



# Annual and Sustainability Report 2019





**United in Performance.  
Inspired by Innovation.**

Performance unites us, innovation inspires us and commitment drives us to keep moving forward. Count on Epiroc to deliver the solutions you need to succeed today and the technology to lead tomorrow.

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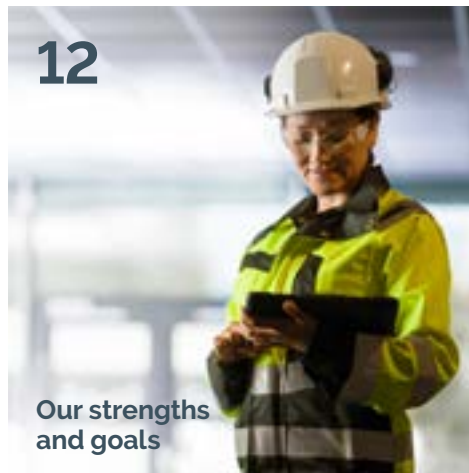
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Sustainability

**About this report**

The audited annual accounts and consolidated accounts can be found on pages 38–51 and 62–121. The corporate governance report examined by the auditors can be found on pages 52–61.

Epiroc reports its sustainability work for 2019 according to the Global Reporting Initiative (GRI) Standards version 2016, "Core" option. The sustainability report has been prepared in accordance with disclosure requirements set out in the Swedish Annual Accounts Act, chapter 6, paragraph 11.

The sustainability information that has been reviewed by the auditors can be found on pages 24–37 and 126–133. The assurance report issued by the auditors can be found on page 133 and a detailed GRI Index can be found at [www.epirocgroup.com](http://www.epirocgroup.com).

**Forward-looking statements**

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

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

Epiroc was part of the Atlas Copco Group, founded in 1873, until June 18, 2018, when Epiroc was distributed to the shareholders of Atlas Copco and listed on Nasdaq Stockholm.



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Sustainability Report reviewed by the auditors

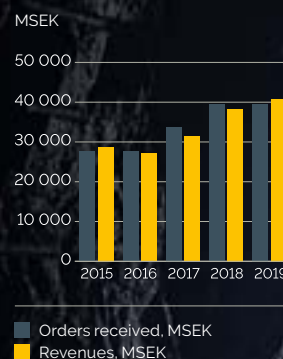
Annual Report

# 2019 in brief

Epiroc's revenues, profit and cash flow increased, supported by strong growth of our aftermarket and efficiency initiatives. We continued to deliver innovative solutions in the areas of automation, digitalization and electrification, to help our customers become more productive, safe and cost efficient.

- ▶ Strong development of orders received for aftermarket services. Weaker for equipment
- ▶ Lost time injury frequency rate decreased 21%
- ▶ Revenues increased 7% to MSEK 40 849, an organic growth of 1%
- ▶ CO2 emissions from transport decreased 20%
- ▶ Operating profit was MSEK 8 136 and operating margin was 19.9%
- ▶ Three acquisitions were completed during the year
- ▶ Improved operating cash flow
- ▶ New CEO appointed

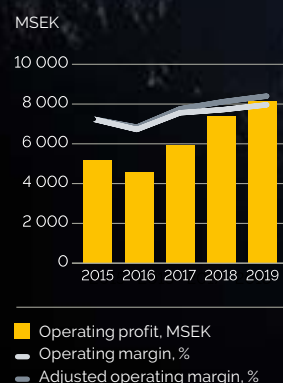
Orders received and revenues



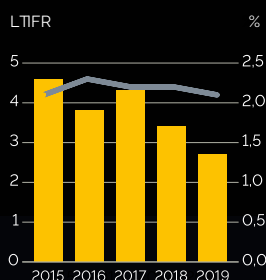
## Key figures

MSEK	2019	2018	Change
Orders received	39 492	39 400	0%
Revenues	40 849	38 285	7%
Operating profit	8 136	7 385	10%
Operating margin, %	19.9	19.3	
Profit before tax	7 843	7 201	9%
Profit margin, %	19.2	18.8	
Net profit	5 884	5 437	8%
Operating cash flow	6 688	3 884	72%
Basic earnings per share, SEK	4.89	4.50	9%
Dividend per share, SEK	2.40	2.10	14%
Return on capital employed, %	27.6	32.0	
Net debt/EBITDA ratio	0.05	0.14	
Lost time injury frequency rate, LTIFR	2.7	3.4	-21%
Sick leave, %	2.1	2.2	-5%
MWh energy from operations/ Cost of sales, MSEK	6.8	7.6	-11%
Transport CO <sub>2</sub> , tonnes/Cost of sales, MSEK	4.5	5.6	-20%

Operating profit and margin

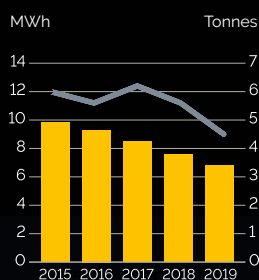


Lost time injury frequency and sick leave



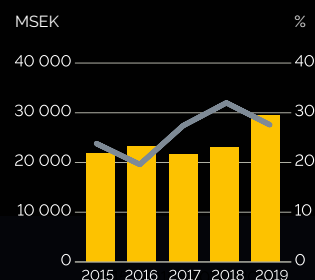
Lost time injury frequency rate, LTIFR  
Sick leave, %

Energy consumption and CO<sub>2</sub> emissions



MWh energy from operations/Cost of sales, MSEK  
Transport CO<sub>2</sub>, tonnes/Cost of sales, MSEK

Return on capital employed



Average capital employed, MSEK  
Return on capital employed, %

Note: Financial statements prior to 2018 are combined. See note 1 in the Annual and Sustainability Report 2018.



## Highlights



### Safer mining in Chile

One of the largest ever full service contracts was won from Codelco for service of mining equipment used at the Andina mine in Chile. The contract value totals MUSD 68 over seven years. Epiroc will contribute to Codelco operations making them as productive, efficient and safe as possible.



### Helena Hedblom new CEO

The Board of Epiroc AB has appointed Helena Hedblom as the new President and CEO of Epiroc AB, effective March 1, 2020. She replaces Per Lindberg, who will leave the company after having successfully established Epiroc as a listed company.



### 6th Sense

6th Sense optimizes customers' processes by connecting machines, systems and people using automation, information management and system integration. With 6th Sense, our customers can achieve production gains and lower operating costs.

# Innovation and efficiency in focus



Helena Hedblom is the President and CEO of Epiroc AB, as from March 1, 2020. She replaces Per Lindberg, who leaves the company after having successfully established Epiroc as a listed company.

“We are a young and dynamic company with energy and passion”

Per Lindberg  
President and CEO

In 2019, Epiroc's revenues, profit and cash flow increased, supported by strong growth in our aftermarket and efficiency initiatives. Our customers showed great interest in our innovative productivity solutions, in a market where demand for equipment softened. We continue to focus on innovations, such as automation, digitalization and electrification. With our passionate employees and through commitment and collaboration, we help our customers become more productive, safe and cost efficient, which enables us to create long-term value and further strengthen Epiroc for the future.

On June 18, 2019, we celebrated one year as an independent, listed company. We are a young and dynamic company with energy and passion. Still, we have significant expertise and experience in what we do. We strive to be a true productivity partner to our customers and continuously strengthen their operations. We were pleased to see many successful examples of this throughout 2019.

### 6th Sense solutions for productivity

Automation, digitalization and information management are increasingly used by mining companies to strengthen operations and become more safe and sustainable. Epiroc is at the forefront of this development and in 2019, we launched 6th Sense, our package of digital solutions. 6th Sense is our way to optimize customers' processes by connecting machines, systems and people. Examples range from installing a fully autonomous SmartROC D65 surface drill rig for Newmont Goldcorp in Canada to supporting the digitalization of Pucobre's mining operations in Chile. The solutions increase safety, boost productivity, reduce the environmental impact and improve work conditions.

### Battery-electric machines for zero-emission operations

We launched our new generation battery-electric mining equipment in late 2018, and in 2019, orders came in from customers in several countries. No wonder, considering the

significant benefits customers reap compared with using traditional diesel machines: better health and safety, higher productivity and lower total costs. Diesel has been the fuel of choice for mining equipment, but this is now starting to change. Underground operations stand to gain the most from going electric as diesel fuel traditionally implies heavy investments in ventilation to air out fumes. Epiroc is proud to spearhead the drive towards a more sustainable underground mining environment.

### Sustainability now and onwards

Focusing on safety, work conditions, energy efficiency and other sustainability aspects is not only ethically right, it is a key part of our operating model. The rate of work-related accidents fell by 21%. Our machines in operation can have a negative impact on the environment and we continuously innovate to make them more sustainable. The battery-electric machines are one example, but several other Epiroc initiatives are also contributing to a more sustainable future. We are reducing the share of products delivered by air freight and as a result CO2 emissions from transport fell significantly. In our operations we lowered energy consumption by 6% and increased the proportion of renewable energy by 3 percentage points. We have set targets on how we use resources responsibly and efficiently, and our sustainability key performance indicators make sure that we follow progress closely.

Our Code of Conduct is our most important tool to uphold

high standards. In 2019, we launched a new and more user-friendly whistleblower tool called Speak Up. We are a signatory to the UN Global Compact and fully support the 10 principles in the areas of human rights, labor, environment and anti-corruption. It is important for us to contribute towards the UN's Agenda 2030 and the Sustainable Development Goals (SDGs) in order to overcome global challenges. We continuously work with the eight SDGs that give us the greatest opportunity to make a positive difference.

### Strategic acquisitions

Epiroc's goal is to grow revenues 8% annually over a cycle and we aim to achieve this by growing both organically and through acquisitions. In 2019, we completed three acquisitions with a total annual turnover of more than MSEK 1 300. The largest acquisition was New Concept Mining, a South African manufacturer of rock reinforcement products for underground mining. It strengthened our global position in the hard rock bolting market, a strategic move as underground mines get even deeper, which increases safety requirements.

### Mixed demand

The global economy slowed in 2019 and a feeling of uncertainty spread. Many customers became cautious and delayed capital investments. Hence, orders received for our equipment fell. However, our aftermarket business continued to grow successfully. Service grew 8% organically. We also won one of our biggest service contracts ever. In total, our orders came in on par with 2018, supported by currency and acquisitions. Organically, orders decreased by 5%.

### Increased revenues, profit and cash flow

Revenues increased 7% to MSEK 40 849 and our reported operating profit reached MSEK 8 136, an increase of 10%.

It is our goal to have an industry-best operating margin that is resilient over the business cycle. In 2019, our operating margin improved over 2018 and landed at 19.9%. Hence we maintained our industry-leading position on margins. Operating cash flow also increased, largely due to higher operating profit and improved cash flow from working capital.

### Strengthened agility and optimized portfolio

We continuously improve our agility to ensure we stand strong regardless of the business environment. In 2019, we adjusted our workforce, mainly in manufacturing, and also identified further areas for efficiency improvements. These are expected to give visible effects in the first half of 2020. We also exited unprofitable businesses, optimized our product portfolio and left non-core areas, including hand-held drilling consumables and geotechnical consumables. Our program to strengthen the supply chain, which will make deliveries to customers more efficient while lowering transportation costs, started yielding positive results.

### Handing over to Helena Hedblom

In November, we announced that I will be stepping down and that Helena Hedblom will take over as President and CEO as from March 1, 2020. My mission to establish the new company, list it on the stock exchange, and ensure it stands strong for the future is now accomplished and I am happy to be handing over to Helena. She has deep knowledge and experience of the business, a strong drive, and a strong focus on innovation and customers' needs. She is a much appreciated leader and is the ideal person to lead Epiroc into the future. I wish her and Epiroc all the best. Thank you!

Per Lindberg  
President and CEO  
Stockholm, January 31, 2020

## Exciting journey ahead

First of all, I want to thank Per for his devotion to Epiroc. Under his stewardship, the company has been well established and he leaves it in a strong condition. He has taught me a lot and I appreciate his invaluable guidance.

### Innovation in Epiroc's DNA

I am proud and honored to get the opportunity to serve as President and CEO for this fantastic company. I joined Epiroc (at the time Atlas Copco) in 2000 as R&D manager for materials development in the Rock Drilling Tools division. Finding smart and sustainable solutions that put safety first, improve productivity and reduce environmental impacts has been one of my major passions ever since. I have been pleased to see that Epiroc has indeed focused on innovation. It is not by coincident that Epiroc is ahead of the competition in so many areas. This is the result of the "can-do spirit" that is in our Epiroc DNA across the world.

### Powerful partnerships

With our passionate and committed employees, we can go far. Combined with powerful partnerships, we can go even further. This is especially true now that digitalization and automation are becoming core features of our offerings, requiring complex software solutions. Therefore we are increasingly cooperating with customers and strategic partners. Combitech, for example, works with us on information management and in November, we announced an exciting partnership with Orica, the world's leading provider of com-

mercial explosives. Together we will develop a semi-automated explosives delivery system that will enable safer and more productive blasting operations in underground mines.

### Exciting journey ahead

To safeguard productivity for our customers, aftermarket is a key element of our offering. How we deliver service, consumables and spare parts makes a huge difference in customers' daily operations. By further strengthening our aftermarket business we will continue to strengthen customer relations and also learn even more about their needs.

We will continue to integrate sustainability in our business operations, attract the best people, and uphold the highest ethical standards. During 2020 we will develop 2030 sustainability goals to guide our work going forward. We are also set on improving efficiency. We aim to be a big company that acts like a small one – quick and agile.

I love to visit our operations, interacting with our customers and listening to skilled colleagues at our manufacturing plants, distribution centers and customer centers. I look forward to continue doing that in my new role.

Epiroc has an exciting journey ahead. Thank you for coming along with us.

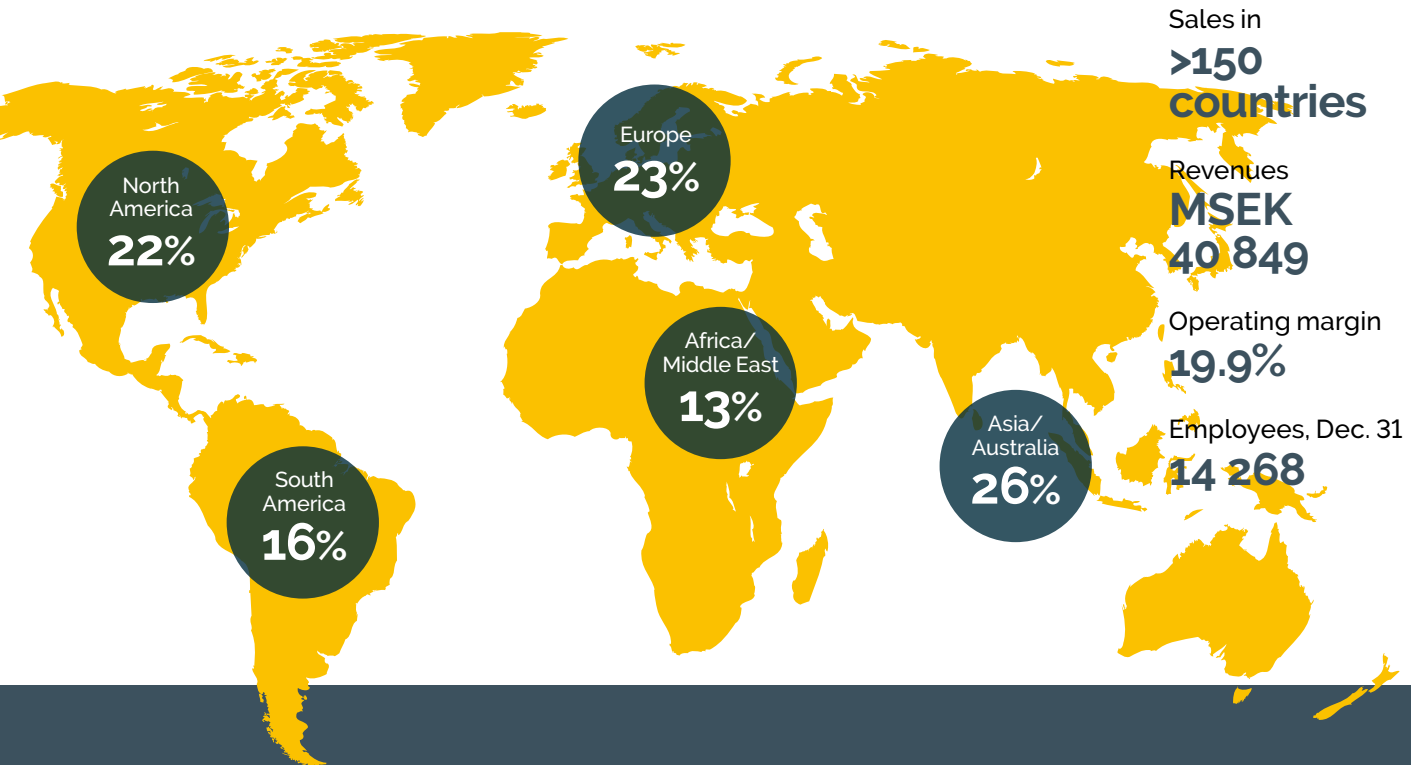
Helena Hedblom  
President and CEO, from March 1, 2020  
Stockholm, January 31, 2020

# A leading global productivity partner

Epiroc is a leading global productivity partner for the mining and infrastructure industries. With ground-breaking technology, we develop and produce innovative, safe and sustainable drill rigs, rock excavation and construction equipment, and tools. We also provide world-class service and solutions for automation and interoperability. We have a strong operating model characterized by focus on innovation, a strong and resilient services business, and

an agile and decentralized operational setup. Our world is changing and our ambition is to be the leader in automation, interoperability and fossil-free operations. We are a 147-year old start-up – a dynamic new company, but with proven expertise and experience. Epiroc means at or on rock, coming from Greek and Latin roots. It reflects our core business, our proximity to customers and the strength of our partnerships.

## Geographical distribution of revenues



## Values

Our core values define our business culture and what we stand for as Epiroc. They guide our decision-making processes and how we behave both when interacting with colleagues and in our relationships with external stakeholders. The core values are a competitive advantage that helps us maintain our leadership position.



### Innovation

We are creative, bold and open minded, with the imagination to develop new ideas and the initiative to bring them to market.



### Commitment

We are committed to meet and exceed expectations by staying connected to our customers, technology and the environment.



### Collaboration

We believe in close cooperation with customers, colleagues, partners and other stakeholders.

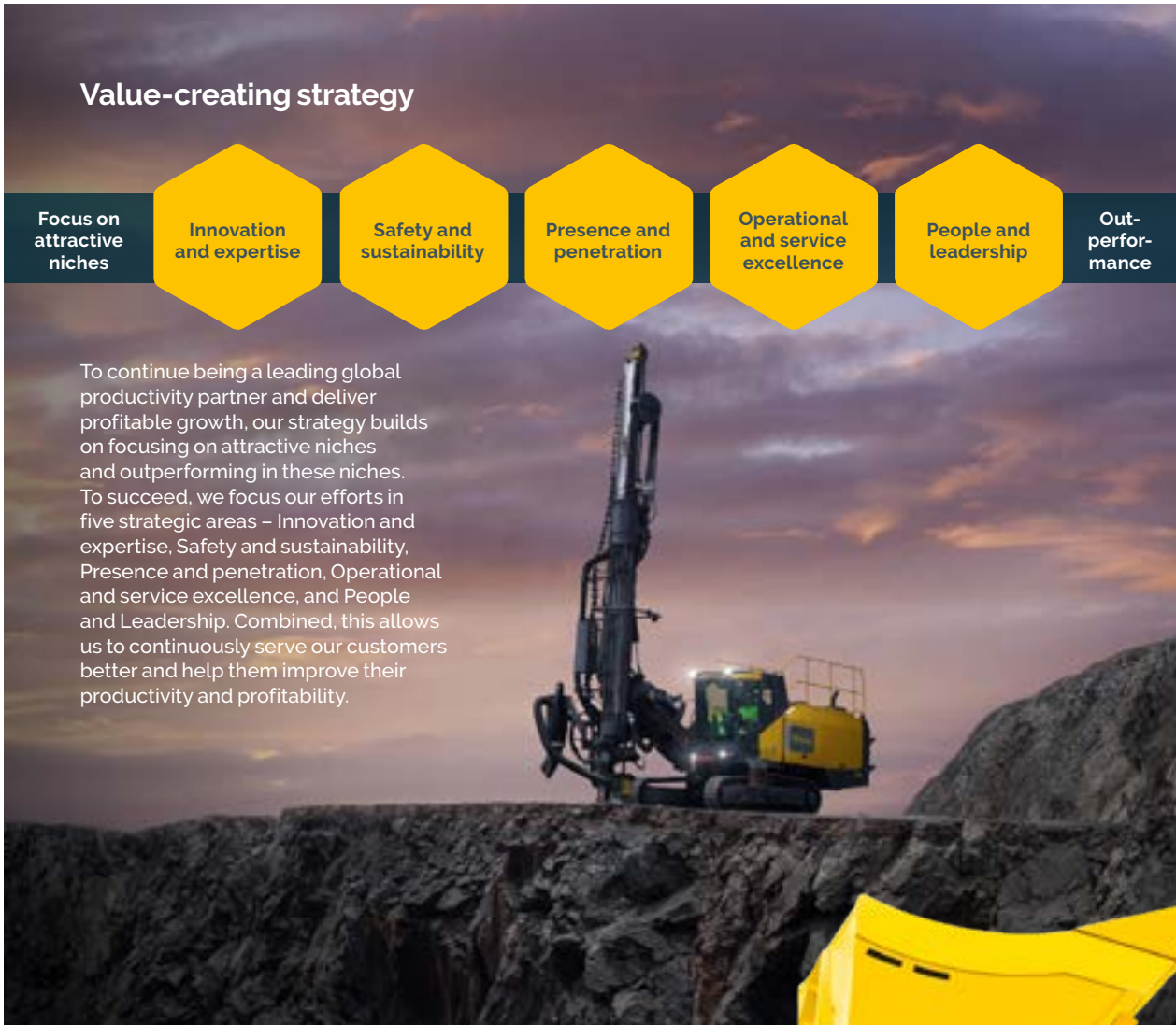




## Value-creating strategy



To continue being a leading global productivity partner and deliver profitable growth, our strategy builds on focusing on attractive niches and outperforming in these niches. To succeed, we focus our efforts in five strategic areas – Innovation and expertise, Safety and sustainability, Presence and penetration, Operational and service excellence, and People and Leadership. Combined, this allows us to continuously serve our customers better and help them improve their productivity and profitability.



### Scooptram ST14 Battery

Zero emission – A battery-driven loader that provides a powerful opportunity to minimize the environmental footprint and create a healthier work environment.

# Innovative, safe and sustainable solutions for increased productivity

We offer our customers a dedicated partner and a passionate team supporting them in an innovative, sustainable, and safe way. Our ambition is to increase and maximize our customers' everyday productivity. We improve their competitive advantage, by providing a wide range of high-performance equipment for rock drilling and excavation, demolition and recycling, supported by excellent service offerings, spare parts and consumables.

Our customers evaluate their suppliers primarily from a total cost of operations perspective. A strong track record of excellent quality and reliability is highly valued. Another important aspect is improved sustainability performance, such as safe and healthy working conditions and reduced emissions. We take pride in offering solutions designed to improve work safety, drive productivity and sustainability. We collaborate

closely with our customers, maintain a sharp focus on innovation and continuously invest in product development. This means that focus on automation, digitalization and battery power is integral in the development towards more intelligent, efficient and sustainable methods in mining and infrastructure.



## Equipment

### Mining

**76%**

of orders received in 2019



#### Underground mining

- Underground drill rigs
- Loaders and trucks
- Mechanical rock excavation
- Rock reinforcement equipment
- Ventilation systems



#### Surface mining

- Surface drill rigs



#### Exploration

- Core drill rigs
- Reverse circulation drill rigs
- Oil and gas drill rigs

### Infrastructure

**24%**

of orders received in 2019



#### Underground civil engineering

- Underground drill rigs
- Loaders and trucks
- Rock reinforcement equipment
- Ventilation systems



#### Surface civil engineering

- Surface drill rigs
- Water well drill rigs
- Dimensional stone drill rigs

**31%**

of orders received in 2019



### Boomer E2

Equipped with the computerized, award-winning Rig Control System, Boomer E2 delivers precision, productivity, maximized uptime and lower costs. Boomer E2 is also available with battery-electric drive train for emission-free tramming.

## Aftermarket



#### Service

- Service agreements and audits
- Supply of spare parts and components
- Midlife services, training, and other service products



#### Tools

- Rock drilling tools
- Exploration drilling tools
- Ground support tools



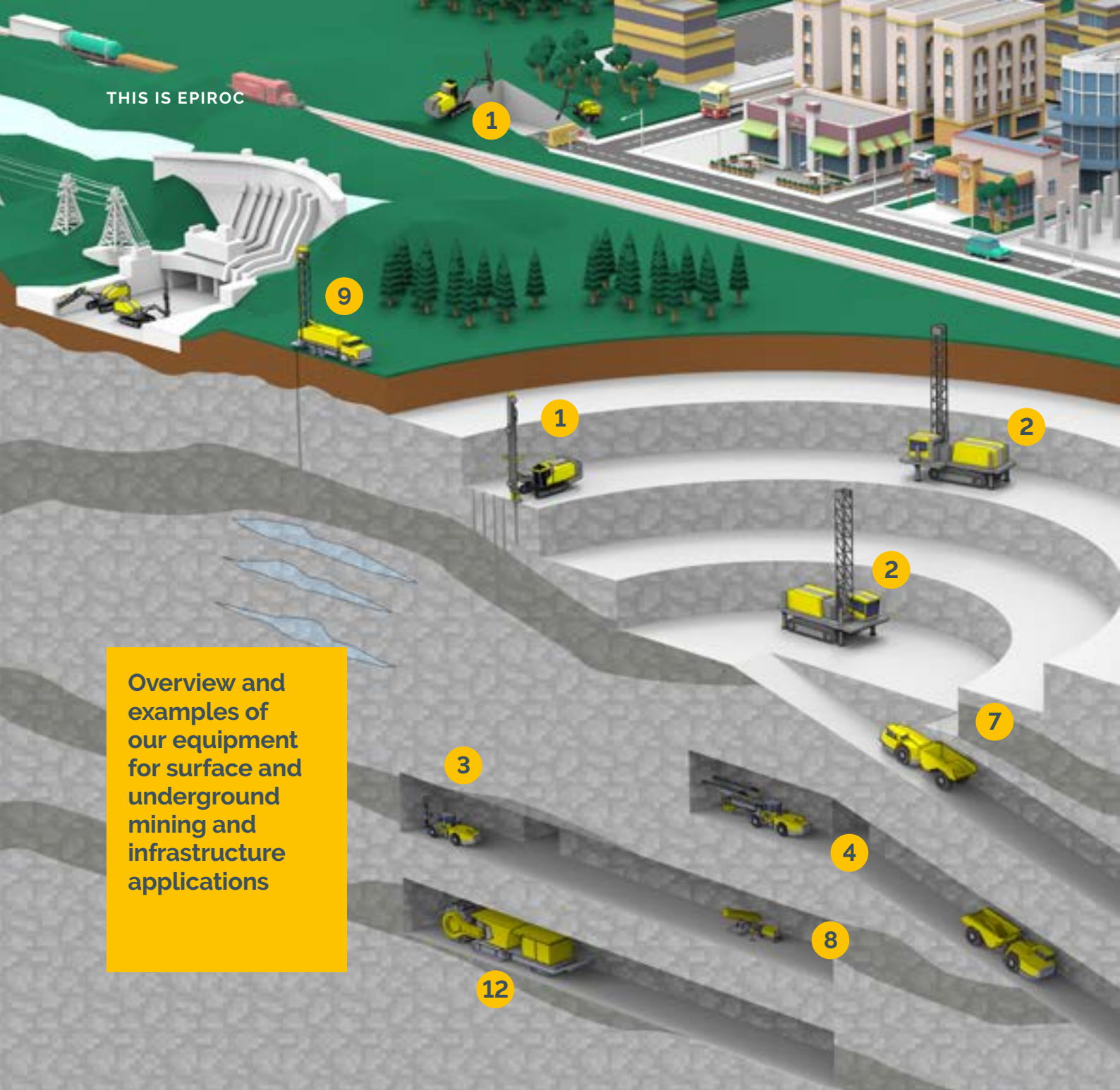
#### Attachments

- Breakers, cutters, pulverizers, grapples, magnets, compactors, bucket crushers etc.
- Working tools

**69%**

of orders received  
in 2019

THIS IS EPIROC



Overview and examples of our equipment for surface and underground mining and infrastructure applications

## Performance-critical solutions

We provide equipment, services and consumables for selected niches in the mining and infrastructure market. Our products are primarily used in hard rock applications. Mining applications include production and development work for both underground and open-pit mines, and for mineral exploration. Infrastructure applications include blasthole drilling for tunneling, for road, railway and dam construction, aggregate production and other construction work, demolition of buildings, bridges and industrial plants as well as other drilling applications.



- 1 ROC – surface drill rig
- 2 PitViper – surface drill rig
- 3 Simba – underground production drill rig
- 4 Boomer – underground face drilling rig
- 5 Boltec – underground drill rig for rock reinforcement
- 6 Scooptram – underground loader
- 7 Minetruck – underground truck
- 8 Diamec – exploration drill rig
- 9 Water-well drill rig
- 10 Hydraulic breaker
- 11 Silent demolition tool
- 12 Mobile Miner – mechanical rock excavation machine
- 13 Service workshop with battery charging station
- 14 Control room

# Our strengths and goals

A unique combination of strengths defines Epiroc and is the foundation to remain successful in a competitive global market within the mining and infrastructure industry. We are proud of our 147-year heritage in this business. The foundation for success is a combination of our strengths and our strategy that focuses on attractive niches with the goal to outperform.

**+** **We are a leading productivity partner in attractive niches**  
 We offer productivity solutions for hard rock applications and operate in selected attractive niches of the global mining and infrastructure equipment and services markets. We are always close to our customers with sales in more than 150 countries.

**+** **We have a high proportion of recurring business**  
 Aftermarket is an integral part of our offering to safeguard safety and high productivity for our customers. We supply spare parts and consumables, professional services, support solutions and training.

**+** **We drive the future in intelligent mining and infrastructure**  
 We believe that technologies such as automation, interoperability and electrification are the future. Our passionate people drive, in close collaboration with customers, continuous innovation to provide safe and sustainable solutions that lead to higher productivity and lower costs for our customers.

**+** **We have a strong and proven operating model**  
 We have a focused and decentralized business with the ability to adapt quickly and effectively to changes in demand. Our resilience builds on a high degree of direct sales, a strong services business and a flexible manufacturing philosophy.

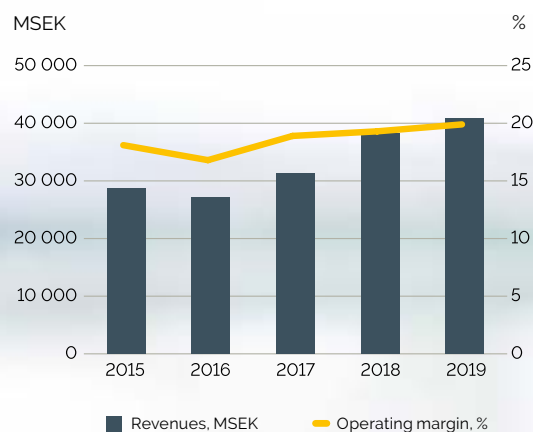
**+** **We create value for our stakeholders**  
 We create value for our stakeholders by conducting a responsible business while aiming to achieve sustainable profitable growth. A responsible business is fundamental in our customer offering and helps us attract and keep motivated employees.

## Financial goals

Our goal is to provide superior value creation through a combination of strong operating performance, efficient use of capital, and stable and rising dividends to our shareholders. This will be achieved through agile adaptation to cyclical capital equipment demand, combined with a resilient and growing aftermarket business.

Goals	2015–2019	2019
Epiroc's goal is to achieve <b>annual revenue growth of 8% over a business cycle</b> and to grow faster than the market. Growth will be organic and supported by selective acquisitions.	<b>9%</b> Compound annual growth rate	<b>7%</b> Revenue growth
Epiroc's goal is to have an <b>industry-best operating margin, with strong resilience over the cycle</b> .	<b>18.6%</b> Average operating margin	<b>19.9%</b> Operating margin
Epiroc's goal is to <b>improve capital efficiency and resilience. Investments and acquisitions shall create value.</b>	<b>26.1%</b> Average ROCE	<b>27.6%</b> ROCE
Epiroc is to have an efficient capital structure and the flexibility to make selective acquisitions. The goal is to maintain an <b>investment grade rating</b> .		<b>BBB+</b> Epiroc is assigned a BBB+ long-term issuer credit rating with a stable outlook
Epiroc's goal is to provide long-term <b>stable and rising dividends</b> to its shareholders. The dividend should correspond to <b>50% of net profit over the cycle</b> .		The proposed dividend corresponds to <b>49%</b> of net profit

## Revenues and operating margin, %



## Sustainability goals and KPI's

Epiroc has set a number of sustainability goals and key performance indicators (KPI's) to ensure that our business stays competitive and ethically sound. We strive to minimize the environmental footprint in production as well as in the use of our products, to offer safe working conditions and individual development opportunities and to live by the highest ethical standards. The full range of sustainability goals can be found on pages 26–37 and 126–133.

Focus areas	Examples of goals and KPI's	2015–2019, average	2019
We use resources responsibly and efficiently	Renewable energy from operations incl. renewable mix, % of total energy	<b>58%*</b>	<b>63%</b>
We invest in safety and well-being	Work-related lost time injuries per million working hours	<b>3.8</b>	<b>2.7</b>
We live by the highest ethical standards	Significant suppliers that confirmed compliance with the Epiroc Code of Conduct, %	<b>97%</b>	<b>99%</b>
We grow together with passionate people and courageous leaders	Leadership Index	No comparable data	<b>69%</b> (in first survey)
	Women managers in the Group, %	<b>18.9%</b>	<b>19.3%</b>

\*2016–2019

**We are a leading  
productivity  
partner in  
attractive  
niches**



**Scooptram ST1030 LP**

A reliable 10 tonne capacity underground loader delivering unmatched productivity in low seam conditions.





We believe in close collaboration with customers to create strong partnerships. We offer productivity solutions for hard rock applications and operate in selected attractive niches of the global mining and infrastructure equipment and services markets.

Innovation is a significant attribute for us and we constantly seek to improve in everything we do and to be at the forefront of our industry. We strive to identify and develop solutions that support our customers and improve the performance of our products. Our customers have a preference for suppliers who have a track record of high quality and reliability.

**Meeting our customers' key challenges**

Our customers' key challenges include increasing productivity and equipment utilization and reducing operating costs. The challenges also include improving environmental performance and enhancing health and safety conditions for their employees. Our solutions are targeted towards addressing and solving these challenges. Our direct sales network ensures that equipment and service are sold by engineers with strong application knowledge. As equipment often is utilized on a 24/7 basis, it can be very costly if the equipment is not available. A stoppage can decrease the customer's production. The customer's cost for our equipment and services is a relatively small proportion of the total cost of operations, but these are critical for the customer's overall performance and productivity.

We help our customers increase productivity in a sustainable way. This is enabled by solutions such as automation, information management and battery-electric vehicles. We

have, together with our customers, successfully developed and deployed a number of disruptive technologies to meet our customers' challenges. In addition to customers, we collaborate with several equipment and service providers, technology companies and universities to drive further innovation in the industry. Examples of collaborations are with Ericsson for 5G technology, Orica for a semi-automated explosives delivery system, ABB for electric drive trains, Northvolt for batteries, and Combitech for information management systems.

**Focus on safety and sustainability**

We see sustainability as a competitive advantage and it is a driver of long-term growth. Our Sustainability Policy is our guide when we develop equipment and solutions, all designed with the safety of the user in mind and to reduce the environmental footprint. New technology is key in this development. To be a trustworthy partner and provider of sustainable solutions to our customers, we adhere to high standards across the entire value chain, including strong commitment to respecting human rights and taking a clear stance against corruption.

**We grow together with passionate people and courageous leaders**

All our employees contribute to making Epiroc a great place to work, based on a shared culture of performance rooted in diversity, empowerment and employee care. In 2019 we continued our journey towards developing our corporate culture across the Group. For a new company, creating a unique identity is an exciting task with rich possibilities. We see ourselves as a dynamic company that grows and evolves through a culture of collaboration and openness. Collaboration is one of our values, and we are working actively to foster this culture, both internally and externally towards customers and our other stakeholders.

**Strong customer relationships**

We go to market primarily through a direct sales and service network, which creates significant customer intimacy and contributes to our strong customer relationships. Our top ten largest customers accounted for 17% of revenues in 2019. These are all mining companies and mining contractors which operate multiple worksites. None of the ten largest customers are dominating. Mining companies are often large with several production sites, but there are also companies with only one worksite. Sometimes mining companies use contractors for mine development, production and/or exploration. Customers extracting gold and copper represent a large part of our exposure to the mining industry. In the infrastructure industry our customers range from global companies operating a large number of quarries or engaging in large infrastructure projects to small local contractors that own a machine or a hydraulic attachment for contracting work or quarrying. Rental companies are also customers for our infrastructure equipment and services. Customers include Anglo American, Astaldi, Boliden, BHP Billiton, Dragados, Freeport-McMoRan, Glencore, Goldcorp, Heidelberg Cement, Hochtief, LKAB, Rio Tinto, Vale and Votorantim. Our customers, particularly in the mining industry, continue to consolidate to form larger companies. They are increasingly focused on driving synergies by narrowing the range of equipment providers and standardizing on solutions, which benefits larger and more stable suppliers.



## Attractive global niches

**We provide equipment, services and consumables for selected niches in the mining and infrastructure market. Our products are primarily used in hard rock applications. Our niches are highly technological and require advanced high performance equipment and significant service over the equipment's life span.**

### Mining market

Epiroc's revenue development is linked to mining customers' capital expenditure on new equipment as well as their development of expenditure associated with utilizing equipment, including consumables, maintenance, refurbishment and overhaul; collectively known as the "mining aftermarket".

The mining aftermarket is primarily driven by production in the mines, which is stable and growing over time, the total fleet of equipment in operation as well as equipment utilization levels. As mining equipment is frequently used for abrasive applications in harsh environments, there is need for regular maintenance and replacement of parts and consumables. In addition, higher utilization also drives the need of maintenance and replacement of equipment to safeguard productivity.

The expected increase in extraction and production of commodities such as gold, copper, platinum and nickel in the coming years is expected to support the demand for mining aftermarket as well as demand for mining equipment.

The mining aftermarket tends to be much more stable in comparison to the mining capital equipment market.

### Infrastructure market

The infrastructure market is driven by government and private sector focus on future trends such as mobility, popula-

tion growth, urbanization and sustainability. In addition, the low interest rate environment and availability of relatively inexpensive credit in recent years have encouraged infrastructure investment as well as created a pipeline of large infrastructure projects globally.

### Strong position in a competitive environment


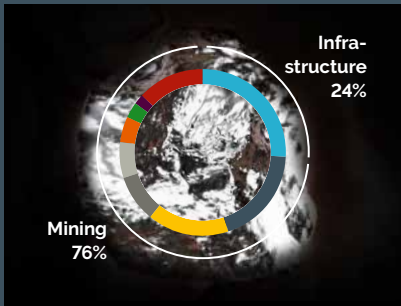

With our innovative, safe and sustainable solutions, we have established a strong position in niches that are competitive in terms of pricing, product design and service quality.

In general, our markets are relatively consolidated with a limited number of large competitors on a global scale. In addition, our niches in the value chain tend to be characterized by relatively higher scale and technological capabilities. This means that barriers of entry are quite high due to complexity of products and service. The equipment and services we provide represent a rather small part of the customers' total cost of operations, yet they play a vital role in customers' production. The value of having productive equipment running or, conversely, the cost of stand-still is much higher than the marginal extra cost of premium quality equipment and knowledgeable and efficient service people.

A competitor in many of our customer offerings is Sandvik. Other competitors include Caterpillar in the market for underground loading and haulage and open pit mining equipment, Furukawa in surface drilling equipment and hydraulic attachments, Boart Longyear for exploration drilling equipment and rock drilling tools, and Komatsu in the market for underground and open pit mining equipment and hydraulic attachments. We also compete with several companies operating locally, regionally and in certain niche areas.

In general, the competitive landscape for rock drilling tools as well as for hydraulic attachments is more fragmented than the market for equipment, with several smaller or local companies focused on individual product lines.

## Well-positioned in attractive niches

Mining	Hard rock exposure	Infrastructure								
	 <p>Mining 76%</p> <p>Infrastructure 24%</p>									
<ul style="list-style-type: none"> <li>• Large customers</li> <li>• High expenditure per customer</li> <li>• Equipment remains in the mine only moving within the site</li> <li>• Continuous operations</li> </ul>	<table border="0"> <tr> <td>■ Gold, 19%</td> <td>■ Copper, 16%</td> </tr> <tr> <td>■ Nickel, Lead, 9%</td> <td>■ Iron, 7%</td> </tr> <tr> <td>■ Platinum, 6%</td> <td>■ Coal, 3%</td> </tr> <tr> <td>■ Zinc, 2%</td> <td>■ Other, 14%</td> </tr> </table>	■ Gold, 19%	■ Copper, 16%	■ Nickel, Lead, 9%	■ Iron, 7%	■ Platinum, 6%	■ Coal, 3%	■ Zinc, 2%	■ Other, 14%	<ul style="list-style-type: none"> <li>• Large number of customers</li> <li>• Lower expenditure per customer</li> <li>• Equipment moving from worksite to worksite</li> <li>• Project-based business</li> </ul>
■ Gold, 19%	■ Copper, 16%									
■ Nickel, Lead, 9%	■ Iron, 7%									
■ Platinum, 6%	■ Coal, 3%									
■ Zinc, 2%	■ Other, 14%									

## Attractive market trends

**Our markets are characterized by structurally driven long-term growth. The most important market drivers are societal trends driving overall demand and industry-related development due to digitalization and increasing focus on safety and sustainability.**

### A growing world

Our markets are structurally underpinned by a growing world and economic expansion. The global population continues to grow at an expected annual rate of 0.9% for the coming ten years and urban population is expected to grow even faster. Population growth implies higher consumption of goods and services while urbanization will drive infrastructure investments. Together population growth and urbanization will drive demand for metals and minerals for production of goods and for infrastructure investments, such as airports, railways, bridges and roads. This, in turn, is expected to support demand for our products, services and solutions.

### Increasing challenges to the meet demand

While the structural demand is growing, the complexity and costs of excavating hard rock are increasing as well. There is a major shift in our industry towards intelligent mining and infrastructure construction. Customers strive for higher productivity and lower cost of operations which requires more advanced and efficient solutions built on automation, interoperability and digitalization. In addition to improved productivity, these solutions also offer improved safety and sustainability in customers' operations. Examples of requested solutions are automation, increased connectivity and monitoring, including data-driven service.

### Depletion of ore grades

Ore grades, which measure the percentage of the mineral content in ore, have steadily declined in recent years. For example, average copper grades have declined from 1.6% in 1990 to 1.0% in 2016 according to Wood Mackenzie's report, "Global Copper Mine Supply Summary", Q1 2018. The decline in ore grades requires more rock to be excavated for any given quantity of a mineral, which supports the demand for our products, services and solutions.

### Strong shift towards underground mining

Most of the excavation of ore is carried out in open pit mines, but there is a clear trend towards underground mining as the open pit mines become increasingly depleted, and because of the regulatory challenges associated with approvals for greenfield open pit mines.

In addition, underground mines are going deeper, which increases the demand for underground mining equipment further. Deeper mines require improved safety solutions such as rock reinforcement and automation.

### Safety, environment, and health

There is a strong focus on improving safety conditions for employees within the mining and infrastructure industries. The desire to improve the sustainability performance of mining and infrastructure investments is also increasing and has led to several legislative initiatives globally. These regulations seek to reduce emissions, noise, industrial waste and other negative impacts on the environment. Altogether, the increased sustainability focus is a strong driver of demand for equipment that reduces the environmental impact while improving working conditions. Examples are battery-electric machines, rock reinforcement solutions, and solutions for autonomous operations and remote control.

## Attractive market trends

### A growing world...

Increases the underlying need for infrastructure and minerals

### ...with increasing challenges to meet the demand...

Driving cost of hard rock excavation

### ...and strong focus on safety and sustainability

### We have a strong position and the right solutions to meet the customers' challenges

Safe and sustainable solutions, increased productivity and lower total cost of ownership

# We have a high proportion of recurring business

The aftermarket business represents approximately two-thirds of our revenues and is based on our customers' operating expenditures on consumables, maintenance, refurbishment and overhaul. The aftermarket is both stable and growing which makes our business resilient over the cycle.

