 496	–	–	–	–	250
2015[1]	1 423 420	1 188 902	–	234 518	*234 518*	4	294
2016[2]	5 354 532	3 534 984	71 862	1 747 686	*1 747 686*	16	320
2017[3]	2 327 745	–	39 164	2 288 581	–	28	–
2018[4]	2 401 107	–	7 615	2 393 492	–	40	–
Matching shares							
2014	15 232	15 232	–	–	–	–	250
2015	24 410	16 192	–	8 218	*8 218*	4	297
2016	36 217	21 126	–	15 091	*15 091*	16	321
2017	28 228	–	–	28 228	–	28	–
2018	41 616	–	–	41 616	–	40	–
Share appreciation rights							
2014	187 302	187 302	–	–	–	–	247
2015	360 047	327 215	–	32 832	*32 832*	4	272
2016	1 176 539	719 113	23 954	433 472	*433 472*	16	321
2017	430 804	–	9 791	421 013	–	28	–
2018	434 055	–	–	434 055	–	40	–

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

[1] Of which 34 748 have been accounted for as cash settled.
[2] Of which 334 735 have been accounted for as cash settled.
[3] Of which 437 520 have been accounted for as cash settled.
[4] Of which 427 427 have been accounted for as cash settled.

23. Employee benefits, continued

Number of options/rights 2018 Program	Outstanding Jan. 1	Granted	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options								
2014	1 612 336	–	420 840	–	1 191 496	*1 191 496*	4	339
2015	2 471 411	–	1 022 873	25 118	1 423 420	*1 423 420*	16	338
2016	5 524 421	–	–	169 889	5 354 532	–	28	–
2017	2 364 437	–	–	36 692	2 327 745	–	40	–
2018	–	2 401 107	–	–	2 401 107	–	52	–
Matching shares								
2013	14 081	–	14 081	–	0	–	–	325
2014	27 373	–	12 141	–	15 232	*15 232*	4	341
2015	38 408	–	13 998	–	24 410	*24 410*	16	308
2016	37 419	–	–	1 202	36 217	–	28	–
2017	29 178	–	–	950	28 228	–	40	–
2018	–	41 616	–	–	41 616	–	52	–
Share appreciation rights								
2014	340 911	–	153 609	–	187 302	*187 302*	4	324
2015	567 498	–	207 451	–	360 047	*360 047*	16	306
2016	1 260 087	–	–	83 548	1 176 539	–	28	–
2017	464 954	–	–	34 150	430 804	–	40	–
2018	–	434 055	–	–	434 055	–	52	–

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

24. Other liabilities

Fair value of other liabilities corresponds to carrying value.

Other current liabilities	2019	2018
Derivatives		
– at fair value through profit and loss	17	24
– at fair value through OCI	2	8
Other financial liabilities		
– other liabilities	1 976	2 028
– accrued expenses	6 865	6 826
Prepaid income other	34	27
Contract liabilities		
– advances from customers	2 781	2 734
– deferred revenues construction contracts	714	477
– deferred revenues service contracts	1 844	1 535
Closing balance, Dec. 31	**14 233**	**13 659**

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

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

The amounts included in contract liabilities at the beginning of the year have been recognized as revenue during the year except for 530 (467). The main reason for revenues not recognized during the year is that they are related to performance obligations that will be performed in future periods.

As of end of 2019, transaction price allocated to remaining performance obligations was 13 604 (11 283) and the majority will be recognized as revenue over the next 3 years. The transaction price does not include consideration that is constrained.

25. Provisions

2019	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 086	273	1 153	2 512
During the year				
– provisions made	1 116	203	969	2 288
– provisions used	–964	–245	–478	–1 687
– provisions reversed	–132	–12	–310	–454
Business acquisitions	61	–	–	61
Reclassification	1	–	–1	–
Translation differences	25	6	11	42
Closing balance, Dec. 31	**1 193**	**225**	**1 344**	**2 762**
Non-current	201	29	919	1 149
Current	992	196	425	1 613
Total	**1 193**	**225**	**1 344**	**2 762**