## Our aftermarket offering

We have a substantial installed base of equipment primarily working in harsh environments. This leads to significant maintenance requirements and regular replacement of spare parts and consumables exposed to wear and tear. Our customers place high value on availability of spare parts, consumables, service, support solutions, maintenance and training.

Our strength in the aftermarket, and a key competitive advantage, is our broad offering in combination with a global service network. Our coverage enables rapid response times by highly skilled and dedicated service technicians, which we believe is a critical criterion for customers, given that equipment often being utilized on a 24/7 basis and the potentially high cost of equipment being inoperative at any point. Because much of the operations performed by the equipment is demanding, the consumption of spare parts is high and some parts can even be changed at daily intervals.

Our aftermarket business has a workforce of more than 11 000, including external workforce. This corresponds to more than 70% of the total Epiroc workforce.

## Service

Service and spare parts are an integral part of our offering. Our service organization focuses on spare parts supply, service, support solutions and training. Service is available for the complete range – from customers who need our service

personnel constantly on site, while others prefer to take care of their equipment themselves and only need ad-hoc support. We offer a wide range of service agreements and service products, e.g. remanufacturing and midlife services, solutions that extend the life of a component or a complete machine. We also offer upgrades and conversion kits that add additional features or improvements to specific equipment.

## Rock drilling tools

We provide an extensive range of consumables for rock drilling, exploration drilling and rock reinforcement. Rock drilling tools include, for example drill bits and drill rods for drilling in both underground and surface applications. Exploration drilling tools are used for prospecting and rock reinforcement systems for efficient rock support in mining and infrastructure applications. The rock drilling tools are primarily attached to rock drilling equipment and these can also be used on other manufacturers' rock drilling equipment.

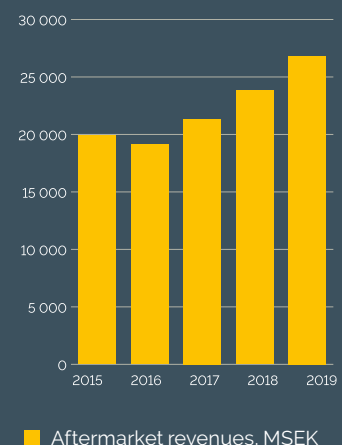
## Attachments

Applications for hydraulic attachments include rock breaking and excavation, demolition of buildings, concrete and steel structures, and asphalt, separation of material, recycling and waste handling. The hydraulic attachment tools for excavators and other carriers are offered mainly to customers active in construction, demolition, recycling and to some extent also mining and rock excavation.

## Broad aftermarket offering



## Solid growth in the aftermarket business





## Keys to aftermarket success

### Presence



Presence is vital and a competitive advantage. We have a global presence, supporting our customers in more than 150 countries.

### Efficient supply chain



We have set up a global supply chain improvement program for parts and consumables with the aim of improving delivery service, reducing costs, and reducing inventories.

### Technical know-how



Our service technicians are specialized and have deep knowledge about the equipment, its applications, data, and digital solutions.

### Focus



We have dedicated and focused organizations for the different areas of the aftermarket in line with our decentralized operating model.

### People and leadership



Highly skilled and dedicated service personnel and leaders supporting our customers.

# We drive the future in intelligent mining and infrastructure

We believe that technologies such as automation, interoperability and electrification are the future of our industries. Customers are constantly looking for ways to increase productivity and reduce costs while maintaining site safety and sustainable operations. Increased connectivity is an enabler for service transformation as data analysis leads to data-driven services.

## 6th Sense

6th Sense optimizes customers' processes by connecting machines, systems and people using automation, information management and system integration. With 6th Sense our customers can achieve significant advantages, such as tracking and responding to real-time working conditions and equipment needs, leading to higher production at lower operating costs. 6th Sense was launched in 2019 and has already resulted in significant market attention and multiple orders.

## Automation provides better safety, increases productivity and lowers cost

We offer solutions for autonomous vehicles covering a broad spectrum of machines and applications including autonomous drilling, loading and haulage. Automated machines can be connected to a traffic management system, with the operators monitoring the entire fleet of equipment and giving instructions to the machines on what tasks to perform.

## Scooptram Automation Total

A state-of-the-art technology that takes safety, productivity and cost effectiveness to another level and makes superior performance a reality. From a safe distance in a comfortable operator's station, an operator can easily control and monitor the vehicle's progress throughout the mine, which results in a reliable, safe, high-speed and flexible operation. Scooptram Automation Total is a 6th Sense Transport solution and the highest level in loader automation.



## SmartROC D65 surface drill rig

Together with long-term partner Newmont Goldcorp, Epiroc has put the world's first fully autonomous SmartROC D65 surface drill rigs in production in the Hollinger mine in Timmins, Canada.



**Examples of solutions within automation, information management and digitalization**

**Epiroc rig control system**

Epiroc rig control system (RCS) for underground drill rigs enables the operator to exercise full control over all drilling functions. The system uses the on board computer screen and control panel, providing a high level of precision necessary for automation. The platform makes it possible for the operator of the drill rig to set up the machine and start the drilling cycle. The drill then drills on its own, using computers and sensors. The equipment can also be remotely controlled, i.e. the operator can sit in an office or in one of our remote operating stations and run the machine from a safe place. Today, all of our most advanced equipment for mining and infrastructure applications can be equipped with RCS.

**My Epiroc – increased customer experience**

MyEpiroc is a platform for customers and distributors available on web and mobile devices. It is designed to increase fleet efficiency and safety. It will provide relevant support to all customers at all times regardless of their different roles as operator, fleet manager or distributor.

**Certiq – a telematics solution**

Certiq is a telematics solution that gathers, compares and communicates vital equipment information. Certiq is another important building block towards increased productivity and automation. Via a user-friendly web portal, the system

provides in real time accurate production data about the individual units and the entire fleet. The system gives a total overview and communicates notifications, warnings or alarms from the equipment, as well as it can handle the maintenance planning.

**Mobilaris**

Our Mobilaris solution enhances safety, productivity and smooth traffic flow underground. The solution provides drivers and operators with real-time situational awareness of all vehicles and personnel underground on a standard tablet. The system enables easy navigation and avoidance of traffic congestions and, in case of an evacuation event, instant directions to the closest rescue chamber or exit. Mobilaris also offers information management solution that integrate with other data sources to monitor machine utilization, cycle times, material tracking, planning and more.

**Information management solutions**

We lead the development of mining information management solutions. These solutions are developed out of customer insights and data-driven analysis from mines all over the world. The customers interest in, and demand for, our advanced systems for automation, digitalization and navigation is high. Our ambition is to deliver the performance needed today with technological innovations that may unlock productivity gains in the future.

**Battery-electric vehicles improve workplace health, reduce emissions and lower cost of ventilation**

We offer a broad range of battery-powered equipment for underground applications. With electric vehicles instead of diesel-powered machines, it is possible to eliminate emissions from diesel engines and thereby improve the working environment for personnel and assuring compliance with increasingly stricter rules on emissions at production sites. Electric motors also offer high efficiency and lower temperatures and require less maintenance compared to their diesel equivalents. This supports increased productivity and lower costs. The lower costs are mainly due to reduced need for ventilation. Most of our underground drill rigs have been electrified for many years through cables. In 2016, we launched our first battery-electric machines and we aim to offer a complete fleet of underground mining equipment as battery-electric versions by 2025.

**Minetruck MT42 Battery**

The Minetruck MT42 Battery is our largest battery-operated Minetruck with unmatched, zero-emission performance in underground mining and construction operations.



# We have a strong and proven operating model

Our operating model is characterized by focused and decentralized businesses, direct sales, a sharp focus on innovation, a strong aftermarket business, and a flexible manufacturing setup.

### Focused and decentralized businesses

Our organization is based on the principle of decentralized responsibility and authority. This is a facilitator for quick decision-making and motivated employees, which leads to better operating performance. We have two reporting segments and operations are executed through seven divisions. Each division is responsible for a selected offering and focused on delivering results in line with the strategies and objectives set by the Group. In order to safeguard economies of scale and efficient processes, and to facilitate collaboration, a number of cross-divisional councils have been established in R&D, marketing, production, purchasing, people and leadership, finance, SHEQ (safety, health, environment and quality), and service.

### High degree of direct sales and services

We go to market primarily through a direct sales and service network, which creates significant customer intimacy and contributes to our strong customer relationships. The equipment is sold by engineers with strong application knowledge and our service network supports our customers in achieving operational excellence. We have customer centers in more than 60 countries that capture the demand and the competitive situation in the market where they operate. Our sales organization is active in scanning the market in order to understand trends and what competitors are doing. The customer demand can vary greatly based on different conditions in their respective markets and different equipment usage patterns.

### Strong services business

Customers' operating expenditure on consumables and services tends to be recurring and relatively stable through the business cycle, and generally less discretionary than capital expenditure on equipment. We have a substantial installed base of equipment, which due to hard usage requires frequent maintenance, as well as the replacement of tools and attachments. When capital expenditure is reduced during an economic downturn, maintenance, refurbishment and overhaul of equipment is even more important to extend equipment life. When there is growth in capital expenditure, which leads to a larger installed base of equipment, this drives growth in the aftermarket. Aftermarket operations employ more than 70% of our workforce.

### Flexible manufacturing philosophy

Our asset-light manufacturing setup has been organized to enable fast and effective adaptation to changes in demand. The manufacturing is primarily based on customer orders. However, manufacturing of some standard, high volume products and consumables is based on projected demand. Our in-house production consists mainly of assembly, where we continuously strive to increase efficiency and agility through lean initiatives.

The majority of the production cost of equipment, approximately 75%, represents purchased components, while approximately 25% represents internally manufactured core components, assembly cost and overheads. Due to the fact that a majority of the production is conducted by sub-

## Strong and proven operating model

We have a culture of continuously looking for ways to improve and make good things better:

<p><b>Focused and decentralized business</b></p>	<p><b>High degree of direct sales and services</b></p>	<p><b>Strong services business</b></p>	<p><b>Flexible manufacturing philosophy</b></p>	<p><b>Sharp focus on innovation</b></p>
				
<p>Quick and efficient decision-making</p>	<p>85% direct sales</p>	<p>Aftermarket 2/3 of revenues</p>	<p>75% of product cost for equipment is purchased</p>	<p>Leadership in automation, digitalization and battery</p>



contractors, the production of equipment is flexible and can quickly be adjusted to volume changes.

Our purchasing organization is active in the product development process in order to find suitable suppliers and the right components for the product being developed. The service organization is involved in product development in mapping the requirement for service.

**Sharp focus on innovation**

A key factor for success is our ability to develop new and innovative products that serve the customers' needs and increase their productivity. The guiding star in our research and development (R&D) is that safety and health, environment, economics and increased efficiency go hand in hand. The development process starts with the customers and their challenges, priorities and needs.

The R&D activities are decentralized in order to leverage specific product knowledge and there is a dedicated council in place to coordinate the R&D work in the Group. About 7% of our employees are working in R&D. We collaborate with a number of equipment and service providers, technology companies and universities to drive further innovation, and some of the providers and companies include Ericsson, ABB, Combitech, Orica and Dassault Systems. To save time to market and ensure that we have the best technologies available, we also invest in technology companies, for example Mobilaris (real-time positioning) and ASI Mining (autonomous solutions).

**Growth supported by selective acquisitions**

We have the ambition to acquire businesses to complement our organic growth. Our key criteria are stand-alone attractiveness, strategic fit and synergies with Epiroc, and potential to become or remain number 1 or 2. Acquisitions will primarily be in or close to our core businesses. We look to acquire businesses that can enhance our technology leadership, our presence in the market and/or our offer to the market. In 2019, we completed three acquisitions.

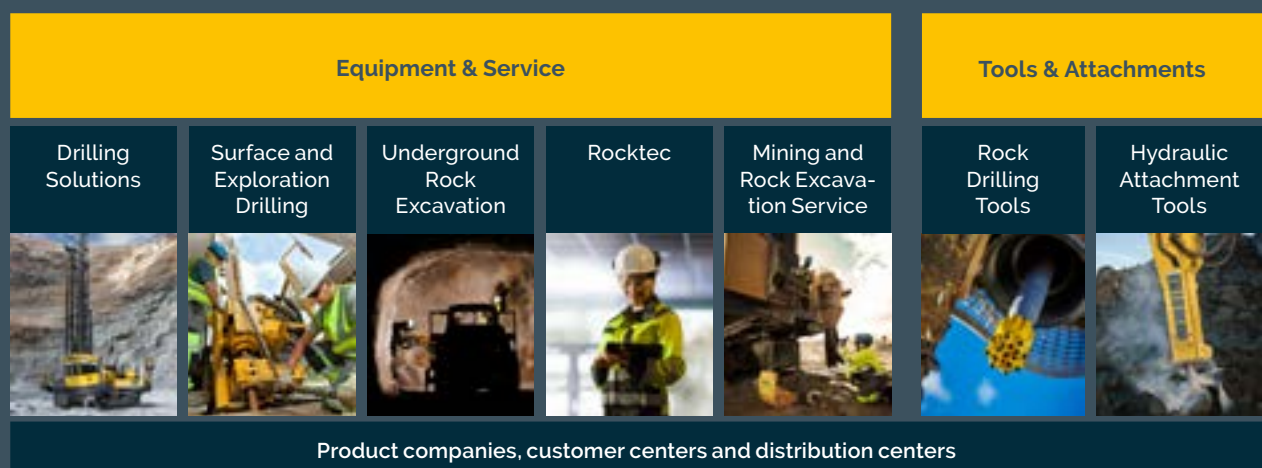


**FlexiROC T20R**

The FlexiROC T20R is the construction contractor's best friend and it also comes with radio remote control.

**Focused and decentralized businesses**

2 segments and 7 divisions



Epiroc has two segments and five divisions from March 2, 2020. The segments are Equipment & Service, which includes the divisions Surface, Underground, Parts & Service and Technology & Digital, and Tools & Attachments, which includes the division with the same name. See note 29.

# We create value for our stakeholders

## Attractive market trends

### A growing world

- ▶ Increases the need for infrastructure and minerals
- ▶ Economic growth
- ▶ Growing population
- ▶ Urbanization

### Increasing challenges to meet demand

- ▶ Driving cost of hard rock excavation
- ▶ Depletion of ore grades
- ▶ Shift towards underground mining

### Safety, environment and health

## Resources and input

- ▶ Natural, 161 GWh energy
- ▶ Financial, MSEK 41 037 in assets and MSEK 1 035 in R&D expenses
- ▶ Know how, 7% of employees in R&D and partnerships with customers and business partners
- ▶ Human; 14 268 employees and 1 366 additional workforce

## Mission, strategy and operating model for value creation

### Mission

- ▶ Epiroc's mission is to be the leading global productivity partner and to deliver profitable growth. To achieve our mission, our strategy is focused on five areas – Innovation and expertise, Safety and sustainability, Presence and penetration, Operational and service excellence, and People and leadership.

Focus on attractive niches

Innovation and expertise

Safety and sustainability

Presence and penetration



Operational and service excellence

People and leadership

Out-performance

**Strong and proven operating model**

- ▶ Focused and decentralized businesses
- ▶ High degree of direct sales and services
- ▶ Sharp focus on innovation
- ▶ Strong service business
- ▶ Flexible manufacturing

**Created value**

**Customers**

- ▶ Safe and sustainable solutions that lead to higher productivity and lower the total cost of operations

**Shareholders**

- ▶ 28.3% return on equity
- ▶ Proposed dividend to shareholders of MSEK 2 887

**Employees**

- ▶ Salaries and remuneration to employees of MSEK 8 470
- ▶ Reduced lost time injury frequency

**Society**

- ▶ Reduced CO2 emissions from operations and transport
- ▶ Increased payments of income tax
- ▶ Local purchasing in communities where Epiroc operates

**Business partners**

- ▶ Long-term relations and business opportunities for a large number of suppliers and distributors

# Our approach to sustainability and corporate responsibility

For Epiroc, our approach to sustainability is a driver of long-term growth. To maximize our positive impacts, sustainability and corporate responsibility are integrated in Epiroc's products and services and our business processes.

Innovative, safe and sustainable solutions for increased productivity are key for us. This means leveraging innovation to achieve environmental and safety gains. It means selecting the right people and building a respected brand and reputation. It means observing the highest safety and environmental standards both in our own and our customers' operations and allowing a strong ethical compass to guide our decisions. Success in these areas equips us to deliver lasting value to our customers, employees, shareholders and business partners. It also allows us to act as a positive force within society at large. Our approach to sustainability is a driver of long-term growth. That is why sustainability and corporate responsibility are integrated into our business strategy and customer offerings. This equips us to embrace opportunities and tackle challenges.

Our sustainability approach is guided by a materiality analysis – conducted in 2017 and 2018 – that helped us to identify the sustainability areas where we can make the greatest difference and where impacts are the greatest. These most relevant topics lie under four focus areas (see next page). We have defined ways of measuring our progress across these four areas and we are in the process of defining long-term 2030 goals for each of them.

## Guiding our approach

The Epiroc Code of Conduct (CoC), Sustainability Policy and our core values play a crucial guiding role. Epiroc is a signatory to the UN Global Compact's 10 principles covering human and labor rights, environment, and anti-corruption. We are also committed to addressing and integrating human rights in accordance with the UN Guiding Principles for Business and Human Rights. Through our operations and offering, we also contribute to the UN's 17 Sustainable Development Goals (see page 127). We have embedded all of these principles and priorities in our policies, our business management, strategic priorities and business operations.

A strong corporate culture is crucial to our progress – a culture in which decisions are taken in close cooperation with our customers or other key stakeholders, where the impacts are felt most, and which encourages people to take responsibility for their actions. This decentralized approach helps us to integrate sustainability deeper into the organization and to inspire passionate people who view Epiroc as a great place to work.

We focus on raising awareness within the company on sustainability's role in long-term value creation. Our performance is monitored continuously against targets and defined key performance indicators and reported on a quarterly and annual basis to our stakeholders. We have one global ISO certification that includes 58 of our entities, and we conducted 176 quality supplier audits across all divisions in 2019. A strong focus on developing our global management system helps us to align on our priorities and to ensure we are all working to improve our performance.

## Business opportunities and challenges

Advancing sustainability in traditionally conservative sectors is among our challenges. We also need to find ways to influence decisions in phases of the value chain that are outside our direct control – from suppliers to customers to operators of our equipment. The reason for this focus is simple: it is where our greatest climate and safety impacts lie. Our customers' priorities on efficiency and productivity help us drive this agenda because the more energy-efficient the equipment is, the lower the operating costs. To meet customer expectations, we track our equipment's energy performance. Our products also improve employee safety and health conditions thanks to solutions that enable more autonomous operations as well as remote control functionality, mechanization and battery technologies.

Connected, battery-driven solutions open great possibilities to help us and our customers radically achieve more with less. We have a collaborative approach to innovation not only with customers – but also with other industry leaders in their respective fields. Our purpose is to introduce equipment that meets customer demand for safe and low-carbon solutions that also reduce our environmental footprint and human rights risks connected to sourcing of minerals, for example, for batteries. This will also deliver other tangible sustainability benefits across the value chain.

To attract more women is important and we must continue to focus on this. Our objective is to recruit from a diverse pool of talent and to attract more women. 19.3% of our managers are women compared to 20.0% in 2018.

## Progress on our journey

In 2019, we made strong progress on many fronts. We further developed our connected equipment offering as well as our battery portfolio. Safety and efficiency in our operations continue to be a strategic priority. Through Speak Up – our recently launched third-party reporting function – we have continued to improve our whistleblowing system to secure the anonymity of reporters. We strengthened our responsible sales assessment process helping us to understand and address potential risks with regards to human rights, corruption and environment.

For the coming year, 2030 targets will be formulated to reflect our ambitions to make a difference aligned with the UN Sustainable Development Goals. For more information about sustainability, see pages 126-133.



The United Nations Sustainable Development Goals (SDGs) are a universal call to action to shift to a more sustainable society.

The 17 goals seek to put society on the right path to end poverty, protect the planet and create peaceful and inclusive societies by 2030. Epiroc has a role to play in this effort by reducing adverse impacts on people and the planet and by maximizing the value we deliver through our business. We can make the greatest difference in eight of the goals.

Focus areas	<p><b>We use resources responsibly and efficiently</b></p>	<p><b>We invest in safety and well-being</b></p>	<p><b>We grow together with passionate people and courageous leaders</b></p>	<p><b>We live by the highest ethical standards</b></p>
Material topics	<p><b>Efficiency</b></p> <ul style="list-style-type: none"> <li>● Product eco-efficiency</li> <li>● Life cycle perspective</li> <li>● Energy from operations</li> <li>● Transport CO<sub>2</sub> emissions</li> </ul>	<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>● Product safety</li> <li>● Safety</li> </ul>	<p><b>Passionate people</b></p> <ul style="list-style-type: none"> <li>● Leadership</li> <li>● Diversity</li> <li>● Employee care and empowerment</li> <li>● Crisis management</li> </ul>	<p><b>Ethics-driven culture</b></p> <ul style="list-style-type: none"> <li>● Business ethics &amp; anti-corruption</li> <li>● Supply chain management</li> <li>● Human rights</li> </ul>
KPI targets and performance 2019	<ul style="list-style-type: none"> <li>● MWh energy from operations/Cost of sales (MSEK) <b>6.8</b> (target 6.7)</li> <li>● Renewable of total MWh energy used in operations, % <b>62.6%</b> (target 60.3%)</li> <li>● Transport CO<sub>2</sub> (tonnes)/Cost of sales (MSEK) <b>4.5</b> (target 5.3)</li> </ul>	<ul style="list-style-type: none"> <li>● Number fatalities <b>1</b> (target 0)</li> <li>● Lost time injury frequency rate <b>2.7</b> (target 3.2)</li> <li>● Total recordable injuries frequency rate <b>6</b> (target 7.4)</li> <li>● Sick leave, % <b>2.1%</b> (target below 2.5%)</li> </ul>	<ul style="list-style-type: none"> <li>● Women managers, % <b>19.3%</b> (target 21.5%)</li> <li>● Women employees, % <b>15.5%</b> (target 16.6%)</li> <li>● Leadership Index <b>69%</b> (First time measured in 2019, hence no target set)</li> </ul>	<ul style="list-style-type: none"> <li>● Significant suppliers, % that confirmed compliance with the Epiroc Code of Conduct <b>98.7%</b> (target 100%)</li> <li>● Significant agents, resellers and distributors, % that confirmed compliance with the Epiroc Code of Conduct <b>81.2%</b> (target 83%)</li> </ul>
UN SDGs				

# We use resources responsibly and efficiently

## Epiroc's key performance indicators

### The material topics

Product eco-efficiency, Life cycle perspective, Energy from operations and Transport CO<sub>2</sub> emissions

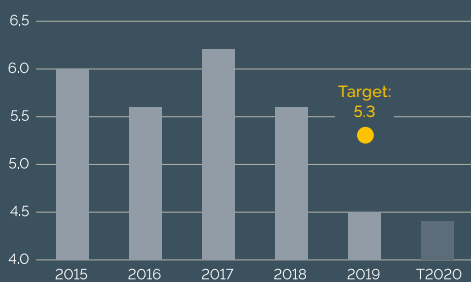
### SDG

The focus area has the greatest opportunity to contribute to the following:



### CO<sub>2</sub> emissions from transport (tonnes) /cost of sales (MSEK)

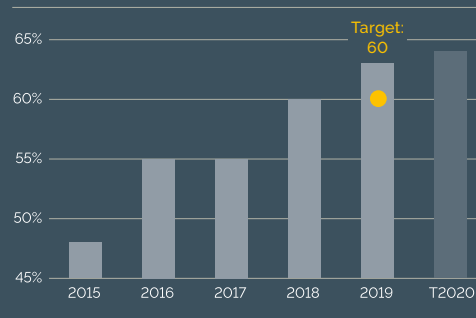
Target/outcome 2019



Target for 2019 was 5.3 and the result was 4.5. The improvement is mainly due to a higher share of sea shipments instead of airfreight.

### Renewable of total MWh energy used in operations, %

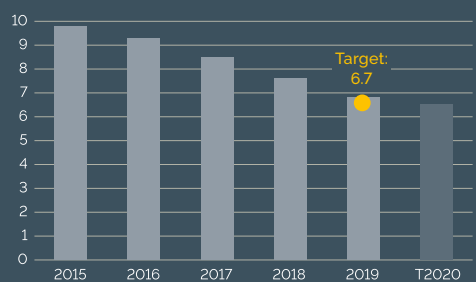
Target/outcome 2019



Target for 2019 was 60% and the result was 63%. The increase is mainly due to a change to 100% renewable energy at one of our main facilities.

### MWh energy in operation / Cost of sales (MSEK)

Target/outcome 2019



Target for 2019 was 6.7 and the result was 6.8. We saw a reduction compared to 2018, supported by the changes in the rock drilling tools business and several initiatives to increase energy efficiency. We have a global project to decrease energy consumption and expect to see a further reduction in 2020.

## Innovation for sustainability

**Our customers want to improve operating efficiency and to provide the safest possible working environment for their employees. Our role is to facilitate and support these efforts.**

Innovation and expertise are strategic priorities for the Group. Our ambition is to be part of the solution to climate change by continuously developing new and improved products and services that add value to our customers and address their key challenges.

The majority of the equipment our customers use runs on diesel. Since a dependency on fossil-fuel is likely to continue in our sector for some time, our customers are working to reduce their CO<sub>2</sub> footprint through investment in efficient technologies and efficiency measures. By providing alternatives and advice that allow customers to reduce their energy use, we are cutting both their total cost of ownership and their CO<sub>2</sub> footprint.

The use phase of our equipment represents the majority of our CO<sub>2</sub> impact. The equipment has a useful life of many years, in some cases even more than a decade. We provide service to ensure it continues to run at optimal efficiency regardless of age or application. Our open digital interface, launched in 2014, allows customers to compare fuel consumption of machines in their fleet. The data also enables us to improve efficiency through our service offering and new product features. We launched 6th Sense in 2019, a new solution that optimizes processes by connecting machines, systems and people. In Chile for example, we won a large mining equipment service contract which includes the opportunity in the near future to implement automation features for the customer's equipment fleet. We have delivered approximately 3 600 machines with built-in connectivity functionality.

We measure progress. We monitor real-time energy-efficiency gains through connected equipment and plan to report on performance as of 2020. In addition, every division has nominated Innovation cases that are product-development projects that represent best practice, and we have set

## Drillers' performance powered up with 6th Sense solution

Epiroc's biggest drill rig is the massive Pit Viper, used to drill blast holes over large surface areas. An operator, using the patented AutoDrill solution, can easily set a hole's target depth and then, with the push of a few buttons, the machine will drill the hole autonomously. The original AutoDrill has been deployed on hundreds of Pit Vipers, boosting customer productivity. The popular system was then redesigned, making a good thing great. The upgraded AutoDrill 2 further improves drilling performance, cuts costs for the mining customer, and does less harm to the environment. This is one example of how our 6th Sense solutions make customers more productive.

All the knowledge from developing the Pit Vipers has gone into ensuring the upgraded auto drilling system delivers speed, quality and consistency hole after hole, shift after shift. By matching the Pit Viper's power and the bit's capability with the intelligence from listening to the ground using proprietary algorithms, the system is taking drilling to a new level.

AutoDrill 2 ensures high penetration rates without sacrificing bit life and reducing drilling costs. It has been a product offering for a few years, and as word spread in the mining community the upgraded system really gained popularity in 2018 and 2019. No wonder when looking at the hard data. For the Pit Viper PV 351, it cuts the time to drill a hole to desired depth by a whopping 25.4%. For example, a customer who previously used a PV 351 for 6 000 hours in a year to drill 350 000 meters of holes now only needs 4 476 hours to achieve the same. This means less fuel consumed and less CO<sub>2</sub> emissions.

For all the Pit Vipers that have deployed the AutoDrill 2, a total of more than 13.6 million liters of diesel fuel and more than 36 000 tons of CO<sub>2</sub> have been saved. Now that is powerful. This is what 6th Sense is all about.



efficiency targets and monitor their performance at Group level. We also measure energy use in the major product families and as of 2020, targets and performance indicators will be in place for energy-efficiency gains and CO<sub>2</sub> emissions.

### A shift to automation, digitalization, and electrification

Battery technologies and connected equipment are two prime areas where we can add value and help drive the transition to low-carbon solutions. For us, this means establishing a leadership position in automation and battery electric vehicles and new business models through connectivity.

We expect that the transition to data driven, autonomous and electric machines will take place over the next decade. This year, we introduced battery-electric vehicles for underground mining with our new range of larger underground trucks, loaders and rock drilling rigs. For example, Agnico Eagle Mines is already testing several of our new battery-powered machines at Kittilä as part of the Sustainable Intelligent Mining Systems (SIMS) project. We have more than

100,000 hours of operations accumulated. Demonstrated benefits include improved health and safety conditions for workers, lower total cost of operation and higher productivity. Cost advantages of battery are significant for underground operations in which mining companies would otherwise have to invest heavily in ventilation to air out the diesel fumes. There is a 70% reduction on energy consumption.

Batteries and connected equipment are strategic priorities and represent short and long-term business opportunities. A year after our launch of its new generation battery electric mining equipment we have won orders from customers in Finland, Australia and Canada.

### Inclusive innovation brings life-cycle benefits

Batteries and electronic components, which comprise metals' such as lithium-ion and cobalt, bring environmental and human rights risks to workers both at source and at the end of the equipment's lifetime. We work closely with electrical components and battery suppliers, customers and innovation partners to deliver products and services that

## SUSTAINABILITY

the market is increasingly demanding. Such collaborative engagement also gives us valuable transparency into our impacts across the value chain. Our approach to monitoring and managing environmental and human rights risks associated with conflict minerals is outlined on page 130.

In 2018, we established a strategic relationship with Northvolt, which is building a large battery factory in Sweden. Northvolt supplies responsibly produced quality batteries for our machines. Sustainability priorities are integrated in Epiroc's innovation process. Our research and development expenses were MSEK 1 035.

### A circular approach

We continue efforts to extend our equipment's life. In the US, we launched Epiroc Marketplace in 2018 to promote used equipment. The used equipment market grew by 28.8% in 2019 and we are pleased to see such positive take-up.

The future of mining is CO2-free, digitalized and autonomous. At the same time, we know our customers will have to dig deeper to access minerals and metals that society needs. We are involved in a ground-breaking project that helps realize these priorities in the Sustainable Underground Mining partnership involving our Swedish customer LKAB, various academic institutes and four other leading suppliers.

Our ambition is to set a new world standard for sustainable mining at great depths. We are also involved in a leading-edge initiative, the EU Sustainable Intelligent Mining Systems (SIMS), in collaboration with a consortium of mining companies, equipment and system suppliers and universities.

The importance of recycling metals and minerals is rising. Urban mining reduces pressure on demand for primary

raw materials, contributes to reusing valuable materials, which would otherwise be wasted. It also reduces energy consumption and other negative environmental impacts from traditional mining and minerals processing. Epiroc is providing tools for deconstruction and recycling in our Tools & Attachments segment.

## Efficient operations

**Epiroc has a three-pronged approach to operational efficiency. We work to cut energy use in production as well as shift to more renewable energy in our operations. At the same time, we are driving efficiencies in our supply chain, positively impacting emissions from transport.**

Our stated ambition is to reduce CO2 emissions both in our own production and in distribution through energy efficiency measures. In 2019, we initiated new actions to help us reach that target.

Efficient use of energy such as electricity and fuel saves us money and CO2 emissions and makes us less vulnerable to volatility in pricing and energy availability. We are decreasing direct and indirect CO2 emissions even as our operations develop, something that is more challenging when the business grows. Our Lean philosophy equips us for this efficiency challenge and our objective of minimum waste. Global ISO certification according to ISO14001:2015 aligns our work Group-wide. Energy use is measured as a global performance indicator.





**Value chain perspective**

Although our carbon footprint in the manufacturing and transport phases of our value chain is less than in the use phase of our products, we find it important to focus on decreasing this as well. We aspire to attain CO2 neutral production, an objective which is increasingly becoming feasible with increased access to renewable energy. In 2019 we launched an action plan to put our aspiration in motion. The action plan aligned with a 2018 feasibility study that pinpointed the markets best suited for the shift to renewables. We have a global project ongoing to decrease energy consumption and increase the share of renewable energy for our production and distribution centers.

Due to these and other measures, we are making good progress. In 2019, our total energy consumption and CO2 emissions from transport are 161 331 MWh and 105 272 CO2 relative to cost of sales, and 6.8 MWh/COS (MSEK) & 4.5 CO2 from transport/COS (MSEK). Compared to 2018, we have reduced energy consumption by 10%, despite the business growing by 6.7% in this period and lowered CO2 emissions from transport by 21% compared to cost of sales. And we are seeing direct benefits: lower total energy use has reduced our costs by MSEK 3.6.

The target focused on renewable energy is primarily met through the purchase of renewable energy, which is included in the conversation with our energy suppliers, but also through solar panel installations at our own operations. We have increased renewable energy share by 3 % since 2018.

**Reducing transport CO2 through a supply-chain improvement program**

Part of our impact arise in phases of the value chain that are beyond our direct control – such as in logistics and transport – which is in part tackled by influencing others to improve their efficiency. Cutting CO2 from transportation covers incoming transport of raw materials to our production units and outgoing transport of finished products to customers from our production units and distribution centers. We see a decrease in transport CO2 emissions relative to cost of sales. In logistics, this is due to combining shipments of products and material. For some entities, we are relying more on local suppliers and increasing order pre-planning, which allows us to reduce airfreight, currently representing 77% of our transport CO2.

**Task Force on Climate-Related Financial Disclosures (TCFD)**

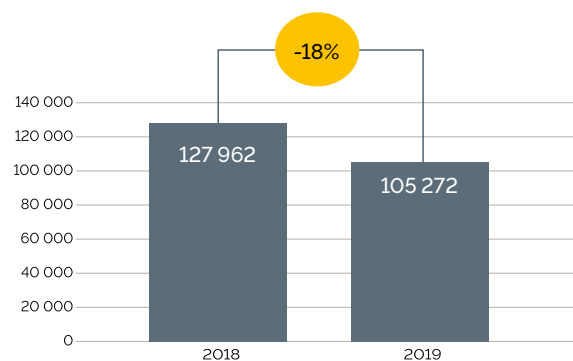
During 2019, Epiroc started to evaluate the recommendations to improve reporting on climate change related risks in our financial reporting, based on the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD requires companies to report on their short, medium and long-term climate change risks, and increase transparency on governance structure, risk management, strategy and targets and metrics that companies apply to address these risks. Climate-related risks and opportunities were discussed in our risk management process. Further information on how we work and measure our impacts within the areas of energy, CO2 emissions, material, waste, as well as water consumption in water-scarce regions can be found on pages 132-133. As a next step, we will develop targets and metrics aligned with the TCFD guidelines.



**Our approach**

Group Management is responsible for formulating and integrating sustainability and corporate responsibility strategies, targets and activities. Each division maintains product responsibility. Products are developed in the Division's Product Companies in close cooperation with the Division's Customer Centers. The Sustainability Policy is the guiding policy. Every division is responsible for ensuring that each facility operates according to the Epiroc Way including responsible and efficient use of resources. For more information about Management approach, see pages 128-129.

CO2 emission in & outbound transport (CO2 tonnes)



# We invest in safety & well-being

## Epiroc's key performance indicators

**The material topics**  
Product safety, Safety

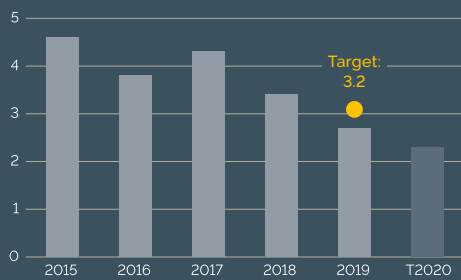
### SDG

The focus area has the greatest opportunity to contribute to the following:



### Work related lost time injuries frequency rate (LTIFR)

Target/outcome 2019

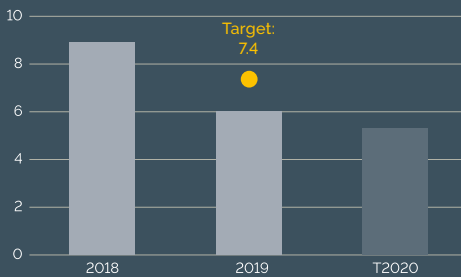


■ Number per one million working hours

Target for 2019 was 3.2 and the result was 2.7. Preventive measures and a continued focus on safety awareness, training and activities contributed to the reduction.

### Total recordable injuries frequency rate

Target/outcome 2019



■ Total recordable injuries frequency rate (TRIFR)

Target for 2019 was 7.4 and the result was 6.0. Preventive measures and a continued focus on safety awareness, training and activities contributed to the reduction.

## Product safety

**Safety is our first priority. Through innovation for safety, we are pushing the boundaries to put safety, health and well-being, at the forefront of our product and service offering.**

Our customers work in challenging conditions in mining and infrastructure, which pose risks to personal safety. Our equipment must operate in all conditions, at maximum productivity and not at the expense of personal well-being. This equation is a key value driver for our customers.

We tackle product safety in two ways. We work closely with customers in risk management, hazard reporting and change management to align with them to promote the right routines with equipment operators and service technicians. We also have safety as a key element in our innovation strategy.

### Benefits of electrification, autonomous and remote-controlled equipment

Autonomous and remote-controlled equipment transforms conditions for operations. It eliminates risks for personnel working in hazardous areas by removing them from potential rocks or harmful emissions. This is an important driver of the growing market for automation.

Battery-driven underground equipment – with its zero direct emissions in use – is increasingly replacing diesel-powered machines. This is beneficial to working conditions and brings service and maintenance cost savings. Diesel exhaust and heat need to be removed using ventilation systems that are expensive to install and operate. Ventilation normally represents a large part of a mine's operational costs.

We monitor field performance of our equipment and provide training and service to ensure safe equipment operation as key objectives in our service offering.

### Partnerships and cooperation deliver benefits

In 2017 we made an equity investment in Mobilaris, a provider of real-time positioning solutions for equipment and people that help reduce bystander accidents and enable faster evacuation. Mobilaris provides traffic awareness and vehicle-navigation solutions that minimize traffic congestion. In 2018 we made a similar investment in ASI Mining that offers autonomous solutions for mixed equipment fleets and traffic management solutions on surface. Together with Swedish ICT company Ericsson we use 5G technology to deliver automated and information management solutions that also keep people out of harm's way.

By closely monitoring safety standards and embedding safety priorities in our R&D processes we can improve safety features on continuously, based on user insights as well as improve the safety standards going forward. We train service technicians in our equipment's safety features and train operators onsite to identify potential safety risks, improve processes and reduce risks.



## Operational safety

**As a values-based company, the well-being of everyone who works for and with us is the starting point of every activity. It is a responsibility we do not take lightly.**

High standards of welfare and safety inspire greater trust in Epiroc. They also feed into higher productivity and give us a competitive advantage. For these reasons, safety is a strategic priority at Group level and our vision is zero work-related injuries. With an emphasis on risk prevention and innovation within safety and health, our management system certified according to OHSAS 18001 is the foundation of our approach.

### Out in the field and on the factory floor

Our service technicians in the field work with heavy equipment and in harsh conditions. They are exposed to risks of injuries on-the-job and in traffic. They are trained to adhere to our safety procedures regardless of their working environment. Employees and contractors in our manufacturing facilities also face risks of injuries, primarily soft-tissue injuries and cut wounds.

### Behavior-led approach

A behavior-led approach is a cornerstone of our work, which emphasizes communicating expectations and improving procedures as a continual process.

SafeStart® is our program to improve personal safety skills. The ambition is to entrench a global safety perspective Group-wide that strongly emphasizes local ownership. Through practical techniques to enhance our awareness of potential risks, we reduce human errors that cause unintentional injury or close-call events. The focus is not just developing skills for work – but our safety skills are also useful in traffic and at home. Piloted first at our manufacturing facility in Garland, USA, we are rolling out SafeStart® globally over the next three years. We started the roll-out in Mexico and Sweden during the second half of 2019 and so far we have trained 15% (2 159) of our employees. The feedback from the people trained is substantially very positive.

We also rolled out our eight safety commitments for product companies. Reflecting a personal responsibility-based mindset, employees commit to always act with safety in mind. This means only performing tasks and operating equipment if they are competent, licensed and authorized to do so, to

respect safety distances, and to care for their own welfare and that of their colleagues.

### Sick leave

Employee well-being is a good measure of a company's health. The number of sick days per employee was 4.9, a figure that has remained constant and low over the past five years.

### Continuous improvement

We are moving in the right direction. Overall, we have recorded a marked decrease in work-related injuries in recent years. The work-related lost time injury frequency rate (LTIFR) or lost time injuries per million working hours decreased to 2.7 in 2019, down from 3.4 in 2018. We have seen a 41% decline over the last five years. The number of work-related medical treatment injuries (MTIs) per million working hours was 3.3 compared to 5.4 in 2018.

We are content to see our metrics moving in the right direction but on safety we can never rest. Sadly a colleague suffered a work-related fatal accident in India. An investigation of the accident was conducted and communicated throughout the organization in order to prevent such an accident from happening again.

In, for example, Southern Africa, we continued to take part in different Swedish workplace programs focusing on health issues and gender equality organized by the International Council of Swedish Industry (NIR).

### Our approach

Group Management is responsible for formulating and integrating sustainability and corporate responsibility strategies, targets and activities. Every division president and general manager is responsible for health and safety and also ensuring adherence to the Sustainability Policy in planning processes, strategy, training, targets and performance.

The Epiroc Safety, Health, Environment and Quality (SHEQ) Council is tasked with overseeing safety and well-being at Group level. It proposes updates on Group policies, develops targets and key performance indicators and implements and communicates improvements. For more information about Management approach, see pages 128-129.

# We grow together with passionate people and courageous leaders

## Epiroc's key performance indicators

### The material topics

Leadership, Diversity, Employee care and empowerment, Crisis management

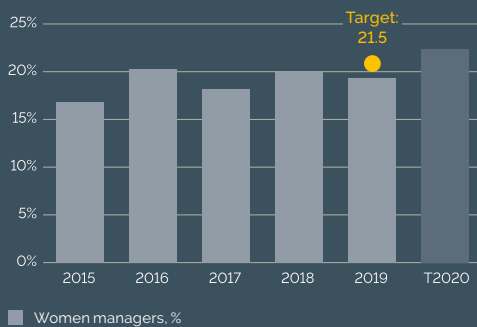
### SDG

The focus area has the greatest opportunity to contribute to the following:



### Women managers, %

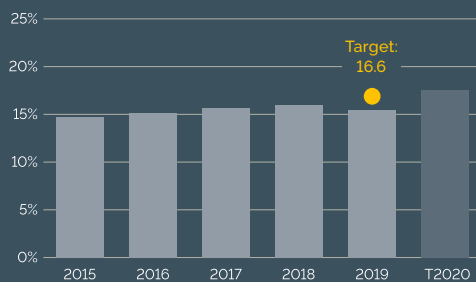
Target/outcome 2019



Target for 2019 was 21.5% and we reached 19.3%. The share of women managers decreased and we did not reach the target. This is primarily because acquired businesses had a lower share of women managers.

### Women employees, %

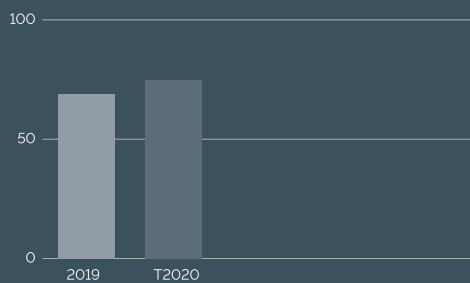
Target/outcome 2019



Target for 2019 was 16.6% and we reached 15.5%. This is due to that recruitments during the year were primarily for service technicians and manufacturing, in which we have a lower percentage of women working than the Group as a whole. Also the impact of acquisitions, in particular New Concept Mining, brought lower levels of gender diversity.

### Leadership Index, %

Target/outcome 2019



This was measured for the first time in 2019, hence no target set.

## Our people

**Our ambition is to develop the business through the engagement of passionate people and courageous leaders. All our employees contribute to making Epiroc a great place to work, based on a shared culture of performance rooted in diversity, empowerment and employee care.**

In 2019 we continued our journey towards developing our corporate culture across the Group. For a new company, creating a unique identity is an exciting task with rich possibilities. We see ourselves as a dynamic company that grows and evolves through a culture of collaboration. We are 14 268 employees today, up from 13 847 employees in 2018. Collaboration is one of our values, and we are working actively

to break down walls across the organization and between locations, and to build teams equipped with the skills to deliver on our strategy.

### High performing teams

Our decentralized culture is based on collaboration and freedom with accountability. Trust is fostered through transparency and what we call responsible feedback. Further, a sustainability focus and an ethical mindset promote long-term thinking. This is addressed in the agendas of all our global development programs. In 2019, we have proven ourselves to be an attractive employer. Work to further develop the employer brand will be a focus in 2020.

Building the strategy is an exercise that is both top-down and bottom-up. It relies on capable leaders and competence



# Water for All



Access to clean water is a human right. Since 1994, our main community engagement project, Water for All, has funded projects which empower people through access to clean drinking water, sanitation and hygiene, thereby contributing to healthy societies. Women and girls are particularly affected by the lack of water and sanitation, and all projects supported by Water for All thus aim to positively

impact the lives of especially women and girls.

The local Water for All organization investigate and select a partner to work with and subsequently a water project to support. The project could involve drilling and digging a well or protecting a natural water resource. It could also be building a system for rainwater harvesting or building sanitation or sewer systems. Water for All is run

on a voluntary basis by employees within the Epiroc Group and Atlas Copco Group. Employee donations are matched with twice as much by the companies.

In 2019, more than 50 water and sanitation projects were implemented with Water for All funding in 33 countries, in total reaching more than 180 000 people.

For more information, see [www.water4all.org](http://www.water4all.org)

building – including in areas like digitalization and automation – and to catalyze continuous improvements. Since our business activities span from sourcing to manufacturing to service, we rely on a diverse range of skillsets and roles. We apply the principles of lean management, emphasizing efficiency while encouraging every individual at all levels to take responsibility to develop their skills and channel their expertise. Every employee spent an average of 39 hours on training last year, same as in 2018.

### Cultural and gender diversity

Diversity is an area for greater focus, especially in our quest to create high-performing teams. We are proud of being a culturally diverse organization with around 32 nationalities represented among Epiroc's most senior management worldwide and 195 people from 48 countries working on long-term international assignments.

Higher women representation is an area where we need to see greater change. Today, 19.3% of managers are women and 15.5% of all employees. For 2020, the target is to increase the percentage of women in the Group to 17.5%, and to increase the percentage of women managers in the Group to 22.4%. These aims are supported by a mentorship program for women, in which 57 colleagues took part in 2019.

Communicating and developing our culture is a priority. During 2019, we also had a global activity for all our employees to further foster our culture of freedom with accountability.

### Inclusive approach to gauging performance

In 2019, 87.8% of employees had performance development talks with their managers. We completed our first annual employee survey, achieving a response rate of 85%. The overall feedback was that our people view Epiroc as a good place to work. Areas identified for further improvement include stronger leadership in terms of employee feedback and recognition, and greater communication on decisions that are taken.

Building on the Epiroc strategy and the results of the employee survey, we will redouble our focus on collaboration, employer branding and attracting specialized talent to Epiroc for 2020. As well as a continued focus on gender diversity.

### Our approach

Group Management is responsible for formulating and integrating sustainability and corporate responsibility strategies, targets and activities. Epiroc's People & Leadership Council leads initiatives, monitors performance and shares best practice in matters relating to human resource management across the Group. The Epiroc Code of Conduct sets out our commitment to diversity and high labor protection standards. For more information about Management approach, see pages 128-129.

# We live by the highest ethical standards

## Epiroc's key performance indicators

### The material topics

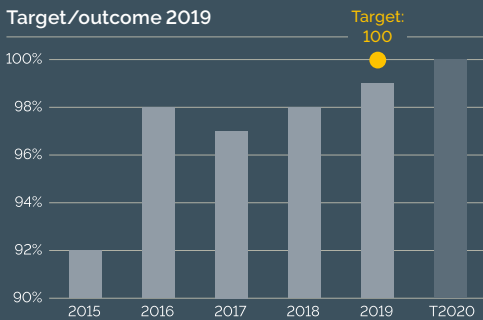
Business ethics including corruption, supply chain management and human rights

### SDG

The focus area has the greatest opportunity to contribute to the following:

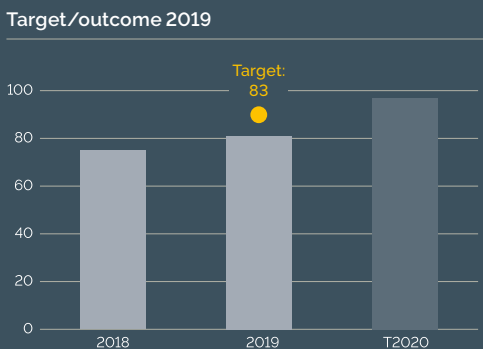


### Significant suppliers confirmed compliance with the Epiroc Code of Conduct, %



Target for 2019 was 100% and we reached 98.7%. We continue to work with our suppliers to reach 100%.

### Significant agents, resellers and distributors confirmed compliance with the Epiroc Code of Conduct, %



Target for 2019 was 83% and we reached 81.2%. This is a relatively new KPI that we continue to roll out in the organization and we will continue to raise the awareness among agents, resellers and distributors.

## Our Code of Conduct (CoC)

**Living by the highest ethical standards is the foundation of our responsible business approach. We promote and monitor how the actions of our employees and business partners reflect Epiroc's values and Code of Conduct.**

Epiroc's customers are located in more than 150 countries, including complex and challenging markets with varying social and environmental laws and ways of monitoring adherence to them. In every market where we have a presence, we are committed to upholding the highest ethical standards and to acting with integrity. Here, the Epiroc Code of Conduct (CoC) plays a cornerstone role.

Our employees and business partners must adhere to the CoC. Using a behavior-led approach, we are able to further embed an ethics culture and ensure that our actions reflect our level of ambition. We want to be able to "walk the talk", meaning to work according to our values.

### Key challenges and understanding our risks

As a global company, we conduct business in countries with varying levels of risk exposure to corruption and human rights issues such as labor rights, forced labor, conflict minerals and land rights. Our operations and product sourcing also have potential consequences that pose risks to the environment.

The locations of our operations, suppliers and customers play a central role in identifying our risks. We apply the CoC when making decisions relating to our choice of suppliers, partners and customers. Through audits, Speak-Up, responsible sourcing and sales assessments, we seek to understand where risks of non-compliance may occur, even when they are beyond our direct control. We have zero tolerance for corruption, extortion and bribery.

### Commitments to the Code of Conduct and raising awareness

The Compliance Board (for more information see page 129) is responsible for implementing and ensuring adherence to the CoC. In 2019, the Compliance Board adopted a number of updated internal policies such as the Conflict of Interest Policy, Speak Up Policy and a Gift and Hospitality Policy. These policies support the implementation of the CoC throughout our organization.

We also held a number of awareness-raising activities both on the CoC and associated risks. A CoC case study workshop was held during Epiroc Days with some 150 senior managers participating. Workshops were also held on how to apply the CoC, using challenging dilemmas during other senior management trainings. Every year, every manager must undergo an e-learning training and make a written statement committing to comply with and deliver on the CoC in their area of responsibility, 95% did so in 2019 compared to 91% in 2018.

We also launched 'Epiroc business partner criteria letter' training for purchasing managers. This training covered issues such as human rights, modern slavery, conflict minerals and e-waste – the aim being to help them understand the implications of potential risks and where they might occur.

### Monitoring performance

Speak Up, our whistleblower system, plays an important role in monitoring how we live by the CoC. Speak Up is managed through a third party and allows employees and external stakeholders to report potential non-compliance anonymously and without fear of negative consequences. Speak Up was launched in 2019 and reports can also be made in local languages. The number of cases reported in Speak Up in 2019 was 44. In the previous system 26 cases were reported during 2018. One explanation for the increased number of cases, is an internal information campaign when Speak Up was launched. For more information about reported cases, see page 131.

## Responsible sourcing and sales

**Implementation of our responsible sourcing and sales programs are rooted in the Epiroc Code of Conduct, UN Global Compact and the United Nations Guiding Principles on Business and Human Rights (UNGP).**

Implementing the UNGP in our operations is an ongoing process that includes awareness-raising, development of processes, implementation and follow-up across the value chain. The UNGPs require companies to have a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights. We identify and manage human rights issues in a number of ways and internal processes, such as responsible sales assessments and responsible sourcing. We stand for respect for human rights across our business operations.

One challenge is to identify risks and influence other parties' behavior, even when it is beyond our direct control. We provide guidance to our businesses through a number of different policies, processes and tools.

### Transparency along supply chain

Epiroc customers are based all over the world, located in regions that are not easily accessible, and customized solutions might be required to fulfill specific customer needs. To achieve this, we have a decentralized organization where each division is responsible for its business and results, including managing its sourcing.

Suppliers, agents, resellers and distributors are required to comply with our CoC, international standards, as well as applicable regulations. Based on the CoC, the Epiroc Business Partner Criteria summarizes ten criteria that clarifies expectations for actors we choose to do business with. All significant suppliers, agents, resellers and distributors must confirm their commitment to the CoC and Business Partner Criteria Letter. We monitor and follow up on their compliance on a regular basis through surveys and audits.

We focus on suppliers that represent the main spending and suppliers with operations in markets with the highest risk of corruption and human rights violations. These suppliers are defined as "Significant Suppliers". We have approximately 1 406 significant suppliers, of which approximately 200 are located in geographical locations deemed as high risk. Although self-assessments are the primary compliance tool for suppliers, we conduct on-site audits of selected suppliers every fifth year. In 2019, we performed 159 of these audits. Of suppliers audited for safety, health, environment, business ethics and human rights, 95% were approved.

We also review our business relationships when we detect violations. In these cases, business partners are

thereby immediately requested to adapt or change to meet the criteria and establish an action plan for complying with the criteria. Another condition for doing business with us is that our business partners must allow us to perform audits.

The majority of our suppliers (71%) are based in Europe and North America. Most deliveries from significant suppliers are made to local Epiroc production sites and distribution centers. With our supply-chain improvement program, we aim to source more from suppliers located closer to our markets, thereby better serving customers and adding value locally, while reducing our CO2 footprint. To this end, we are also increasing use of sea freight. We are currently building our internal audit capability by introducing a single enterprise resource-planning system. This will improve information sharing on how our suppliers meet our expectations across the company.

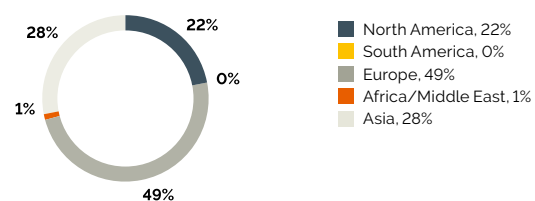
### Conducting Human Rights Due Diligence

During 2019, we launched our Responsible Sales Assessment process, which includes a human rights due diligence. Its purpose is to better understand potential risks with regards to human rights, corruption and environment in markets and industries where Epiroc is present as well as to find mitigating measures. An important part of the assessment is to identify criteria for determining when a responsible business assessment is required. The identified criteria are:

- 1. Country** – a third-party risk analytics firm is used to rank countries according to risks, such as different labor standards, impacts on land rights and indigenous people and corruption
- 2. Customer** – type of customer and project

The tool was developed during 2018 and was tested in 2019 in four pilot countries. During 2019, a policy, a tool as well as e-learning training on Responsible Sales Assessments were launched and this new process will be implemented in 2020. For more information about how we implement the UNGP, see page 131.

### Geographical spread of significant suppliers



### Our approach

Group Management is responsible for formulating and integrating sustainability and corporate responsibility strategies, targets and activities. The Compliance Board is responsible for implementing and ensuring adherence to the CoC. A manager has the responsibility to promote the values in the CoC and to help implement it among the manager's employees. Every employee shall be aware of and take responsibility for ensuring that the CoC is applied. The Sourcing Council is responsible for the Purchasing Policy, whereas each division is responsible for compliance with the content. For more information about Management approach, see pages 128-129.

# Administration report

## The year in review

In 2019, Epiroc's revenues, profit and cash flow improved supported by strong growth of the aftermarket business and efficiency initiatives. The orders received for equipment decreased as customers became more cautious in making investment decisions.

Administration report for Epiroc AB  
Corporate registration number 556041-2149

### Important events

#### Helena Hedblom appointed Epiroc's next President and CEO

On November 26, 2019, the Board of Directors of Epiroc AB appointed Helena Hedblom as the new President and CEO of Epiroc AB, effective March 1, 2020. She will replace Per Lindberg, who will leave the company after having successfully established Epiroc as a listed company.

#### Actions to improve resilience and agility

Epiroc has an agile and resilient business model and continuously adapt the organization to prevailing business activity. In 2019, the workforce was adapted to the lower demand and order intake, mainly in manufacturing. In addition, areas for efficiency improvements were identified and several restructuring initiatives were initiated. The business for handheld rock drilling equipment and tools was restructured and a

factory in China was closed, and a factory in Sweden was divested. The geotechnical consumables product line was divested. In early January 2020, it was announced that the manufacturing of dimension stone equipment will be consolidated to India and the operation in Italy will be closed.

#### Acquisitions and agreements

Three acquisitions were completed during the year. The acquisitions added annual revenues of more than MSEK 1 300. In addition, several cooperation agreements were signed, including one with leading commercial explosives provider Orica to jointly develop a semi-automated explosives delivery system, enabling safer and more productive blasting operations in underground mines.

#### Investments

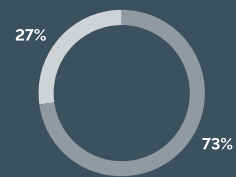
Decisions were taken to build a new heat treatment plant for rock drills and to expand one of the main production facilities for surface drill rigs in Örebro, Sweden. The investments are expected to be finalized in 2020 and 2021, respectively.

## Epiroc's segments

The Group is organized in seven separate and focused but still integrated divisions, aggregated into two segments: Equipment & Service and Tools & Attachments. Equipment & Service provides a wide range of mining and rock excavation equipment and related service and spare parts. Tools & Attachments provides rock drilling tools and hydraulic attachments that are attached to machines and mainly used for drilling, demolition and recycling as well as rock excavation. Tools & Attachments also provides related service and spare parts. Common Group Functions, i.e. functions which serve all operating segments or the Group as whole, is not considered a segment. Revenue from operating leases owned by Epiroc Payment Solutions are reported under Common Group Functions.

See the review of the segments:  
Equipment & Service on pages 46–47  
Tools & Attachments on pages 48–49

Revenues split by segment



■ Equipment & Service  
■ Tools & Attachments

Equipment & Service					Tools & Attachments	
Drilling Solutions	Underground Rock Excavation	Surface and Exploration Drilling	Mining and Rock Excavation Service	Rocktec	Hydraulic Attachment Tools	Rock Drilling Tools

Epiroc has two segments and five divisions from March 2, 2020. The segments are Equipment & Service, which includes the divisions Surface, Underground, Parts & Service and Technology & Digital, and Tools & Attachments, which includes the division with the same name. See note 29.



**Supply-chain program**

The supply-chain improvement program that was initiated in 2018 with the aim to improve delivery service to customers, reduce costs, e.g. for transport, and reduce capital tied-up in inventories continued according to plan with gradual improvements. The North American markets have implemented the new supply-chain set-up during 2019. The program is expected to be finalized in 2021.

**Innovation**

The 6th Sense is Epiroc's concept to optimize customers' processes by connecting machines, systems and people using automation, information management and system integration. The concept provides significant advantages, such as track and response to real-time working conditions and equipment needs which leads to higher production at lower operating costs. The 6th Sense was launched in 2019 and has already resulted in significant market attention and multiple orders. See also information about innovation and technology on pages 20-21.

**Epiroc as an independent, listed company**

Epiroc was split from Atlas Copco, where Atlas Copco shareholders received one Epiroc share for each of their Atlas Copco shares in June 2018. The first day of trading in Epiroc shares on Nasdaq Stockholm was June 18, 2018 and 2019 was the first full financial year for Epiroc as an independent, listed company.

**Operational and financial review**

**Market development and orders received**

The customer demand for Epiroc's equipment decreased in 2019 as customers were more cautious in making investments decisions and placing orders for new equipment. Activities were high both in the mining industry and in infrastructure and the service business had a strong development. Orders

received increased slightly and were MSEK 39 492 (39 400), corresponding to an organic decline of 5%. Currency contributed with 3% and structural changes with 2% to the increase.

The Equipment & Service segment had order intake of MSEK 28 509 (29 695), corresponding to 6% organic decline. Service had an organic order growth of 8%, while equipment had an organic order decline of 20%. Equipment demand was negatively affected by customer cautiousness of making investments in new equipment. The growth in the service business was attributable to continued high activity and marketing and sales activities.

The Tools & Attachment segment had an order intake of MSEK 10 768 (9 611), positively impacted by acquisitions. Orders received decreased 3% organically and was negatively impacted by optimization of the product offering in Rock Drilling Tools.

**Geographical development**

*North America*

The order intake in North America decreased 7% in local currencies. Orders for equipment decreased significantly, while orders for service increased. Tools & Attachments had higher order intake, supported by acquisitions. North America accounted for 22% (22) of orders received.

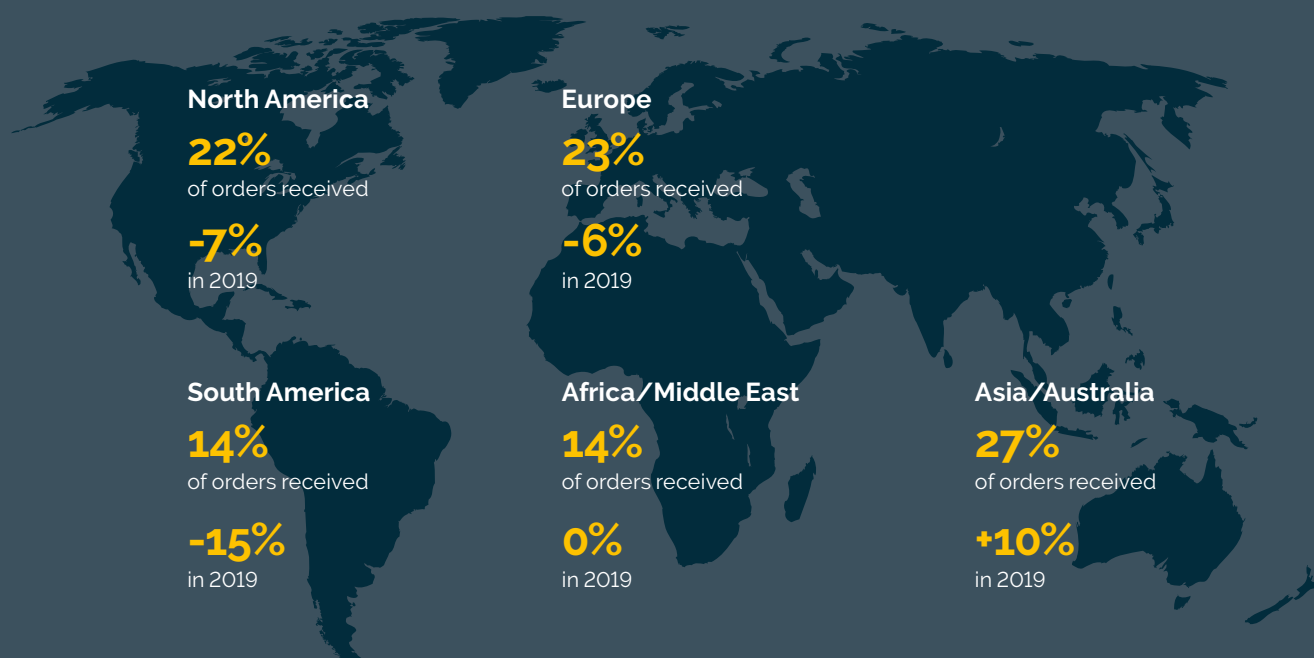
*South America*

The order intake in South America decreased 15% in local currencies, with lower orders for both underground and surface equipment. Service and Tools & Attachments had double digit growth. South America accounted for 14% (16) of orders received.

*Europe*

The order intake in Europe decreased 6% in local currencies with growth only in the service business. Europe accounted for 23% (24) of orders received.

**Orders received by region and change in local currencies**



## ADMINISTRATION REPORT

### Africa/Middle East

The order intake in Africa/Middle East was unchanged in local currencies. Orders for equipment decreased significantly, while orders for service increased. Tools & Attachments had higher order intake, supported by acquisitions. Africa/Middle East accounted for 14% (14) of orders received.

### Asia/Australia

The order intake in Asia/Australia increased 10% in local currencies. Equipment & Service as well as Tools & Attachments achieved growth in both Asia and Australia. Growth was particularly strong for underground equipment. Asia/Australia accounted for 27% (24) of orders received.

### Revenues

Revenues for 2019 increased 7% to MSEK 40 849 (38 285), corresponding to 1% organic increase. Currency contributed with 4% and acquisitions and divestments, net, with 2% to the growth. Epiroc's goal is to achieve an annual revenue growth of 8% over a business cycle. The compound annual revenue growth has been 9% during the period 2015–2019. The business area Mining and Rock Excavation Technique of Atlas Copco, which represents approximately 93% of Epiroc and is a good proxy for Epiroc's business had compound annual revenue growth of approximately 5% 2009–2017.

Book to bill was 97% (103).

Revenues for the segment Equipment & Service increased 5% to SEK 29 891 (28 540), corresponding to 2% organic growth. Currency contributed with 4% to the growth, while structural changes had a net negative impact of 1%.

Revenues for the segment Tools & Attachments increased 13% to MSEK 10 799 (9 519), corresponding to 2% organic decline. Currency contributed with 4% and structural changes with 11% to the growth.

All geographic regions achieved revenue growth, with the highest growth rate in South America with growth of 27%. All other geographical regions had growth of 1 to 6%.

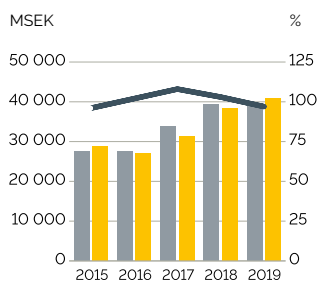
Aftermarket revenues accounted for 66% (63) of total revenues and equipment for 34% (37).

### Operating profit

The operating profit increased 10% to MSEK 8 136 (7 385) mainly as a result of a positive impact from currency and the revenue growth. The operating profit includes items affecting comparability of MSEK -446 (-394), which consist of restructuring costs and costs related to efficiency improvements of MSEK -224 (0), MSEK -28 related to the agreement with the departing President and CEO, and change in provision for long-term incentive programs of MSEK -194 (-66). Costs related to the split from Atlas Copco in 2018 were MSEK -328. The operating margin was 19.9% (19.3), affected positively by currency, revenue mix and efficiency actions, but negatively by items affecting comparability. The operating margin, adjusted for items affecting comparability was 21.0% (20.3).

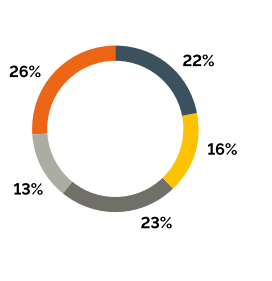
The operating profit for the segment Equipment & Service increased 11% to MSEK 7 474 (6 751). The increase was mainly due to positive impact from currency and organic revenue growth. The operating margin increased to 25.0% (23.7), affected positively by revenue mix and currency.

Orders received, revenues and book to bill



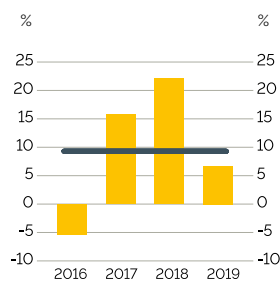
■ Orders received, MSEK  
■ Revenues, MSEK  
■ Book to bill, %

Revenues by geographic area



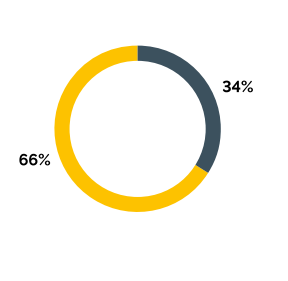
■ North America  
■ South America  
■ Europe  
■ Africa/Middle East  
■ Asia/Australia

Annual and average revenue growth



■ Revenue growth, %  
■ Compound annual growth rate 2015–2019, %

Revenues split by equipment and aftermarket



■ Equipment  
■ Aftermarket

Order growth

0%

in 2019

Revenue growth

7%

in 2019

Epiroc's goal is to achieve an annual revenue growth of 8% over a business cycle. The compound annual revenue growth has been 9% during the period 2015–2019.

The operating profit for the segment Tools & Attachments increased 1% to MSEK 1 252 (1 239). The increase was mainly due to a positive impact from currency and acquisitions, while restructuring costs had a negative impact. The operating margin was 11.6% (13.0), negatively affected mainly by restructuring costs.

The operating loss for Common Group Functions was MSEK -590 (-605). Costs increased for corporate functions, which were built up during 2018, and also due to that the change in provision for share-based long-term incentive programs was more negative at MSEK -194 (-66), and due to the agreement with the departing President and CEO. Costs related to the split from Atlas Copco, however, were lower and amounted to MSEK -62 (-328).

Epiroc's goal is to have an industry-best operating margin, with strong resilience over the cycle. The Group's operating margin for the years 2015–2019 was 18.6%.

Sales and profit bridge

Epiroc Group

	Orders received MSEK, Δ, %	Revenues MSEK, Δ, %	Operating profit MSEK, Δ	Margin, %, Δ, pp
<b>2018</b>	<b>39 400</b>	<b>38 285</b>	<b>7 385</b>	<b>19.3</b>
Organic	-5	+1	+180	+0.3
Currency	+3	+4	+657	+0.9
Structure and other	+2	+2	-86	-0.6
<b>Total</b>	<b>0</b>	<b>+7</b>	<b>+751</b>	<b>+0.6</b>
<b>2019</b>	<b>39 492</b>	<b>40 849</b>	<b>8 136</b>	<b>19.9</b>

Depreciation and EBITDA

Depreciation, amortization and impairment costs were MSEK -1 978 (-1 369), whereof approximately MSEK -447 was an effect of IFRS 16. Earnings before depreciation and amortization, EBITDA, increased to MSEK 10 114 (8 754), corresponding to a margin of 24.8% (22.9).

Financial items

Financial income was MSEK 180 (181) and financial expenses were MSEK -473 (-365). Net financial items were MSEK -293 (-184), negatively impacted by exchange rate differences of MSEK -112 (-39). Net interest costs were MSEK -186 (-137).

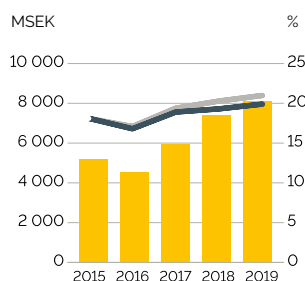
Profit before tax and income tax expense

Profit before tax amounted to MSEK 7 843 (7 201), corresponding to a margin of 19.2% (18.8). Income tax expense amounted to MSEK -1 959 (-1 764), corresponding to an effective tax rate of 25.0% (24.5).

Profit for the year and earnings per share

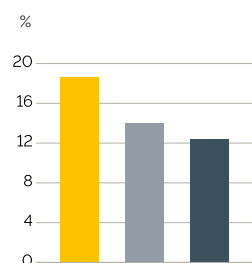
Profit for the year increased 8% to MSEK 5 884 (5 437). This corresponds to basic earnings per share of SEK 4.89 (4.50) and diluted earnings per share of SEK 4.89 (4.49).

Operating profit and margin



■ Operating profit, MSEK  
 — Operating margin, %  
 — Adjusted operating margin, %

Operating margin average 2015–2019 vs. peers and industrial companies



■ Epiroc  
 ■ Large cap global industrials  
 ■ Mining and construction equipment companies

Large cap global industrials:  
 Epiroc, 3M, ABB, Alfa Laval, Assa Abloy, Atlas Copco, Caterpillar, Danaher, Deere, Dover, Eaton, Emerson, Fortive, General Electric, Graco, Hitachi, Honeywell, Kone, Komatsu, Legrand, Mitsubishi Heavy Industries, Nordson, Parker-Hannifin, Rockwell Automation, Roper Technologies, Sandvik, Schindler, Schneider Electric, Siemens, SKF, Smiths Group, United Technologies, Volvo, and Xylem.

Mining and construction equipment companies:  
 Epiroc, Caterpillar, Komatsu, Metso, Sandvik, and Weir.  
 Reported data until February 25, 2020.

Operating profit

**+10%**

Operating margin

**19.9%**

Epiroc's goal is to have an industry-best operating margin, with strong resilience over the cycle. The Group's operating margin for the years 2015–2019 was 18.6%.

## ADMINISTRATION REPORT

### Balance sheet in summary

	2019	% of total assets	2018	% of total assets
Intangible assets	4 226	10	3 620	10
Rental equipment	1 213	3	1 233	3
Other property, plant and equipment	4 613	11	2 473	7
Other non-current assets	1 838	4	1 870	5
Inventories	10 508	26	10 516	29
Trade receivables	7 287	18	8 005	22
Other receivables	1 950	5	1 622	5
Financial assets	862	2	944	3
Cash and cash equivalents	8 540	21	5 872	16
<b>Total assets</b>	<b>41 037</b>	<b>100</b>	<b>36 155</b>	<b>100</b>
Total equity	22 813	56	18 847	52
Interest bearing liabilities	9 025	22	7 080	20
Non-interest bearing liabilities	9 199	22	10 228	28
<b>Total equity and liabilities</b>	<b>41 037</b>	<b>100</b>	<b>36 155</b>	<b>100</b>

### Assets

The Group's total assets increased 14% to MSEK 41 037 (36 155). Currency and acquisitions increased the assets by about 3% and 4%, respectively. Inventory and customer receivables decreased in local currency for comparable units, while cash and cash equivalents increased.

### Net debt

The Group's net debt amounted to MSEK 483 (1 208), of which MSEK 596 (283) was attributable to post-employment benefits. The implementation of IFRS 16 has increased the net debt by MSEK 1 956. The net debt/EBITDA ratio was 0.05 (0.14). The net debt/equity ratio was 2.1% (6.4)

### Financing

The long-term financing consists of capital market borrowings of MSEK 2 000 and loan facilities of MSEK 3 000 and MEUR 100, with maturities 2022-2027. As back-up facilities, the Group has a MSEK 4 000 revolving credit facility and a MSEK 2 000 commercial paper program, both unutilized at year-end 2019. See also note 27.

### Credit rating

On December 5, 2018, Epiroc was assigned a BBB+ long-term issuer credit rating with a stable outlook from S&P Global Ratings. Epiroc's goal is to have an efficient capital structure and have the flexibility to make selective acquisitions. The goal is to maintain an investment grade rating.

### Equity and comprehensive income

At year end, Group equity including non-controlling interests was MSEK 22 813 (18 847), corresponding to 55.6% (52.1) of total assets. Equity per share was SEK 19.00 (15.63). Epiroc's market capitalization at year end was MSEK 137 504. The information related to public takeover bids given in note 20 is also valid for the Group.

Total comprehensive income for the year increased to MSEK 6 185 (5 365).

### Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 2.40 (2.10) per share be paid for the 2019 fiscal year. Epiroc's goal is to provide long-term stable and rising dividends to its shareholders. The dividend should correspond to 50% of net profit over the cycle. The proposed dividend corresponds to 49% (47) of net profit.

### Working capital

Net working capital increased by 2% to MSEK 13 153 (12 897) compared to the previous year, due to currency and acquisitions. For comparable units and currency adjusted, net working capital decreased 6%, with a reduction in both trade receivables and inventories. Trade payables and advance payments were lower, which partly offset the improvement. The average net working capital was MSEK 14 062 (12 158). As a percentage of revenues last 12 months, the average net working capital was 34.4% (31.8).

The level of inventories remained high and additional actions were implemented to reduce it. This had positive effects at the latter part of the year. The supply-chain program described above has the objective of reducing inventories by having fewer stocking points. During the implementation, inventories have been increased at selected stocking points to be able to reduce or eliminate the inventories at other stocking points. This had some negative effect on the working capital in the short term as it required a build-up of stock in the key stocking points.

### Capital turnover

The capital turnover ratio was 1.0 (1.2). The capital employed turnover ratio was 1.4 (1.7).

Tax rate

**25.0%**

Earning per share SEK

**4.89**

**Profit for the year increased  
8% to MSEK 5 884.**

**Return on capital employed and return on equity**

Return on capital employed was 27.6% (32.0). The operating profit improved, but the return on capital employed was diluted by acquisitions, accumulation of cash, and by the implementation of IFRS 16 Leases.

Epiroc's goal is to improve capital efficiency and resilience. Investments and acquisitions shall create value. The return on capital employed remained at a high level, even if there is further potential when it comes to working capital management.

The return on equity was 28.3% (33.2).

**Operating cash flow and investments**

Operating cash flow increased to MSEK 6 688 (3 884), mainly due to higher operating profit and an improvement in cash flow from working capital compared to the previous year.

Net cash flow from operating activities was MSEK 7 228 (4 324). Net financial items paid was MSEK -410 (-483). Taxes paid was MSEK -2 157 (-1 747). Cash flow from change in working capital was MSEK 337 (-1 875). Both trade receivables and inventories decreased. Trade payables and advance payments were also lower, which partly offset the improvement. Net investments in rental equipment were MSEK -343 (-374). Gross investments in property, plant and equipment were MSEK -486 (-577) and sales were MSEK 60 (26), and net investments in property, plant and equipment were MSEK -426 (-551). The largest investments were made in the manufacturing facilities in Örebro and Fagersta, Sweden and in Garland, Texas, United States. Investments in intangible assets, mainly related to capitalization of development expenditures but also investments in IT systems, were MSEK -521 (-459), net.

**Acquisitions and other investments**

Three (six) acquisitions and two divestments (zero) were completed and the cash flow effect was MSEK -984 (-546), see note 3 and 14. Proceeds to/from other financial assets, net were positive at MSEK 276 (219), net, including proceeds from the divestment of some Payment Solutions credit portfolios.

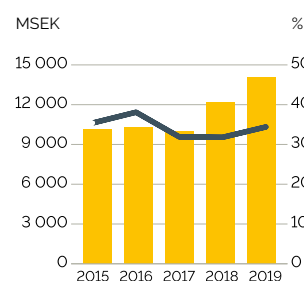
**Cash flow from financing**

Dividends paid to shareholders were MSEK -2 523 (-) and dividends paid to non-controlling interest were MSEK -8 (-). No dividends were paid in 2018 as Epiroc was distributed to Atlas Copco's shareholders in 2018. Cash flow from sales and repurchases of own shares was MSEK 340 (-1 307), all related to hedging or deliveries of shares for the long-term incentive programs described in note 23. Change in interest-bearing liabilities was MSEK -820 (2 367).

**Employees**

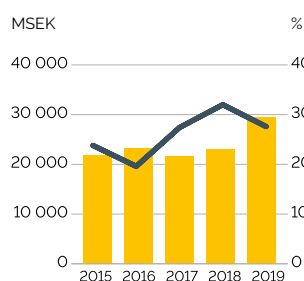
The average number of employees increased by 7% to 14 398 (13 517) due to acquisitions. At year end, the number of employees was 14 268 (13 847). Equipment & Service had 9 331 (9 726) employees, Tools & Attachments had 4 668 (3 874) employees and Common Group Functions 269 (247) employees. Epiroc uses an additional workforce in addition to its permanent employees to handle temporary fluctuations in demand and the additional workforce is primarily hired in the manufacturing and assembly plants. In addition, there are also additional workforce in research and development. The additional workforce was 1 366 (1 610) at the end of the year. For comparable units, the total workforce decreased with 987 compared to the previous year.

**Net working capital**



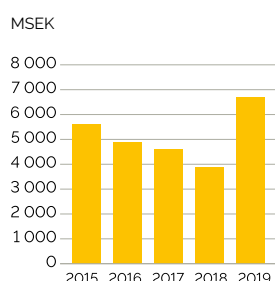
■ Average net working capital, MSEK  
 ■ Average net working capital/revenues, %

**Return on capital employed**



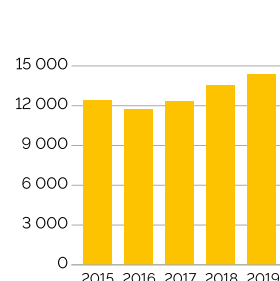
■ Average capital employed, MSEK  
 ■ Return on capital employed, %

**Operating cash flow**



■ Operating cash flow, MSEK

**Employees**



■ Average number of employees

Dividend per share SEK

**2.40**

proposed by the Board

Epiroc's goal is to provide long-term stable and rising dividends to its shareholders. The dividend should correspond to 50% of net profit over the cycle. The proposed dividend of SEK 2.40 per share corresponds to 49% of net profit.

## ADMINISTRATION REPORT

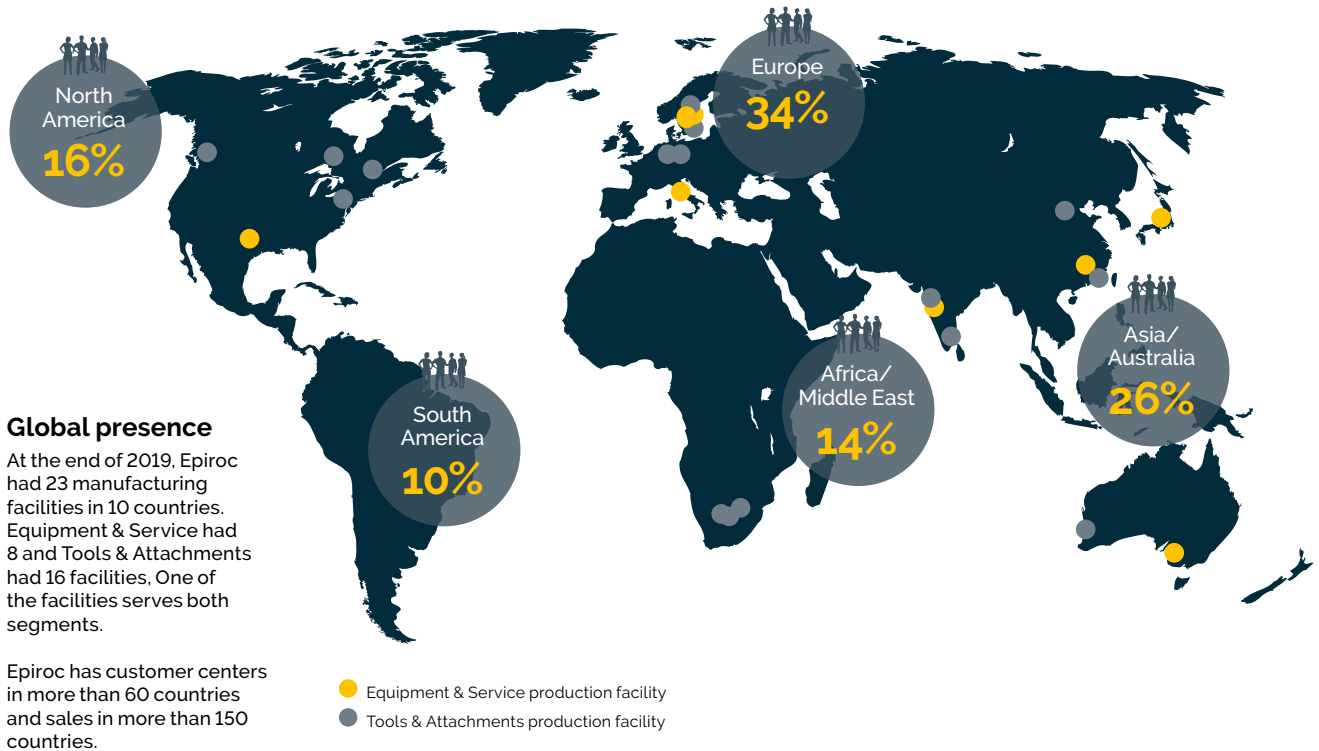
### Average number of employees

	2019	% of total	2018	% of total
North America	2 253	16	2 064	15
South America	1 476	10	1 496	11
Europe	4 813	34	4 724	35
– of which Sweden	3 157	22	3 094	23
Africa/Middle East	2 070	14	1 462	11
Asia/Australia	3 786	26	3 771	28
<b>Total</b>	<b>14 398</b>	<b>100</b>	<b>13 517</b>	<b>100</b>

### Employees by professional category, %

	2019	2018
Service	37	37
Production	28	26
Administration	16	17
Marketing	6	7
Research & development	7	7
Sales and support	6	6
<b>Total</b>	<b>100</b>	<b>100</b>

### Share of employees by region



Return on capital employed

# 27.6%

Average number of employees

# 14 398

Epiroc's goal is to improve capital efficiency and resilience. Investments and acquisitions shall create value. The return on capital employed remained high.

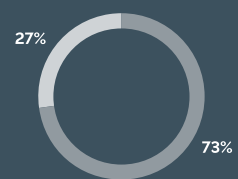


### Presentation of Epiroc's segments

**Equipment & Service, pages 46–47**

**Tools & Attachments, pages 48–49**

Revenues split by segment



- Equipment & Service
- Tools & Attachments

# Equipment & Service

The Equipment & Service segment provides rock drilling equipment, equipment for mechanical rock excavation, rock reinforcement, loading and haulage, ventilation systems, drilling equipment for exploration, water, oil and gas, as well as related spare parts and service. The following five divisions are included in the segment: Drilling Solutions, Surface and Exploration Drilling, Underground Rock Excavation, Mining and Rock Excavation Service, and Rocktec.

## 2019 in review

### Market development and orders received

The customer demand for Epiroc's equipment decreased in 2019 as customers were more cautious in making investments decisions and placing orders for new equipment. Activities were high both in the mining industry and in infrastructure and the service business had a strong development.

Investments were made in market presence, innovation and manufacturing facilities.

The orders received for Equipment & Service decreased by 4% to MSEK 28 509 (29 695), corresponding to 6% organic decline. Currency contributed positively to orders received with 3%, while structural changes had a net negative impact of 1%. Geographically, orders received increased in Asia/Australia, but decreased in all other regions.

Equipment had an organic decline of 20% and orders received amounted to MSEK 12 355 (15 244). The demand for equipment for both in surface and underground applications was weaker and order intake decreased for all types of equipment. Most of the orders from mining customers was related to expansion in or adjacent to existing mines rather than to replacement. Geographically, orders received increased in Asia/Australia, but decreased in all other regions.

The service business performed well and orders received increased by 12% to MSEK 16 154 (14 451). The organic growth was 8%, supported by a continued positive market development and additional marketing and sales activities. Geographically, orders received for service increased in all regions with Asia/Australia having the highest order growth.

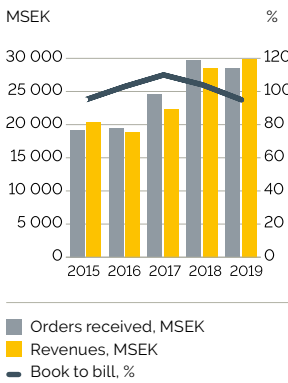
### Revenues

Revenues increased by 5% to MSEK 29 891 (28 540), corresponding to an organic growth of 2%. Currency contributed positively with 4%, while structural changes had a net negative impact of 1%. Book to bill was 95%. Service accounted for 54% (50) of the revenues in the segment.

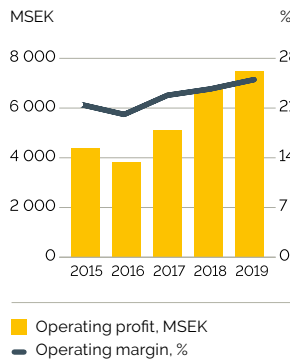
### Operating profit and margin

Operating profit increased by 11% to MSEK 7 474 (6 751), including costs of MSEK -28 related to efficiency improvements. The increase was mainly due to higher volumes and a positive impact from currency. The operating margin increased to 25.0% (23.7), affected positively by volume growth, revenue mix and currency.

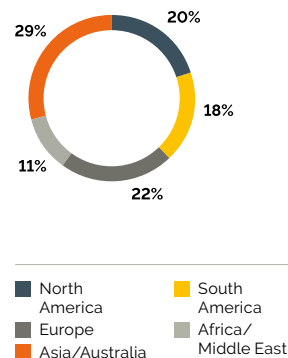
Orders received, revenues and book to bill



Operating profit and operating margin



Revenues by geographic area



Orders received

**-4%**

Operating profit

**7 474**

MSEK

One acquisition completed in 2019.