2018	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 280	438	1 655	3 373
Discontinued operations	–201	–54	–294	–549
During the year				
– provisions made	788	55	457	1 300
– provisions used	–674	–169	–521	–1 364
– provisions reversed	–164	–13	–153	–330
Discounting effect	–	–	–1	–1
Business acquisitions	3	–	–	3
Reclassification	–	1	–1	–
Translation differences	54	15	11	80
Closing balance, Dec. 31	**1 086**	**273**	**1 153**	**2 512**
Non-current	180	25	705	910
Current	906	248	448	1 602
Total	**1 086**	**273**	**1 153**	**2 512**

Maturity 2019	Product warranty	Restructuring	Other	Total
Less than one year	992	196	425	1 613
Between one and five years	193	9	541	743
More than five years	8	20	378	406
Total	**1 193**	**225**	**1 344**	**2 762**

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

26. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2019	2018
Inventory and property, plant and equipment	80	74
Endowment insurances	190	164
Other receivables	–	62
Total	**270**	**300**

Contingent liabilities	2019	2018
Notes discounted	5	3
Sureties and other contingent liabilities	229	389
Total	**234**	**392**

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

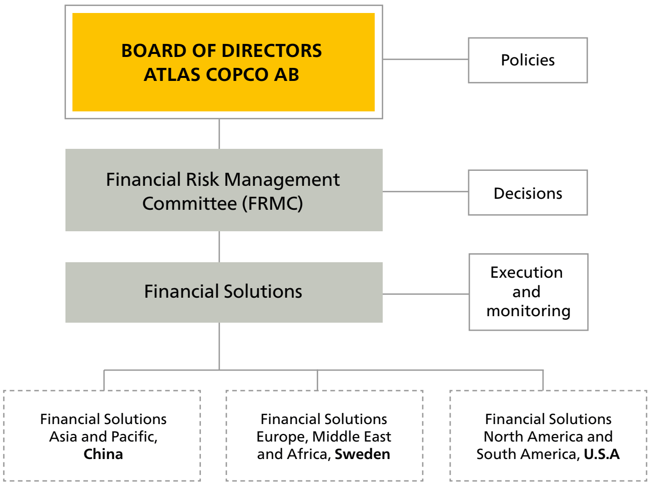
27. Financial exposure and principles for control of financial risks

FINANCIAL RISKS

The Group is exposed to various financial risks in its operations. These financial risks include: Funding and liquidity risk, Interest rate risk, Currency risk, Credit risk and Other market and price risks

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

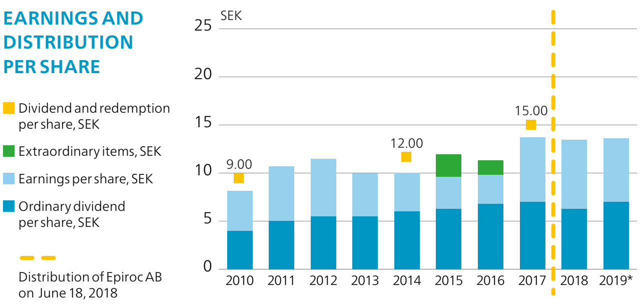
Financial Solutions has the operational responsibility for financial risk management in the Group. Financial Solutions manages and controls financial risk exposures, ensures that appropriate financing is in place through loans and committed credit facilities, and manages the Group's liquidity.



Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 76 945 (62 853). The Group's policy is to have a capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's ambition is that the annual dividend shall correspond to about 50% of earnings per share. In recent years, the Board has 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.



* Proposed by the Board of Directors

Funding and liquidity risk

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

Policy

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

- The Group should maintain minimum MSEK 8 000 committed credit facilities to meet operational, strategic and rating objectives.
- The average tenor, time to maturity, of the Group's external debt shall be at least 3 years.
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months.
- Adequate funding at subsidiary level shall at all times be in place.

Status at year end

As per December 31, there were no deviations from the Group's policy.

Funding and liquidity risk	2019	2018
Committed credit facilities	15 030	14 816
Cash and cash equivalents	15 005	16 414
Average tenor, years	5.6	4.3
External debt maturities	–	5 145

The overall liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalent as of year end, and available back-up credit facilities from banks. Please refer to note 21 for information on utilized borrowings, maturity, and back-up facilities.

The following table shows the maturity structure of the Group's financial liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay, including both interest and nominal amounts. The short-term assets are well matched with the short-term liabilities in terms of maturity. Furthermore, the Group has back-up facilities with maturity 2021 and 2024 to secure liquidity.