Revenues

**29 891**

MSEK

Operating margin

**25.0%**



Sales and profit bridge

Equipment & Service

	Orders received MSEK, Δ, %	Revenues MSEK, Δ, %	Operating profit MSEK, Δ	Margin, %, Δ, pp
<b>2018</b>	<b>29 695</b>	<b>28 540</b>	<b>6 751</b>	<b>23.7</b>
Organic	-6	+2	+214	+0.2
Currency	+3	+4	+561	+1.1
Structure and other	-1	-1	-52	0.0
<b>Total</b>	<b>-4</b>	<b>+5</b>	<b>+723</b>	<b>+1.3</b>
<b>2019</b>	<b>28 509</b>	<b>29 891</b>	<b>7 474</b>	<b>25.0</b>

Business and organizational development

The presence in targeted market and customer segments was enhanced by more resources added in service and sales. Investments were also made in innovation centers, automation centers and manufacturing facilities. A Control Tower was inaugurated in Epiroc's facilities in Chile, in addition to one already established in Sweden. In the Control Tower visitors can explore remote controlled and automated machines which can be operated anywhere around the globe. The Group has also established automation centers in several locations in all regions of the world. Targeted efforts have brought the manufacturing capacity on par with the demand.

Acquisition

Equipment & Service completed one acquisition in 2019. See note 3.

Noland Drilling Equipment, a US distributor of water well drilling equipment and related parts, services and consumables with eight employees.

Innovations in 2019

Several new products were introduced during the year, including:

- 6th Sense. This is Epiroc's offering to optimize customers' operations by connecting machines, systems and people using automation, information management and system integration. 6th Sense brings additional value to the customers as it combines multiple solutions of digitalization and automation to boost customers' performance.
- The SmartROC D65 surface drill rig, which has automated drilling and rod handling and is equipped with a touchscreen that presents a significant amount of real-time data, making the operation faster and more efficient. Intelligent controls reduce fuel consumption and CO2 emissions.
- A system that enables teleremote electric tramming of Simba long-hole underground drill rigs. It enables the operator to move and position the drill from a remote location, which increases both productivity and safety and reduces CO2 emissions.
- The solution "Scooptram Automation Total", which improves safety, productivity and cost effectiveness. The solution provides a traffic management and information environment that controls multiple loaders.
- Mobilaris Onboard™, which provides drivers and operators with real-time situational awareness of all vehicles and personnel underground on a standard tablet without a positioning infrastructure. The system enables easy navigation and avoidance of traffic congestions and, in case of an evacuation event, instant directions to the closest rescue chamber or exit.
- A digital fleet management solution called My Epiroc. The platform, which is available on web and mobile devices, includes features for increasing fleet efficiency and safety.
- The Pit Viper 270 XC series blasthole drilling rig. It is equipped with Epiroc's latest Rig Control System, which offers numerous automation features and provides a foundation to add new functionality and options.

Agreement

Epiroc entered into a partnership with world-leading commercial explosives provider Orica to jointly develop a semi-automated explosives delivery system, enabling safer and more productive blasting operations in underground mines.



Innovation

Autonomous drilling can be implemented on the new Pit Viper 270 XC series surface drill rig.

# Tools & Attachments

The Tools & Attachments segment provides rock drilling tools and hydraulic attachments that are attached to machines used mainly for drilling, deconstruction and recycling as well as rock excavation. It also provides related service and spare parts. The following two divisions are included in the segment: Rock Drilling Tools and Hydraulic Attachment Tools.

## 2019 in review

### Market development and orders received

The activity in both the infrastructure and mining industry was healthy for Tools & Attachments with a good level of activity in almost all markets. Order volumes decreased somewhat, but this was more than compensated for by acquisitions.

The orders received for Tools & Attachments increased by 12% to MSEK 10 768 (9 611), Acquisitions contributed with 11% and currency with 4% to the growth, while the organic decline was 3%. Both hydraulic attachments and rock drilling tools had an organic decline in orders received, with the latter negatively impacted by optimization of the product offering. Geographically, total orders received increased in all regions, except Europe.

### Revenues

Revenues increased by 13% to MSEK 10 799 (9 519), corresponding to an organic decline of 2%. Revenues from

acquisitions contributed with 11% and currency with 4% to the growth. Book to bill was 100%.

### Operating profit and margin

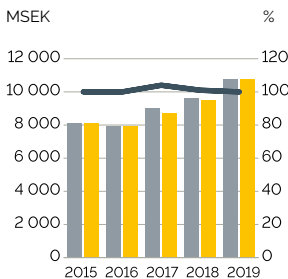
Operating profit was MSEK 1 252 (1 239). Acquisitions and currency contributed positively to the profit, while items affecting comparability were MSEK -196. These items include costs related to restructuring of handheld rock drilling tools and the divestment of geotechnical consumables product line, see below, as well as costs related to efficiency improvements. In addition, a provision of MSEK -41 for a collection claim towards a distributor affected the operating profit. The reported operating margin was 11.6% (13.0). Excluding the items affecting comparability, the operating margin was 13.4%, affected positively by currency and efficiency, but diluted by acquisitions.

### Sales and profit bridge

#### Tools & Attachments

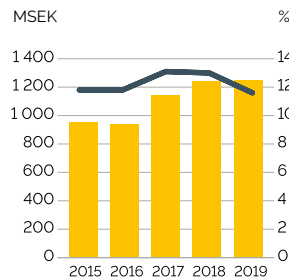
	Orders received MSEK, Δ, %	Revenues MSEK, Δ, %	Operating profit MSEK, Δ	Margin, %, Δ, pp
<b>2018</b>	<b>9 611</b>	<b>9 519</b>	<b>1 239</b>	<b>13.0</b>
Organic	-3	-2	+23	+0.5
Currency	+4	+4	+133	+0.9
Structure and other	+11	+11	-143	-2.8
<b>Total</b>	<b>+12</b>	<b>+13</b>	<b>+13</b>	<b>-1.4</b>
<b>2019</b>	<b>10 768</b>	<b>10 799</b>	<b>1 252</b>	<b>11.6</b>

Orders received, revenues and book to bill



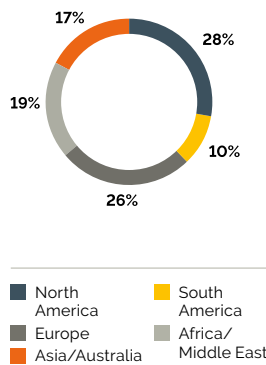
█ Orders received, MSEK  
█ Revenues, MSEK  
— Book to bill, %

Operating profit and operating margin



█ Operating profit, MSEK  
— Operating margin, %

Revenues by geographic area



Orders received

**+12%**

Operating profit

**1 252**

MSEK

Two acquisitions were completed in 2019.

Revenues

**10 799**

MSEK

Operating margin

**11.6%**



**Business and organizational development**

The presence in targeted market and customer segments was enhanced by selected acquisitions and by adding resources in service and sales. Investments were also made in product development and in manufacturing facilities. Epiroc carried out actions to optimize its product portfolio and exit noncore areas to increase focus and efficiency. In 2019, a factory of handheld rock drilling equipment and tools in Shandong, China, was closed. It is expected to have a negative impact on annual revenues with approximately MSEK 125, but a positive impact on operating profit.

**Acquisitions and divestments**

Tools & Attachments completed two acquisitions and two divestments in 2019. See also note 3.

- Fordia Group Inc., a Canadian manufacturer of exploration drilling tools, was acquired. Fordia had about 250 employees and annual revenues of about MSEK 580.
- Innovative Mining Products (Proprietary) Limited, widely known as New Concept Mining, a South African manufacturer of rock reinforcement products for underground mining was acquired. The company had about 900 employees and annual revenues of approximately MSEK 600.
- The geotechnical consumables product line was divested. The products consist mainly of large down-the-hole hammers and related drill bits and casing advancement systems. The business had revenues of MSEK 275 in 2018 and about 40 employees.

- The handheld drilling consumables manufacturing facility in Ockelbo, Sweden, was divested. The 40 employees at the facility were offered to transfer to the new owner.

**Innovations in 2019**

Several new products were introduced during the year, including:

- A new range of drill bits for underground drilling was launched. The bits offer higher penetration rate and longer service life, which improve customers' productivity and reduce cost per drilled meter.
- A range of down-the-hole hammers has been launched. It features a new patented design and the hammers are shorter, lighter and faster compared to its predecessors. Lighter hammers means easier handling and increased safety. A unique piston design allows much higher impact frequency and faster drilling, which also means lower fuel consumption, CO<sub>2</sub> emissions and running costs.
- Epiroc Bio chisel paste has been supplied with all new hydraulic breakers as from the second quarter 2019. It is used to grease the wear bushings in the breaker, is biodegradable, and prolongs working tool life.
- The new bucket screeners increase efficiency by allowing sorting and recycling of material on a demolition site. The basket's polygonal design with 12 sides enables the material to be shaken in an effective way to speed up the screening process. The material passes through hexagonal openings in the mesh, available in different sizes, and become aggregates.



**Innovation**

Powerbit Underground for faster drilling and longer life.

## Parent Company

Epiroc AB is the ultimate Parent Company of the Epiroc Group and is headquartered in Nacka, Sweden. Its operations include administrative functions for the Group.

### Earnings

Operating loss was MSEK -167 (-199). Profit before tax totaled MSEK 3 707 (4 208). Profit for the year amounted to MSEK 2 935 (3 281).

### Financing

The total assets were MSEK 57 122 (56 376) at the end of the year and cash and cash equivalents amounted to MSEK 2 (1) and interest-bearing liabilities, excluding post-employment benefits to MSEK 6 029 (5 023). Equity represented 89% (89) of total assets and the non-restricted equity totaled MSEK 50 277 (49 553).

### Employees

The average number of employees was 44 (33).

### Remuneration

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

### Financial risks, risks and factors of uncertainty

Epiroc is subject to currency risks, interest rate risks and other financial risks. Epiroc has adopted a policy to control the financial risks to which Epiroc AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage these risks. See also pages 60–65 and note 27.

### Shares and share capital

At year end, Epiroc AB's share capital totaled MSEK 500 (500). The total numbers of issued Epiroc shares were 1 213 738 703 shares, whereof 823 765 854 shares class A and 389 972 849 shares class B. For more information, see note 20.

### Performance-based long-term incentive program

The Board of Directors of Epiroc has been authorized to purchase, transfer and sell own shares in relation to Epiroc's performance based personnel option plans. At year-end 2019, 10 786 679 class A shares were held by Epiroc.

The Board of Directors will propose to the Annual General Meeting 2020 a similar performance-based long-term incentive program as in previous year. See notes 20 and 23.

### Appropriation of profit

The Board of Directors proposes to the Annual General Meeting a dividend of SEK 2.40 (2.10) per share, which corresponds to MSEK 2 887 (2 523). The dividend is proposed to be paid in two equal installments, the first with record date May 14, 2020 and the second with record date October 29, 2020. The proposed payment periods facilitate a more efficient cash management. It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

#### SEK

Retained earnings	47 342 179 253
Profit for the year	2 935 275 424
<b>Total</b>	<b>50 277 454 677</b>

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

To the shareholders, a dividend of SEK 2.40 per share	2 887 084 858
To be retained in the business	47 390 369 819
<b>Total</b>	<b>50 277 454 677</b>

The total amount of dividend distribution will depend on the total number of Epiroc shares outstanding on the dates of dividend distribution.

The Board of Directors proposes a dividend of SEK 2.40 per share.

### Statutory sustainability report

Epiroc has prepared a sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines. The sustainability report has been prepared in accordance with disclosure requirements set out in the Swedish Annual Accounts Act chapter 6 paragraph 11. The scope and content of the sustainability report is defined on page 126.

# Five-year summary

MSEK	2015 <sup>1)</sup>	2016 <sup>1)</sup>	2017 <sup>1)</sup>	2018	2019
<b>Orders, revenues and profit</b>					
Orders received	27 551	27 634	33 831	39 400	39 492
Revenues	28 663	27 102	31 364	38 285	40 849
Change organic, %	-3	-3	+14	+18	+1
EBITDA	6 570	5 765	7 183	8 753	10 114
EBITDA margin, %	22.9	21.3	22.9	22.9	24.8
Operating profit	5 175	4 548	5 930	7 385	8 136
Operating margin, %	18.1	16.8	18.9	19.3	19.9
Adjusted operating profit <sup>2)</sup>	5 548	4 836	6 093	7 779	8 582
Adjusted operating margin, % <sup>2)</sup>	19.4	17.8	19.4	20.3	21.0
Net financial items	-220	-137	-137	-184	-293
– of which interest net	na	na	-125	-137	-186
Profit before tax	4 955	4 411	5 793	7 201	7 843
Profit margin, %	17.3	16.3	18.5	18.8	19.2
Income tax expenses	-1 384	-1 180	-1 495	-1 764	-1 959
Tax rate, %	27.9	26.8	25.8	24.5	25.0
Profit for the period	3 571	3 231	4 298	5 437	5 884
<b>Employees</b>					
Number of employees, period end	12 005	11 705	12 948	13 847	14 268
Additional workforce, period end	880	954	1 397	1 610	1 366
Average number of employees	12 383	11 749	12 355	13 517	14 398
Revenues per employee, SEK thousands	2 315	2 307	2 538	2 832	2 837
<b>Cash flow</b>					
Net cash flow from operating activities	5 858	5 402	5 176	4 324	7 228
Net cash from investing activities	-3 175	-1 805	5 543	-1 337	-1 655
Acquisitions and divestments of subsidiaries	–	–	137	546	984
Other adjustments <sup>3)</sup>	2 947	1 283	-6 246	351	131
Operating cash flow	5 630	4 880	4 610	3 884	6 688
Change in working capital	417	895	-403	-1 875	337
Increase in rental equipment	-899	-677	-793	-896	-915
Sale of rental equipment	335	386	422	522	572
Net investments in rental equipment	-564	-291	-371	-374	-343
– as % of revenues	-2.0	-1.1	-1.2	-1.0	-0.8
Investments in property, plant and equipment	-368	-293	-424	-577	-486
Sale of property, plant and equipment	453	58	70	26	60
Net investments in property, plant and equipment	85	-235	-354	-551	-426
– as % of revenues	0.3	-0.9	-1.1	-1.4	-1.0
Net investments in intangible assets	-313	-287	-289	-459	-521
Sale/repurchase own shares	–	–	–	-1 307	340
<b>Balance sheet</b>					
Total assets	28 418	29 984	27 547	36 155	41 037
Average capital employed	21 727	23 167	21 674	23 086	29 518
Capital employed turnover ratio	1.3	1.2	1.4	1.7	1.4
Return on capital employed, 12 months %	23.8	19.6	27.4	32.0	27.6
Net debt	2 419	1 986	5 424	1 208	483
Net debt/EBITDA ratio	0.37	0.34	0.75	0.14	0.05
Total equity	14 929	15 813	12 047	18 847	22 813
Debt/equity ratio, period end, %	16.2	12.6	45.0	6.4	2.1
Equity/assets ratio, period end, %	52.5	52.7	43.7	52.1	55.6
Return on equity, 12 months %	23.9	20.4	29.1	33.2	28.3
Average net working capital	n/a	n/a	9 991	12 158	14 062
Average net working capital/revenues, %	n/a	n/a	31.9	31.8	34.4

1) Financial statements prior to 2018 are combined. See note 1 in the Annual and Sustainability Report 2018.

2) Adjusted for costs for the split from Atlas Copco until 2018. for change in provision for long-term incentive programs, and for items affecting comparability.

3) In 2015–2017, mainly changes in cash-pool with Atlas Copco and currency hedges of loans. In 2018 and 2019, mainly currency hedges of loans and divestment of Payment Solutions portfolios.

Financial definitions can be found on page 122. Non-IFRS measures are presented in this report since they are considered to be important supplemental measures of the company's performance. Information on how these measures have been calculated can also be found on Epiroc's website, [www.epirocgroup.com/en/investors/financial-publications](http://www.epirocgroup.com/en/investors/financial-publications).

# Corporate Governance Report

Epiroc's corporate governance is devised to support the Group's long-term strategies, market presence and competitiveness. At the same time, it shall uphold confidence among stakeholders, such as shareholders, customers, business partners, capital markets, society and employees.

Corporate governance relates to decision-making systems by which the shareholders, directly or indirectly, control the Group. The following section provides details about corporate governance within Epiroc. As a company listed on Nasdaq Stockholm, Epiroc applies the rules of the Swedish Companies Act, the Swedish Annual Accounts Act, Epiroc's Articles of Association, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code (the Code) as well as other Swedish and foreign laws and regulations, as applicable. The Code applies to all Swedish companies whose shares are listed on a regulated market in Sweden and is based on the principle comply or explain. This means that Epiroc is not required to apply every rule of the Code at all times, but may choose alternative solutions, deemed to better match the circumstances, provided that Epiroc openly discloses all such deviations, describes the alternative solution and states the reason for the deviation. Epiroc does not report any deviations from the Code for the fiscal year. The auditor's statement regarding this report can be found on pages 123–125.

Further information about corporate governance is available at [www.epirocgroup.com](http://www.epirocgroup.com)

## Corporate Governance structure

The following section describes the governance structure within Epiroc and how corporate governance creates a framework for rules and regulations, areas of responsibility and processes and routines that effectively safeguard the interests of shareholders and other parties by minimizing risks and creating good conditions for a stable expansion of Epiroc's business.

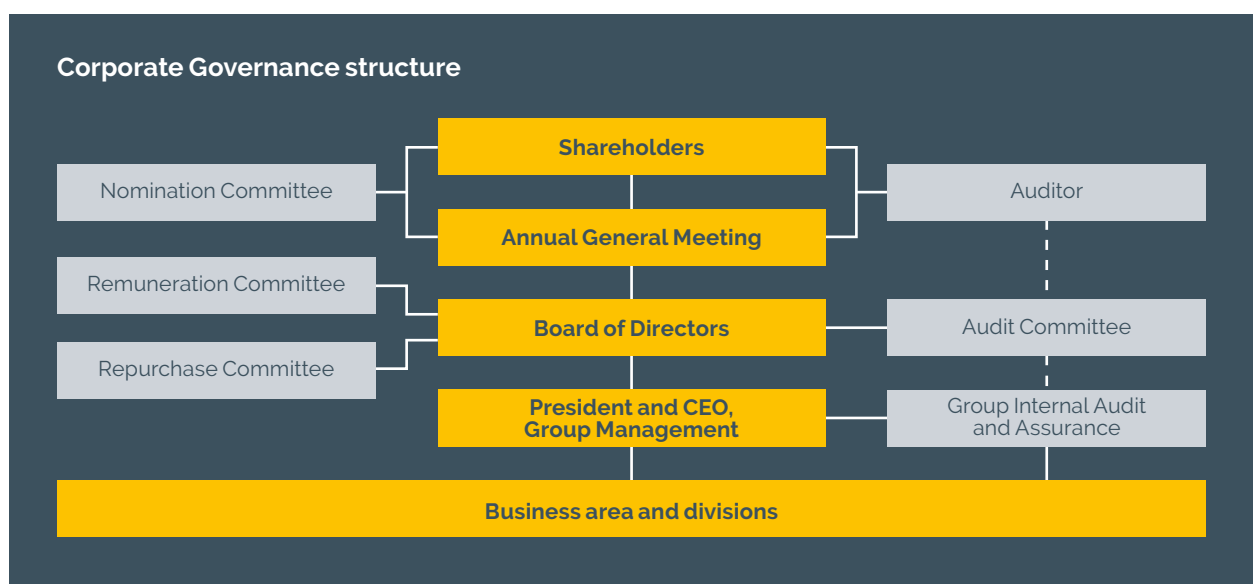
## Shareholders

At year-end 2019, the total number of shareholders was 70 716. The proportion of foreign ownership was 52.7% of the number of shares on the market. One shareholder, Investor, owns more than 10% of the company. At year-end, Investor owned 207 757 845 shares, corresponding to 17.1% of shares and 22.7% of the votes. Further details about the company's shares and shareholders are presented in the section "The Epiroc share", see pages 134–135, and on the website, [www.epirocgroup.com/en/investors/share/shareholders](http://www.epirocgroup.com/en/investors/share/shareholders).

## Annual General Meeting

The Annual General Meeting (AGM) is Epiroc's highest decision-making body, where the shareholders exercise their voting rights. Notice of a General Meeting of shareholders is posted on the Group's website and published in the Official Swedish Gazette, Post och Inrikes Tidningar. Information that the notice has been given shall at the same time be published in Svenska Dagbladet and Dagens Nyheter. The AGM decides on matters such as the adoption of Epiroc's annual accounts, appropriation of the company's profits and the discharge of Board members and the CEO from liability for the year. The AGM also elects members of the Board and auditors and votes on the establishment of a Nomination Committee, remuneration for the Board of Directors and auditors and guidelines for determining the salaries and other remuneration for the CEO and Group Management. Shareholders attending the AGM may also ask questions about the Group's activities. Resolutions passed at a meeting of shareholders are disclosed after the meeting in a press release, and the minutes of the meeting are published on Epiroc's website.

The Annual General Meeting 2020 will be held at 4 PM on May 12, 2020 at Norra Latin City Conference Centre, Stockholm, Sweden.



## Nomination Committee

The main task of the Nomination Committee is to propose Board members and auditors, as well as remuneration for such persons, and propose Chairman for the AGM. The Nomination Committee instructions require that the committee, in addition to the Chairman of the Board, shall consist of one representative of each of the four shareholders controlling the largest number of votes, which desires to appoint a representative. The composition of the committee is based on ownership statistics on the last day of trading in August 2019. The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2020. For further information about the committee instructions, see the website [www.epirocgroup.com](http://www.epirocgroup.com).

The Nomination Committee shall conduct its duties in accordance with the Code and particularly consider the requirements regarding breadth and versatility of the appointed Board members' qualifications, experience and background. The Nomination Committee has in its evaluation of the board composition also taken into account diversity, independence and gender balance.

In accordance with instructions on Epiroc's website, shareholders are welcome to present proposals and opinions to the committee. Shareholders who wish to submit proposals can do so by e-mailing the secretary of the Nomination Committee at [nominations@epiroc.com](mailto:nominations@epiroc.com) or by mailing Jörgen Ekelöv, Epiroc AB, P.O. Box 4015, SE-131 04 Nacka, Sweden.

The following representatives of Epiroc AB's shareholders, together with the Chairman of the Board, Ronnie Leten, form the Nomination Committee for the Annual General Meeting 2020:

- Petra Hedengran, Investor AB (chair)
- Ramsay Brufer, Alecta
- Jan Andersson, Swedbank Robur Funds
- Javiera Ragnartz, SEB Investment Management AB

## Board of Directors

The Board of Directors is Epiroc's highest decision-making body below the AGM. The Board is charged with the organization of the Group and management of the Group's affairs. The Board's tasks include adopting strategies, business plans, interim reports, year-end reports, annual financial statements and certain instructions, policies and guidelines. The Board is also required to monitor economic developments and ensure the quality of financial reporting and internal controls and evaluate operations based on the objectives and guidelines set by the Board. Additional targets include deciding on the Group's major investments, acquisitions and divestments, and other changes in the organization and activities. The Board adopts instructions for the committees of the Board and an instruction for the President and CEO, as well as an instruction for the financial reporting.

The work of the Board follows written rules of procedure to ensure that the Board obtains information on all issues, and that all aspects of the Group's activities relating to the Board are addressed.

The Board has established three Board committees as part of efforts to strengthen the efficiency on certain issues: a Remuneration Committee, an Audit Committee and a Repurchasing Committee. The committees have a preparatory and administrative role and members are appointed for one year at a time at the inaugural Board meeting. The work and authority of the committees are regulated by the committee instructions, which are reviewed and approved annually.

## Composition

Members of the Board of Directors, except for employee representatives, are appointed annually by the AGM for the period until the end of the next Annual General Meeting. According to the Group's Articles of Association, the members of the Board of Directors to be elected by the General Meeting shall consist of a minimum of six members and a maximum of twelve members. Other than the President and CEO, the employee representatives and their deputies, none of the Board members are employed by the Group. Of the Board members elected by the AGM, three are women and five are men. The Board members are presented on pages 56–57.

The Chairman leads the work, is responsible for ensuring that the Board's work is carried out efficiently and that the Board fulfills its obligations in accordance with applicable laws and regulations. The Chairman shall monitor the Board's performance and prepare and chair the meetings. The Chairman is also responsible for ensuring that the Board of Directors evaluates its work each year and always receives the information necessary to perform its work effectively. The Chairman represents the Board in relation to Epiroc's shareholders.

## Work of the Board

To accomplish its task, the Board's work follows an annual cycle. At the beginning of the year, the Board considers the year-end report and the annual report, as well as matters to be submitted to the AGM. Each year, the Board reviews the strategic direction of the Group as well as the business plan and targets for the year ahead. There is also a presentation of the annual audit made by the Group's principal auditor. Every quarter, the Board reviews the Group's earnings and interim reports. An inaugural Board meeting is held in connection with the AGM at which members of the Board's committees are appointed and matters such as the right to sign on behalf of the company are decided. At Board meetings, there are normally business presentations and/or presentations on certain matters. The Board evaluates the performance of the President and CEO and also follows up on the compliance of the Code of Conduct during the year.

The Board held twelve meetings in 2019, including the inaugural meeting. In addition, the Board made a field trip to Nanjing, China. See also the illustration on pages 54–55. The attendance at Board meetings is presented on page 55. The General Counsel acted as secretary at the Board meetings.

## Evaluation of the Board

The annual evaluation of the Board of Directors' work, including the Board's committees was conducted by the Chairman through a questionnaire and a follow-up discussion with each Board member. The evaluation included working procedures, competence and composition of the Board as well as the experience and diversity of the Board members. The findings were presented to the Nomination Committee.

## Remuneration of the Board of Directors

Remuneration and fees are based on the work done by the Board. The Annual General Meeting held on May 9, 2019 resolved that remuneration to the Board members elected by the General Meeting should be as per below

- SEK 2 050 000 to the Chairman of the Board and SEK 640 000 each to the other Board members not employed by the Group
- SEK 260 000 to the chair of the Audit Committee and SEK 175 000 to each of the other members of this committee

## CORPORATE GOVERNANCE REPORT

- SEK 125 000 to the chair of the Remuneration Committee and SEK 90 000 to each of the other members of this committee.
- SEK 70 000 to each non-executive director who, in addition, participates in committee work decided upon by the board.

See also note 5.

### Audit Committee

To support the Board in its role in supervising auditing and internal control issues, a separate Audit Committee is appointed. The committee is responsible for monitoring the Group's financial reporting, financial risk management and internal control, as well as accounting and auditing. The Audit Committee has regular dialogue with the Group's auditor and has at least one meeting per year with the auditor when management is not present. It also reviews and monitors the auditor's impartiality and independence, other services provided by the Group's auditor and assists the Nomination Committee with the proposal for the election of the auditor. The Audit Committee has functional responsibility over Epiroc Group Internal Audit and Assurance. The committee is responsible for reviewing and monitoring this function's independence and objectivity, as well as the effectiveness of the activities carried forward, such as the yearly internal audit plan.

The Audit Committee shall consist of at least three members of whom the majority must be independent in relation to the Group and its management. The Audit Committee consists of Ulla Litzén (chair), Anders Ullberg and Ronnie Leten, of which Ulla Litzén and Anders Ullberg are independent in relation to the Group and its management.

### Remuneration Committee

The principal function of the Remuneration Committee is to propose to the Board principles for remuneration and other employment terms for members of Group Management, including proposal for remuneration to the President and CEO, and to approve remuneration and other employment conditions for the other members of the Group Management. The Remuneration Committee also handles remuneration matters of principle importance such as proposal of long-term incentive plans for key employees.

The Remuneration Committee shall consist of three members who may not be employees of the Group. The Chairman of the Board shall chair the committee. The other members shall be independent in relation to the Group and its management. The Remuneration Committee consists of Ronnie Leten

(chair), Lennart Evrell and Johan Forssell, of which Lennart Evrell and Johan Forssell are independent in relation to the Group and its management.

### Remuneration of the President and CEO and Group Management

The remuneration for Epiroc's senior executives shall consist of a base salary, variable compensation, long-term incentive programs, pension contributions and additional benefits.

The base salary shall reflect the position, qualification and individual performance and the variable compensation shall be dependent on the extent to which predetermined quantitative and qualitative goals are met. The variable compensation is limited to a maximum of 70% of the base salary for the President and CEO, to 60% for the business area executive and to 40% for the other senior executives.

In case of termination of employment of a senior executive by the Group, the compensation amounts to between 12 and 24 months' base salary depending on age, length of employment and possible income from other economic activity or employment. See note 5 for information about the remuneration during 2019.

### Performance based incentive programs

It is considered by the Board to be in the best interest of the shareholders, that key personnel in Epiroc have a long-term interest in a good value development of the shares of the Group. Particularly, this applies to the group of key personnel that consists of the senior executives and the division presidents. It is also the assessment of the Board that a share related option program increases the attractiveness of Epiroc on the global market and enhances the possibility to recruit and keep key personnel in the Group. The Annual General Meeting of Epiroc 2019 resolved on a performance based personnel option plan for 2019. The option plan is directed at a maximum of 100 key employees.

For further information on the incentive programs, see note 23.

### Repurchase Committee

The Board of Directors has appointed a Repurchase Committee that will prepare and execute repurchases of own shares in accordance with the AGM's authorization of the Board of Directors to repurchase own shares. See notes 20 and 23. The Repurchase Committee consists of Anders Ullberg (chair) and Ronnie Leten.

## Board work 2019 in brief

### Q1

#### February 5

- Q4 and full-year 2018 results
- Review of the Hydraulic Attachment Tools division

#### March 1

- Approval of the Annual Report 2018

#### March 28

- Annual General Meeting preparation

#### April 29

- Q1 2019 results

### Q2

#### May 12

- Review of digitalization, supply-chain program and risk mapping process
- Inaugural Board meeting



### President and CEO, Group Management

The Group's President and chief executive officer (CEO) is appointed by the Board of Directors. The President and CEO, is responsible for the ongoing management of the Group's business operations in accordance with instructions and regulations established by the Board. These instructions include responsibility for financial reporting, preparation of information and input for decisions, and ensuring that agreements and other measures do not conflict with applicable legislation or regulations. The President and CEO and Group Management are jointly responsible for the daily operations.

The CEO has appointed a Group Management that is responsible for different parts of the operations. As per December 31, 2019, in addition to Per Lindberg, President and CEO, the management team consisted of Helena Hedblom, Senior Executive Vice President Mining and Infrastructure, Anders Lindén, Senior Vice President (CFO), Jörgen Ekelöv, Senior Vice President General Counsel, Mattias Olsson, Senior Vice President Corporate Communication, and Martin Hjerpe, Senior Vice President M&A and Strategy. As of March 1, 2020, Helena Hedblom is appointed President and CEO. For further information about the members of Group Management, see pages 58-59.

The role of Group Management is to establish strategies and policies for the Group based on the objectives set by the

Board. Group Management sets targets for operational activities, allocates resources and monitors the business' earnings. The management team is also responsible for investment planning and follow-up, acquisitions and divestments, and for preparations for Board meetings. Group Management meets monthly to review the financial performance of the preceding month, update forecasts and plans, as well as to discuss strategic issues.

### Auditor

The task of the external auditor is to audit the Group's annual report and accounts, the consolidated financial statements and the significant subsidiaries, as well as the management by the Board of Directors and the President and CEO. Following each fiscal year, the auditor shall submit an audit report to the Annual General Meeting. The principal auditor participates at all meetings with the Audit Committee and presents the annual audit to the Board of Directors, where the Board also meet the auditor without the management being present.

At the Annual General Meeting 2019 the auditor Deloitte AB, Sweden, was elected external auditing firm until the AGM 2020 in compliance with a proposal from the Nomination Committee. The principal auditor is Thomas Strömberg, Authorized Public Accountant at Deloitte AB.

### Attendance

	Board meetings	Per capsulam resolutions	Audit Committee	Remuneration Committee	Repurchase Committee
Ronnie Leten	9	3	7	2	2
Anders Ullberg	9	3	7		2
Astrid Skarheim Onsum	9	3			
Jeane Hull	9	3			
Johan Forssell	9	3		2	
Lennart Evrell	9	3		2	
Per Lindberg	9	3			
Ulla Litzén	9	3	7		
Bengt Lindgren	6	3			
Kristina Kanestad	9	3			
Mårten Karlsson/ Daniel Rundgren*	9				
Gustav El Rachidi	9				
	<b>9</b>	<b>3</b>	<b>7</b>	<b>2</b>	<b>2</b>

\*Daniel Rundgren replaced Mårten Karlsson as deputy employee representative in April 2019.

### Q3

#### July 18

- Q2 2019 results

#### August 19-21

- Field trip to Nanjing, China
- Review of the Group strategy and presentation of the China strategy
- Review of sustainability and corporate responsibility

#### October 24

- Q3 2019 results

### Q4

#### November 20

- Review of the Underground Rock Excavation division
- Review of Cyber Security
- Leadership and talent review

#### November 26

- Appointment of new CEO as of March 1, 2020

# Board of Directors



Ronnie Leten



Johan Forssell



Anders Ullberg



Ulla Litzén

<b>Function / Since</b>	<b>Chairman</b> Elected 2017	<b>Board member</b> Elected 2017	<b>Board member</b> Elected 2017	<b>Board member</b> Elected 2017
<b>Nationality / Born</b>	Belgian / 1956	Swedish / 1971	Swedish / 1946	Swedish / 1956
<b>Education</b>	M.Sc. in Applied Economics from the University of Hasselt, Belgium.	M.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.	B.Sc. in Economics from the Stockholm School of Economics, Sweden.	B.Sc. in Economics from the Stockholm School of Economics, Sweden, and an MBA from the Massachusetts Institute of Technology (MIT) in the United States.
<b>External memberships</b>	Chairman and member of the Boards of Directors of Telefonaktiebolaget LM Ericsson and Piab AB, and member of the Board of Directors of AB SKF.	President and CEO, and member of the Board of Directors, of Investor AB and a member of the Boards of Directors of Atlas Copco AB, Wärtsilä Oyj Abp, Patricia Industries AB and EQT AB.	Chairman and member of the Boards of Directors of Boliden AB and Studsvik AB and a member of the Boards of Directors of Atlas Copco AB, Beijer Alma AB and Valedo Partners. Chairman of the Swedish Financial Reporting Board and a member of the Board of the European Financial Reporting Advisory Group.	Member of the Boards of Directors of AB Electrolux, NCC AB, Husqvarna AB and Ratos AB.
<b>Principal work experience and other information</b>	He previously held the position of President and CEO of Atlas Copco AB.	He previously held the position of Managing Director, Head of Core Investments, of Investor AB.	He previously held the positions of Executive Vice President and CFO and President and CEO of SSAB AB.	She previously held the positions of President of W Capital Management AB and Managing Director and member of Group Management of Investor AB.
<b>Independence to Epiroc and its management</b>	No <sup>1)</sup>	Yes	Yes	Yes
<b>Independence to major shareholders</b>	No <sup>2)</sup>	No <sup>4)</sup>	Yes	Yes
<b>Holdings in Epiroc AB, incl. related parties</b>	11 308 Class A shares 55 650 Class B shares 112 234 Call options <sup>3)</sup>	5 000 Class B shares 4 884 Synthetic shares	14 000 Class A shares 10 000 Class B shares	75 800 Class A shares 3 000 Class B shares

Principal working experience and other information and holdings in Epiroc AB as per December 31, 2019. Holdings include those of close relatives and legal entities.

**Lennart Evrell**

**Board member**  
Elected 2017

Swedish / 1954

M.Sc. in Engineering from the Royal Institute of Technology (KTH) and a B.Sc. in Business Administration from Uppsala University, both in Sweden.

Member of the Boards of Directors of Svenska Cellulosa AB (SCA), ICA Gruppen AB and of The Confederation of Swedish Enterprise (Svenskt Näringsliv).

He previously held the position of President and CEO of Boliden AB.

Yes

Yes

4 000 Class B shares  
2 187 Synthetic shares

**Per Lindberg**

**Board member and President and CEO**  
Elected 2018

Swedish / 1959

M.Sc. in Engineering and a PhD in Industrial Management, Chalmers University of Technology, Gothenburg, Sweden.

President and CEO of Epiroc since 2018.

Previously, he was President and CEO of BillerudKorsnäs AB.

No <sup>5)</sup>

Yes

35 000 Class A shares  
1 000 Class B shares  
262 520 personnel options  
13 857 matching shares

**Jeane Hull**

**Board member**  
Elected 2018

American / 1955

B.Sc. in Civil Engineering from South Dakota School of Mines and Technology and an MBA from Nova Southeastern University, both in the United States.

Member of the Boards of Directors of Interfor Corporation and Pretium Resources Incorporated.

She previously held the positions of Executive Vice President and Chief Technical Officer of Peabody Energy and Chief Operating Officer for Rio Tinto at the Kennecott Utah Copper Mine in the United States.

Yes

Yes

3 617 Synthetic shares

**Astrid Skarheim Onsum**

**Board member**  
Elected 2018

Norwegian / 1970

M.Sc. in Mechanical Engineering from the Norwegian University of Science and Technology in Trondheim, Norway.

Head of Wind Energy at Aker Solutions ASA in Norway.

She previously held the positions of Chief Digital Officer and Managing Director of the Norwegian engineering business at Aker Solutions.

Yes

Yes

5 804 Synthetic shares

## Employee representatives

**Bengt Lindgren**

**Board member, employee representative**

Appointed 2018

**Nationality / Born**  
Swedish / 1957

**Holdings in Epiroc AB**

-

**Kristina Kanestad**

**Board member, employee representative**

Appointed 2018

**Nationality / Born**  
Swedish / 1966

**Holdings in Epiroc AB**  
1 200 Class B shares

**Daniel Rundgren**

**Deputy employee representative**

Appointed 2019

**Nationality / Born**  
Swedish / 1973

**Holdings in Epiroc AB**

-

**Gustav El Rachidi**

**Deputy employee representative**

Appointed 2018

**Nationality / Born**  
Swedish / 1970

**Holdings in Epiroc AB**

-

<sup>1)</sup> Ronnie Leten has been President and CEO of a closely related company (Atlas Copco) within the last five years.

<sup>2)</sup> Ronnie Leten has a consultancy agreement with Investor AB, which is a major shareholder.

<sup>3)</sup> Call options issued by Investor AB entitling to purchase Epiroc Class A shares.

<sup>4)</sup> Johan Forssell is President and CEO of Investor AB, which is a major shareholder.

<sup>5)</sup> Per Lindberg is President and CEO of Epiroc AB until February 29, 2020.

# Group Management



	Jörgen Ekelöw	Anders Lindén	Per Lindberg
<b>Function / Since</b>	<b>Senior Vice President General Counsel</b> In current position since 2017	<b>Senior Vice President Controlling and Finance (CFO)</b> In current position since 2017	<b>President and CEO</b> In current position since 2018 and until February 29, 2020
<b>Nationality / Born</b>	Swedish / 1955	Swedish / 1962	Swedish / 1959
<b>Education</b>	Master of Law from Lund University, Sweden.	B.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.	M.Sc. in Engineering and a PhD in Industrial Management, Chalmers University of Technology, Gothenburg, Sweden.
<b>Principal work experience and other information</b>	General Counsel M&A and Global Projects at Atlas Copco.	Vice President Business Control of Atlas Copco Mining and Rock Excavation Technique business area.	President and CEO of BillerudKorsnäs.
<b>Holdings in Epiroc AB, incl. related parties</b>	5 421 Class A shares 76 146 personnel options 2 721 matching shares	6 465 Class A shares 76 146 personnel options 3 149 matching shares	35 000 Class A shares 1 000 Class B shares 262 520 personnel options 13 857 matching shares

Principal working experience and other information and holdings in Epiroc AB as per December 31, 2019. Holdings include those of close relatives and legal entities.



	<b>Martin Hjerpe</b>	<b>Helena Hedblom</b>	<b>Mattias Olsson</b>
<b>Function / Since</b>	<b>Senior Vice President M&amp;A and Strategy</b> In current position since 2019	<b>Senior Executive Vice President Mining and Infrastructure</b> In current position since 2017 President and CEO from March 1, 2020	<b>Senior Vice President Corporate Communications</b> In current position since 2018
<b>Nationality / Born</b>	Swedish / 1976	Swedish / 1973	Swedish / 1968
<b>Education</b>	M.Sc. in Engineering Physics from Chalmers University of Technology, Sweden.	M.Sc. in Material Technology from the Royal Institute of Technology, Stockholm, Sweden.	M.Sc. in Business Administration from the University of Linköping, Sweden.
<b>Principal work experience and other information</b>	Partner at McKinsey & Company.	Member of the Boards of Directors of IPCO AB and Föreningen för gruvor, mineral- och metallproducenter i Sverige (SveMin). Previously President of Atlas Copco Mining and Rock Excavation Technique business area.	Head of Investor Relations at Assa Abloy.
<b>Holdings in Epiroc AB, incl. related parties*</b>	5 226 Class A shares	9 423 Class A shares 315 621 personnel options 10 991 matching shares	4 594 Class A shares 1 200 Class B shares 46 393 personnel options 2 015 matching shares

From March 2, 2020, the following are also members of Epiroc's Group Management: José Manuel Sánchez, President Surface division, Sami Niiranen, President Underground division, Jess Kindler, President Parts & Service division, Jonas Albertson, President Technology & Digital division, Goran Popovski, President Tools & Attachments division, Nadim Penser, Senior Vice President Human Resources. See note 29 and [www.epirocgroup.com/en/investors/corporate-governance/group-management](http://www.epirocgroup.com/en/investors/corporate-governance/group-management).

# Internal control and risk management for financial reporting

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

Epiroc's internal control system for financial reporting is designed to manage risks and ensure a high level of reliability in the preparation of financial reports, and to ensure that applicable accounting principles and other requirements as a publicly listed company are properly applied. Epiroc's processes have been established based on the regulatory framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO's components are implemented in Epiroc as presented below.

## 1. Control environment

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

## 2. Risk assessment

An assessment of financial reporting risks is conducted annually and control activities are either reinforced or implemented. The key risk areas for Epiroc's financial reporting are presented on the next page.

## 3. Control activities

Epiroc's control activities are established to mitigate financial reporting risks. Control activities are performed at all levels of Epiroc and at various stages of the business processes.

## 4. Information and communication

Epiroc has information and communication channels designed to ensure that information is identified, captured and communicated in a form and timeframe that enable employees and managers to fulfill their responsibilities. Examples of information and communication in Epiroc are: Group policies and guidelines communicated through The Epiroc Way (intranet), business review meetings and trainings.

## 5. Monitoring

Ongoing and specific evaluations are carried out to ascertain that the five components of Epiroc's internal control framework are functioning. Epiroc's monitoring activities include independent internal audits, review of balance sheet accounting reconciliations, reviews of financial information and financial performance and monthly management meetings among others. Observations of suspected deficiencies are evaluated and are communicated in a timely manner. Deficiencies of material importance are reported to the Group Management team, the Audit Committee and/or the Board of Directors.



Key financial reporting risks	Control activities
Inventory is not appropriately valued at the lower of cost or net realizable value	<ul style="list-style-type: none"> <li>• Inventories are appropriately reconciled at each reporting date.</li> <li>• Inventory costs and production variances are reviewed and approved by the divisions and net realizable values are compared to carrying values to identify need for adjustments of inventory values.</li> <li>• Inventory levels and saleability of inventory are assessed at each reporting date.</li> </ul>
Income taxes are not accounted for in accordance with applicable tax legislation	<ul style="list-style-type: none"> <li>• Tax calculations are prepared and reviewed at each reporting date.</li> <li>• The effective tax rate for each company is analyzed at each reporting date by Group Tax.</li> <li>• Compliance with transfer pricing policies is monitored regularly.</li> <li>• Ongoing tax audits and disputes are monitored and provision levels are evaluated by Group tax specialists.</li> </ul>
Provision for bad debt is not calculated based on Group's guidelines	<ul style="list-style-type: none"> <li>• A strong process and tools are in place for collection of accounts receivable.</li> <li>• Bad debt provision calculation guidelines are available in the Group's intranet.</li> <li>• Bad debt provision needs are recalculated and booked during each reporting cycle.</li> <li>• Independent Balance Sheet reviews are conducted to ensure the entity has followed Group guidelines when calculating provisions.</li> </ul>
Provision for inventory obsolescence is not calculated based on Group's guidelines	<ul style="list-style-type: none"> <li>• Automated reports for calculation of the inventory obsolescence provision are in place.</li> <li>• Inventory obsolescence provision calculation guidelines are available in the Group's intranet.</li> <li>• Inventory obsolescence provision needs are recalculated and booked during each reporting cycle.</li> <li>• Independent Balance Sheet reviews are conducted to ensure the entity has followed Group guidelines when calculating provisions.</li> </ul>
Journal entries are not accurate or supported	<ul style="list-style-type: none"> <li>• Journal entries are prepared and supported by sufficient documents.</li> <li>• Reviews and approvals of journal entries are in place.</li> <li>• Access to financial transactions is restricted to appropriate personnel.</li> <li>• Balance Sheet reconciliations are done on a regular basis.</li> </ul>
Reporting processes and procedures are not well documented	<ul style="list-style-type: none"> <li>• A documented manual of the business system and financial system used exist and is updated accordingly.</li> <li>• Period end closing checklists exist, are maintained and used for financial reporting tasks. Management reviews the completed checklists on a timely basis.</li> </ul>
Implementation of new IFRS standards is not done accordingly	<ul style="list-style-type: none"> <li>• New IFRS standards applicable to Epiroc are known prior to their effective date.</li> <li>• Group Financial Reporting leads the implementation of new IFRS standards and sets a plan for all levels impacted.</li> <li>• Training for local finance teams is done.</li> <li>• Group guidelines are updated to reflect the requirements for the new IFRS standards.</li> </ul>

# Balanced risk-taking and efficient risk management

All business activities involve risk. Epiroc views efficient risk management both from a risk reduction and a business opportunity perspective in order to reduce probability and severity of damages and losses and to enable profitable growth.

Epiroc's products and services are sold in approximately 150 countries with principal product development and manufacturing units located in Sweden, the United States, Canada, China and India. Epiroc focuses on applications in mining and infrastructure where there is a need for performance-critical equipment and services, with significant aftermarket requirements over the equipment lifecycle and where customers focus on productivity and total cost of ownership. Hence, the global business entails a variety of risks and opportunities. Epiroc's ability to prevent, detect and manage the risks is crucial for effective governance and control of the business.

## Responsibilities

It is the responsibility of the Board of Directors to ensure that there is an appropriate system and appropriate guidelines for follow-up and internal control of Epiroc's operations and the risks that are associated with its operations. The risk management system at Epiroc follows the decentralized structure of the Group. Local companies are responsible for their own risk management, which is monitored and followed-up regularly at local business board meetings. In addition, an enterprise risk management system is applied to map Group risks, see below. Group functions for legal, insurance, treasury, tax, controlling and accounting, and communications provide policies, guidelines and instructions regarding risk management.

Financial risk policies and compliance functions were established and became effective as from January 2018. The Board of Directors have adopted the overall financial policies and monitors compliance to the policies. The Group's Financial Risk Management Committee (FRMC) manages the Group's financial risks within the mandate given by the Board of Directors. The members of the FRMC are the CEO, CFO, Group Treasurer, and Manager Treasury Control. The FRMC meet on a quarterly basis or more frequently if circumstances require. The Audit Committee receives reports from the FRMC at each meeting.

Group Treasury has the operational responsibility for financial risk management in the Group. Group Treasury manages and controls financial risk exposures, ensures that appropriate financing is in place through loans and committed credit facilities, and manages the Group's liquidity. Read more about financial risk management in note 27.

The implementation of policies, guidelines and instructions covering financial reporting and financial risk management is regularly audited by internal audits. Read more on Internal control over financial reporting in the Corporate governance report, pages 60–61.

The crisis management process is managed by the Insurance & Risk Management department and Corporate Communications. It is rolled out to all entities and each disruptive or unexpected event should, as far as possible, be handled close to the origin of the incident.

## Insurance

As of June 1, 2018, Epiroc is covered by its own insurance programs. The insurance programs cover, inter alia, property and business interruptions insurance, product liability insurance, cargo insurance, financial lines insurance, business travel insurance and specialty risk insurance, to the extent and for amounts considered to be in line with industry practice. However, the Group is not fully insured against all possible risks and insurance coverage for all types of risks may not be available, at a reasonable cost or at all. Hence, if there were to occur an accident causing damage in excess of the applicable insurance limits or not covered by insurance, this could have a material adverse effect on the Group's business, financial condition and results of operations.

## Enterprise Risk Management

Epiroc applies an enterprise risk management system to map Group risks. The system is applied on divisions. Hereby risks are identified based on each divisional management team's knowledge of their business and area of responsibility. The ownership of managing the risks raised in the risk mappings lies with each division, while the Insurance & Risk Management department manages the overall process, moderates the sessions and, together with Group Management, consolidates the results on Group level. In addition, risk mappings are carried out on Group level for IT, legal, sustainability and for financial reporting through own analysis and discussions with stakeholders. Results of risk mappings are reported to Group Management and to the Board of Directors. The Board addresses risks and risk management annually.

## Task Force on Climate-Related Financial Disclosures

Task Force on Climate-Related Financial Disclosures (TCFD) requires companies to report on their short, medium and long-term climate change risks, and increase transparency on its governance structure, risk management, strategy and targets and metrics that are applicable to address these risks. During 2019, Epiroc started to evaluate the recommendations to improve reporting on climate change risks based on the TCFD.

An outline of risks affecting Epiroc is presented on the following pages.



### Epiroc Group key risks

The risks outlined on the next page have been assessed, and on pages 64–65, the highlighted risks that are key risks for the Group are presented. These risks are presented in more detail, including context, risk mitigation actions and activities as well as opportunities.



Risk Overview

**Strategic risks**

 <b>Market risks</b>	<ul style="list-style-type: none"> <li>• Products and services are used in industries which are either cyclical or affected by general economic conditions.</li> <li>• Mineral commodity prices are volatile and may affect the demand for Epiroc's products and services.</li> </ul>
 <b>Competition risks</b>	<ul style="list-style-type: none"> <li>• Highly competitive markets.</li> <li>• Competitors may continue to consolidate.</li> </ul>
<b>Regulatory and political risks</b>	<ul style="list-style-type: none"> <li>• Regulatory and other risks associated with international operations.</li> <li>• Operating in complex markets with various political, economic and social conditions where changes in the political situation in a region or country can affect an industry or company.</li> </ul>
<b>External environmental risks</b>	<ul style="list-style-type: none"> <li>• Physical changes in climate and natural resources, climate change, pollution, changes in regulations, taxes and resource prices.</li> </ul>

**Operational risks**

 <b>Product development risks</b>	<ul style="list-style-type: none"> <li>• Failing to develop, launch and market new products or respond to technological development and customer demand for sustainable products.</li> </ul>
<b>Production risks</b>	<ul style="list-style-type: none"> <li>• Manufacturing and production facilities may get damaged, destroyed or closed.</li> </ul>
<b>Distribution risks</b>	<ul style="list-style-type: none"> <li>• Epiroc is dependent on the efficiency of its distribution centers and its customer centers' sales and service organization.</li> </ul>
 <b>Supply chain risks</b>	<ul style="list-style-type: none"> <li>• Epiroc relies on third party suppliers and interruption and lack of capacity could affect deliveries.</li> <li>• Risks may arise if suppliers do not comply with Epiroc's Code of Conduct.</li> </ul>
<b>Risks with acquisitions and divestments</b>	<ul style="list-style-type: none"> <li>• Difficulties in completing acquisitions, integrating acquired businesses and achieving anticipated synergies, as well as in completing divestments.</li> </ul>
 <b>Employee risks</b>	<ul style="list-style-type: none"> <li>• Risk of not being able to attract and retain key personnel or skilled employees.</li> <li>• Work stoppages or strikes.</li> </ul>
<b>Human rights risks</b>	<ul style="list-style-type: none"> <li>• Epiroc operates in countries where violations of human rights occur and encounters customers, who are also exposed to human rights issues.</li> </ul>
 <b>Risks to reputation</b>	<ul style="list-style-type: none"> <li>• Reputation could be harmed due to negative public perceptions of Epiroc or its business partners and customers due to lack of complying with internationally accepted ethical, social and environmental standards</li> <li>• May be exposed to product liability and warranty claims.</li> <li>• Complaints and litigation could damage Epiroc's brand and reputation and divert management resources.</li> </ul>
<b>Information technology (IT) risks</b>	<ul style="list-style-type: none"> <li>• Epiroc could experience a failure in or breach of its operational or information security systems and may encounter problems relating to storage and processing of personal data.</li> <li>• Epiroc may be unable to protect its intellectual property.</li> <li>• Risk with dependency on IT-systems in operations.</li> </ul>
 <b>Risks of corruption and fraud</b>	<ul style="list-style-type: none"> <li>• Epiroc's governance, internal controls and compliance processes may not prevent corruption and fraud.</li> </ul>
<b>Insurance risk</b>	<ul style="list-style-type: none"> <li>• Epiroc's insurance policies may provide insufficient protection.</li> </ul>
<b>Environmental risks</b>	<ul style="list-style-type: none"> <li>• Not actively reducing negative environmental impact may negatively affect operations either directly or by disrupting the supply chain.</li> <li>• Lack of Environmental compliance can lead to substantial fines.</li> </ul>
 <b>Safety and health risks</b>	<ul style="list-style-type: none"> <li>• Lack of adherence to safety and health regulations can lead to accidents causing damage to people, productivity and brand.</li> </ul>

**Legal risks and Compliance**

- Epiroc's governance, internal controls and compliance processes may not prevent regulatory penalties, trade compliance and fraud.
- Epiroc is also subject to competition and antitrust laws and inspections.

**Financial risks**

Financial risks include reporting risks, i.e. risk that reports do not give a fair view of Epiroc's financial position and results. Financial risks also include currency risk, credit and counterparty risk, hedging risks, commodity price risk, taxation risk and financing risk, i.e. the risk of Epiroc encountering difficulties in repaying its debts and financing its operations. There is also a risk that impairment of goodwill or other intangible assets will adversely affect the financial results. There is a risk that Epiroc's future results of operations may differ materially from the financial goals set by the company.

## ADMINISTRATION REPORT – RISK MANAGEMENT

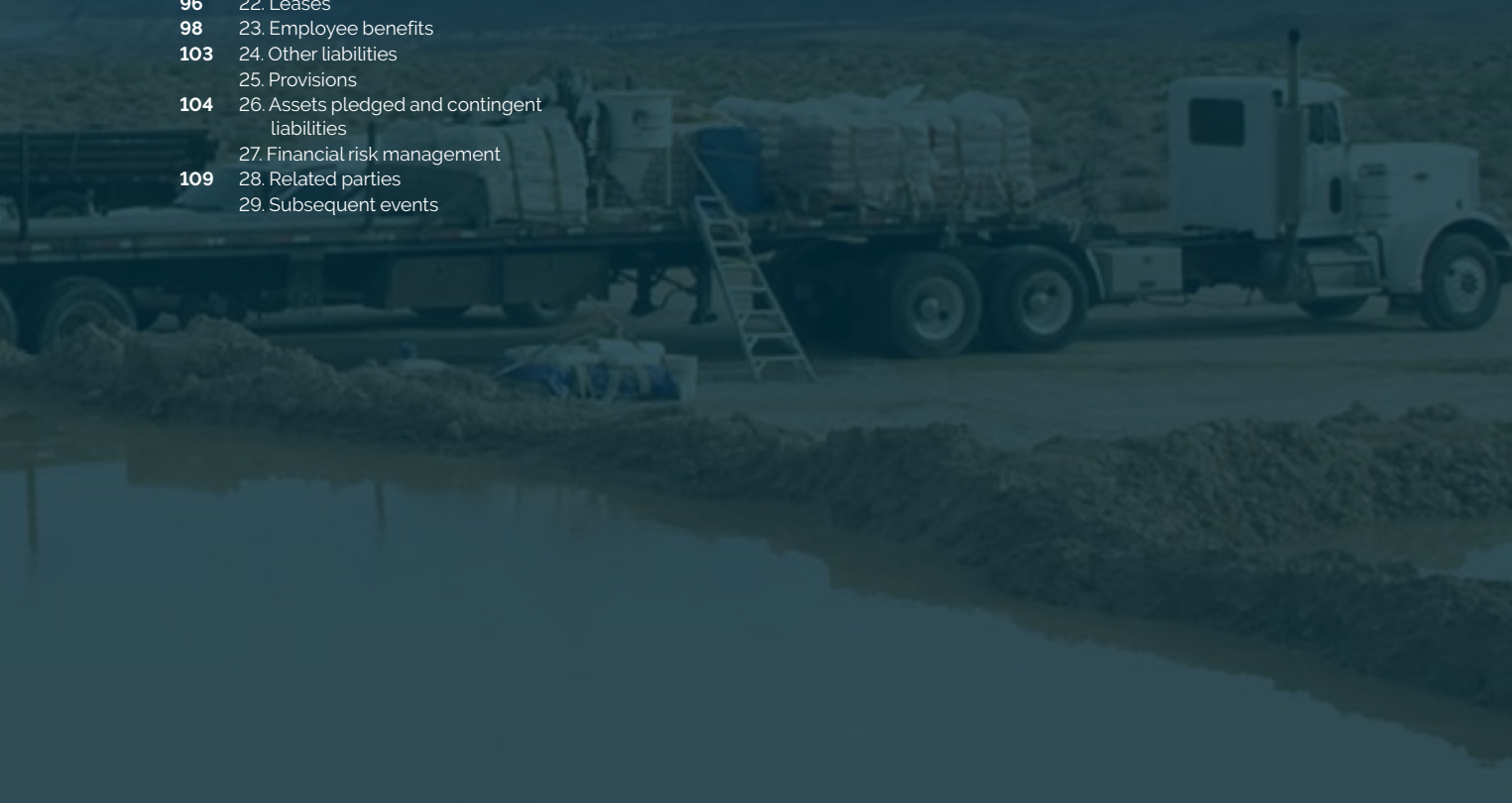
Risk and Context	Risk mitigation	Opportunities
<p><b>Market risks</b></p> <p>Equipment and services are used in industries which are affected by general economic conditions and mineral commodity prices, which may affect the demand for Epiroc's equipment and services.</p>	<p>A flexible setup in the manufacturing in which a large share of the components used in the assembly of equipment is purchased from suppliers. There is also a significant aftermarket requirement over the equipment life-cycle, which gives a large and resilient service business.</p>	<p>Lean initiatives in the manufacturing enable a more agile setup with enhanced flexibility.</p> <p>Opportunity to further develop the aftermarket business. This will enhance the resilience of the business.</p>
<p><b>Competition risks</b></p> <p>The markets are highly competitive in terms of pricing, product design and service quality, the timing of development and introduction of new products, customer service and terms of financing.</p> <p>Intense competition from significant competitors and to a lesser extent small regional companies, and also, increasingly, companies operating with lower costs and margins.</p>	<p>Continuous analyses and monitoring of market external factors and customer preferences in order to compete successfully and anticipate and respond to changes in evolving market demands, including demand for new products, see Product development risks below.</p>	<p>Development of high quality solutions that are in line with customer demands such as increase productivity and lower total cost of ownership.</p> <p>Opportunities to continuously increase operational efficiency and lower costs of operations and improve competitive position.</p>
<p><b>Product development risks</b></p> <p>Several markets are characterized by technological advances and changes in customer preferences. Failure to develop, launch and market new products in response to customer demands for productivity and sustainability.</p> <p>Product development is also affected by legislation on matters such as emissions, noise, vibrations and recycling. This may increase the risk of competition in emerging markets where such legislation is sometimes less strict.</p>	<p>Continuous investments in research and development to develop products in line with customer demand and expectations, even during economic downturns.</p> <p>Designing products with a life-cycle perspective and measurable efficiency targets for the main product categories.</p> <p>Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements.</p> <p>Start using the recommendation from TCFD to better understand and improve reporting on climate change risks.</p>	<p>Substantial opportunities to strengthen the competitive edge by innovating high quality, sustainable products and creating an integrated value proposition for customers as well as meeting external environmental risks.</p> <p>Promote the integration of the Sustainable Development Goals in operations.</p>
<p><b>Supply chain risks</b></p> <p>Incorrect deliveries, failure to fulfil deliveries or lack of capacity by suppliers could cause delays or failures in deliveries, which in turn may cause reduced sales and a decline in customer confidence.</p> <p>Supply interruptions could arise from shortages of raw materials, labor disputes, and weather conditions affecting products or shipments, transportation disruptions or other factors beyond Epiroc's control.</p> <p>Risk that Epiroc's business partners do not share the same values as expressed in Epiroc's Code of Conduct.</p> <p>Risk that products contain components which are not sustainably produced, e.g. that electronic components contain conflict minerals.</p>	<p>Select and evaluate business partners on the basis of objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance.</p> <p>Establishment of a global network of sub-suppliers, to prevent supplier dependency.</p> <p>Providing suppliers with timely and sufficient information in order to manage changes in volumes.</p> <p>Business partners to sign a Business Partner Criteria Letter and the Code of Conduct.</p> <p>Continue the process to investigate and remove the potential presence of conflict minerals in the value chain.</p>	<p>Further increase business agility and reduce costs by improving supplier inventory management in response to changes in demand.</p> <p>Continue to be a preferred business partner and promote efficiency, sustainability and safety. Good supplier relations help to improve Epiroc's competitive position.</p> <p>Promote human rights and work towards improving labor conditions, reducing corruption and conflicts.</p> <p>Opportunity to strengthen customer relationships by being ready to support customers who are impacted by the Dodd Frank legislation on conflict minerals.</p> <p>Promote the integration of the Sustainable Development Goals in operations.</p>
<p><b>Employee risks</b></p> <p>Given that Epiroc constantly needs to introduce new or enhanced products, it is important that it is able to attract people with expertise in its product areas and in research and development.</p> <p>If Epiroc fails to monitor its need for employees or if it fails to continue to attract and retain highly qualified management and other skilled employees on acceptable terms it may not be able to sustain or further develop parts of its business</p>	<p>Mapping of competences and requirements are continuously carried out to secure access to people with the right expertise at the right time.</p> <p>Recruitment can take place both externally and internally. Internal recruitment and job rotation are facilitated by an internal job market.</p> <p>Salaries and other conditions are adapted to the market and linked to business priorities. Epiroc strives to maintain good relationships with unions.</p> <p>An employee survey is carried out every two years and followed up actively.</p>	<p>Opportunity to set ambitious targets for employees and managers, aligned with business targets, and then give them the freedom to deliver, with accountability for results.</p> <p>Motivated and skilled employees and managers are crucial to achieve or exceed business targets.</p> <p>A lot of attention is spent on searching for and recruiting a high performing, diverse workforce who will thrive in an environment of trust and individual responsibility.</p> <p>Promote the integration of the Sustainable Development Goals in operations.</p>

Risk and Context	Risk mitigation	Opportunities
<p><b>Risks to reputation</b></p> <p>Epiroc’s reputation and business results could be negatively affected for various reasons, including:</p> <ul style="list-style-type: none"> <li>• If customers start to lose confidence in the safety and quality of the products and services provided</li> <li>• If the quality of the products and services offered by Epiroc deteriorates, including timing of delivery or quality and availability of products, whether due to a mistake by Epiroc or a third party</li> <li>• Failure by Epiroc or any of its business partners or customers to comply with ethical, social, product, labor, health and safety, environmental or other standards, or related political considerations</li> <li>• Epiroc may be the subject to complaints and litigation from its customers, employees, suppliers and other third parties, alleging product injury, health, environmental, safety, data protection, antitrust or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations.</li> </ul>	<p>All products are tested and also quality assured. Monitoring of product labeling and regular communications training.</p> <p>Epiroc has a clear well-known brand promise.</p> <p>The Group actively engages in stakeholder dialogue.</p> <p>Code of Conduct training includes the yearly signing of a Compliance Statement for managers.</p> <p>Behavior or actions that are violations of laws or of the Code of Conduct can be reported in Speak Up.</p>	<p>Stakeholder engagement cannot only mitigate reputational risks in certain cases but it also presents opportunities to increase the awareness and credibility of Epiroc’s brand through collaboration and innovation.</p> <p>Delivering tested and quality assured products improve customer satisfaction and promote repeat business.</p> <p>Attract and develop employees that adhere to the Code of Conduct.</p>
<p><b>Risks of corruption and fraud</b></p> <p>Corruption and bribery exist in many countries where Epiroc operates. Epiroc faces the risk of corruption and other illegal acts committed by its employees.</p> <p>Inadequate internal controls could result in Epiroc becoming more vulnerable in relation to fraudulent acts committed by employees or other persons. Deficiencies in internal control could also cause investors and other third parties to lose confidence in Epiroc’s reported financial information.</p> <p>There is a risk that individual employees, either by mistake or intentionally, act in breach of the applicable legal framework and Epiroc’s internal policies and processes regarding trade compliance.</p> <p>Epiroc is active in a large number of jurisdictions and its operations are subject to a wide range of competition and antitrust laws, rules and regulations. There is a risk that Epiroc’s employees engage in discussions, transactions or in any other way interact with competitors or customers in breach of applicable competition and antitrust laws.</p>	<p>In-house lawyers support entities with advice on laws and regulations including compliance as well as support with contract reviews. Pro-active training is also done.</p> <p>A yearly legal risk survey of all companies within the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result of the legal-risk survey is compiled, analyzed, and reported to the Board and the auditors.</p> <p>All managers are required to sign a Code of Conduct Compliance Statement.</p> <p>Training on the Code of Conduct is available for all employees.</p> <p>The Compliance Board is responsible for the implementation and adherence to the Code of Conduct and all managers are in turn responsible to make sure that all employees are aware of the Code of Conduct.</p>	<p>Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Epiroc’s reputation. It also creates the chance to develop reliable partnerships and improve business stability.</p>
<p><b>Safety and Health risks</b></p> <p>Lack of adherence to safety and health regulations can lead to accidents causing damage to people, productivity and the Epiroc brand.</p> <p>Health and safety laws and regulations are becoming more complex.</p> <p>The cost of complying with, and the liabilities and the potential sanctions imposed pursuant to, health and safety laws and regulations could be significant.</p>	<p>Assess and manage safety and health risks in the operations.</p> <p>All major units are certified in accordance with the OHSAS 18001 standard.</p> <p>To develop a behavior with safety in mind is key and activities to highlight this, such as roll out of Safestart and Epiroc Safety Day, are organized throughout the Group.</p> <p>Business partners are trained in Epiroc’s policies including health and safety.</p>	<p>Improved safety and health increases productivity and satisfaction of employees and business partners.</p> <p>Promote the integration of the Sustainable Development Goals in operations.</p>



# Financial information

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# Group financial information

## Consolidated income statement

January - December MSEK	Note	2019	2018
Revenues	4	40 849	38 285
Cost of sales		-25 547	-24 317
<b>Gross profit</b>		<b>15 302</b>	<b>13 968</b>
Marketing expenses		-2 797	-2 574
Administrative expenses		-3 261	-2 589
Research and development expenses		-1 035	-977
Other operating income	7	130	42
Other operating expenses	7	-191	-477
Share of profit in associated companies and joint ventures	14	-12	-8
<b>Operating profit</b>	4, 5, 6, 16	<b>8 136</b>	<b>7 385</b>
Financial income	8	180	181
Financial expenses	8	-473	-365
<b>Net financial items</b>		<b>-293</b>	<b>-184</b>
<b>Profit before tax</b>		<b>7 843</b>	<b>7 201</b>
Income tax expense	9	-1 959	-1 764
<b>Profit for the year</b>		<b>5 884</b>	<b>5 437</b>
<b>Profit attributable to:</b>			
- owners of the parent		5 874	5 430
- non-controlling interests		10	7
Basic earnings per share, SEK	11	4.89	4.50
Diluted earnings per share, SEK	11	4.89	4.49

## Consolidated statement of comprehensive income

January - December MSEK	Note	2019	2018
<b>Profit for the year</b>		<b>5 884</b>	<b>5 437</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of defined benefit pension plans		-274	-122
Income tax relating to items that will not be reclassified		52	25
<b>Total items that will not be reclassified to profit or loss</b>		<b>-222</b>	<b>-97</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Translation differences on foreign operations		547	8
- realized and reclassified to profit and loss		-7	-
Cash flow hedges		-22	22
Income tax relating to items that may be reclassified		5	-5
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>523</b>	<b>25</b>
<b>Other comprehensive income for the year, net of tax</b>	10	<b>301</b>	<b>-72</b>
<b>Total comprehensive income for the year</b>		<b>6 185</b>	<b>5 365</b>
Total comprehensive income attributable to			
- owners of the parent		6 175	5 358
- non-controlling interests		10	7

## Consolidated balance sheet

MSEK	Note	Dec. 31, 2019	Dec. 31, 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	4 226	3 620
Rental equipment	13	1 213	1 233
Other property, plant and equipment	13	4 613	2 473
Investments in associated companies and joint ventures	14	201	208
Other financial assets and receivables	15	1 007	1 119
Deferred tax assets	9	630	543
<b>Total non-current assets</b>		<b>11 890</b>	<b>9 196</b>
<b>Current assets</b>			
Inventories	16	10 508	10 516
Trade receivables	17	7 287	8 005
Other receivables	18	1 597	1 289
Income tax receivables		353	333
Financial assets	15	862	944
Cash and cash equivalents	19	8 540	5 872
<b>Total current assets</b>		<b>29 147</b>	<b>26 959</b>
<b>Total assets</b>		<b>41 037</b>	<b>36 155</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	20	500	500
Retained earnings		22 261	18 297
<b>Total equity attributable to owners of the parent</b>		<b>22 761</b>	<b>18 797</b>
Non-controlling interests		52	50
<b>Total equity</b>		<b>22 813</b>	<b>18 847</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities	21, 22	7 724	5 095
Post-employment benefits	23	596	283
Other liabilities		98	125
Provisions	25	325	287
<b>Total non-current liabilities</b>		<b>8 743</b>	<b>5 790</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	21, 22	705	1 702
Trade payables		4 050	4 711
Income tax liabilities		507	605
Other liabilities	24	3 930	4 211
Provisions	25	289	289
<b>Total current liabilities</b>		<b>9 481</b>	<b>11 518</b>
<b>Total equity and liabilities</b>		<b>41 037</b>	<b>36 155</b>

## Consolidated statement of changes in equity

2019	Equity attributable to owners of the parent							
	MSEK	Share capital	Other paid-in capital	Translation reserve	Cash flow hedge	Retained earnings	Total	Non-controlling interests
<b>Opening balance, January 1</b>	500	3	190	17	18 087	18 797	50	18 847
Profit for the year					5 874	5 874	10	5 884
Other comprehensive income for the year			540	-17	-222	301	0	301
<b>Total comprehensive income for the year</b>			<b>540</b>	<b>-17</b>	<b>5 652</b>	<b>6 175</b>	<b>10</b>	<b>6 185</b>
Dividend					-2 523	-2 523	-8	-2 531
Divestment of 4 705 198 series A shares		55			419	474		474
Acquisitions of 1 500 000 series A shares					-134	-134		-134
Share-based payment, equity settled								
– expense during the year					9	9		9
– exercise option					-37	-37		-37
<b>Closing balance, December 31</b>	<b>500</b>	<b>58</b>	<b>730</b>	<b>0</b>	<b>21 473</b>	<b>22 761</b>	<b>52</b>	<b>22 813</b>

2018	Equity attributable to owners of the parent							
	MSEK	Share capital	Other paid-in capital	Translation reserve	Cash flow hedge	Retained earnings	Total	Non-controlling interests
<b>Opening balance, January 1</b>	21	3	182	–	11 835	12 041	6	12 047
Impact of change in accounting policy					1	1		1
<b>Restated balance, January 1</b>	<b>21</b>	<b>3</b>	<b>182</b>	<b>–</b>	<b>11 836</b>	<b>12 042</b>	<b>6</b>	<b>12 048</b>
Profit for the year					5 430	5 430	7	5 437
Other comprehensive income for the year			8	17	-97	-72		-72
<b>Total comprehensive income for the year</b>			<b>8</b>	<b>17</b>	<b>5 333</b>	<b>5 358</b>	<b>7</b>	<b>5 365</b>
Bonus issue	479				-479	–		–
Divestment of 518 482 series A shares			0		51	51		51
Acquisitions of 14 510 359 series A shares					-1 359	-1 359		-1 359
Share-based payment, equity settled								
– expense during the year					24	24		24
– exercise option					-12	-12		-12
Other transactions with shareholders					2 693	2 693	37	2 730
<b>Closing balance, December 31</b>	<b>500</b>	<b>3</b>	<b>190</b>	<b>17</b>	<b>18 087</b>	<b>18 797</b>	<b>50</b>	<b>18 847</b>



## Consolidated statement of cash flows

January - December MSEK	Note	2019	2018
<b>Cash flow from operating activities</b>			
Operating profit		8 136	7 385
Adjustments for:			
Depreciation, amortization and impairment	12, 13	1 978	1 369
Capital gain/loss and other non-cash items		-252	101
Net financial items received/paid		-410	-483
Taxes paid		-2 157	-1 747
Pension funding and payment of pension to employees		-61	-52
<b>Cash flow before change in working capital</b>		<b>7 234</b>	<b>6 573</b>
<b>Change in:</b>			
Inventories		739	-1 684
Operating receivables		1 051	-1 607
Operating liabilities		-1 453	1 416
<b>Change in working capital</b>		<b>337</b>	<b>-1 875</b>
Increase in rental equipment		-915	-896
Sale of rental equipment		572	522
<b>Net cash from operating activities</b>		<b>7 228</b>	<b>4 324</b>
<b>Cash flow from investing activities</b>			
Investments in other property, plant and equipment		-486	-577
Sale of other property, plant and equipment		60	26
Investments in intangible assets	12	-537	-459
Sale of intangible assets		16	-
Acquisition of subsidiaries and associated companies	3	-1 137	-546
Divestment of subsidiaries	3	153	-
Proceeds to/from other financial assets, net		276	219
<b>Net cash flow from investing activities</b>		<b>-1 655</b>	<b>-1 337</b>
<b>Cash flow from financing activities</b>			
Dividend		-2 523	-
Dividend paid to non-controlling interest		-8	-
Repurchase of own shares		-134	-1 359
Divestment of own shares		474	52
Borrowings		3 044	6 396
Repayment of borrowings		-3 432	-414
Net repayment of borrowings to former owners		-	-3 572
Settlement of Credit Support Annex (CSA)		-9	11
Payment of finance lease liabilities		-423	-54
<b>Net cash flow from financing activities</b>		<b>-3 011</b>	<b>1 060</b>
<b>Net cash flow for the year</b>			
Cash and cash equivalents, Jan. 1		5 872	1 808
Exchange-rate difference in cash and cash equivalents		106	17
<b>Cash and cash equivalents, Dec. 31</b>	19	<b>8 540</b>	<b>5 872</b>
<b>Operating cash flow</b>			
Net cash from operating activities		7 228	4 324
Net cash from investing activities		-1 655	-1 337
Acquisition and divestment of subsidiaries and associated companies		984	546
Other adjustments <sup>1)</sup>		131	351
<b>Operating cash flow</b>		<b>6 688</b>	<b>3 884</b>

<sup>1)</sup> Mainly currency hedges of loans and divestment of Payment Solutions portfolios.

# Group notes

## 1. Significant accounting principles, accounting estimates and judgements

### Significant accounting principles

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

The Annual Report for the Group and for Epiroc 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 May 12, 2020.

### Basis for preparation

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

### Basis of consolidation

The consolidated financial statements have been prepared in accordance with the acquisition method. The 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.

Intra-group balances and internal income and expense arising from intra-group transactions are fully eliminated in preparing the Group's 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

Business combinations are accounted for using the acquisition method. Business combinations is seen as if the Group directly acquires the assets and assumes the liabilities of the entity acquired. At the acquisition date, the date on which control is obtained, each identifiable asset acquired and liability assumed is recognized at its acquisition date fair value. The consideration transferred, measured at fair value, includes assets transferred by the Group, liabilities to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. Transaction 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 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 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 3.

### Associated companies and joint ventures

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

"Shares of profit in associated companies and joint ventures", included in the income statement, comprises the Group's share of the associate's and joint venture's income after tax adjusted for any amortization and depreciation, impairment losses, and other adjustments arising from any remaining fair value adjustments recognized at acquisition date. Dividends received from an associated company or joint venture reduce the carrying value of the investment. Unrealized gains and losses arising from transactions with an associate or a joint venture are eliminated to the extent of the Group's interest, but losses only to the extent that there is no evidence of impairment of the asset. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognize further losses unless the Group has incurred obligations or made payments on behalf of the associate.

### Functional currency and foreign currency translation

The financial statements are presented in Swedish krona (SEK), which is the accounting currency for Epiroc 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 trade 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 financial statements, 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 Group's financial statements are disclosed 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, whose operating results are regularly reviewed by the

## 1. Significant accounting principles, accounting estimates and judgements, cont.

entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Epiroc's management monitors its operations by division which represents the Group's operating segments. The operating results of the 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 to assess their performance. In the Group's financial statements the operating segments have been aggregated to two reporting segments, Equipment & Service and Tools & Attachments, in accordance with IFRS 8. 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. See note 4 for further information on revenue by segment and by geographical area.

**Goods sold**

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

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

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

**Variable consideration**

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

**Rights of return**

When a contract with a customer provides a right to return the goods within a specified period, the Group accounts for the right of return using the expected value method based on historical experience with the customer or similar customers and taking into consideration future expected deliveries. The amount of revenue related to the expected returns is deferred and recognized in the balance sheet within "Other liabilities". A corresponding adjustment is made to the cost of sales and recognized in the balance sheet within "Other receivables".

**Rendering of services**

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

Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of costs incurred that are expected to be recoverable. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately.

**Contract assets and contract liabilities**

If the right to consideration for a specific performance obligation is conditional on satisfying another performance obligation, the right is classified as a contract asset. When payment has been received in advance of satisfying the performance obligation, the liability is classified as a contract liability.

**Performance obligation**

Information about the Group's performance obligations are summarized below:

**Equipment**

The performance obligation is satisfied upon delivery of the equipment, except for equipment with complex installation, in these circumstances; the performance obligation is satisfied upon completion of installation of the equipment. Payment is generally due between 30–60 days from delivery. In some contracts, short-term advances are required before the equipment is delivered. Some contracts contain right of return, late delivery penalties, volume rebates and buy backs, which give rise to variable consideration subject to constraint.

**Installation services**

Installation services is sold either separately or as a part of an equipment sale. The performance obligation is satisfied over time and payment is generally due upon completion and acceptance of the customer.

**Spare parts and tools**

The performance obligation is satisfied upon delivery of the equipment. Payment is generally due between 30–60 days from delivery. Some contracts contain volume rebates, which give rise to variable consideration subject to constraint.

**Service**

The providing of service is satisfied over time and payment is generally due 30–60 days after completion.

See note 4 for more information regarding the Group's performance obligations.

**Rental operations**

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

**Other operating income and expenses**

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

**Financial income and expenses**

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

**Income taxes**

Income taxes include both current and deferred taxes. Income taxes are reported in profit or loss unless the underlying transaction is reported in other comprehensive income or in equity, in which case the corresponding tax is reported according to the same principle. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognized using the balance sheet liability method. The calculation of deferred taxes is based on differences between the values reported in the balance sheet and their valuation for taxation, which are referred to as temporary differences, and the carry-forward of unused tax losses and tax credits. Temporary differences attributable to the following assets and liabilities are not provided for: the initial recognition of goodwill, the initial recognition (other than in business combinations) of assets or liabilities that affect neither accounting nor taxable profit, 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 not 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

## GROUP NOTES

### 1. Significant accounting principles, accounting estimates and judgements, cont.

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 number of shares outstanding adjusted for any subsequent split made prior to the release of the financial statements. Diluted earnings per share are calculated based on the profit for the year attributable to owners of the parent and the diluted 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. 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. The operating segments of Epiroc have been identified as CGU's. Impairment testing is made at least annually or whenever the need is indicated. 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 development expenditure has been reported as part of research and development costs in the income statement since the Group monitors the research and development function as a whole. See note 7 and 12 for more information.

##### Trademarks

Trademarks acquired by the Group are capitalized based on their fair value at the time of acquisition, and are subsequently 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 costs for assets that need a substantial period of time to get ready for their intended use are included in the cost value until the assets are substantially ready for their use or sale and are thereafter depreciated.

The Group capitalizes costs on initial recognition and on replacement of significant parts of property, plant and equipment if it is probable that the future economic benefits embodied will flow to the Group and the cost can be measured reliably. All other costs are expensed in profit or loss when incurred.

#### Rental equipment

The rental fleet comprise drill rigs, mine trucks, loaders, and to a lesser extent hydraulic attachments, simulators and other mining and construction equipment. Rental equipment is initially recognized at cost and is depreciated over the estimated useful life of the equipment. Rental equipment is depreciated to a residual value estimated at 0–10% of cost.

#### Depreciation and amortization

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

The following useful life are used for depreciation and amortization:

Technology-based intangible assets	3–15 years
Trademarks	5–10 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 life and residual values are reassessed annually or more often if there are indications of impairments. Land, assets under construction and goodwill are not depreciated or amortized. For changes in the Group's property, plant and equipment see note 13.

#### Leases – IFRS 16 (from year 2019)

The Group acts both as lessor and lessee.

##### Group as Lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee recognizes a right-of-use asset in the balance sheet as well as a lease liability. On commencement date, the lease liability is initially 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 measurement comprise 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 due to the exercise of any options in the contract, if the Group is reasonably certain to use the option. The lease liability is subsequently measured at amortized cost adjusted for any remeasurement.

A remeasurement of the lease liability, and a corresponding applicable adjustment to the related right-of-use asset, is performed when

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

### 1. Significant accounting principles, accounting estimates and judgements, cont.

The right-of-use asset comprise the initial measurement of the corresponding lease liability with the addition of any lease payments made at or before the commencement day and any initial direct costs. The leased asset is subsequently measured at cost less accumulated depreciation and impairment and adjusted for any remeasurement. The leased asset is depreciated over the lease term on a straight-line basis or over its useful life of the underlying asset if it is assessed to be reasonably certain that the Group will obtain ownership at the end of the lease term. The depreciation starts at the commencement date of the lease. The depreciation of the right-of-use asset is recognized within operating profit and interest expense on the lease liability within net financial items. The right-of-use asset is subject for impairment following the principle described below under section "Impairment of non-financial assets".

If the lease contract is considered to include a low value asset or has a lease term that is less than 12 months such payments are recognized as an expense on a straight-line basis over the lease term. The Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered leases of low value. Variable non-lease components such as service components are accounted for as an expense over the lease term.

In the consolidated balance sheet the Group present the lease liability within "non-current interest bearing liability" and within "current interest bearing liability" for the part of the lease liability that is due within the next 12 months. The right-of-use asset is presented within "Other property, plant and equipment" or "Rental equipment".

#### Group as lessor

At inception of a lease contract, the Group assess whether the lease is a finance lease or an operating lease. If the Group, as a lessor, substantially retains the ownership rights and obligations of the asset, then the lease is classified as an operating lease. On the contrary, the lease is classified as a finance lease if the ownership rights and obligations of the asset are transferred to the lessee.

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

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.

#### Leases - IAS 17 (comparative figures, year 2018)

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

#### Group as lessee

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

Under finance leases where the Group acts as lessor, the transaction is recorded as a sale and a lease receivable, comprising the future minimum lease payments and any residual value guaranteed to the lessor, is recorded. Lease payments are recognized as interest

income and repayment of the lease receivable. See note 22 for more details on leases.

#### Impairment of non-financial assets

The carrying values of the Group's non-financial assets are reviewed at least at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount (i.e. the greater of fair value less costs to sell and value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of assessing impairment, assets are grouped in CGUs, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss.

An impairment loss related to goodwill is not reversed. In respect of other assets, impairment losses in prior periods are reviewed for possible reversal of the impairment at each reporting date.

#### Inventories

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

#### Equity

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

When 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. See note 20.

#### 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

## GROUP NOTES

### 1. Significant accounting principles, accounting estimates and judgements, cont.

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 and future increase in salaries and medical costs. 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 may be offered to certain employees based on position and performance. Additionally, the Board are 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 consistency 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

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

#### Measurement of financial instruments

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

#### Classification and measurement of financial assets

Equity instruments: are classified at fair value through profit or loss (FVTPL) unless they are held for non-trading purposes, in which case an irrevocable election can be made on initial recognition to classify them at fair value through other comprehensive income (FVOCI) with no subsequent reclassification to profit or loss. The Group classifies equity instruments at FVTPL.

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

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 either:

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

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

Fair value through other comprehensive income (FVOCI) are assets held under the business model of both selling financial assets 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, with the exception of derivatives. Financial liabilities at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at amortized cost using the effective interest 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 (OCI).

Fair value for financial assets and 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 at first recognition of an asset or receivable when there is an exposure to credit risk. Expected credit losses reflect the present value of all cash shortfalls related to default events either over the following 12 months or over the expected life of a financial instrument, depending on type of asset and on credit deterioration from inception. The ECL reflects an unbiased, probability-weighted outcome that considers multiple scenarios based on reasonable and supportable forecasts.

The simplified model is applied on trade receivables, lease receivables and contract assets. 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. The Group

### 1. Significant accounting principles, accounting estimates and judgements, cont.

defines default as customers where significant financial difficulties have been identified.

In the respective model applied, the measurement of ECL is based on different methods for different credit risk exposures. For trade receivables and contract assets, the method is based on historical loss rates in combination with forward looking considerations. Lease 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. 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 balance sheet 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### Derivatives and Hedge Accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and also 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 expenses, 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 there must be an economic relationship between the hedged item and the hedging instrument. Also, the hedging relationship must be:

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

The Group assesses, evaluates, and documents effectiveness both at hedge inception and on an on-going basis. Hedge effectiveness is assessed by an analysis of the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the value changes that result from that economic relationship. Further, the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

**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 Group does not apply the cost of hedging exception. 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.

The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps can be used as cash flow hedges for hedging interest on borrowings with variable interest. However, there are no such hedges currently in place.

**Fair value hedges:** The gain or loss of the hedging instrument is recognized in profit or loss. A fair value hedge is a hedge of the exposure to changes in fair value. For the effective part of the hedge accounting relationship, the gain or loss on the hedged risk adjust the carrying value of the hedged item and is recognized in profit or loss. As a result of applying hedge accounting, accounting of the hedged item and the hedging instrument are aligned, reducing volatility in the income statement.

**Hedge of net investments in foreign operations:** The Group can hedge a part of net investments in foreign operations by using loans and forward contracts as hedging instruments. However, there are currently no such hedges in place. 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.

**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 that 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 **fair value hedges**, the hedging gain or loss that adjusts the carrying amount of the hedged item, is amortized to profit or loss over the period to maturity using a recalculated effective interest rate for hedged item for which the effective interest method is used. If the hedged item is derecognized, the unamortized fair value adjustment 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 that 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.

#### 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 and interpretations in 2019

The Group applied IFRS 16 Leases for the first time from 2019. The nature and effect of the changes as a result of adoption of this new accounting standard are described in note 2.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the consolidated financial statements of the Group.

#### New or amended accounting standards effective after 2019

New or revised standards, interpretations, and amendments have been issued but were not effective as of December 31, 2019 and have not been applied by the Group. They are not expected to have a material overall impact on the consolidated financial statements of the Group.

#### 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 Group's 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 in which they are revised 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 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

## GROUP NOTES

### 1. Significant accounting principles, accounting estimates and judgements, cont.

is determined by the proportion of cost incurred to date compared to estimated total cost of each performance obligation.

Revenue for goods sold is recognized in profit or loss at one point in time when control of the goods have 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 (i.e. the Group has a present right to payment for the goods, the customer has legal title of the goods, the goods has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the goods), to determine if revenue and cost should be recognized in the current period,
- the transaction price of each performance obligation when a contract includes more than one performance obligation, to determine the revenue and cost to be recognized in the current period, and
- the customer credit risk (i.e. the risk that the customer will not meet the payment obligation), to determine and justify the revenue recognized in the current period.

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

##### Key sources of estimation uncertainty

Goodwill is 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 of impairment, if any, 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 as to the estimated sales prices, overstock articles, outdated articles, damaged goods, and selling costs. If the estimated net realizable value is lower than historical cost, a valuation allowance is established for inventory obsolescence. See note 16 for additional information.

#### Trade and financial receivables

##### Key sources of estimation uncertainty

The Group measures the expected credit losses on financial assets classified at amortized cost including trade and financial receivables,

lease receivables and contract assets. The expected credit losses are an assessment that reflects an unbiased, expected outcome based on reasonable and supportable forecasts.

#### Accounting judgement

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

#### Pension and other post-employment benefit valuation assumptions

##### Key sources of estimation uncertainty

Pensions and other post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The key assumptions include discount rates, inflation, future salary increases, mortality rates, and health care cost trend rates. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate. See note 23 for additional information regarding assumptions used in the calculation of pension and post-employment obligations.