Financial instruments	Up to 1 year	1–3 years	4–5 years	Over 5 years
Liabilities				
Bonds and loans	192	2 453	7 528	8 398
Lease liabilities	–	1 454	743	640
Other financial liabilities	–	16	6	5
Other liabilities	–	72	33	48
Non-current financial liabilities	**192**	**3 995**	**8 310**	**9 091**
Bonds and loans	2 275	–	–	–
Lease liabilities	1 034	–	–	–
Current portion of interest-bearing liabilities	11	–	–	–
Derivatives	19	–	–	–
Other accrued expenses	6 865	–	–	–
Trade payables	11 898	–	–	–
Other liabilities	1 976	–	–	–
Current financial liabilities	**24 078**	**–**	**–**	**–**
Financial liabilities	**24 270**	**3 995**	**8 310**	**9 091**

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

Interest rate risk

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

Policy

The Group's policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 48 months. In January 2020, the Board decided to update the Group's policy to state that the average duration should be a minimum of 6 months and without limit.

Status at year end

The Group's borrowings have a mix of fixed and floating rates. No interest rate swaps are used to convert interest. For more information about the Group's borrowings, see note 21.

Interest risk	2019	2018
Effective interest rate on bonds and loans	1.0%	1.6%
Effective interest rate on lease liabilities	2.1%	–
Duration (months)	56	38

24% (24) of the Group's bonds and loans have floating interest rates. A shift of one percentage point upward of all floating rates would impact the Group's interest net with MSEK –42 (–41). Same shift downwards would impact the Group's interest net with MSEK 0 (10), based on the assumption that the interest rate on the Group's bonds and loans cannot be negative.

The book value of the Group's bonds and loans are not exposed to market interest rate risk at year end as all bonds and loans are reported at amortized cost, compared to if borrowings were reported at fair value where cash flows are discounted using market interest rate.

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. The exposure occurs in relation to payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure).

– Transaction exposure

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

Policy

The Group's policy states that exposure shall be reduced by matching in and outflows of the same currencies. Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements. Based on the assumption that hedging does not have any significant effect on the Group's long-term result, the policy recommends to leave transaction exposures unhedged on an ongoing basis. In general, business areas and divisions shall not hedge currency risks. The Financial Risk Management Committee can decide to hedge part of the transaction exposure. Transactions shall then qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed. Financial transaction exposure is fully hedged.

Status at year end

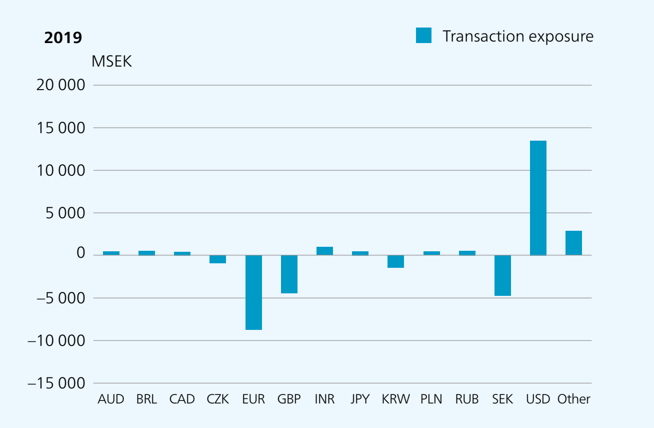
The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. Graph 1 shows the net of in- and outflows per currency for currencies which have the largest surplus or deficit. The operational transaction exposure is defined as the net operational cash flow exposure and amounts to MSEK –4 711(–4 670). The estimated amounts are based on the Group's operational external payments from customers and to suppliers.