#### Legal proceedings and tax claims

##### Accounting judgement

Epiroc recognizes a liability when the Group has an obligation from a past event involving the transfer of economic benefits and when a reasonable estimate can be made of what the transfer might be. The Group reviews outstanding legal cases regularly in order to assess the need for provisions in the financial statements. These reviews consider the factors of the specific case by internal legal counsel and through the use of outside legal counsel and advisors when necessary. The financial statements may be affected to the extent that management's assessments of the factors considered are not consistent with the actual outcome. Additionally, the legal entities of the Group are frequently subject to audits by tax authorities in accordance with standard practice in the countries where the Group operates. In instances where the tax authorities have a different view on how to interpret the tax legislation, the Group makes estimates as to the likelihood of the outcome of the dispute, as well as estimates of potential claims. The actual results may differ from these estimates.

#### Warranty provisions

##### Key sources of estimation uncertainty

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

#### Leasing

##### Accounting judgement

##### Determining the lease term of contracts with renewal and termination options – Group as Lessee

The Group has a few lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, the Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. For properties with a lease term of ten years or more, the non-cancellable period is assumed to equal the term stated in the contract as the renewal periods are not reasonably certain to be exercised. If the term in the contract is less than ten years it must be assessed whether any options to extend the lease will be exercised. Circumstances that affect the assessment include any investment in the property that the lessee has made. It is continuously assessed if and when the entity is reasonably certain to exercise an option to extend the contract. In addition, the renewal options for leases of vehicles are not included as part of the lease term because the Group typically leases vehicles for not more than the lease term stated in the contract and, hence, is not exercising any renewal options.



## 2. Changes in accounting policies

## 2. Changes in accounting policies

The nature and effect of the changes as a result of adoption of new accounting standards are described below.

### IFRS 16 Leases

IFRS 16 Leases is effective from January 1, 2019 and replaces the lease standard IAS 17 Leases and related interpretations. The new lease standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The changes relate mainly to the accounting treatment of the lessee. IFRS 16 introduces a single accounting model for leases and requires the recognition of substantially all leases in the balance sheet and the separation of depreciation of right-of-use assets from interest of lease liabilities in the income statement. See note 1 for accounting principles.

### Transition to IFRS 16

The standard has been applied by the Group from January 1, 2019, using the modified retrospective approach. Comparative information has therefore not been restated. The Group has chosen the option to set the right-of-use asset equal to the lease liability at transition and the lease liability is calculated based on the incremental borrowing

rate (IBR) at transition. The Group has at transition further decided to apply the practical expedients that permits not to reassess whether a contract is, or contains, a lease at the date of initial application and to exclude any initial direct costs from the measurement of the right-of-use asset at the date of initial application. The Group has also applied a practical expedient to exclude leases that ends within 12 months of initial application, and leases for which the underlying asset is of low value. IFRS 16 has not resulted in any changes for the Group as lessor compared to the accounting under IAS 17.

At the date of initial application of IFRS 16 the Group recognized a right-of-use asset of total 2 158 and a corresponding lease liability amounted to total 2 153.

The table below presents the difference between operating lease commitments under IAS 17 at December 31, 2018 and the initial measurement of lease liabilities under IFRS 16 at January 1, 2019:

Operating lease commitment at December 31, 2018 (IAS 17)	1 550
Discounting effect	-77
<b>Operating lease commitment at December 31, 2018 (discounted)</b>	<b>1 473</b>
<i>Adjusted for</i>	
Low-value and short-term leases	-62
Costs attributable to extension option (discounted)	636
<b>Lease liabilities as a result of initial application of IFRS 16 of previous operating leases at January 1, 2019</b>	<b>2 047</b>
Finance lease liabilities at December 31, 2018	106
<b>Total lease liabilities at January 1, 2019</b>	<b>2 153</b>

The weighted average Incremental borrowing rate (IBR) as of January 1, 2019 was approximately 1.5%. The Group has established the IBR at the date of transition based on the different contract currencies and lease terms.

Below is the adjustment on opening balances after adoption of IFRS 16 as of January 1, 2019. The transition to IFRS 16 had no impact on the Group's equity.

### Assets

	Jan. 1, 2019 before adoption of IFRS 16	Opening balance adjustment due to adoption of IFRS 16	Jan. 1, 2019 after adoption of IFRS 16
<b>Non-current assets</b>			
Rental equipment	1 233	14	1 247
Other property, plant and equipment	2 473	2 033	4 506
Deferred tax assets	543	0	543
<b>Total non-current assets</b>	<b>9 196</b>	<b>2 047</b>	<b>11 243</b>
<b>Total assets</b>	<b>36 155</b>	<b>2 047</b>	<b>38 202</b>

### Equity and liabilities

	Jan. 1, 2019 before adoption of IFRS 16	Opening balance adjustment due to adoption of IFRS 16	Jan. 1, 2019 after adoption of IFRS 16
<b>Equity</b>	<b>18 847</b>	<b>-</b>	<b>18 847</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	5 095	1 690	6 785
<b>Total non-current liabilities</b>	<b>5 790</b>	<b>1 690</b>	<b>7 480</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	1 702	357	2 059
<b>Total current liabilities</b>	<b>11 518</b>	<b>357</b>	<b>11 875</b>
<b>Total equity and liabilities</b>	<b>36 155</b>	<b>2 047</b>	<b>38 202</b>

Due to the adoption of IFRS 16, the Group's tangible assets and interest-bearing liabilities have increased. The Group's leased properties in Sweden contributes to a large extent to the right-of-use asset and lease liability. There is no material net impact on the Groups income statement. The lease expenses for previous operating leases in operating profit have been replaced by depreciation of the right-of-use asset and interest expense on the lease liability, the latter is presented in net financial items. Transition to IFRS 16 had below impact on selected key ratios (presented as alternative performance measures). EBITDA has increased after transition to IFRS 16 due to that lease expenses being replaced by depreciation and interest expense. Average capital employed increases while return

on capital employed (%) decreases, due to a larger amount of leased assets within the Group. Net debt and the net debt/EBITDA ratio has increased due to additional interest-bearing liabilities.

The timing of cash flows are not impacted by the new standard. However, the amortization portion of Epiroc's lease payment is reported as a financing cash flow instead of operating cash flow. Lease payments for low value and short-term leases will continue to be reported as operating cash flows together with interest payments on the lease liability.

## GROUP NOTES

### 3. Acquisitions and divestments

#### Acquisitions 2019

All acquisitions were made through the purchase of 100% of shares and voting rights or through the purchase of the net assets of the acquired businesses, except for one subsidiary to New Concept Mining where 67 % of the shares and voting rights were acquired. The Group received control over the businesses upon the date of the completion of the acquisition. All acquisitions have been accounted for using the acquisition method, no equity instruments have been issued in connection with the acquisitions.

In January, reporting segment Tools & Attachments acquired For-dia Group Inc, Canada, including subsidiaries. The company provides exploration drillings tools as well as water treatment systems and pumps.

In February, reporting segment Equipment & Service acquired the assets of Noland Drilling Equipment, a U.S. distributor of water well drilling equipment and related parts, services and consumables.

In April, reporting segment Tools & Attachments acquired Innova-tive Mining Products (Proprietary) Limited (known as New Concept Mining), South Africa, including subsidiaries. In September, the subsidiaries in Peru and Chile were acquired. New Concept Mining provides a range of underground mining roof support products, rock monitoring systems and related accessories.

The amounts in the following tables detail the recognized amounts aggregated for all acquisitions made during the year, as the relative amounts of the individual acquisitions are not considered significant. 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.

Fair value of acquired assets and liabilities	Group recognized values
	<b>2019</b>
Net assets identified	713
Intangible assets	234
Goodwill	249
<b>Total consideration</b>	<b>1 196</b>
<b>Net cash outflow</b>	<b>1 117</b>

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. As per December 31, the acquisitions have a total cash flow effect of -1 117. According to the preliminary purchase price allocation, total consideration amount to 1 196. The acquired businesses have contributed to revenues with 1 140 and to operating profit with 87 since their respective dates of acquisition.

#### Contribution from businesses acquired in 2019

MSEK	2019
<b>Contribution from date of control</b>	
Revenues	1 140
Operating profit	87
Profit for the year	-7
<b>Contribution if the acquisition had occurred on Jan. 1</b>	
Revenues	1 349
Operating profit	107
Profit for the year	7

#### Divestments 2019

In September, the Epiroc Geotechnical Consumables product line was divested to Mimir Invest and in December, the Epiroc handheld drilling consumable manufacturing facility was divested to Monark AS. Other minor divestments were made during the year.

Total net cash effect of the divestments were 153. The divestments resulted in a capital loss of 28 including the result of recycling of accumulated historical translation difference of 7. The capital loss was reported under "Other operating expenses". See note 7.

#### Acquisitions 2018

All acquisitions described below were made through the purchase of 100% of shares and voting rights or through the purchase of the net assets of the acquired businesses. The Group received control over the businesses upon the date of the acquisition. All acquisitions have been accounted for using the acquisition method, no equity instruments have been issued in connection with the acquisitions. The acquisitions are individually and aggregated considered to have immaterial effects on the Group's financial statements.

In January, reporting segment Tools & Attachments acquired Renegade Drilling Supplies Proprietary Ltd., South Africa. The company manufactures and distributes mining exploration drilling consumables. Intangible assets of 6 and goodwill of 4 were recorded on the purchase.

In January, reporting segment Equipment & Service acquired Rockdrill Services Australia Pty. Ltd., Australia as well as Cate Drilling Solutions LLC., USA. Rockdrill Services Australia Pty. Ltd. develops, remanufactures, services and repairs rock drills used for mining and rock excavation. Cate Drilling Solutions LLC is a full service distributor, including remanufacturing, for surface drilling products. Intangible assets of 26 and goodwill of 48 were recorded on the purchase of Rockdrill Services Australia Pty. Ltd. and 91 of intangible asset and 65 of goodwill were recorded on the purchase of Cate Drilling Solutions LLC.

In February, reporting segment Equipment & Service acquired Hy-Performance Fluid Power Pty Ltd, Australia. The company remanufactures, services and repairs hydraulic components for drill rigs. Intangible assets of 25 and goodwill of 48 were recorded on the purchase.

In November, reporting segment Equipment & Service acquired Sautec A.S., Estonia. The company distributes underground mining equipment and construction demolition tools including parts, service and consumables. Intangible assets of 5 and goodwill of 6 were recorded on the purchase.

The acquisitions have a total cash flow effect of -479. Total allocated to goodwill amount to 171 and total allocated to intangible assets amount to 153.

## 4. Segment information

## 4. Segment information

2019	Equipment & Service	Tools & Attachments	Common group functions	Eliminations	Group
Revenues from external customers	29 782	10 797	270	-	40 849
Inter-segment revenues	109	2	19	-130	-
<b>Total revenues</b>	<b>29 891</b>	<b>10 799</b>	<b>289</b>	<b>-130</b>	<b>40 849</b>
<b>Operating profit/loss</b>	<b>7 474</b>	<b>1 252</b>	<b>- 611</b>	<b>21</b>	<b>8 136</b>
- of which share of profit in associated companies and joint ventures	12	-	-	-	-12
Net financial items					-293
Income tax expense					-1 959
<b>Profit for the year</b>					<b>5 884</b>
<b>Non-cash expenses/income</b>					
Depreciation/amortization	1 280	442	223	- 62	1 883
Impairment	1	94	-	-	95
Other non-cash expenses/income	-	-10	-40	-	- 50
<b>Segment assets</b>	<b>19 991</b>	<b>8 746</b>	<b>3 122</b>	<b>-672</b>	<b>31 187</b>
- of which goodwill	978	1 207	-	-	2 185
Investments in associated companies and joint ventures	182	-	19	-	201
Unallocated assets					9 649
<b>Total assets</b>					<b>41 037</b>
<b>Segment liabilities</b>	<b>7 362</b>	<b>2 399</b>	<b>1 363</b>	<b>-493</b>	<b>10 631</b>
Unallocated liabilities					7 593
<b>Total liabilities</b>					<b>18 224</b>
<b>Capital expenditures</b>					
Property, plant and equipment	1 255	332	215	-63	1 739
- of which assets leased	184	139	0	-	323
Intangible assets	513	16	8	-	537
<b>Total capital expenditures</b>	<b>1 768</b>	<b>348</b>	<b>223</b>	<b>-63</b>	<b>2 276</b>
Goodwill acquired	10	239	-	-	249

2019	Equipment & Service	Tools & Attachments	Common group functions	Eliminations	Group
Items affecting comparability in Operating profit	28 <sup>1)</sup>	196 <sup>1)</sup>	222 <sup>2)</sup>	-	446

<sup>1)</sup> Refers to costs related to efficiency improvements in Equipment & Service (28) and in Tools & Attachments (17) and restructuring of handheld rock drilling tools and the divestment of geotechnical consumables product line in Tools & Attachments (179).

<sup>2)</sup> Refers to change in provision for long-term incentive programs (194) and costs related to the agreement with the departing President and CEO (28).

## GROUP NOTES

### 4. Segment information, cont.

2018	Equipment & Service	Tools & Attachments	Common group functions	Eliminations	Group
Revenues from external customers	28 414	9 493	295	-	38 202
Inter-segment revenues	73	4	12	-89	-
Revenue from Atlas Copco (before June 18, 2018)	53	22	8	-	83
<b>Total revenues</b>	<b>28 540</b>	<b>9 519</b>	<b>315</b>	<b>-89</b>	<b>38 285</b>
<b>Operating profit/loss</b>	<b>6 751</b>	<b>1 239</b>	<b>-638</b>	<b>33</b>	<b>7 385</b>
- of which share of profit in associated companies and joint ventures	-8	-	-	-	-8
Net financial items					- 184
Income tax expense					-1 764
<b>Profit for the year</b>					<b>5 437</b>
<b>Non-cash expenses</b>					
Depreciation/amortization	913	313	199	-57	1 368
Impairment	1	-	-	-	1
Other non-cash expenses	52	30	162	-	244
<b>Segment assets</b>	<b>19 079</b>	<b>7 329</b>	<b>1 359</b>	<b>-761</b>	<b>27 006</b>
- of which goodwill	943	933	-	-	1 876
Investments in associated companies and joint ventures	208	-	-	-	208
Unallocated assets					8 941
<b>Total assets</b>					<b>36 155</b>
<b>Segment liabilities</b>	<b>7 014</b>	<b>2 077</b>	<b>1 088</b>	<b>-565</b>	<b>9 614</b>
Unallocated liabilities					7 694
<b>Total liabilities</b>					<b>17 308</b>
<b>Capital expenditures</b>					
Property, plant and equipment	1 099	245	245	-66	1 523
- of which assets leased	26	24	-	-	50
Intangible assets	502	11	-54	-	459
<b>Total capital expenditures</b>	<b>1 601</b>	<b>256</b>	<b>191</b>	<b>-66</b>	<b>1 982</b>
Goodwill acquired	163	9	-	-	172
<b>2018</b>	<b>Equipment &amp; Service</b>	<b>Tools &amp; Attachments</b>	<b>Common group functions</b>	<b>Eliminations</b>	<b>Group</b>
Items affecting comparability in Operating profit	-	-	394 <sup>1)</sup>	-	394

<sup>1)</sup> Refers to change in provision for long-term incentive programs (66) and costs for split from Atlas Copco (328).

The Group is organized in seven separate and focused, but still integrated operating segments, so called divisions, aggregated into two reporting segments; Equipment & Service and Tools & Attachments. The reporting segments offer different products and services. They are also, together with the divisions, the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. Items affecting comparability are included in a separate table since the chief operating decision maker review also these as part of evaluating performance and allocating resources to the segments.

Common group functions are functions which serve all operating segments or the Group as a whole, and is not considered a segment. Common group functions includes Epiroc Payment Solutions. Revenues from operating leases owned by Epiroc Payment Solutions are reported under common group functions.

The accounting principles for the segments are the same as those described in note 1. Epiroc's inter-segment pricing is determined

on a commercial basis. Segment assets comprise property, plant and equipment (including right-of-use assets), intangible assets, finance lease receivables, 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. Lease liabilities (part of interest-bearing liabilities) are also included. Capital expenditure includes property, plant and equipment, and intangible assets, but excludes the effect of goodwill, intangible assets and property, plant and equipment through acquisitions.

#### Geographical information

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

## 4. Segment information, cont.

## By geographic area/country

	Revenues		Non-current assets	
	2019	2018	2019	2018
<b>North America</b>				
U.S.A.	4 123	3 864	1 705	1 604
Canada	3 213	2 992	542	233
Other countries	1 605	1 591	66	58
	<b>8 941</b>	<b>8 447</b>	<b>2 313</b>	<b>1 895</b>
<b>South America</b>				
Chile	2 564	2 028	126	125
Peru	1 483	1 271	83	51
Brazil	1 044	722	43	35
Other countries	1 289	1 005	42	30
	<b>6 380</b>	<b>5 026</b>	<b>294</b>	<b>241</b>
<b>Europe</b>				
Russia	2 958	2 582	34	20
Sweden	1 179	1 142	3 630	2 241
Germany	607	526	328	213
Norway	576	645	6	1
Finland	519	437	73	70
Other countries	3 592	3 772	528	438
	<b>9 431</b>	<b>9 104</b>	<b>4 599</b>	<b>2 983</b>
<b>Africa/Middle East</b>				
South Africa	2 482	1 930	544	87
Congo (DRC)	521	460	26	19
Other countries	2 429	2 963	102	90
	<b>5 432</b>	<b>5 353</b>	<b>672</b>	<b>196</b>
<b>Asia/Australia</b>				
Australia	4 465	4 057	505	350
China	1 791	1 917	834	919
India	1 388	1 704	402	366
Kazakhstan	770	820	11	9
Other countries	2 251	1 857	422	367
	<b>10 665</b>	<b>10 355</b>	<b>2 174</b>	<b>2 011</b>
<b>Total</b>	<b>40 849</b>	<b>38 285</b>	<b>10 052</b>	<b>7 326</b>

## Revenues

	2019	2018
Equipment & Service	29 891	28 540
whereof Equipment	13 861	14 238
whereof Service <sup>1)</sup>	16 030	14 302
Tools & Attachments	10 799	9 519
Common Group functions/eliminations	159	226
<b>Total</b>	<b>40 849</b>	<b>38 285</b>

<sup>1)</sup> "Service" includes spare parts and service.

## Performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied as at December 31) are as follows:

	2019	2018
Within one year	283	26
More than one year	289	2

The remaining performance obligations expected to be recognized within one year or more than one year, relates to complete service contracts, where the full contract is assessed to be one performance obligation.

The amount of remaining performance obligations not yet satisfied or partially satisfied has not been disclosed for:

- Contracts with a contract period of less than one year.
- Contracts meeting the requirement for the right to invoice expedient.

## GROUP NOTES

### 5. Employees and personnel expenses

## 5. Employees and personnel expenses

#### Average number of employees

	2019			2018		
	Women	Men	Total	Women	Men	Total
<b>Parent Company</b>						
Sweden	24	20	44	18	15	33
<b>Subsidiaries</b>						
North America	335	1 918	2 253	297	1 767	2 064
South America	178	1 298	1 476	175	1 321	1 496
Europe	917	3 852	4 769	893	3 798	4 691
– of which Sweden	613	2 500	3 113	597	2 464	3 061
Africa/Middle East	257	1 813	2 070	206	1 256	1 462
Asia/Australia	552	3 234	3 786	545	3 226	3 771
<b>Total subsidiaries</b>	<b>2 239</b>	<b>12 115</b>	<b>14 354</b>	<b>2 116</b>	<b>11 368</b>	<b>13 484</b>
<b>Total</b>	<b>2 263</b>	<b>12 135</b>	<b>14 398</b>	<b>2 134</b>	<b>11 383</b>	<b>13 517</b>

#### Females in the Board of Directors and Group Management

December 31 %		
	2019	2018
<b>Parent Company</b>		
Board of Directors excl union representatives	38	38
Group Management	17	20

#### Remuneration and other benefits

MSEK	2019	2018
<b>Group</b>		
Salaries and other remuneration	6 916	6 209
Contractual pension benefits	400	344
Other social costs	1 154	982
<b>Total</b>	<b>8 470</b>	<b>7 535<sup>1)</sup></b>

<sup>1)</sup> Adjusted compared to prior year.

#### Remuneration and other benefits to the Board

2019 KSEK	Fee	Value of synthetic share at grant date	Number of shares at grant date	Other fees <sup>2)</sup>	Total fees incl. Value of synthetic shares at grant date 2019 <sup>3)</sup>	Adj. due to vesting and change in stock price <sup>4)</sup>	Total expense recognized 2019
<b>Chairman:</b>							
Ronnie Leten	2 015			349	2 364		2 364
<b>Other members of the Board:</b>							
Anders Ullberg	635			233	868		868
Astrid Skarheim Onsum	317	318	3 263		635	133	768
Jeane Hull	524	111	1 076		635	89	724
Johan Forssell	317	318	3 263	85	720	105	825
Lennart Evrell	428	207	2 187	85	720	43	763
Ulla Litzén	635			248	883		883
Union representatives <sup>1)</sup>	76				76		76
<b>Total</b>	<b>4 947</b>	<b>954</b>	<b>9 789</b>	<b>1 000</b>	<b>6 901</b>	<b>370</b>	<b>7 271</b>

<sup>1)</sup> Union representatives receive compensation to prepare for their participation in board meetings paid out in 2019.

<sup>2)</sup> Refers to fees in board committees.

<sup>3)</sup> Provision for synthetic shares (excl. social costs) at December 31, 2019, amounted to MSEK 1.9.

<sup>4)</sup> Refers to synthetic shares received in 2018 and 2019.

2018 KSEK	Fee	Value of synthetic share at grant date	Number of shares at grant date	Other fees <sup>2)</sup>	Total fees incl. Value of synthetic shares at grant date 2018 <sup>3)</sup>	Adj. due to vesting and change in stock price <sup>4)</sup>	Total expense recognized 2018
<b>Chairman:</b>							
Ronnie Leten	1 648			293	1 941		1 941
<b>Other members of the Board:</b>							
Anders Ullberg	396			143	539		539
Astrid Skarheim Onsum	262	262	2 541		524	-49	475
Jeane Hull	262	262	2 541		524	-49	475
Johan Forssell	167	167	1 621	38	372	-31	341
Lennart Evrell	528			76	604		604
Ulla Litzén	528			225	753		753
Union representatives <sup>1)</sup>	76				76		76
<b>Total</b>	<b>3 867</b>	<b>691</b>	<b>6 703</b>	<b>775</b>	<b>5 333</b>	<b>-129</b>	<b>5 204</b>

<sup>1)</sup> Union representatives receive compensation to prepare for their participation in board meetings earned in 2018 (paid out in 2019).

<sup>2)</sup> Refers to fees in board committees.

<sup>3)</sup> Provision for synthetic shares (excl. social costs) at December 31, 2018, amounted to MSEK 0.6.

<sup>4)</sup> Refers to synthetic shares received in 2018.

## 5. Employees and personnel expenses, cont.

## Remuneration and other benefits to Group Management

KSEK	Base salary	Variable compensation <sup>1)</sup>	Other benefits <sup>2)</sup>	Pension	Total, excl. recognized costs for share based payments	Recognized costs for share based payments <sup>3)</sup>	Total expense recognized 2019
<b>President and CEO</b>							
Per Lindberg	11 275	3 067	23 950	3 946	42 238	4 175	46 413
<b>Other members of Group Management (5 positions)</b>							
	14 463	3 298	1 224	5 152	24 137	14 753	38 890
<b>Total 2019</b>	<b>25 738</b>	<b>6 365</b>	<b>25 174</b>	<b>9 098</b>	<b>66 375</b>	<b>18 928</b>	<b>85 303</b>
Total 2018	19 653	10 770	2 698	6 768	39 889	3 947	43 836

<sup>1)</sup> Variable compensation refers to amount earned in 2019 and to be paid in 2020.

<sup>2)</sup> Refers to vacation pay, company car, medical insurance and other benefits. Other benefits also includes costs related to the agreement with the departing President and CEO. An agreement was entered into with Per Lindberg that he will leave as CEO February 29, 2020. From March 1, 2020, and during 18 months Lindberg will be available to the extent requested by the Company and he will be entitled to remuneration during the period. The total cost is MSEK 28 and includes social security fees, which are not included in the table above. The remuneration will be reduced by compensation that Lindberg may earn from other employment or assignments.

<sup>3)</sup> Refers to the stock options received in 2015–2019 and includes recognized costs due to change in stock price and vesting period.

## 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 2019**

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 Annual general meeting held on May 9, 2019 decided that fees to the board members elected by the general meeting, until the next Annual general meeting, should be as per below

- The chair of the board was granted an amount of SEK 2 050 000.
- Each of the other board members not employed by the Group were granted SEK 640 000.
- An amount of SEK 260 000 was granted to the chair of the audit committee and SEK 175 000 to each of the other members of this committee.
- An amount of SEK 125 000 was granted to the chair of the remuneration committee and SEK 90 000 to each of the other members of this committee.
- An amount of SEK 70 000 to each non-executive director who, in addition, participates in committee work decided upon by the board.

The board members may choose to receive their whole remuneration in cash or 50% of the remuneration in cash and 50% of their remuneration in the form of synthetic shares. The synthetic shares received will be based on an average of the closing price of A-shares during ten trading days following the publishing of the first quarter results 2019. The payment of each synthetic share is made in 2024 and corresponds to the average price during the ten trading days after the publishing of the first quarterly result in 2024. The synthetic shares also carry the right to a recalculation in order to take into account the value of any dividend paid on Epiroc's shares during the period the synthetic shares have been held.

Three 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 "Remuneration and other benefits to the Board".

**Remuneration and other committees**

The board has three committees:

- Remuneration committee consisting of Ronnie Leten (Chair), Johan Forssell and Lennart Evrell.
- Audit committee consisting of Ulla Litzén (Chair), Anders Ullberg and Ronnie Leten.
- Repurchase committee consisting of Anders Ullberg and Ronnie Leten.

**Group Management**

Group Management consists of the CEO and President and five other members. The compensation to Group Management shall consist of base salary, variable compensation, possible long-term incentive, pension premiums and other benefits.

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

- Base salary is determined by position, qualification, and individual performance.

- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 70% of the base salary for the President and CEO, 60% for Senior Executive Vice President Mining and Infrastructure, and 40% for other members of Group Management.
- Upon approval of the Epiroc Board and the Annual General Meeting, Group Management will be eligible to performance related employee stock options.
- Pension premiums are paid in accordance with a defined contribution plan with premiums ranging between 25% and 35% of base salary depending on age.
- Other benefits consist of company car and private health insurance.

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

**President and CEO**

The variable compensation can give a maximum of 70% of the base salary. The variable compensation is not included in the basis for pension benefits.

The President and CEO is a member of the Epiroc pension policy for Swedish executives, which is a defined contribution plan. The contribution is age related and is 35% of the base salary. The standard retirement age is 65.

**Other members of Group Management**

Members of Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary depending on age. One member is part of the defined benefit pension plan ITP2. The variable compensation is not included in the basis for pension benefits. The standard retirement age is 65.

**Stock Options holdings for Group Management**

The stock options holdings (including matching shares) as at December 31, 2019 are detailed below. See also note 23 for additional information.

**Stock Options holdings (including matching shares) as at Dec. 31, 2019**

Grant Year <sup>1)</sup>	President and CEO	Other members of Group Management
2016	–	156 918
2017	–	154 351
2018	276 377	221 913
2019 <sup>2)</sup>	111 362	109 193
<b>Total</b>	<b>387 739</b>	<b>642 375</b>

<sup>1)</sup> Grants prior to 2018 relates to Atlas Copco plans transferred to Epiroc.

<sup>2)</sup> Estimated grants for the 2019 stock option program including matching shares.

**Termination of employment**

The CEO is entitled to a severance pay of 12 months if the Company terminates the employment and a further six months if the CEO has not been engaged in a new employment contract.

## GROUP NOTES

### 5. Employees and personnel expenses, cont.

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.

#### Performance based employee stock option plan

It is important that key personnel in Epiroc have a long-term interest in a good value development of the shares of the Company and align their performance in a manner that enhances such a development. In particular this applies to the group of key personnel that consists of the senior executives and the division presidents. It is also the assessment of the Board that a share related employee stock option program increases the attractiveness of Epiroc on the global market and enhances the possibility to recruit and keep key personnel in the Group.

#### Epiroc Board of Directors' proposal for guidelines for senior executive remuneration 2020

The CEO and the other members in the Group Management fall within the provisions of these guidelines and are hereinafter referred to as "senior executives". The guidelines are forward-looking, i.e. they are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the annual general meeting 2020. These guidelines do not apply to remuneration decided or approved by the general meeting.

#### The guidelines' promotion of the company's business strategy, long-term interests and sustainability

For more information regarding the company's business strategy, please see the most recent Annual Report on Epiroc Group's webpage.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel. To this end, it is necessary that the company offers competitive remuneration.

Long-term share-related incentive programs have been implemented in the company. Such programs have been resolved, and any future such program will be resolved, by the general meeting and are therefore excluded from these guidelines. For more information on the existing programs, please see the Annual Report or the Group's webpage.

#### Types of remuneration, etc.

The remuneration may consist of a base salary, annual variable compensation, pension contributions and additional benefits and shall be on market terms. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

#### Base salary

The base salary shall reflect the position, competence and individual performance.

#### Variable cash remuneration

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration compensation is limited to a maximum of 70% of the base salary. The variable cash remuneration shall be linked to criteria that can be financial or non-financial. The financial goals may be in relation to, for example, value creation, development of revenues, operating profit or working capital. The goals may be individualized, quantitative or qualitative objectives. The objective with the variable cash remuneration is to promote the fulfillment of annual short term goals in line with the company's business strategy and long-term interests, including its sustainability.

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Any resolution on

such remuneration shall be made by the Board of Directors based on a proposal from the remuneration committee.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be evaluated/determined when the measurement period has ended. The remuneration committee is responsible for the evaluation so far as it concerns variable remuneration to the CEO. For variable cash remuneration to other executives, the CEO is responsible for the evaluation.

#### Pension benefits

The pension benefits shall be defined contribution to a maximum of 35% of the base salary. Variable cash remuneration shall not qualify for pension benefits if not stipulated by mandatory law or by collective agreement covering the executive.

#### Other benefits

Other benefits may include, for example, life insurance, private medical insurance and company cars. Premiums and other costs relating to such benefits may amount to not more than 15 % of the base salary.

#### Conditions for expatriates etc.

For a senior executive working on an international assignment outside of own home country certain other benefits apply in compliance with the Company's Conditions for Expatriate Employees. For executives employed in other countries than Sweden the pension and other benefits will be according to local market practice.

#### Termination of employment

In case of termination of employment of a senior executive by the Company, the compensation can amount to a maximum of 24 months base salary depending on age, length of employment and possible income from other economic activity or employment. When the executive terminates the employment, the period of notice is six months. The executive will in the latter case not be entitled to severance pay unless bound by a non-compete obligation.

#### Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for other employees of the company have been taken into account. This is done by including information on the employees' total remuneration, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

#### The decision-making process to determine, review and implement the guidelines

The remuneration committee's tasks include preparing the Board of Directors' decision to propose guidelines for senior executive remuneration. The Board of Directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for senior executive remuneration as well as the current remuneration structures and compensation levels in the company.

#### Deviations from these guidelines

The Board of Directors may resolve to deviate from these guidelines, in whole or in part, if in a specific case there is special cause for the deviation and the Board deems a deviation is reasonable to serve the company's long-term interests or to ensure the company's financial viability. As set out above, the remuneration committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to deviate from the guidelines.

## 6. Remuneration to auditors

### Audit fees and other services

	2019	2018
<b>Deloitte</b>		
Audit fees and other services	30	28
Other services, tax	4	2
Other services, other	0	3
<b>Other audit firms</b>		
Audit fees	2	1
<b>Total</b>	<b>36</b>	<b>34</b>

Audit fees refers to audit of the financial statements and the accounting records. For the Parent Company this also includes audit of 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. Tax services include both tax consultancy services and tax compliance services. Other services essentially comprise other consultancy services, such as due-diligence services in connection with acquisitions.

At the Annual General Meeting of Epiroc 2019, Deloitte was elected as auditor for the Epiroc Group until the Annual General Meeting 2020.



## 7. Other operating income and expense

## 7. Other operating income and expenses

### Other operating income

	2019	2018
Commissions received	1	2
Capital gain on sale of property, plant and equipment	50	11
Foreign exchange gains, net	24	-
Other operating income	55	29
<b>Total</b>	<b>130</b>	<b>42</b>

### Other operating expenses

	2019	2018
Capital loss on sale of property, plant and equipment	-20	-7
Capital loss on divestment of business	-28	-
Foreign exchange losses, net	-	-82
Other operating expenses <sup>1)</sup>	-143	-388
<b>Total</b>	<b>-191</b>	<b>-477</b>

<sup>1)</sup> Other operating expenses of 143 (388) includes costs for the split from Atlas Copco amounting to 62 (328).

### Additional information on costs by nature

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

Salaries, remunerations and employer contributions amounted to 8 470 (7 535) whereof expenses for post-employment benefits amounted to 400 (344). See note 5 for further details.

Included in the operating profit are exchange-rate gains and losses on translation of payables and receivables of operating nature. Amortization, depreciation and impairment for the year amounted to 1 978 (1 369). Costs for research and development, including amortization, depreciation and impairment, amounted to 1 035 (977). Amortization related to development expenditure for 2019 amounted to 310 (325). See note 12 and 13 for further details.

## 8. Financial income and expenses

Financial income and expenses	2019	2018
<i>Assets measured at amortized cost</i>		
Interest income		
– cash and cash equivalents	39	22
– financial lease receivables	140	153
<b>Interest income at effective interest method</b>	<b>179</b>	<b>175</b>
<i>Assets measured at fair value in income statement</i>		
Capital gain – other assets	1	2
Change in fair value – other assets	-	4
<b>Financial income</b>	<b>180</b>	<b>181</b>
<i>Liabilities measured at amortized cost</i>		
Interest expenses		
– Interest-bearing liabilities	-105	-166
<b>Total interest expenses at effective interest method</b>	<b>-105</b>	<b>-166</b>
<i>Liabilities measured at fair value in income statement</i>		
– derivatives	-194	-111
– lease liabilities	-38	-4
– pension provisions, net	-9	-4
– other	-18	-27
Change in fair value		
– other liabilities and borrowings	-3	-1
Foreign exchange losses, net	-112	-39
Impairment loss	6	-13
<b>Financial expenses</b>	<b>-473</b>	<b>-365</b>
<b>Financial expenses, net</b>	<b>-293</b>	<b>-184</b>

Foreign exchange loss, net includes foreign exchange gains of 249 (436) and foreign exchange losses of 361 (475). The gains and losses refers to revaluation of derivatives, interest-bearing liabilities and cash in foreign currency. Total impairment was positive in 2019 as actual losses on financial lease receivables were less than the reversals of existing provision balance.

## GROUP NOTES

### 9. Taxes

## 9. Taxes

#### Income tax expense

	2019	2018
Current taxes	-1 992	-1 921
Deferred taxes	33	157
<b>Total</b>	<b>-1 959</b>	<b>-1 764</b>

The income tax expense recognized was -1 959 (-1 764), which corresponds to an effective tax rate of 25.0% (24.5). The major differences between the effective tax rate and the expected tax rate are explained below. The expected tax rate is calculated as a weighted average, based on profit before tax multiplied by the statutory tax rate in each country.

#### Bridge of the effective tax rate

	2019	2018
<b>Profit before tax</b>	<b>7 843</b>	<b>7 201</b>
Expected income tax expense (weighted average)	-1 803	-1 687
<b>Expected tax in %</b>	<b>23.0</b>	<b>23.4</b>
Tax effect of:		
Non-deductible expenses	176	-138
Non-taxable income	146	109
Withholding taxes	-76	-
Adjustments related to prior years, net:		
- current taxes	-25	-49
- deferred taxes	-4	-21
Tax loss carry-forwards and tax credits, net	-16	13
Change in tax rates, deferred tax	2	9
Other items	-7	0
Recognized income tax expense	-1 959	-1 764
<b>Effective tax in %</b>	<b>25.0</b>	<b>24.5</b>

The income tax expense was mainly impacted by non-deductible expenses and non-taxable income. Included in non-taxable income is income subject to reduced taxation under local tax law, mainly in China and the United States. Withholding taxes concerns taxes on profit repatriation. Adjustments from prior years, current and deferred taxes, relate to adjustments of tax provisions and tax assessments for previous years. The net effect from tax credits and tax loss carry-forwards relates to expired tax credits and tax loss carry-forwards, as well as utilized tax credits and tax loss carry-forwards for which no

#### Deferred tax assets and liabilities

	2019			2018		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	46	445	-399	48	406	-358
Property, plant and equipment	141	763	-622	149	279	-130
Other financial assets	15	11	4	16	10	6
Inventories	779	20	759	793	56	737
Current receivables	74	21	53	62	14	48
Operating liabilities	321	3	318	296	3	293
Provisions	79	1	78	78	2	76
Post-employment benefits	119	0	119	56	0	56
Borrowings	477	-	477	15	-	15
Loss/credit carry-forwards	14	-	14	19	-	19
Other items <sup>1)</sup>	5	176	-171	11	230	-219
<b>Deferred tax assets/liabilities</b>	<b>2 071</b>	<b>1 440</b>	<b>630</b>	<b>1 543</b>	<b>1 000</b>	<b>543</b>
Netting of assets/liabilities	-1 440	-1 440	-	-1 000	-1 000	-
<b>Net deferred tax balances</b>	<b>630</b>	<b>-</b>	<b>630</b>	<b>543</b>	<b>-</b>	<b>543</b>

<sup>1)</sup> Other items primarily relate to provision for taxes on profit repatriation.

Epiroc has tax loss carry-forwards of 53 (73), for which deferred tax assets of 14 (19) were recognized. In addition, Epiroc has tax loss carry-forwards of 96 (0) for which no deferred tax asset was recognized. These tax loss carry-forwards will not be utilized due to Epiroc's restructuring in China. These tax loss carry-forwards will expire as follows:

deferred tax assets previously were recognized. Change in tax rate relates mainly to reduced tax rates in India and the United States.

Changes in the net deferred tax asset balance from the beginning of the year to the end of the year are explained below:

#### Change in deferred taxes

	2019	2018
Opening balance, Jan. 1	543	425
Recognized in the income statement	33	157
Tax on amounts recorded in equity	52	24
Acquisitions	-56	-1
Reclassifications	63	-
Translation difference	-5	-7
Transaction with shareholders (Atlas Copco)	0	-55
<b>Closing balance, Dec. 31</b>	<b>630</b>	<b>543</b>

Changes in deferred taxes recognized in the income statement are attributable to temporary differences on the following items:

#### Deferred taxes recognized in the income statement

	2019	2018
Intangible assets	20	-1
Property, plant and equipment	-251	-4
Other financial assets	0	6
Inventories	14	101
Current receivables	7	-45
Operating liabilities	16	115
Provisions	0	7
Post-employment benefits	7	-7
Borrowings	247	10
Other items	-22	-17
<b>Changes due to temporary differences</b>	<b>38</b>	<b>165</b>
Loss/credit carry-forwards	-5	-8
<b>Charges to profit for the year</b>	<b>33</b>	<b>157</b>

The deferred taxes on property, plant and equipment and borrowings relate to temporary differences following the implementation of IFRS 16.

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

#### Expiration of unused tax loss carry-forwards

	2019	2018
Expires after 1-2 years	18	-
Expires after 3-4 years	25	-
Expires after 5-6 years	53	-
No expiry date	-	-
<b>Total</b>	<b>96</b>	<b>-</b>

## 10. Other comprehensive income

## 10. Other comprehensive income

## Other comprehensive income for the year

	2019			2018		
	Before tax	Tax	After tax	Before tax	Tax	After tax
<b>Attributable to owners of the parent</b>						
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurements of defined benefit plans	-274	52	-222	-122	25	-97
<b>Items that may be reclassified subsequently to profit or loss</b>						
Translation differences on foreign operations	547	-	547	8	-	8
- realized and reclassified to profit and loss	-7	-	-7	-	-	-
Cash flow hedges	-22	5	-17	22	-5	17
<b>Total other comprehensive income</b>	<b>244</b>	<b>57</b>	<b>301</b>	<b>-92</b>	<b>20</b>	<b>-72</b>
<b>Attributable to non-controlling interests</b>						
Translation differences on foreign operations	0	-	0	0	-	0
<b>Total other comprehensive income</b>	<b>244</b>	<b>57</b>	<b>301</b>	<b>-92</b>	<b>20</b>	<b>-72</b>

## 11. Earnings per share

## Earnings per share

Amounts in SEK	2019	2018
Basic earnings per share	4.89	4.50
Diluted earnings per share	4.89	4.49

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

Amounts in MSEK	2019	2018
Profit for the year	5 874	5 430

## Average number of shares outstanding

In thousands of shares	2019	2018
Basic weighted average number of shares outstanding	1 200 887	1 205 608
Effect of employee stock options	1 289	699
<b>Diluted weighted average number of shares outstanding</b>	<b>1 202 176</b>	<b>1 206 307</b>

## 12. Intangible assets

Impairment tests are performed at least annually or when there are indications of impairment. Current goodwill is monitored for internal management purposes at operating segment level. The goodwill has therefore been tested for impairment at operating segment 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, capital expenditures, foreign currency and raw material prices. Right-of-use assets are included in the cash-generating unit's book value, the lease payments are therefore not included in the value in use calculation.

All assumptions for the five-year forecast are estimated individually for each operating segment based on their particular market position and the characteristics and development of their end markets. The forecasts represent management's assessment and are based on both external and internal sources. The perpetual growth for the period after five years is estimated at 2 % (2).

The Group's average weighted cost of capital was 8% (8) after tax, approximately 10.5% (10.5) before tax, and has been used in discounting the expected future cash flows to generate a return well above

the values to be tested, including sensitivity analyses/worst case scenarios. Sensitivity analyses show that no reasonably possible change to key parameters give rise to any impairment requirement.

The table below presents the carrying value of goodwill allocated to operating segments (cash generating units) and reporting segments.

## Goodwill

	2019	2018
Underground Rock Excavation	145	145
Surface and Exploration Drilling	382	371
Drilling Solutions	119	116
Mining & Rock Excavation Service	332	311
<b>Equipment &amp; Service</b>	<b>978</b>	<b>943</b>
Rock Drilling Tools	1 065	794
Hydraulic Attachment Tools	142	139
<b>Tools &amp; Attachments</b>	<b>1 207</b>	<b>933</b>
<b>Total</b>	<b>2 185</b>	<b>1 876</b>

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

	2019		2018	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	0	21	0	16
Marketing expenses	1	107	1	40
Administrative expenses	14	18	13	13
Research and development expenses	289	21	304	21
<b>Total</b>	<b>304</b>	<b>167</b>	<b>318</b>	<b>90</b>

## GROUP NOTES

### 12. Intangible assets, cont.

Impairment charges on intangible assets totaled 66 (1) of which 0 (1) were classified as research and development expenses in the income statement, and 49 (0) were classified as marketing expenses and 17

(0) as cost of sales. Of the impairment charges, 0 (1) were due to capitalized development costs relating to discontinued projects.