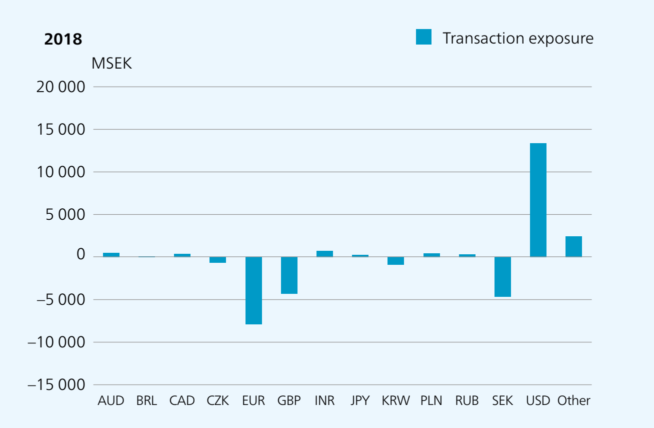
The transaction exposure sensitivity analysis is based on the operational transaction exposure. It shows how the cash flow and profit before tax would theoretically be impacted by a five percentage point change in SEK, USD or EUR, against all other currencies. The analysis is based on the assumption that no hedging transaction has been undertaken and is done before any impact of offsetting price adjustments or similar measures.

As an example, the net transaction exposure of in-and outflow payments in EUR is a deficit as shown in graph 1. A strengthening in the EUR currency rate against all other currencies with +5% would have a negative impact on the cash flow and profit before tax of MSEK –438, and a weakening would have a positive impact of MSEK 438.

Transaction exposure sensitivity	2019	2018
SEK exchange rate + 5%	–236	–234
USD exchange rate + 5%	675	670
EUR exchange rate + 5%	–438	–395

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





Outstanding derivative instruments related to transaction exposure	2019 Nominal amount, net in transaction currency	2018 Nominal amount, net in transaction currency
Foreign exchange forwards		
EUR	0	2
GBP	137	88
JPY	–	20
NOK	–	–18
USD	–175	–113

The Financial Risk Management Committee has decided to hedge part of the transaction exposure with foreign exchange forward contracts. All contracts mature within 12 months. The fair value of all outstanding contracts is MSEK 46 (1) for assets and MSEK 2 (8) for liabilities. Out of the net nominal amounts in the table, the largest cross is GBP/USD with nominal amounts of MGBP 137/MUSD –175 (MGBP 88/MUSD –113).

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

– Translation exposure

Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's global presence creates currency effects when subsidiaries' financial statements with functional currencies other than SEK are translated to SEK in the Group's consolidated financial statements. Translation of subsidiaries' profit affects the Group's profit and balance sheet translation affect other comprehensive income. The translation exposure is measured as the net of assets and liabilities in a specific currency.

Policy

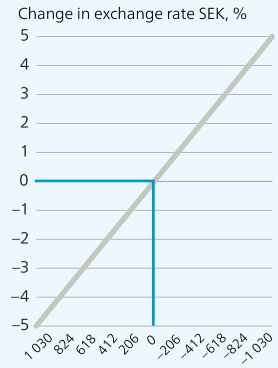
The Group's policy states that translation exposure should be reduced by matching assets and liabilities in the same currencies. The Financial Risk Management Committee can decide to hedge part or all remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

Graph 2 shows the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated to SEK. A five percentage points upward change in SEK would impact the Groups' profit before tax with MSEK –1 030 (–935).

GRAPH 2

Translation effect on profit before tax



The Group has hedged part of the translation exposure using loans and foreign exchange forward contracts. The hedges have reduced the exposure on net investments in EUR in the consolidated financial statements and the exchange rate risk related to net assets in subsidiaries. The hedges are designated as net investment hedges in the consolidated financial statements.

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

Outstanding financial instruments related to translation exposure	2019		2018	
	Effect in OCI	Nominal amount	Effect in OCI	Nominal amount
Derivatives	MSEK 31	MEUR 300	–	–
Loans in EUR [1]	MSEK –1 682	MEUR 1 400	MSEK –2 488	MEUR 1 700

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

Most of the Group´s bonds and loans are designated as net investments hedges, and movements in currency rates are accounted for in other comprehensive income. A five percentage points upward change in EUR against SEK would affect other comprehensive income with MSEK 614 (685) (see also note 1, Significant accounting principles, Financial assets and liabilities – financial instruments).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections.

– Operational credit risk

Operational credit risk is the risk that the Group's customers do not meet their payment obligations.

Policy

The Group's operational credit risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. The operational credit risk is measured as the net aggregate value of receivables on a customer.