2019	Internally generated			Acquired			Goodwill	Total
	Product development	Other technology and contract based	Trademarks	Marketing and customer related	Other technology and contract based			
<b>Cost</b>								
Opening balance, Jan. 1	2 904	241	138	456	887	1 876	6 502	
Investments	308	16	-	-	213	-	537	
Business acquisitions	-	-	38	69	127	249	483	
Divestment of business	-	-	-	-	-15	-4	-19	
Disposals	-90	-4	-1	-9	-25	-	-129	
Reclassification	-33	-	7	-	-7	-	-33	
Translation differences	37	4	7	21	17	64	150	
<b>Closing balance, Dec. 31</b>	<b>3 126</b>	<b>257</b>	<b>189</b>	<b>537</b>	<b>1 197</b>	<b>2 185</b>	<b>7 491</b>	
<b>Amortization and impairment losses</b>								
Opening balance, Jan. 1	1 853	216	79	260	474	-	2 882	
Amortization for the period	284	20	14	30	56	-	404	
Impairment charge for the period	-	-	33	16	18	-	67	
Divestment of business	-	-	-	-	-11	-	-11	
Disposals	-86	-4	-1	-9	-22	-	-122	
Reclassifications	-	-	3	-	-4	-	-1	
Translation differences	18	4	2	11	11	-	46	
<b>Closing balance, Dec. 31</b>	<b>2 069</b>	<b>236</b>	<b>130</b>	<b>308</b>	<b>522</b>	<b>-</b>	<b>3 265</b>	
<b>Carrying amounts</b>								
At Jan. 1	1 051	25	59	196	413	1 876	3 620	
<b>At Dec. 31</b>	<b>1 057</b>	<b>21</b>	<b>59</b>	<b>229</b>	<b>675</b>	<b>2 185</b>	<b>4 226</b>	

2018	Internally generated			Acquired			Goodwill	Total
	Product development	Other technology and contract based	Trademarks	Marketing and customer related	Other technology and contract based			
<b>Cost</b>								
Opening balance, Jan. 1	2 541	239	124	293	693	1 638	5 528	
Investments	286	4	-	-	169	-	459	
Business acquisitions	-	-	10	142	9	172	333	
Disposals	-1	-11	-	-	-6	-	-18	
Translation differences	78	9	4	21	22	66	200	
<b>Closing balance, Dec. 31</b>	<b>2 904</b>	<b>241</b>	<b>138</b>	<b>456</b>	<b>887</b>	<b>1 876</b>	<b>6 502</b>	
<b>Amortization and impairment losses</b>								
Opening balance, Jan. 1	1 511	199	66	220	411	-	2 407	
Amortization for the period	297	20	11	26	53	-	407	
Impairment charge for the period	1	-	-	-	-	-	1	
Disposals	-1	-11	-	-	-5	-	-17	
Translation differences	45	8	2	14	15	-	84	
<b>Closing balance, Dec. 31</b>	<b>1 853</b>	<b>216</b>	<b>79</b>	<b>260</b>	<b>474</b>	<b>-</b>	<b>2 882</b>	
<b>Carrying amounts</b>								
At Jan. 1	1 030	40	58	73	282	1 638	3 121	
<b>At Dec. 31</b>	<b>1 051</b>	<b>25</b>	<b>59</b>	<b>196</b>	<b>413</b>	<b>1 876</b>	<b>3 620</b>	

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

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

## 13. Property, plant and equipment, cont.

## 13. Property, plant and equipment

2019	Buildings and land	Machinery and equipment	Construction in progress and advances	Right-of-use asset	Total	Rental equipment	Right-of-use asset	Total Rental equipment
<b>Cost</b>								
Opening balance, Jan. 1	1 225	5 214	262	2 239	8 940	2 213	100	2 313
Investments	16	171	314	323	824	915	-	915
Business acquisitions	158	96	7	16	277	-	-	-
Divestment of business	-16	-104	-	-1	-121	-21	-	-21
Disposals	-33	-353	-	-145	-531	-748	-	-748
Reclassifications	37	196	-232	13	14	-134	-61	-195
Translation differences	36	106	3	47	192	64	5	69
<b>Closing balance, Dec. 31</b>	<b>1 423</b>	<b>5 326</b>	<b>354</b>	<b>2 492</b>	<b>9 595</b>	<b>2 289</b>	<b>44</b>	<b>2 333</b>
<b>Depreciation and impairment losses</b>								
Opening balance, Jan. 1	518	3 798	-	118	4 434	1 003	64	1 067
Depreciation for the period	48	437	-	435	920	547	12	559
Impairment charge for the period	15	12	-	-	27	1	-	1
Divestment of business	-12	-88	-	-	-100	-13	-	-13
Disposals	-32	-305	-	-53	-390	-402	-	-402
Reclassifications	3	-	-	-	3	-79	-47	-126
Translation differences	13	71	-	4	88	31	3	34
<b>Closing balance, Dec. 31</b>	<b>553</b>	<b>3 925</b>	<b>-</b>	<b>504</b>	<b>4 982</b>	<b>1 088</b>	<b>32</b>	<b>1 120</b>
<b>Carrying amounts</b>								
At Jan. 1	707	1 416	262	2 121	4 506	1 211	36	1 247
<b>At Dec. 31</b>	<b>870</b>	<b>1 401</b>	<b>354</b>	<b>1 988</b>	<b>4 613</b>	<b>1 201</b>	<b>12</b>	<b>1 213</b>

Set out below are the carrying amounts of right-of-use assets by class of underlying asset recognized.

### Right-of-use assets

2019	Buildings and land	Machinery and equipment	Total	Rental equipment
Carrying amounts, Jan. 1	1 824	297	2 121	36
<b>Carrying amounts, Dec. 31</b>	<b>1 650</b>	<b>338</b>	<b>1 988</b>	<b>12</b>

2018	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment	
<b>Cost</b>						
Opening balance, Jan. 1		1 129	5 064	215	6 408	2 260
Investments		20	253	353	626	897
Business acquisitions		-	12	-	12	-
Disposals		-10	-285	0	-295	-687
Reclassifications		34	283	-308	9	-231
Translation differences		52	93	2	147	61
<b>Closing balance, Dec. 31</b>		<b>1 225</b>	<b>5 420</b>	<b>262</b>	<b>6 907</b>	<b>2 300</b>
<b>Depreciation and impairment losses</b>						
Opening balance, Jan. 1		462	3 675	-	4 137	1 045
Depreciation for the period		43	427	-	470	491
Disposals		-9	-259	-	-268	-347
Reclassifications		2	7	-	9	-148
Translation differences		20	66	-	86	26
<b>Closing balance, Dec. 31</b>		<b>518</b>	<b>3 916</b>	<b>-</b>	<b>4 434</b>	<b>1 067</b>
<b>Carrying amounts</b>						
At Jan. 1		667	1 389	215	2 271	1 215
<b>At Dec. 31</b>		<b>707</b>	<b>1 504</b>	<b>262</b>	<b>2 473</b>	<b>1 233</b>

Depreciation and impairment of tangible assets are recognized on the following line items in the income statement:

	2019	2018
Cost of sales	1 033	750
Marketing expenses	161	79
Administrative expenses	274	104
Research and development expenses	35	24
Other operating expenses	4	4
<b>Total</b>	<b>1 507</b>	<b>961</b>

Depreciation for the period relating to right-of-use assets amount to total 447, whereof 308 relates to Buildings and land, 127 to Machinery and equipment and 12 to Rental equipment. For more information regarding depreciation, see note 1.

## GROUP NOTES

14. Investments in associated companies and joint ventures

### 14. Investments in associated companies and joint ventures

#### Accumulated capital participation

	2019	2018
Opening balance, Jan. 1	208	94
Acquisitions of associated companies	-	117
Dividends	-	-1
Profit for the year after income tax	-12	-8
Translation differences	5	6
<b>Closing balance, Dec. 31</b>	<b>201</b>	<b>208</b>

#### Summary of financial information for associated companies

2019	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % <sup>1)</sup>
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	146	71	75	120	5	25
Zhejiang GIA Machinery Manufacturing Co., Ltd.	China	46	16	30	37	-4	49
Mobilaris MCE AB	Sweden	32	23	9	31	-5	34
ASI Mining LLC	United States	202	58	144	45	-26	34

2018	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % <sup>1)</sup>
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	120	51	69	107	3	25
Zhejiang GIA Machinery Manufacturing Co., Ltd.	China	38	5	33	33	-1	49
Mobilaris MCE AB	Sweden	26	20	6	38	-11	34
ASI Mining LLC	United States	181	16	165	31	-38	34

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

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

### 15. Other financial assets

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

	2019	2018
<b>Non-current</b>		
Pension and other similar benefit assets (note 23)	17	14
Derivatives		
- designated for hedge accounting	2	-
Financial assets classified at amortized cost		
- finance lease receivables	265	318
- other financial receivables	723	787
<b>Closing balance, Dec. 31</b>	<b>1 007</b>	<b>1 119</b>
<b>Current</b>		
Financial assets classified at amortized cost		
- finance lease receivables	250	376
- other financial receivables	612	568
<b>Closing balance, Dec. 31</b>	<b>862</b>	<b>944</b>

The gross amount of finance lease receivables amounted to 520 (716), of which 5 (21) have been impaired, and the gross amount of other financial receivables amounted to 1 375 (1 400), of which 40 (47) have been impaired. The total estimated fair value of collateral to finance lease receivables and other financial receivables was 264 (462) and 1 016 (1 134) respectively, consisting primarily of repossession rights.

See note 22 on finance leases as Group as lessor and note 27 for information on credit risk

### 16. Inventories

	2019	2018
Raw materials	530	420
Work in progress	1 627	2 122
Semi-finished goods	1 605	1 705
Finished goods	6 746	6 269
<b>Closing balance, Dec. 31</b>	<b>10 508</b>	<b>10 516</b>

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 381 (240). Reversals of write-downs which were recognized in earnings totaled 106 (60). Previous write-downs have been reversed as a result of improved market conditions in certain markets. Inventories recognized as expenses amounted to 19 881 (18 532).

## 17. Trade receivables

Fair value for trade receivables corresponds to their carrying value. Trade receivables are classified at amortized cost.

### Expected credit losses, trade receivables

	2019	2018
Provisions at Jan. 1	355	336
Change in accounting principles	-	-1
Business acquisitions and divestments	1	0
Provisions recognized for expected credit losses	259	159
Release of unnecessary provisions	-89	-68
Write-offs	-96	-80
Translation differences	7	9
<b>Closing balance, Dec. 31</b>	<b>437</b>	<b>355</b>

Trade receivables of 7 287 (8 005) are reported net of impairment amounting to 437 (355). Impairment recognized in the income statement totaled 259 (159). Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days. The acquisition of subsidiaries increased trade receivables with 283 (22) at date of completion of the acquisitions. At year-end 2019, the expected credit loss amounted to 5.7% (4.3) of gross total customer receivables. The impairment assessed for individual receivables affected the loss provision negative. For credit risk information, see note 27.

The following tables presents the gross value of trade receivables, both current and non-current, together with the past due-structure and the related impairment provisions.

### Trade receivables, gross

	2019	2018
Not past due	5 225	5 425
Past due		
0-30 days	1 197	1 469
31-60 days	340	419
61-90 days	197	196
More than 90 days	765	851
<b>Total</b>	<b>7 724</b>	<b>8 360</b>

### Trade receivables, expected credit losses

	2019		2018	
	Gross	Impairment	Gross	Impairment
Impairment assessed for individual receivables	310	159	86	68
Impairment assessed for grouped receivables	7 414	278	8 274	287
<b>Total</b>	<b>7 724</b>	<b>437</b>	<b>8 360</b>	<b>355</b>

## 18. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2019	2018
Derivatives		
– classified at fair value through profit and loss	99	108
Financial assets classified at amortized cost		
– other receivables	972	883
– accrued income	46	34
Prepaid expenses	480	264
<b>Closing balance, Dec. 31</b>	<b>1 597</b>	<b>1 289</b>

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income relates mainly to service and construction projects. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs. Other receivables are reported net of impairments, amounting to 1 597 (1 289). Accrued income relates mainly to service contracts where only passage of time is required before invoicing will occur.

## 19. Cash and cash equivalents

Cash and cash equivalents are classified at amortized cost. Fair value corresponds to their carrying value. Cash and cash equivalents are according to IFRS 9 subject to impairment according to the expected credit loss model. During 2019 the impairment was insignificant and therefore not recognized.

Cash and cash equivalents had an estimated average effective interest rate of 0.7% (0.7). The low interest rate environment persisted during 2019, why the return is in line with previous year.

The committed, but unutilized, credit line is MSEK 4 000 (4 000), see note 21 for additional information.

	2019	2018
Cash	2 657	2 335
Cash equivalents	5 883	3 537
<b>Closing balance, Dec. 31</b>	<b>8 540</b>	<b>5 872</b>

## GROUP NOTES

### 20. Equity

## 20. Equity

At year-end, Epiroc's share capital totaled 500 (500). The total numbers of issued Epiroc shares were 1 213 738 703 (1 213 738 703) shares, whereof 823 765 854 (823 765 854) shares class A and 389 972 849 (389 972 849) shares class B, each with a quota value of approximately SEK 0.41 (0.41). Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Class A shares and class B shares carry equal rights to a part of the company's assets upon liquidation and distribution of dividends.

The Board of Directors of Epiroc has been granted mandate by Epiroc's Annual General Meeting on May 9, 2019 to repurchase, transfer and sell own shares in order to fulfil the obligations under Epiroc's performance based employee stock option plans. Repurchase and sale will be made at a price per share within the registered trading interval, at any given point in time. The mandate is valid until Epiroc's Annual General Meeting 2020 and allows:

- 1) The acquisition of not more than 3 250 000 series A shares, whereof a maximum of 3 150 000 may be transferred to option holders under the performance based personnel option plan 2019.
- 2) The acquisition of not more than 30 000 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 remuneration.
- 3) The sale of not more than 15 000 series A shares to cover costs related to previously issued synthetic shares to Board members.
- 4) The sale of a maximum 7 900 000 series A shares currently held by the company, for the purpose of covering costs of fulfilling obligations related to the performance based personnel option plans 2014, 2015 and 2016.

The 2018 Annual General Meeting approved a mandate to the Board of Directors of Epiroc to repurchase, transfer and sell own shares in order to fulfil the obligations under Epiroc's performance based employee stock option plans. Repurchase and sale will be made at a price per share within the registered trading interval, at any given point in time. The mandate was valid until Epiroc's Annual General Meeting 2019 and allowed:

- 1) Acquire not more than 30 200 000 series A shares in order to hedge delivery of shares and social securities charges under the option plans for 2014–2018.
- 2) Acquire not more than 70 000 series A shares in order to hedge for costs in relation to remuneration in form of synthetic shares for Board members.
- 3) Sell series A shares to cover costs related to synthetic shares to Board members giving a counter value of earlier issued synthetic shares and to cover social charges.
- 4) Sell not more than 8 600 000 series A shares in relation to the performancebased employee stock option plans for 2014 and 2015 in order to cover costs, primarily cash settlements in Sweden, for Share Appreciation Rights (SARs) and social costs, in connection with the exercise of rights under the employee stock option plans.

During 2019 Epiroc purchased 1 500 000 shares class A and divested 4 705 198 shares class A in accordance with mandates granted by the 2019 and 2018 Annual General Meeting. As of December 31, 2019, Epiroc AB held 10 786 679 (13 991 877) shares class A. More information regarding the employee stock option plans can be found in note 23.

### Reserves

Consolidated equity includes certain reserves which are described below:

#### 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.

#### Cash flow hedge reserve

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

#### Non-controlling interest

The non-controlling interest amount to 52 (50). See note 14 for more information. The non-controlling interest is not material to the Group.

#### Other transactions with shareholders

Other transactions with shareholders includes transactions without compensation between Atlas Copco and Epiroc before the listing of Epiroc on June 18, 2018.

	2019	2018
Effective tax adjustment	–	-55
Shareholder contribution from former owners	–	4 358
Acquisition of subsidiaries	–	-1 559
Change in non-controlling interest	–	37
Pensions IAS 19	–	27
Share based compensation	–	44
Transfer of assets and liabilities without consideration <sup>1)</sup>	–	-122
<b>Total</b>	<b>–</b>	<b>2 730</b>

<sup>1)</sup> Transfer of assets and liabilities without consideration consists of economic activities that have been carved out from companies under common control. For more information see note 28.

#### Appropriation of profit

The Board of Directors proposes a dividend of SEK 2.40 (2.10) per share, totaling 2 887 (2 523) if shares held by the Company on December 31, 2019 are excluded.

#### Amounts in SEK

Retained earnings including reserve for fair value	47 342 179 253
Profit for the year	2 935 275 424
<b>Total</b>	<b>50 277 454 677</b>

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

To the shareholders, a dividend of SEK 2.40 per share	2 887 084 858
To be retained in the business	47 390 369 819
<b>Total</b>	<b>50 277 454 677</b>

The proposed dividend for 2018 of SEK 2.10 per share, as approved by the Annual General Meeting on May 9, 2019, was accordingly paid by Epiroc AB. Total dividend paid amounted to SEK 2 522 753 884.



## 21. Borrowings

## 21. Borrowings

	Maturity	2019		2018	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current</b>					
Medium Term Note Program MSEK 1 250, Fixed	2023	1 246	1 311	1 247	1 258
Medium Term Note Program MSEK 750, Floating	2023	749	771	748	752
Bilateral borrowings MEUR 100, Floating	2022	1 043	1 058	1 028	1 034
Bilateral borrowings MSEK 2 000, Floating	2024	1 995	2 006	2 000	2 045
Bilateral borrowings MSEK 1 000, Floating	2027	998	1 042	-	-
Other bank loans		65	65	-	-
Less current portion of long-term borrowings		-14	-14	-	-
<b>Total non-current bonds and loans</b>		<b>6 082</b>	<b>6 239</b>	<b>5 023</b>	<b>5 089</b>
Lease liabilities		1 640	1 640	71	71
Other financial liabilities		2	2	1	1
<b>Total non-current borrowings</b>		<b>7 724</b>	<b>7 881</b>	<b>5 095</b>	<b>5 161</b>
<b>Current</b>					
Current portion of long-term borrowings		14	14	-	-
Bridge facility		-	-	1 000	1 000
Loans		294	294	654	654
Lease liabilities		394	394	36	36
Other financial liabilities		3	3	12	12
<b>Total current borrowings</b>		<b>705</b>	<b>705</b>	<b>1 702</b>	<b>1 702</b>
<b>Closing balance Dec. 31</b>		<b>8 429</b>	<b>8 586</b>	<b>6 797</b>	<b>6 863</b>

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

Debt in the Group is primarily raised by the Parent Company and transferred to subsidiaries as internal loans or capital injections. Financing is also undertaken locally in countries in which there are legal restrictions preventing financing through Group companies. In the beginning of the year the Group entered into a bilateral loan agreement of MSEK 1 000 with Nordiska Investeringsbanken,

maturing in 2027. The loan was used to repay the remaining part of the bridge facility entered into in connection with the listing in 2018. During the year the Group also used the first of two extension options in the bilateral loan agreement with Swedish Export Credit Corporation and Svenska Handelsbanken, where the maturity was extended to 2024. Furthermore, the first of two extension options was used in the revolving credit facility agreement (RCF), which extended the maturity of the RCF to 2024. In November 2019, S&P Global Ratings reconfirmed Epiroc's BBB+ credit rating with a stable outlook. The table below shows the Group's back-up facilities.

## Back-up facilities

	2019		2018	
	Facility size	Utilized	Facility size	Utilized
Revolving credit facility <sup>1)</sup>	4 000	-	4 000	-
Commercial paper program	2 000	-	2 000	-
<b>Total back-up facilities</b>	<b>6 000</b>	<b>-</b>	<b>6 000</b>	<b>-</b>

<sup>1)</sup> The revolving credit facility matures in 2024 with a one year extension option.

## Reconciliation of changes in liabilities

	Opening balance January 1, 2019	Impact of change in accounting principles <sup>1)</sup>	Financing cash flows	New leases	Acquired/divested companies	Fair Value change through P/L	Foreign exchange movement	Reclassification	Closing balance December 31, 2019
<b>Non-current</b>									
Loans and bonds	5 023	-	1 043	-	20	4	15	-23	6 082
Lease liabilities	71	1 690	-	126	11	-	31	-289	1 640
Other financial liabilities	1	-	-	-	-	-	1	-	2
<b>Total non-current borrowings</b>	<b>5 095</b>	<b>1 690</b>	<b>1 043</b>	<b>126</b>	<b>31</b>	<b>4</b>	<b>47</b>	<b>-312</b>	<b>7 724</b>
<b>Current</b>									
Loans	1 654	-	-1 431	-	44	-	29	12	308
Lease liabilities	36	357	-423	118	4	-	13	289	394
Other financial liabilities	12	-	-8	-	-	-	-1	-	3
<b>Total current borrowings</b>	<b>1 702</b>	<b>357</b>	<b>-1 862</b>	<b>118</b>	<b>48</b>	<b>-</b>	<b>41</b>	<b>301</b>	<b>705</b>
<b>Total</b>	<b>6 797</b>	<b>2 047</b>	<b>-819</b>	<b>244</b>	<b>79</b>	<b>4</b>	<b>88</b>	<b>-11</b>	<b>8 429</b>

<sup>1)</sup> Opening balance adjusted with 2 047 due to adoption of IFRS 16.

## GROUP NOTES

### 21. Borrowings, cont.

2018	Opening balance January 1, 2018	Financing cash flows	New Leases	Acquired/ divested companies	Fair value change through P/L	Foreign exchange movement	Reclassi- fication	Closing balance December 31, 2018
<b>Non-current</b>								
Borrowings from Atlas Copco	2 169	-2 169	-	-	-	-	-	-
Loans and bonds	19	4 999	-	9	0	5	-9	5 023
Financial lease liabilities	62	-11	36	-	-	4	-20	71
Other financial liabilities	0	-	-	2	-	-1	-	1
<b>Total non-current borrowings</b>	<b>2 250</b>	<b>2 819</b>	<b>36</b>	<b>11</b>	<b>0</b>	<b>8</b>	<b>-29</b>	<b>5 095</b>
<b>Current</b>								
Borrowings from Atlas Copco	4 108	-4 108	-	-	-	-	-	-
Loans	659	984	-	5	-	-3	9	1 654
Financial lease liabilities	41	-35	8	-	-	2	20	36
Other financial liabilities	0	9	-	0	-	3	-	12
<b>Total current borrowings</b>	<b>4 808</b>	<b>-3 150</b>	<b>8</b>	<b>5</b>	<b>-</b>	<b>2</b>	<b>29</b>	<b>1 702</b>
<b>Total</b>	<b>7 058</b>	<b>-331</b>	<b>44</b>	<b>16</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>6 797</b>

## 22. Leases

### Leases – lessee (from 2019)

The Group has lease contracts primarily from rented premises, machinery, and computer and office equipment. Lease contracts for office, factory facilities and machines typically run for a period of 3 to 15 years, while motor vehicles and other equipment generally have lease terms between 2 and 5 years. For a limited number of lease contracts, purchase and renewal options exist for machinery and renewal options exist for premises. The Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered leases of low value. Also, if the lease contract has a lease term that is less than 12 months, the lease is considered as short-term lease and such payments are recognized as an expense over the lease term.

The carrying amount of right-of-use assets as of December 31, 2019 amount to MSEK 2 000. See note 13 for the carrying amounts of right-of-use assets by class of underlying asset recognized and movements during the period.

The carrying amounts of lease liabilities (included under interest-bearing liabilities) are presented below.

2019	Lease liability
Carrying amounts, Jan. 1	2 154
<b>Carrying amounts, Dec. 31</b>	<b>2 034</b>
Non-current	1 640
Current	394
<b>Total</b>	<b>2 034</b>

See note 27 for maturity analysis of the lease liability. The Group had a cash outflow for lease liabilities of 423, refer to note 21 for more information. The amounts recognized in the income statement during 2019 are the following:

	2019
Costs for low value assets	-32
Costs for short-term leases	-55
Cost relating to variable lease payments not included in the measurement of lease liability	-33
Income from subleasing right-of-use assets externally	8
Gains/losses arising from sale and leaseback transactions	-
Interest expenses on lease liability	-38
Depreciation for the period	-447
Impairment charges for the period	-

For information on financial exposure and principles for control of financial risks see note 27.

### Leases – lessor (from 2019)

#### Operating leases – lessor

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

	2019
Fall due year:	
2020	286
2021	115
2022	91
2023	50
2024	16
>2024	0
<b>Total</b>	<b>558</b>

During 2019, lease income relating to operating lease contracts amount to 686.

#### Finance leases – lessor

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

	2019
Fall due year:	
2020	196
2021	151
2022	121
2023	79
2024	9
>2024	1
<b>Undiscounted lease payments</b>	<b>557</b>
Unguaranteed residual value	0
Less: Unearned finance income	37
<b>Present value of lease payments receivable</b>	<b>520</b>
Impairment loss allowance	-5
<b>Net investment in the lease</b>	<b>515</b>

During the year, the finance lease receivables decreased mostly due to divestments of Payment Solutions credit portfolios.

The selling profit/loss (net) recognized in the income statement amount to 82, and the finance income on the net investment in the lease amount to 7.

## 22. Leases, cont.

**Leases – IAS 17 (comparative figure, 2018)****Operating leases – lessee**

The leasing costs of assets under operating leases amounted to 365 and are derived primarily from rented premises, machinery, and computer and office equipment. Operating leasing contracts for office and factory facilities typically run for a period of 10 to 15 years. For a limited number of operating leasing contracts, purchase and renewal options exist for machinery and renewal options exist for premises. The total leasing cost includes minimum lease payments of 356 and contingent rent of 43. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2018
Less than one year	417
Between one and five years	844
More than five years	289
<b>Total</b>	<b>1 550</b>

The total of future minimum sublease payments expected to be received was 29.

**Operating leases – lessor**

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

	2018
Less than one year	409
Between one and five years	307
More than five years	7
<b>Total</b>	<b>723</b>

Contingent rent recognized as income amounted to 12.

**Finance leases – lessee****Assets utilized under finance leases**

2018	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1,	71	42
Carrying amounts, Dec. 31,	89	22

Assets utilized under finance leases are comprised primarily of vehicles. For a limited number of finance leasing contracts, both purchase and renewal options exist. Future payments for assets held under finance leases as lessee will fall due as follows:

2018	Minimum lease payments	Interest	Principal
Less than one year	39	3	36
Between one and five years	72	7	65
More than five years	5	0	5
<b>Total</b>	<b>116</b>	<b>10</b>	<b>106</b>

**Finance leases – lessor**

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

2018	Gross investment	Present value of minimum lease payments
Less than one year	405	376
Between one and five years	329	316
More than five years	2	2
	<b>736</b>	<b>694</b>
Unearned finance income	-	42
<b>Total</b>	<b>736</b>	<b>736</b>

## 23. Employee benefits

### Post-employment benefits

Epiroc provides post-employment defined benefits pensions and other long-term employee benefits in most of its major locations. The most significant countries in terms of size of plans are Sweden, Germany, Switzerland and India.

The plans in the four most significant countries are funded with different local financing vehicles, held separately from the Group for the future benefit payments. In Sweden the financing vehicle for the main ITP2-plans retirement pension is the Group's pension foundation. Further Epiroc insures the family pension under ITP2 with a third party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information is not available for calculating the net pension obligation. Alecta's surplus can be distributed among the policyholders and/or the insured. At the end of 2019, Alecta's surplus in the form of its so-called collective funding amounted to 148% (142). Collective funding consists of the fair value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's actuarial calculation assumptions.

The Group identifies a number of risks in investments of pension plan assets. The main risks are interest rate risk, market risk, counter-party risk, liquidity and inflation risk and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple assets classes, markets and issuers should be utilized. An asset liability management assessment should

be conducted periodically. The study should include a number of elements. The most important elements are the duration of the assets and the timing of settlement 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)	-17	-14
Post-employment benefits	596	283
Other provisions (note 25)	68	51
<b>Closing Balance, net</b>	<b>647</b>	<b>320</b>

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 647 (320). The weighted average remaining duration of the obligation is 22.6 (21.5) years.

### Post-employment benefits

2019	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
Present value of defined benefit obligations	1 750	48	3	65	1 866
Fair value of plan assets	-1 216	-	-3	-	-1 219
<b>Present value of net obligations</b>	<b>534</b>	<b>48</b>	<b>0</b>	<b>65</b>	<b>647</b>
Effect of asset ceiling	0	-	-	-	0
Other long-term service obligations	-	-	0	-	0
<b>Net amount recognized in balance sheet</b>	<b>534</b>	<b>48</b>	<b>0</b>	<b>65</b>	<b>647</b>

2018	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
Present value of defined benefit obligations	1 427	61	15	51	1 554
Fair value of plan assets	-1 223	-	-18	-	-1 241
<b>Present value of net obligations</b>	<b>204</b>	<b>61</b>	<b>-3</b>	<b>51</b>	<b>313</b>
Effect of asset ceiling	7	-	-	-	7
Other long-term service obligations	-	-	0	-	0
<b>Net amount recognized in balance sheet</b>	<b>211</b>	<b>61</b>	<b>-3</b>	<b>51</b>	<b>320</b>

## 23. Employee benefits, cont.

Plan assets consist of the following:

2019	Quoted market price	Unquoted market price	Total
Debt instruments	211	–	211
Equity instruments	93	–	93
Property	21	334	355
Assets held by insurance companies	155	–	155
Cash	83	–	83
Investment funds	322	–	322
<b>Closing balance, Dec 31</b>	<b>885</b>	<b>334</b>	<b>1 219</b>

2018	Quoted market price	Unquoted market price	Total
Debt instruments	181	–	181
Equity instruments	89	–	89
Property	33	319	352
Assets held by insurance companies	161	–	161
Cash	105	–	105
Investment funds	342	–	342
Others	11	–	11
<b>Closing balance, Dec 31</b>	<b>922</b>	<b>319</b>	<b>1 241</b>

## Movement in plan assets

	2019	2018
Fair value of plan assets at Jan. 1	1 241	1 149
Interest income	30	30
Remeasurement – return on plan assets	-7	37
Settlements	-30	-1
Other significant events	9	–
Employer contributions	11	8
Plan members contributions	1	1
Benefit paid by the plan	-44	-24
Reclassifications	–	0
Transactions with Atlas Copco	–	26
Translation differences	8	15
<b>Fair value of plan assets at Dec 31</b>	<b>1 219</b>	<b>1 241</b>

Transactions with Atlas Copco during 2018 refers to plan assets in India, which was transferred from the Atlas Copco Gratuity fund.

The plan assets are allocated among the following geographic areas:

	2019	2018
Europe	1 180	1 208
of which Sweden	966	965
Rest of the world	39	33
<b>Total</b>	<b>1 219</b>	<b>1 241</b>

## Asset ceiling

	2019	2018
Asset ceiling at Jan. 1	7	–
Remeasurements – asset ceiling	-7	7
Translation difference	0	0
<b>Asset ceiling, Dec. 31</b>	<b>0</b>	<b>7</b>

## Movement in present value of the obligations for defined benefits

	2019	2018
Defined benefit obligations at Jan. 1	1 554	1 337
Current service cost	97	72
Past service cost	-9	1
Gain/loss on settlement	2	1
Interest expense (+)	39	34
Other significant events	16	–
Actuarial gains (-)/ losses (+) arising from experience adjustments	37	38
Actuarial gains (-)/ losses (+) arising from financial assumptions	241	122
Actuarial gains (-)/ losses (+) arising from demographic assumptions	0	1
Settlements	-30	-1
Benefits paid from plan or company assets	-93	-67
Translation differences	12	16
<b>Defined benefit obligations, Dec. 31</b>	<b>1 866</b>	<b>1 554</b>

Remeasurements recognized in other comprehensive income amounts to 274 (122) and 16 (8) in profit and loss. The Group expects to pay 46 (53) in contributions to defined benefit plans in 2020.

## Expenses recognized in the income statement

	2019	2018
Current service cost	97	72
Past service cost	-9	1
Gain/loss on settlements	2	1
Net interest cost	9	4
Employee contribution/ Participant contribution	1	-1
Remeasurement of other long-term benefits	16	8
<b>Total</b>	<b>116</b>	<b>85</b>

The total benefit expense for defined benefit plans amounted to 116 (85) of which 107 (81) has been charged to related functions under operating expenses and 9 (4) to financial expenses. Expenses related to defined contribution plans amounted to 293 (263).

## GROUP NOTES

### 23. Employee benefits, cont.

#### Principal actuarial assumptions at the balance sheet date (expressed as weighted averages, in %)

	2019	2018
<b>Discount rate</b>		
Europe	1.59%	2.34%
<b>Future salary increases</b>		
Europe	2.67%	2.77%

The Group has identified discount rate and future salary increases 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.

Epiroc'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	2019	2018
Change in discount rate + 0.50%	-187	-149
Change in discount rate - 0.50%	217	171
Increase in life expectancy, + 1 year	77	62

### Share value based incentive programs

#### Split of Atlas Copco's incentive programs 2014–2017

Employees in Epiroc have prior to 2018 been offered to participate in certain share-based payment programs offered by Atlas Copco. At the time when the Epiroc shares were listed, Atlas Copco had four programs in place, 2014–2017, in which certain Epiroc employees were participants. The performance based employee stock option plans in Atlas Copco for the years 2014–2017 were in accordance with their terms split between Atlas Copco and Epiroc in connection with the distribution and listing of Epiroc on Nasdaq Stockholm. Approximately 90 key employees of Epiroc have under the performance based employee stock option plan for the years 2014–2017 received options related to Epiroc and receive incentives related to the performance of Epiroc.

The terms and conditions for the performance based employee stock option plans for the years 2014–2017 are in all material aspects similar to the terms and conditions for the performance based employee stock option plan for 2018 - 2019 in Epiroc, as described below. More details of the programs as per split date is found in table "Summary of share value based incentive programs" (see page 101).

#### Performance based employee stock option plan 2019

The Annual general meeting of Epiroc held on May 9, 2019 thus resolved, based on a proposal from the Board of Directors, to introduce a performance based employee stock option plan for 2019,

which is similar in structure as the previous stock option plan decided by the Annual general meeting.

The performance based employee stock option plan is directed at a maximum of 100 key employees in Epiroc, who will have the possibility to acquire a maximum of 3 058 704 shares of Class A in Epiroc. The issuing of options depend on the value increase expressed as Economic Value Added, of Epiroc during 2019. In an interval of SEK 750 000 000, the issue varies linear from zero to 100% of the maximum number of options. The participating key employees are divided into different categories, with different amount of maximum issues of options, depending on their positions. The issuing of options will take place not later than March 20, 2020. The term of the options is seven years from granting, and the options are exercisable not earlier than three years from grant date. The exercise price shall be set at an amount corresponding to 110% of the average of the closing rates on Nasdaq Stockholm of Epiroc's Class A shares during a period of ten business days following the date of the publishing of the fourth quarter and year-end report for 2019. A participant must still be employed in order to exercise its options. The options are not transferable.

The costs of the performance based employee stock option plan will, on an on-going basis during the term of the plan, be reported in accordance with IFRS 2, and is estimated to amount up to approximately MSEK 49. The estimated costs for advice and administration linked to the program are approximately MSEK 3.5. In order to limit the exposure of the performance based employee stock option plan, hedging measures have been adopted in the form of share buy-backs (see note 20), which can be transferred to the participants of the plan pursuant to resolutions passed at the General meeting of Epiroc.

A prerequisite for the participation of the senior executives and division presidents (13 participants) in the performance based employee stock option plan is an investment of a maximum of ten percent of the participants' respective base salary for 2019 before tax, in series A shares of Epiroc. The investments may be made in cash or by payment of shares, however not shares that are obtained as a part of the performance based employee stock option plans for 2016 - 2018. Senior executives and division presidents who have invested in Epiroc series A shares as a part of the employee stock option plan, in addition to the proportional participation in the plan, have a right to acquire a matching number of shares three years after the grant until the expiration of the employee stock option plan at a price equal to 75% of the market value upon which the exercise price of the shares in the 2019 employee stock option plan was based, subject to continued employment and continued ownership of the shares.

For all the programs, 2015–2019, a total maximum of 8 720 509 shares could be delivered to employees, corresponding to approximately 0.7 % of the total number of shares in Epiroc.

The Board of Epiroc has the right to decide to implement an alternative incentive solution (SARs) for key persons in such countries where the grant of employee stock options is not feasible. In the 2014–2019 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 2019, the fair value of the options/SARs was based on the following assumptions:

#### Key assumptions

	2019 Program (Dec. 31, 2019)	2018 Program (Dec. 31, 2018)
Expected exercise price	SEK 125.79/85.76 <sup>1)</sup>	SEK 92.22/62.88 <sup>1)</sup>
Expected volatility	30%	30%
Expected options life (years)	4.64	4.64
Expected share price	SEK 114.35	SEK 83.84
Expected dividend (growth)	SEK 2.10 (6%)	SEK 1.73 (6%)
Risk free interest rate	1.00%	1.00%
Expected average grant value	SEK 19.99/33.58 <sup>1)</sup>	SEK 14.10/23.90 <sup>1)</sup>
Number of outstanding options	2 888 142	2 532 225
- of which forfeited <sup>2)</sup>	-1 943 161	-69 535
Number of matching shares	44 784	50 566

<sup>1)</sup> Matching shares for senior executives.

<sup>2)</sup> Including adjustments for performance achievement.

## 23. Employee benefits, cont.

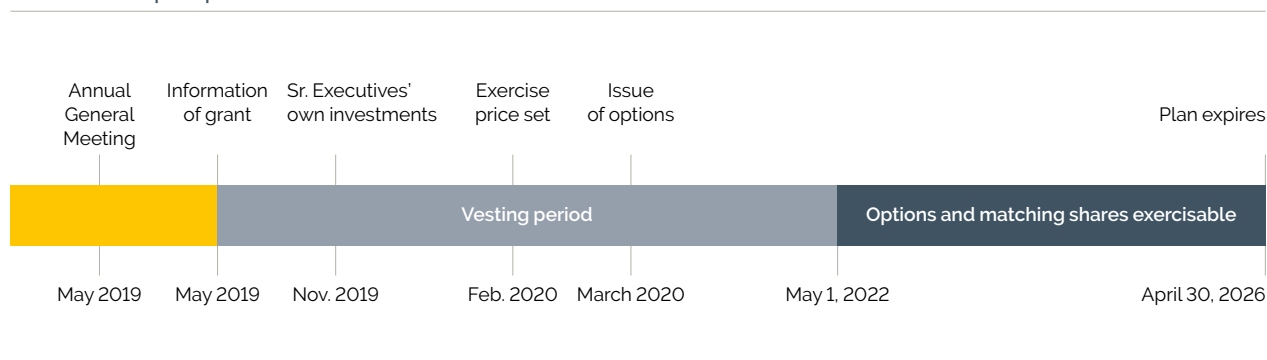
The expected volatility has been determined by analyzing the historic development of the Epiroc A Share price and other shares on the stock market. When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

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

Program	Vesting period		Exercise period	
	From	To	From	To
Stock options				
2015	May-15	Apr-18	May-18	Apr-20
2016	May-16	Apr-19	May-19	Apr-23
2017	May-17	Apr-20	May-20	Apr-24
2018	May-18	Apr-21	May-21	Apr-25
2019	May-19	Apr-22	May-22	Apr-26

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, which as indicated below will occur in March 2020.

## Timeline 2019 option plan



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 the Group for all share-based incentive programs amounted to 159 (54) excluding social costs of which 9 (8) refers to equity-settled options. The related costs for social security contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses. In the balance sheet, the provision for the Group for share appreciation rights and stock options classified as cash-settled as of December 31, 2019, amounted to 157 (129). See additional information about the Group's share-based incentive program in note 5.

## Summary of share value based incentive programs

Program	Initial number of employees	Number of options	Expiration date	Exercise price, SEK	Type of share	Fair value at grant date	Intrinsic value for vested SARs
<b>Stock options</b>							
2014	17	786 560	4/30/19	65.71	A	13.10	–
2015	41	1 308 754	4/30/20	47.43	A	8.39	–
2016	66	4 966 702	4/30/23	75.75	A	16.53	–
2017	64	2 095 148	4/30/24	94.38	A	15.90	–
2018	63	1 976 817	4/30/25	96.83	A	15.63	–
<b>Matching shares</b>							
2014	1	3 178	4/30/19	44.91	A	23.84	–
2015	2	8 735	4/30/20	32.43	A	15.65	–
2016	3	11 029	4/30/23	51.79	A	26.29	–
2017	7	22 993	4/30/24	64.37	A	26.84	–
2018	11	47 875	4/30/25	66.02	A	27.11	–
<b>Share appreciation rights</b>							
2014	7	359 240	4/30/19	65.71	A	–	48.64
2015	8	311 567	4/30/20	47.43	A	–	66.92
2016	12	954 761	4/30/23	75.75	A	–	38.60
2017	14	446 150	4/30/24	94.38	A	–	–
2018	24	555 408	4/30/25	96.83	A	–	–

## GROUP NOTES

### 23. Employee benefits, cont.

#### Number of options/rights 2019

Program	Outstanding January 1	Exercised	Expired/ forfeited	Outstanding December 31	–of which exercisable	Time to expiration, in months	Average stock price for exercised options, SEK
<b>Stock options</b>							
2015 <sup>1)</sup>	1 040 614	854 341	–	186 273	186 273	4	102.34
2016 <sup>2)</sup>	4 748 332	2 247 280	154 071	2 346 981	2 346 981	16	101.07
2017 <sup>3)</sup>	2 005 889	–	40 605	1 965 284	–	28	–
2018 <sup>4)</sup>	1 907 173	–	46 284	1 860 889	–	40	–
<b>Matching shares</b>							
2015	8 735	8 735	–	–	–	4	111.40
2016	11 029	5 953	2 229	2 847	2 847	16	117.60
2017	22 993	–	1 708	21 285	–	28	–
2018	50 566	–	–	50 566	–	40	–
<b>Share appreciation rights</b>							
2015	311 567	290 303	–	21 264	21 264	4	101.23
2016	881 971	399 950	72 790	409 231	409 231	16	104.70
2017	416 397	–	59 506	356 891	–	28	–
2018	555 517	–	46 284	509 233	–	40	–

<sup>1)</sup> of which 99 813 have been accounted for as cash-settled

<sup>2)</sup> of which 1 435 711 have been accounted for as cash-settled

<sup>3)</sup> of which 1 429 730 have been accounted for as cash-settled

<sup>4)</sup> of which 1 374 907 have been accounted for as cash-settled

#### Number of options/rights 2018

Program	Outstanding June 18, 2018	Exercised	Expired/ forfeited	Outstanding December 31	–of which exercisable	Time to expiration, in months	Average stock price for exercised options, SEK
<b>Stock options</b>							
2014 <sup>1)</sup>	786 560	186 192	–	600 368	600 368	4	99.09
2015 <sup>2)</sup>	1 308 754	268 140	–	1 040 614	1 040 614	16	99.07
2016 <sup>3)</sup>	4 966 702	–	218 370	4 748 332	–	28	–
2017 <sup>4)</sup>	2 095 148	–	89 259	2 005 889	–	40	–
<b>Matching shares</b>							
2014	3 178	–	–	3 178	3 178	4	–
2015	8 735	–	–	8 735	8 735	16	–
2016	11 029	–	–	11 029	–	28	–
2017	22 993	–	–	22 993	–	40	–
<b>Share appreciation rights</b>							
2014	359 240	64 150	–	295 090	295 090	4	96.75
2015	311 567	–	–	311 567	311 567	16	–
2016	954 761	–	72 790	881 971	–	28	–
2017	446 150	–	29 753	416 397	–	40	–

<sup>1)</sup> of which 385 088 have been accounted for as cash-settled

<sup>2)</sup> of which 772 673 have been accounted for as cash-settled

<sup>3)</sup> of which 3 510 902 have been accounted for as cash-settled

<sup>4)</sup> of which 1 500 088 have been accounted for as cash-settled



## 24. Other liabilities

## 24. Other liabilities

Other financial liabilities are classified at amortized cost. Fair value of other liabilities corresponds to carrying value.

### Other current liabilities

	2019	2018
Derivatives		
– classified at fair value through profit and loss	74	7
Other financial liabilities		
– other liabilities	583	708
– accrued expenses	2 370	2 051
Advances from customers <sup>1)</sup>	795	1 343
Deferred revenues service contracts <sup>1)</sup>	108	102
<b>Closing balance, Dec 31</b>	<b>3 930</b>	<b>4 211</b>

<sup>1)</sup> In advances from customers and deferred revenue, 695 (999) are related to contract liabilities. The decrease from prior year is the result of less advances from the decrease of orders received. 878 (561) of the advances from customers and deferred revenue 2018 have been recognized as revenue during 2019.

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

## 25. Provisions

2019	Product warranty	Restructuring	Other	Total
<b>Opening balance, Jan. 1</b>	217	40	319	576
During the year				
– provisions made	168	25	274	467
– provisions used	-124	-19	-225	-368
– provisions reversed	-61	-	-10	-71
Translation differences	7	-1	4	10
<b>Closing balance, Dec. 31</b>	<b>207</b>	<b>45</b>	<b>362</b>	<b>614</b>
Non-current	5	35	285	325
Current	202	10	77	289
<b>Total</b>	<b>207</b>	<b>45</b>	<b>362</b>	<b>614</b>

2019, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	202	10	77	289
Between one and five years	5	34	233	272
More than five years	-	1	52	53
<b>Total</b>	<b>207</b>	<b>45</b>	<b>362</b>	<b>614</b>

2018	Product warranty	Restructuring	Other	Total
<b>Opening balance, Jan. 1</b>	198	55	296	549
Business acquisitions	-	-	1	1
During the year				
– provisions made	144	1	146	291
– provisions used	-93	-13	-97	-203
– provisions reversed	-35	-	-25	-60
Reclassification	-	-	-2	-2
Translation differences	3	-3	0	0
<b>Closing balance, Dec. 31</b>	<b>217</b>	<b>40</b>	<b>319</b>	<b>576</b>
Non-current	4	34	249	287
Current	213	6	70	289
<b>Total</b>	<b>217</b>	<b>40</b>	<b>319</b>	<b>576</b>

2018, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	213	6	70	289
Between one and five years	4	33	223	260
More than five years	-	1	26	27
<b>Total</b>	<b>217</b>	<b>40</b>	<b>319</b>	<b>576</b>

Other provisions consist primarily of amounts related to sharebased payments including social fees and other longterm employee benefits (see note 23).