Status at year end

The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

Credit risk	2019	2018
Receivables at amortized cost		
– trade receivables	20 705	18 998
– lease receivables	126	4
– other financial receivables	57	130
– other receivables	2 107	2 233
– contract assets	2 393	2 024
– cash and cash equivalents	15 005	16 414
Financial assets at fair value through OCI	13	12
Financial assets at fair value through profit or loss	20	97
Derivatives	355	24
Total	**40 781**	**39 936**

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

Provision for credit risks

The business units establish provisions for their expected credit losses in respect of trade and other receivables. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk. For assets such as trade receivables, lease receivables, contract assets and certain other financial receivables, the simplified model is applied. The main component of this provision are specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalents are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. At year end 2019, the provision for bad debt amounted to 3.3% (3.6) of gross total customer receivables. The following table presents the gross value of trade receivables, both current and non-current, by maturity, together with the related impairment provisions.

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

Trade receivables	2019 Gross	2019 Impairment	2018 Gross	2018 Impairment
Not past due	15 494	48	13 904	16
Past due but not individually impaired				
0–30 days	2 593	–	2 569	–
31–60 days	954	–	961	–
61–90 days	491	–	506	–
More than 90 days	1 649	–	1 546	–
Past due and individually impaired				
0–30 days	56	1	63	1
31–60 days	19	1	22	2
61–90 days	13	2	12	3
More than 90 days	147	126	131	118
Collective impairment	–	533	–	576
Total	**21 416**	**711**	**19 714**	**716**

The total estimated fair value of collateral for trade receivables amounted to 44 (59). The collateral mainly consisted of repossession rights and export credit insurance. Based on historical default statistics and the diversified customer base, the credit risk is assessed to be limited.

The gross amount of lease receivables amounted to 126 (11), of which 0 (6) have been impaired, and the gross amount of other financial receivables amounted to 65 (131), of which 8 (1) have been impaired.

There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral for lease receivables and other finance receivables was 0 (0) and 0 (0) respectively.

– Financial credit risk

Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparts related to the Group's investments, bank deposits or derivative transactions

Policy

The Groups financial credit risk is measured differently depending on transaction type, investment transactions or derivative transactions.

Investment transactions

Cash and cash equivalent may only be invested with a counterparty if the counterparty rating is above a rating threshold. The threshold for cash and cash equivalent is set at A-/A3 (as rated by Standard & Poor's, Fitch Ratings and Moody's). Investments in structured financial products are not allowed, unless approved by the Financial Risk Management Committee. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterparty and its maximum exposure limit is maintained and monitored.

Derivative transactions

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

Status at year end

Investment transactions in form of cash and cash equivalents amounted to MSEK 15 005 at year end. These consist of cash, short term bank deposits and investments in liquidity funds. At year end, the measured credit risk on derivatives, taking into account the market value and collaterals, amounted to MSEK 42 (56).

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

Outstanding derivative instruments	2019	2018
Assets	355	24
Liabilities	19	32

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements , the table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments	Gross	Offset in BS	Net in BS	Master netting agreement	Cash collateral	Net position
Assets						
Derivatives	355	–	355	–355	0	0
Liabilities						
Derivatives	19	–	19	–355	301	–35

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

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

Other market and price risks

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

– Fair value of financial instruments

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

Level 1

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

Level 2

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

Level 3

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

Valuation methods

Derivatives

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

Interest-bearing liabilities

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

Finance leases and other financial receivables

Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

The Group's financial instruments by level

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

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

Financial instruments by fair value hierarchy	Fair value	Level 1	Level 2	Level 3
Financial assets	165	20	145	–
Other receivables	116	–	116	–
Non-current financial assets	**281**	**20**	**261**	**–**
Trade receivables	20 590	–	20 590	–
Financial assets	125	73	52	–
Other receivables	2 107	–	2 107	–
Derivatives	355	–	355	–
Contract assets	2 393	–	2 393	–
Current financial assets	**25 570**	**73**	**25 497**	**–**
Financial assets	**25 851**	**93**	**25 758**	**–**
Bonds and loans	18 304	14 057	4 247	–
Other financial liabilities	26	–	26	–
Other liabilities	153	–	100	53
Non-current financial liabilities	**18 483**	**14 057**	**4 373**	**53**
Current portion of long-term loans	11	–	11	–
Short-term loans	2 271	–	2 271	–
Derivatives	19	–	19	–
Other accrued expenses	6 865	–	6 865	–
Trade payables	11 898	–	11 898	–
Other liabilities	1 976	–	1 946	30
Current financial liabilities	**23 040**	**–**	**23 010**	**30**
Financial liabilities	**41 523**	**14 057**	**27 383**	**83**

In other liabilities, MSEK 83 (99) relate to contingent considerations for acquisitions. The fair value of these liabilities has been calculated based on the expected outcome of the targets set out in the contracts, given a discount rate of 10.5%. For information about changes due to acquisitions, see note 2.

Reconciliation of financial liabilities in Level 3 (MSEK)	Opening balance	Business acquisitions	Settlement	Interest	Remeasurement	Translation	**Closing balance**	Profit/loss related to liabilities included in closing balance
Deferred considerations 2019	99	–	–26	7	–	3	**83**	–7

Currency rates used in the financial statements	Value	Code	Year-end rate 2019	Year-end rate 2018	Average rate 2019	Average rate 2018
Australia	1	AUD	6.51	6.33	6.56	6.49
Canada	1	CAD	7.13	6.59	7.10	6.70
China	1	CNY	1.33	1.31	1.37	1.31
EU	1	EUR	10.44	10.29	10.57	10.26
Hong Kong	100	HKD	119.68	114.61	120.28	110.95
United Kingdom	1	GBP	12.22	11.36	12.02	11.57
U.S.A.	1	USD	9.32	8.98	9.42	8.70

28. Related parties

Relationships

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

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies and joint ventures is found in note 14. Information about Board members and Group Management is presented on pages 56–59.

Transactions and outstanding balances

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

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

In 2019, Atlas Copco entered into a sale and leaseback transaction with the Group's German pension trust related to buildings in the US. The buildings were sold for a consideration of 629, resulting in a gain of 20. The lease terms are for 10 years. Both the consideration and the lease terms are on market terms.

Transactions with associated companies and joint ventures

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

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

	2019	2018
Revenues	34	42
Goods purchased	25	24
Service purchased	48	39
At Dec. 31:		
Trade receivables	7	6
Trade payables	8	10

Compensation to key management personnel

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

29. Subsequent events

The acquisition of Scheugenpflug AG that was announced on October 25, 2019, was completed on January 3, 2020. The Company offers dispensing solutions including adhesive bonding and potting solutions, used in various industries and is specialized in highly automated system solutions such as dispensing cells and vacuum potting chambers.

Scheugenpflug AG has more than 600 employees and is based in Neustadt an der Donau near Munich, Germany. In 2018, the company had revenues of approximately MEUR 80 (MSEK 850).

The acquired business is part of the Industrial Technique business area.

On February 10, 2020, Atlas Copco and German-listed Isra Vision AG signed a Business Combination Agreement (BCA) to create a new division for Isra Vision within the Business Area Industrial Technique. As part of the agreement, Atlas Copco will launch a voluntary public takeover offer at EUR 50 (approximately SEK 532.50) per share in cash for all outstanding shares of Isra Vision.

Isra Vision specializes in machine vision solutions with leading technologies for surface inspection and 3D vision for robot guidance, quality inspection and metrology, operating through two business lines, Industrial Automation and Surface Vision. The company has a global presence with operations in 25 locations and more than 800 employees and is headquartered in Darmstadt, Germany. In the fiscal year 2018/2019 the company had revenues of approximately MEUR 154 (MSEK 1 619) and an EBIT of approximately MEUR 34 (MSEK 357) corresponding to an EBIT margin of 22%.

The offer price corresponds to an enterprise value of MEUR 1 094 (MSEK 11 651), net of treasury shares, including net debt of MEUR 0.7. The offer has the full support from both the Management Board and the Supervisory Board of Isra Vision. Atlas Copco had at announcement already secured 34.9 percent of the shares via irrevocable undertakings and a share purchase agreement. The tender offer was launched on February 28, 2020, after approval by the German Financial Supervisory Authority (BaFin), and is subject to the approval by anti-trust authorities and the Committee on Foreign Investment in the United States (CFIUS).

On February 28, 2020 Atlas Copco acquired Dekker Vacuum Technologies, Inc. The company is a supplier of vacuum equipment and service solutions for industrial applications. Dekker Vacuum Technologies, Inc., is based in Michigan City, Indiana and has approximately 70 employees. In 2019, Dekker Vacuum Technologies had revenues of approximately MUSD 23 (MSEK 217).

The acquired business is part of the Vacuum Technique business area.