## GROUP NOTES

### 26. Assets pledged and contingent liabilities

## 26. Assets pledged and contingent liabilities

Epiroc had 49 (29) in securities and other contingent liabilities. These primarily relate to pension commitments and commitments related to customer claims and various legal matters. Additional, Epiroc have

commercial guarantees for fulfilment of contractual undertakings which is part of the Group's normal course of business of 206 (208).

## 27. Financial risk management

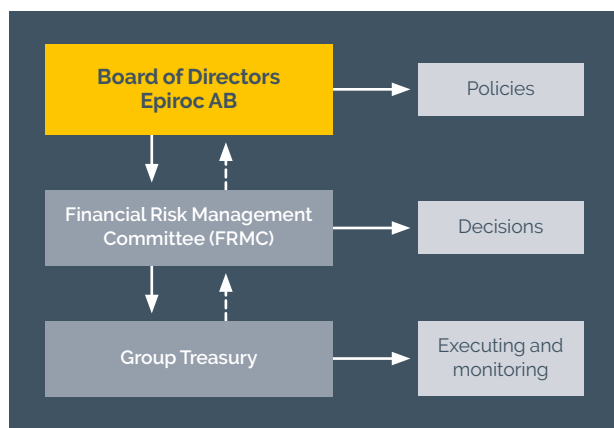
Epiroc is in its operations exposed to a variety of financial risks; funding and liquidity risk, currency risk, interest rate risk and credit risk.

### Organization

The Board of Directors establishes the Group's financial risk policy. The Group has a Financial Risk Management Committee (FRMC) that manages the Group's financial risks within the mandate given by the Board of Directors. The members of the FRMC are the CEO, CFO, Group Treasurer and representatives from Group Treasury. The FRMC meets quarterly or more frequently if circumstances require.

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

Group Treasury reports to the FRMC quarterly and the FRMC reports to the Audit Committee.



### Capital structure

The Group defines capital as borrowings and equity. The Group's financial goals include an efficient capital structure and the flexibility to make selective acquisitions, while maintaining an investment grade rating. The Group's goal is to provide longterm stable and raising dividends to its shareholders. The dividend should correspond to 50% of net profit over the cycle. The capital requirement is assessed on the basis of ratios as net debt/equity and net debt/EBITDA.

### Net debt

Net debt is defined as interest-bearing liabilities and post-employment benefits, adjusted for the fair value of interest rate swaps, less cash and cash equivalents and certain other financial receivables. The position for December 31, was:

### Net debt and net debt/equity ratio

	2019	2018
Interest-bearing liabilities <sup>1)</sup>	8 429	6 797
Post-employment benefits	596	283
Cash and cash equivalents	-8 540	-5 872
Certain other financial receivables	-2	-
<b>Net debt</b>	<b>483</b>	<b>1 208</b>
<b>Total equity</b>	<b>22 813</b>	<b>18 847</b>
Net debt/equity ratio, %	2.1	6.4

<sup>1)</sup> Implementation of IFRS 16 has increased net debt by 1 956 as of December 31, 2019

### Rating

Another variable in the assessment of the Group's capital structure is the credit rating. In November 2019, S&P Global Ratings reconfirmed Epiroc's BBB+ credit rating with a stable outlook.

### Funding and liquidity risk

Funding and liquidity risk is defined as the risk of the cost being higher and financing opportunities limited as the borrowing is re-negotiated and the payment obligations cannot be met as a result of insufficient liquidity or difficulties in securing funding.

### Policy

The policy states the minimum average tenor, i.e. time to maturity (3 years), and the maximum amount that can mature within the next 12 months (MSEK 3 000). According to the policy the Group should maintain a minimum of committed credit facilities (MSEK 4 000) and ensure a short-term liquidity reserve, which comprises cash, cash equivalents and uncommitted credit facilities.

### Comments for the year

In the beginning of the year the Group entered into a bilateral loan agreement of MSEK 1 000 with Nordiska Investeringsbanken, maturing in 2027. The loan was used to repay the remaining part of the bridge facility entered into in connection with the listing in 2018. As back-up facilities, the Group has a MSEK 4 000 revolving credit facility and a MSEK 2 000 commercial paper program, both unutilized at year-end.

As per December 31, 2019, the Group's total interest bearing loans amounted to 8 429 (6 797). The average time to maturity of the Group's external debt was 4.6 years (3.9) at year-end. Cash and cash equivalents for the Group totals to 8 540 (5 872). For more information on borrowings, maturities and back-up facilities, see note 21.

The following table shows maturity structure of the Group's financial liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay, including both interest and nominal amounts. The Group's short-term liquidity reserve exceeds financial liabilities due within 2020.

## 27. Financial risk management, cont.

## Financial liabilities

2019	2020	2021	2022	2023	2024	>2024
Liabilities to credit institutions	63	72	1 108	2 063	2 020	1 028
Lease liabilities	-	365	303	228	159	746
Derivatives	-	-	-	-	-	-
Other liabilities	-	58	-	-	-	-
<b>Non-current financial liabilities</b>	<b>63</b>	<b>495</b>	<b>1 411</b>	<b>2 291</b>	<b>2 179</b>	<b>1 774</b>
Liabilities to credit institutions	308	-	-	-	-	-
Lease liabilities	457	-	-	-	-	-
Derivatives	74	-	-	-	-	-
Other accrued expenses	2 370	-	-	-	-	-
Trade payables	4 050	-	-	-	-	-
Other liabilities	567	-	-	-	-	-
<b>Current financial liabilities</b>	<b>7 826</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total financial liabilities</b>	<b>7 889</b>	<b>495</b>	<b>1 411</b>	<b>2 291</b>	<b>2 179</b>	<b>1 774</b>

## Interest rate risk

Interest rate risk is the risk that changes in market interest rates affect the Group's net interest. How quickly interest rate changes impact the net interest depends on the fixed interest term of the borrowings, including interest rate derivatives.

## Policy

The policy states that the duration, i.e. period of which interest rates are fixed, of the loan portfolio should be within a range (6–48 months, with a benchmark of 12 months), including effects from interest rate derivatives.

## Comments for the year

The Group's borrowings have a mix of fixed and floating rates. To manage interest rate risk and to receive the desired mix, the Group uses interest rate swaps to convert fixed rates to floating rates on part of the capital market borrowings.

As per December 31, 2019, the nominal amount of the outstanding interest rate swaps was 250 (250) and the fair value was 2 (0). The swaps are designated as fair value hedging instruments and the

hedged item is part of the fixed SEK bond. The average interest duration, including interest rate swaps, was 12 months and the average interest rate of the Parent Company's borrowings was 0.73% (0.54). For more information about the Group's borrowings, see note 21.

A shift up in interest rates of 1 percentage point would affect the Group's borrowings and interest rate derivatives and impact the Group's net interest by approximately -50 (-50) and a similar downwards shift would impact the Group's net interest by approximately +29 (+18).

## Hedge accounting

The Group applies fair value hedge accounting for interest rate risk, where part of fixed rate bonds is converted into floating rate by interest rate swaps. There is an economic relationship between the bond and the interest rate swaps as the critical terms match. To measure any ineffectiveness a quantitative method is applied (dollar offset method). The Group ensure effectiveness by aligning the currency, dates and interest base of the interest rate swaps towards the bond with fixed interest rate. Potential ineffectiveness due to counterparty's or Epiroc's credit risk is deemed insignificant.

## Fair value hedges of interest rate risk

2019	Notional amount	Carrying amount (asset (+) liability (-))	Line item in consolidated balance sheet
<b>Hedging instruments</b>			
Interest swaps, SEK fixed to floating rate Stibor 3M	250	2	Other financial assets
<b>Hedged items</b>			
Bond, SEK fixed interest rate		-1 248	Interest bearing-liabilities, non-current
Fair value adjustments		-2	Excluded in the above amount

## GROUP NOTES

### 27. Financial risk management, cont.

#### Currency risk

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

#### Transaction exposure

Transaction exposure primarily arises when the Group's products are sold in other countries and in other currencies. Sales in each respective market primarily take place in local currency. These payment flows create currency exposures that affects the Group's earnings in the event of exchange rate fluctuations.

#### Policy

The Group's policy states that exposures shall be reduced by matching in- and outflows of the same currencies. Based on the assumption that hedging does not have any significant effect on the Group's long-term result, the policy recommends leaving transaction exposures unhedged on an ongoing basis. Divisional management is responsible for maintaining readiness to adjust operations (price and cost) to compensate for adverse currency movements. However, the FRMC can decide to hedge part of the transaction exposure. For these cases, transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

#### Cash flow hedges

	2019		2018	
	Nominal amount	Fair value	Nominal amount	Fair value
AUD	-20 MAUD	0 MSEK	-65 MAUD	16 MSEK
USD	-32 MUUSD	-8 MSEK	-64 MUUSD	7 MSEK

The table below shows the effect on pretax earnings that one-sided fluctuations in each currency may have.

#### Transaction exposure sensitivity<sup>1)</sup>

	2019	2018
AUD Currency rate +/- 1%	22	19
USD Currency rate +/- 1%	27	30
SEK Currency rate +/- 1%	116	96

<sup>1)</sup> The indication is based on the assumptions that no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures.

The financial transaction exposure in the Group, i.e. internal and external borrowing or lending in foreign currencies, is centrally managed by Group Treasury. Group Treasury hedges the financial transaction exposure either by FX forwards or by matching in- and outflows in the same currencies.

#### Translation exposure

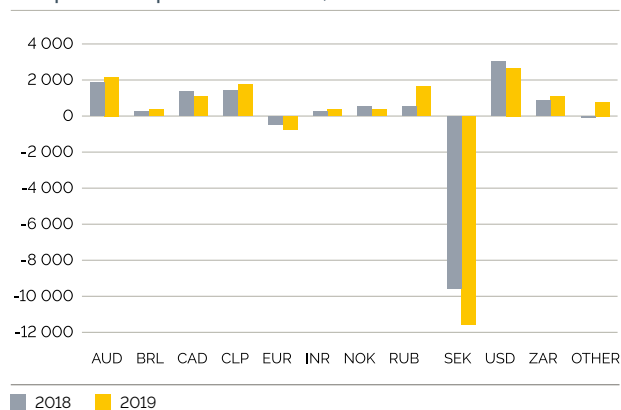
Currency exposure occurs when translating the results of foreign subsidiaries into SEK, which affects the Group's earnings when exchange rates fluctuates (income statement). The translation exposure on the balance sheet occurs when translating net assets of foreign subsidiaries into SEK, which affects other comprehensive income (OCI).

#### Comments for the year

The operational transaction exposure is measured as an estimate of the net foreign exchange flows per currency. Estimates are based on the Group's intercompany payments and on payments flows from customers and to suppliers in the most significant currencies. The net amounts are shown in the graphs below, corresponding to 11 591 (9 489).

The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. A part of the transaction exposure in AUD and USD has been hedged with FX forward contracts following decision by the FRMC.

#### Estimated operational transaction exposure in the Group's most important currencies, 2019 and 2018



#### Policy

The Group's general policy for managing translation exposure is that the translation exposure should be reduced by matching assets and liabilities in the same currencies. The FRMC may decide to hedge part or all of the remaining translation exposure and any hedging shall qualify for hedge accounting in accordance with IFRS.

#### Comments for the year

The translation exposure is measured as the net of assets and liabilities in a certain currency. As per year-end the Group has not hedged any of its translation exposure.

A change up or down by 1% in the value of each currency against the Swedish krona would affect the Group's pretax earnings by approximately +/- 18 (34).

#### Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections. The table shows the total credit risk exposure related to assets classified as financial instruments as per December 31, 2019.

#### Credit risk

	2019	2018
Loans and receivables		
- trade receivables	7 287	8 005
- finance lease receivables	515	694
- other financial receivables	1 335	1 355
- other receivables	972	883
- accrued income	46	34
- cash and cash equivalents	8 540	5 872
Derivatives	101	108
<b>Total</b>	<b>18 796</b>	<b>16 951</b>

## 27. Financial risk management, cont.

**Operational credit risk**

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

**Policy**

According to the Group's operational credit risk policy, 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.

Since the Group's sales are distributed 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 divisional or business unit level. Each entity is required to have an approved commercial risk policy. These shall aim at preserving the high credit quality of the Group's portfolios and thereby protecting the Group's short and longterm viability. Risk is always assessed based on all available information; taking into account collateral, credit characteristics and overall market conditions. When making commercial credit risk decision, risk will always be judged based on the combined risks rather than by each of the several risk factors evaluated.

The entity establish provisions for their estimate of expected credit losses (ECL) in respect of financial assets. The measurement of ECL is based on different measures for different credit risk exposures. For trade receivables and contract assets, the measure for ECL is based on expected loss rate based on historical default statistics, with forward looking analysis separately considered. Provision is calculated for all receivables grouped and the expected loss rate is applied. Additional, the Group perform an assessment on individual basis to ensure that adequate loss allowance is made for receivables with observable evidence of higher credit risk with specific factors such as signs of bankruptcy, officially known insolvency etc.

Lease receivables are impaired by using a rating model when determined the expected credit loss. The rating model is considering the customer's rating, the country's political and commercial risk and a rating of the country's legal system. Both external credit agencies rating and internally developed rating methods are applied. The measurement of ECL consider the fair value of the collaterals and the delay. The assessment also take into account the degree of insurance.

Forward looking analysis, including macroeconomics factors impacting different customer segments and geographical areas, are separately considered in both models described above (if not reflected in the rating model) and impairment level is adjusted to reflect identified changes for the specific market, if needed.

**Comments for the year**

Trade receivables relate to a large number of customers, spread across diverse geographical areas and reflects the spread of sales. Stringent credit policies are applied and there is no major concentration of credit risk, the Group therefore evaluates the credit risk to be limited. At year-end 2019, trade receivables of 7 287 (8 005) are reported net of impairment amounting to 437 (355). The expected credit loss amounted to 5.7% (4.3) of gross total customer receivables. For further information, see note 17.

The Group has an inhouse customer finance operation (part of Epiroc Payment Solutions) as a means of supporting equipment sales. Credit risk in customer financing are typically mitigated by Epiroc Payment Solutions maintains collateral for its credit portfolio primary through repossession rights in equipment. Entities may also partly transfer the commercial risk through insurance to external entities (normally to an export credit agency). At December 31, 2019, the credit portfolio of the customer financial operations totaled approximately to 1 766 (1 997) consisting of 42 (15) reported as trade receivables, 515 (684) reported as finance lease receivables, and 1 209 (1 298) reported as other financial receivables. In addition, Epiroc Payment Solutions also has non-cancelable operating lease contracts of 562 (611). There were no significant concentrations of customer risks in these operations. No customer represented more than 5% (5) of the total outstanding receivables. For further information, see note 15 and 22.

**Financial credit risk**

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

**Policy**

The Group's policy states that diversification of credit risk should be the norm and that maximum exposure limits shall be assigned for each financial counterpart (with a maximum of MSEK 2 000 per counterpart). Derivative transactions can only be undertaken with counterparties for which CSA (Credit Support Annex) agreements are established. Furthermore, financial transactions are only to be entered into with counterparties that have a certain rating (not below A3/A/A). An investment policy stipulating the framework for investments of the Group's excess cash shall consider the above points. The policy's demand of security shall always be prioritized over the aim of maximum return.

**Comments for the year**

When measuring credit risk on cash and cash equivalents, the Group applies the general approach on impairment. The maturities are well below 12 months and the counterparties are stable banks with high rating. Calculations based on the banks' probabilities of default, gives an expected loss which is in all aspects immaterial. At year-end 2019, the measured credit risk on derivatives, taking into account the market-to-market value and collaterals, amounted to 44 (90). The table below presents the reported value of the Group's derivatives.

**Outstanding derivative instruments, fair value**

	2019	2018
<b>Interest rate swaps</b>		
Assets	2	0
Liabilities	-	-
<b>Foreign exchange forwards</b>		
Assets	99	108
Liabilities	74	7

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements and the fair value of derivatives that are not offset in the balance sheet are 101 (108) for assets and 74 (7) for liabilities. The table below shows derivatives covered by master netting agreements.

**Outstanding net position for derivative instruments**

2019	Gross	Offset in Balance sheet	Net in Balance sheet	Master netting agreement	CSA	Net position
<b>Assets</b>						
Derivatives	101	-	101	-74	-3	24
<b>Liabilities</b>						
Derivatives	74	-	74	-74	0	0

**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 frequently coincide with strong end-customer demand and are offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

## GROUP NOTES

### 27. Financial risk management, cont.

#### Fair value of financial instruments

In the Group'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.

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in level 1 that are observable for assets or liabilities either directly or indirectly, for example market interest rates or yield curves.
- Level 3: Based on a valuation model, whereby significant input is based on unobservable market data.

#### Valuation methods

- Forward exchange contracts: Fair value is calculated based on prevailing market rates and present value of future cash flows.

- Interest rate swaps: Fair value is based on market rates and present value of future cash flows.
- Interest-bearing liabilities: Fair values are calculated based on market rates and present value of future cash flows.
- Finance leases and other financial receivables: Fair values are calculated based on market rates and present value of future cash flows.

#### The Group's financial instruments by level

The fair value of bonds are based on level 1 and the fair values of other financial instruments are based on level 2 in the fair value hierarchy. Compared to 2018, no transfers have been made between different levels in the fair value hierarchy and no significant changes have been made to valuation techniques, inputs or assumptions.

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.

#### Currency rates used in the financial statements

	Value	Code	Year-end rate		Average rate	
			2019	2018	2019	2018
Australia	1	AUD	6.51	6.33	6.56	6.49
Canada	1	CAD	7.12	6.59	7.10	6.70
China	1	CNY	1.33	1.31	1.37	1.31
EU	1	EUR	10.43	10.28	10.56	10.26
Chile	1000	CLP	12.46	12.86	13.31	13.57
South Africa	1	ZAR	0.67	0.62	0.65	0.66
USA	1	USD	9.31	8.97	9.42	8.70

## 28. Related parties

### 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.

### Transactions with shareholders

During 2018 was transactions between Atlas Copco Group and Epiroc Group related to lending and allocation of net debt between the groups. These transactions have been classified as transactions with shareholders and been carried out via equity and are presented in the consolidated statement of changes in equity. On March 31, 2018 Epiroc AB received an unconditional shareholder's contribution of 4 150 from Atlas Copco AB. As of April 26, 2018 the foreign exchange derivatives between Epiroc Treasury AB and Atlas Copco AB matured and was cash settled. On June 18, 2018 Epiroc AB repaid a borrowing of 3 752 to Atlas Copco AB. Receivables and payables between Atlas Copco and Epiroc from the period when Atlas Copco AB was the parent company, have been included in the balance sheet as external balances. The balances as of December 31, 2019 between Atlas Copco and Epiroc are not material. Since the distribution of the Epiroc shares from Atlas Copco on June 18, 2018, Atlas Copco is no longer a related party.

### Compensation to key management personnel

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

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

	2019	2018
Revenues	9	1
Goods purchased	109	51
Service purchased	0	0
<b>At Dec. 31:</b>		
Receivables	13	13
Payables	18	17

## 29. Subsequent events

In January 2020, it was announced that Epiroc will consolidate the dimension stone industry manufacturing to its existing production facility in Nashik, India. The operation at Epiroc Stonetec in Bagnolo, Italy, will be closed by mid-2020, affecting about 40 employees.

On February 28, 2020, the Board approved an organizational change. Epiroc previously had seven divisions, where the presidents reported to a business area president. The new structure has five divisions and the presidents now report directly to the President and CEO. The financial reporting setup will remain with two segments, Equipment & Service, which includes the divisions Surface, Underground, Parts & Service and Technology & Digital, and Tools & Attachments, which includes the division with the same name. From March 2, 2020, Epiroc's Group Management has the following members:

- Helena Hedblom, President and CEO
- Anders Lindén, Senior Vice President Controlling and Finance (CFO)
- José Manuel Sánchez, President Surface division\*
- Sami Niiranen, President Underground division\*
- Jess Kindler, President Parts & Service division\*
- Jonas Albertson, President Technology & Digital division\*
- Goran Popovski, President Tools & Attachments division\*
- Nadim Penser, Senior Vice President Human Resources\*
- Jörgen Ekelöw, Senior Vice President General Counsel
- Martin Hjerpe, Senior Vice President M&A and Strategy
- Mattias Olsson, Senior Vice President Corporate Communications

\* = new member.

# Parent Company financial information

## Income statement

January - December MSEK	Note	2019	2018
Administrative expenses	A2	-258	-143
Marketing expenses		-18	-13
Other operating income	A3	163	72
Other operating expenses	A3	-54	-115
<b>Operating result</b>		<b>-167</b>	<b>-199</b>
Financial income	A4	45	17
Financial expenses	A4	-58	-34
<b>Profit after financial items</b>		<b>-180</b>	<b>-216</b>
Appropriations	A5	3 887	4 424
<b>Profit before tax</b>		<b>3 707</b>	<b>4 208</b>
Income tax	A6	-772	-927
<b>Profit for the year</b>		<b>2 935</b>	<b>3 281</b>

## Statement of comprehensive income

January - December MSEK	Note	2019	2018
Profit for the year		2 935	3 281
<b>Total comprehensive income for the year</b>		<b>2 935</b>	<b>3 281</b>



## Balance sheet

MSEK	Note	Dec. 31, 2019	Dec. 31, 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		1	1
Tangible assets		8	7
Financial assets			
- Deferred tax assets	A7	13	4
- Shares in Group companies	A8, A18	45 941	45 776
- Other financial assets	A9	6 053	5 035
<b>Total non-current assets</b>		<b>52 016</b>	<b>50 823</b>
<b>Current assets</b>			
Income tax receivables		33	-
Other receivables	A10	5 071	5 552
Cash and cash equivalents		2	1
<b>Total current assets</b>		<b>5 106</b>	<b>5 553</b>
<b>Total assets</b>		<b>57 122</b>	<b>56 376</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		500	500
Legal reserve		3	3
<b>Total restricted equity</b>		<b>503</b>	<b>503</b>
Retained earnings		47 342	46 272
Profit for the year		2 935	3 281
<b>Total non-restricted equity</b>		<b>50 277</b>	<b>49 553</b>
<b>Total equity</b>		<b>50 780</b>	<b>50 056</b>
<b>Provisions</b>			
Post-employment benefits	A12	15	6
Other provisions	A13	201	161
<b>Total provisions</b>		<b>216</b>	<b>167</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	A14	6 029	5 023
<b>Total non-current liabilities</b>		<b>6 029</b>	<b>5 023</b>
<b>Current liabilities</b>			
Borrowings	A14	-	1 000
Tax liabilities		-	76
Other liabilities	A15	97	54
<b>Total current liabilities</b>		<b>97</b>	<b>1 130</b>
<b>Total equity and liabilities</b>		<b>57 122</b>	<b>56 376</b>

## Statement of changes in equity

2019 MSEK	Equity attributable to owners of the parent				
	Number of shares outstanding	Share capital	Legal reserve	Retained earnings	Total Equity
<b>Opening balance, Jan. 1</b>	<b>1 199 746 826</b>	<b>500</b>	<b>3</b>	<b>49 553</b>	<b>50 056</b>
Total comprehensive income for the year				2 935	2 935
Dividends				-2 523	-2 523
Acquisition of series A shares	-1 500 000			-134	-134
Divestment of series A shares	4 705 198			474	474
Share-based payment, equity-settled					
- expense during the year				9	9
- exercise option				-37	-37
<b>Closing balance, Dec. 31</b>	<b>1 202 952 024</b>	<b>500</b>	<b>3</b>	<b>50 277</b>	<b>50 780</b>

See note A11 for additional information.

2018 MSEK	Equity attributable to owners of the parent				
	Number of shares outstanding	Share capital	Legal reserve	Retained earnings	Total Equity
<b>Opening balance, Jan. 1</b>	<b>206 885</b>	<b>21</b>	<b>3</b>	<b>43 886</b>	<b>43 910</b>
Total comprehensive income for the year				3 281	3 281
Increase of share capital through shareholders' contribution				4 358	4 358
Increase of share capital through shareholders' bonus issue	1 213 531 818	479		-479	-
Acquisition of series A shares	-14 510 359			-1 359	-1 359
Divestment of series A shares	518 482			51	51
Share-based payment, equity-settled					
- expense during the year				8	8
- exercise option				-193	-193
<b>Closing balance, Dec. 31</b>	<b>1 199 746 826</b>	<b>500</b>	<b>3</b>	<b>49 553</b>	<b>50 056</b>

## Statement of cash flows

January - December MSEK	Note	2019	2018
<b>Cash flow from operating activities</b>			
Operating result		-167	-199
Adjustments for:			
Depreciation, amortization and impairment		2	1
Capital gain/loss and other noncash items		-153	-22
<b>Operating cash surplus/deficit</b>		<b>-318</b>	<b>-220</b>
Net financial items received/paid		-8	-17
Group contributions received		4 424	14
Taxes paid		-889	-851
<b>Cash flow before change in working capital</b>		<b>3 209</b>	<b>-1 074</b>
<b>Change in:</b>			
Operating receivables		-978	-715
Operating liabilities		-44	2 113
<b>Change in working capital</b>		<b>-1 022</b>	<b>1 398</b>
<b>Net cash from operating activities</b>		<b>2 187</b>	<b>324</b>
<b>Cash flow from investing activities</b>			
Investments in tangible assets		-2	-8
Investments in intangible assets		-1	-1
Repayments/Investments in financial assets		-	-5 030
<b>Net cash from investing activities</b>		<b>-3</b>	<b>-5 039</b>
<b>Cash flow from financing activities</b>			
Dividends paid		-2 523	-
Repurchase and divestment of own shares		340	-1 307
Change in interest-bearing liabilities		-	6 023
<b>Net cash from financing activities</b>		<b>-2 183</b>	<b>4 716</b>
<b>Net cash flow for the year</b>		<b>1</b>	<b>1</b>
Cash and cash equivalents, Jan. 1		1	0
Net cash flow for the year		1	1
<b>Cash and cash equivalents, Dec. 31</b>		<b>2</b>	<b>1</b>

## PARENT COMPANY NOTES

### A1. Significant accounting principles

## A1. Significant accounting principles

Epiroc AB is the ultimate Parent Company of the Epiroc Group and is headquartered in Nacka, Sweden. The financial statements of Epiroc AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities", hereafter referred to as "RFR 2", issued by the Swedish Financial Reporting Board. In accordance with RFR 2, parent companies that issue consolidated financial statements according to International Financial Reporting Standards (IFRS), as endorsed by the European Union, shall present their financial statements in accordance with IFRS, to the extent these accounting principles comply with the Swedish Annual Accounts Act and may use exemptions from IFRS provided by RFR 2 due to Swedish accounting or tax legislation. The financial statements are presented in Swedish krona (SEK), which is the accounting currency for Epiroc AB and also the presentation currency. Unless otherwise stated, the amounts presented are in millions Swedish krona (MSEK).

The Parent Company's accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 in the Group's consolidated financial statements, except for those disclosed in the following sections. For information regarding accounting estimates and judgments, see page 77.

#### Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. The carrying amounts of participations in subsidiaries are reviewed for impairment in accordance with IAS 36, Impairment of Assets. See the Group's accounting policies, Impairment of financial assets, for further details. Transaction costs incurred in connection with a business combination are accounted for by the Parent Company as part of the acquisition costs and are not expensed.

#### Lease contracts

The Parent Company recognizes leases in accordance with the exemption rule for IFRS 16 provided in RFR 2, which results in no change compared to previous year (2018). All lease contracts entered into by the Parent Company are accounted for as operating leases.

#### Employee benefits

##### Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19. In the Parent Company defined benefit plans are accounted for

according to the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Board. The primary differences as compared to IAS 19 are the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

#### Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the Group's consolidated financial statements. The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but are recognized as an increase in Shares in Group companies. This vesting cost is accrued over the same period as in the Group and with a corresponding increase in equity for equity-settled programs and as a change in liabilities for cash-settled programs.

#### Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

#### Financial instruments

The Parent Company applies the exemption rule for IFRS 9 "Financial instruments", in accordance with RFR 2, which means that all financial instruments are reported in accordance with a method based on cost, in accordance with the Swedish Annual Accounts Act. Except for impairment of financial assets where the principles for expected credit losses is applied. The Parent Company does not apply hedge accounting.

#### Group and shareholders' contributions

In Sweden, Group contributions are deductible for tax purposes but shareholders' contributions are not. Group contributions are recognized as appropriations in the income statement. Shareholders' contributions are recognized as an increase of Shares in Group companies and tested for impairment.

## A2. Employees and personnel expenses and remunerations to auditors

#### Average number of employees

	2019			2018		
	Women	Men	Total	Women	Men	Total
Sweden	24	20	44	18	15	33

#### Women in Epiroc Board of Directors and Group Management

December 31 %	2019		2018	
	Board of Directors excl. union representatives	Group Management	Board of Directors excl. union representatives	Group Management
Board of Directors excl. union representatives	38	38	38	38
Group Management	17	20	17	20

#### Remuneration and other benefits

	2019		2018	
	Board members and Group Management <sup>1)</sup>	Other employees	Board members and Group Management <sup>1)</sup>	Other employees
Sweden	65	35	38	12
of which variable compensation <sup>2)</sup>	6		11	

<sup>1)</sup> Includes 7 (7) board members who receive fees from Epiroc AB as well as the President and CEO and 5 (4) members of the group Management who are employed by and receive salary from the Company.

<sup>2)</sup> Refers to variable compensation earned in 2019 to be paid in 2020.

## A2. Employees and personnel expenses and remunerations to auditors, cont.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of the Group Management, see note 5 of the consolidated financial statement.

## Pension benefits and other social costs

	2019	2018
Contractual pension benefits for Board Members and Group Management	9	7
Contractual pension benefits for other employees	5	6
Other social costs	33	19
<b>Total</b>	<b>47</b>	<b>32</b>

## Remunerations to auditors

	2019	2018
<b>Deloitte</b>		
– audit fees	3	3
– audit activities other than audit assignment	1	1
– other services, tax	–	1
– other services, other	0	2
<b>Total</b>	<b>4</b>	<b>7</b>

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

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

Tax services include both tax consultancy services and tax compliance services. Other services essentially comprise consultancy services, such as consultancy services due to the split of the Atlas Copco Group. At the Annual General Meeting 2019, Deloitte was elected as auditors for the Group until the Annual General Meeting 2020.

## A3. Other operating income and expenses

## Other operating income

	2019	2018
Management fees <sup>1)</sup>	162	72
Exchange-rate differences, net	0	–
Other operating income	1	–
<b>Total</b>	<b>163</b>	<b>72</b>

## Other operating expenses

	2019	2018
Management fees <sup>2)</sup>	-60	-22
Exchange-rate differences, net	–	-1
Other operating expenses <sup>3)</sup>	6	-92
<b>Total</b>	<b>-54</b>	<b>-115</b>

<sup>1)</sup> Income related to services for common group functions placed in Parent Company.

<sup>2)</sup> Expenses related to services for common group functions placed in Epiroc Rock Drills AB.

<sup>3)</sup> Other operating expenses refer to one time cost due to the split of Atlas Copco Group. Reversal of accruals 2019, 6 MSEK.

## A4. Financial income and expenses

## Assets measured at amortized cost

	2019	2018
<b>Interest income</b>		
– cash and cash equivalents	–	0
– receivables from Group companies	45	17
<b>Interest income at effective interest method</b>	<b>45</b>	<b>17</b>
<b>Financial income</b>	<b>45</b>	<b>17</b>

## Liabilities measured at amortized cost

<b>Interest expenses</b>		
– borrowings	-58	-33
– liabilities to Group companies	0	-1
– other	0	0
<b>Total interest expenses at effective interest method</b>	<b>-58</b>	<b>-34</b>
<b>Financial expenses</b>	<b>-58</b>	<b>-34</b>
<b>Financial expenses, net</b>	<b>-13</b>	<b>-17</b>

## A5. Appropriations

	2019	2018
Group contributions paid	-91	–
Group contributions received	3 978	4 424
<b>Total</b>	<b>3 887</b>	<b>4 424</b>

## A6. Income tax

	2019	2018
Current tax	-781	-931
Deferred tax	9	4
<b>Total</b>	<b>-772</b>	<b>-927</b>

	2019	2018
Profit before tax	3 707	4 208
The Swedish corporate tax rate, %	214	22.0
National tax based on profit before taxes	-793	-926

## Tax effect of:

Non-deductible expenses	-7	-4
Tax-exempt income	25	3
Adjustments from prior years	3	0
Change in tax rate, deferred tax	0	0
<b>Income tax expense</b>	<b>-772</b>	<b>-927</b>
Effective tax in %	20.8	22.0



A12. Post-employee benefits, cont.

## A12. Post-employment benefits

	2019			2018		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan 1	4	2	6	0	0	0
Provision made	7	2	9	4	2	6
<b>Closing balance, Dec 31</b>	<b>11</b>	<b>4</b>	<b>15</b>	<b>4</b>	<b>2</b>	<b>6</b>

The Parent Company has endowment insurances of 11 (4) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

### Description of defined benefit pension plans

The Parent Company has one defined benefit pension plan. The ITP plan is a final salary pension plan covering the salaried employees in Epiroc AB which benefits are secured through the Epiroc pension trust.

	2019			2018		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	-	4	4	-	2	2
Fair value of plan assets	-	-	-	-	-	-
<b>Present value of net obligations</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>2</b>
Not recognized surplus	-	0	0	-	0	0
<b>Net amount recognized in balance sheet</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>2</b>

### Reconciliations of defined benefit obligations

	2019			2018		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	-	2	2	-	0	0
Service cost	-	2	2	-	2	2
Interest expenses (+)	-	0	0	-	0	0
<b>Defined benefit obligations at Dec 31.</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>2</b>

### Pension commitments provided for in the balance sheet

	2019	2018
Costs excluding interest	2	2
<b>Total</b>	<b>2</b>	<b>2</b>
<b>Pension commitments provided for through insurance contracts</b>		
Service cost	7	4
<b>Total</b>	<b>7</b>	<b>4</b>
<b>Net cost for pensions, excluding taxes</b>	<b>9</b>	<b>6</b>
Special employer's contribution	4	1
<b>Total</b>	<b>13</b>	<b>7</b>

## PARENT COMPANY NOTES

### A13. Other provisions

## A13. Other provisions

	2019	2018
Opening balance, Jan. 1	161	0
During the year		
– provisions made	189	180
– provisions used	-149	-19
<b>Closing balance, Dec. 31</b>	<b>201</b>	<b>161</b>

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

## A14. Borrowings

	Maturity	2019		2018	
		Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Non-current</b>					
Euro MTN Program MSEK 1 250, Fixed	2023	1 245	1 311	1 247	1 258
Euro MTN Program MSEK 750, Float	2023	749	771	748	752
Bilateral borrowings MEUR 100, Float	2022	1 043	1 058	1 028	1 034
Bilateral borrowings MSEK 2 000, Float	2024	1 994	2 006	2 000	2 045
Bilateral borrowings MSEK 1 000, Float	2027	998	1 042	–	–
<b>Total non-current borrowings</b>		<b>6 029</b>	<b>6 188</b>	<b>5 023</b>	<b>5 089</b>
<b>Current</b>					
Current borrowings from Group companies		–	–	–	–
Bridge Facility		–	–	1 000	1 000
<b>Total current borrowings</b>		<b>–</b>	<b>–</b>	<b>1 000</b>	<b>1 000</b>
<b>Closing balance Dec 31</b>		<b>6 029</b>	<b>6 188</b>	<b>6 023</b>	<b>6 089</b>
<i>Whereof external borrowings</i>		<i>6 029</i>	<i>6 188</i>	<i>5 023</i>	<i>5 089</i>

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.

## A15. Other liabilities

	2019	2018
Accounts payable	5	10
Liabilities to Group companies	3	2
Other financial liabilities	15	2
Accrued expenses and prepaid income	74	40
<b>Closing balance, Dec 31</b>	<b>97</b>	<b>54</b>

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

## A16. Financial risk management

### Financial credit risk

	2019	2018
Cash and cash equivalents	2	1
Receivables from Group companies	5 046	5 517
<b>Total</b>	<b>5 048</b>	<b>5 518</b>

### Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of nonpayment by counterparts related to the Parent Company's investments and bank deposits. Cash, cash equivalents and receivables from Group companies are subject to

impairment according to the expected credit loss model. During 2019 the impairment was insignificant and therefore not recognized.

The table above shows the actual exposure of financial instruments as per December 31.



## A17. Assets pledged and contingent liabilities

	2019	2018
<b>Assets pledged for pension commitments</b>		
Endowment insurances	11	4
<b>Total assets pledged for pension commitments</b>	<b>11</b>	<b>4</b>
<b>Contingent liabilities</b>		
Sureties and other contingent liabilities		
– for external parties	0	3
– for Group companies	92	78
<b>Total contingent liabilities</b>	<b>92</b>	<b>81</b>
<b>Total</b>	<b>103</b>	<b>85</b>

Sureties and other contingent liabilities include commercial and financial bank and parent company guarantees.

## A18. Directly owned subsidiaries

	2019			2018		
	Number of shares	Percent held (%)	Carrying value	Number of shares	Percent held (%)	Carrying value
Epiroc Rock Drills AB, 5560779018, Örebro	1 026 897	100	45 941	1 026 897	100	45 776
<b>Carrying amount, Dec 31</b>			<b>45 941</b>			<b>45 776</b>

## A19. Related parties

### Relationships

The Parent Company has related party relationships with its largest shareholder, its subsidiaries, its associates, its joint ventures and with its Board members and Group Management. The Parent Company's largest shareholder, Investor AB, controls approximately 23% of the voting rights in Epiroc AB. The subsidiaries that are directly owned by the Parent Company are presented in note A18 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 56-59.

### Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year and has no outstanding balances with Investor AB. Investor AB has controlling or significant influence in companies which Epiroc AB may have transactions with in the normal course of business. Any such transactions are made on commercial terms.

The following table summarizes the Parent Company's transactions with Group companies:

	2019	2018
<b>Revenues</b>		
Group contribution	3 978	4 424
Interest income	45	17
<b>Expenses</b>		
Group contribution	-91	-
Interest expenses	0	-1
<b>Receivables</b>	<b>5 046</b>	<b>5 517</b>
<b>Liabilities</b>	<b>3</b>	<b>2</b>
<b>Guarantees</b>	<b>92</b>	<b>78</b>

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation:

Country	Company	Location (City)
Argentina	Epiroc Argentina S.A.C.I	Buenos Aires
Armenia	Epiroc Armenia LLC	Yerevan
Australia	Epiroc Australia Pty Ltd	Blacktown
	Epiroc Financial Solutions Australia Pty Ltd	Blacktown
	Epiroc ProReman Pty Ltd	Blacktown
	Epiroc South Pacific Holdings Pty Ltd	Blacktown
	Fordia South East Asia Pty Ltd	Geebung
Austria	Epiroc Österreich GmbH	Vienna

Country	Company	Location (City)
Bolivia	Epiroc Bolivia Equipos y Servicios S.A.	La Paz
Bosnia and Herzegovina	Epiroc B-H d.o.o.	Sarajevo
Botswana	Epiroc Botswana (Pty) Ltd	Gaborone
Brazil	Epiroc Brasil Comercializacao De Produtos E Servicos Para Mineracao E Construcao Ltda	Sao Paulo
Bulgaria	Epiroc Bulgaria EOOD	Sofia
Burkina Faso	Epiroc Burkina Faso SARL	Ouagadougou

## PARENT COMPANY NOTES

A19. Related parties, cont.

Country	Company	Location (City)	Country	Company	Location (City)
Canada	Epiroc Canada Holding Inc.	Toronto	Panama	Epiroc Central América S.A.	Panama
	Epiroc Canada Inc.	Toronto	Peru	Epiroc Perú S.A.	Lima
	Fordia Group Inc.	Montreal		Fordia Andina S.A.C.	Lima
Chile	Epiroc Chile S.A.C.	Santiago		New Concept Mining Peru S.A.C.	Lima
	Epiroc Financial Solutions Chile Ltda	Santiago	Philippines	Epiroc Philippines Inc.	Laguna
	Fordia Sudamerica Ltd	Santiago	Poland	Epiroc Polska Sp. z o.o.	Warsaw
	New Concept Mining Chile SpA	Santiago	Portugal	Epiroc Portugal Unipessoal Lda	Porto Salvo
China	Epiroc (Nanjing) Construction and Mining Equipment Co., Ltd	Nanjing	Russia	Epiroc RUS LLC	Moscow
	Epiroc (Shenyang) Trading Co., Ltd	Shenyang	Serbia	Epiroc Srbija a.d.	Belgrade
	Epiroc (Zhangjiakou) Construction & Mining Equipment Co., Ltd	Zhangjiakou	South Africa	CHT Beleggings (Pty) Ltd	Aeroton
	Epiroc Financial Leasing Co., Ltd	Shanghai		Epiroc Holdings South Africa (Pty) Ltd	Boksburg
	Epiroc Trading Co., Ltd	Nanjing		Epiroc South Africa (Pty) Ltd	Boksburg
	GI A (Shanghai) Mining Equipment Co., Ltd	Shanghai		Fordia South Africa (Pty) Ltd	Alberton
	Shandong Rock Drilling Tools Co., Ltd	Shandong		Innovative Mining Products (Pty) Ltd	Aeroton
	Fordia (Changzhou) Mining Equipment Co., Ltd	Changzhou		Keep Investments (Pty) Ltd	Aeroton
				New Concept Mining (Pty) Ltd	Aeroton
				Nicaud Companies 22 (Pty) Ltd	Aeroton
			Retfin 211 (Pty) Ltd	Aeroton	
Colombia	Epiroc Colombia S.A.S	Bogota	South Korea	Epiroc Korea Co., Ltd	Seongnam
	Fordia Colombia S.A.S	La Estrella	Spain	Epiroc Minería e Ingeniería Civil España, S.L.U	Coslada
Croatia	Epiroc Croatia d.o.o.	Zagreb	Sweden	Construction Tools PC AB	Kalmar
Czech Republic	Epiroc Czech Republic s.r.o.	Prague		Epiroc Drilling Tools AB	Fagersta
Democratic Republic of the Congo	Epiroc DRC SARL	Lubumbashi		Epiroc Financial Solutions AB	Nacka
Ecuador	Epiroc Ecuador S.A.	Guayaquil		Epiroc Gällerstå Gryt 4:9 HB	Örebro
Estonia	Sautec AS	Tallinn		Epiroc Rock Drills AB	Örebro
Finland	Epiroc Finland Oy Ab	Vantaa	Epiroc Sweden AB	Norsborg	
France	Epiroc France S.A.S	Cergy Pontoise		Epiroc Treasury AB	Nacka
	Fordia Europe Sarl	Le Perray-en-Yvelines	Switzerland	Epiroc Meyco AG	Frauenfeld
Germany	Anbaufräsen PC GmbH	Thüringen	Tajikistan	Epiroc Tajikistan LLC	Rogun
	Construction Tools GmbH	Essen	Tanzania	Epiroc Tanzania Ltd	Dar es Salaam
	Epiroc Deutschland GmbH	Essen	Thailand	Epiroc (Thailand) Ltd	Bangna
Ghana	Secoroc Ghana Ltd	Accra	Turkey	Epiroc Makina AS	Istanbul
Greece	Epiroc Hellas S.A.	Athens	Ukraine	Epiroc Ukraine LLC	Kiev
Hong Kong	Epiroc Hong Kong Ltd	Hongkong	United Arab Emirates	Epiroc Middle East FZE	Dubai
India	Epiroc Mining India Ltd	Pune	United Kingdom	Epiroc UK and Ireland Ltd	Hemel Hempstead
Indonesia	PT Epiroc Southern Asia	Jakarta			
Italy	Epiroc Italia S.r.l.	Milan	USA	Epiroc Drilling Solutions LLC	Garland
				Epiroc Drilling Tools LLC	Grand Prairie
				Epiroc Financial Solutions USA LLC	Parsippany
				Epiroc North America Corp	Garland
				Epiroc USA LLC	Commerce City
Japan	Epiroc Japan KK	Kanagawa		Fordia USA Inc.	Elko
Kazakhstan	Epiroc Central Asia LLP	Astana	Uzbekistan	Epiroc Tashkent LLC	Tashkent
Kenya	Epiroc Eastern Africa Ltd	Nairobi	Zambia	Epiroc Zambia Ltd	Chingola
Mali	Epiroc Mali SARL	Bamako	Zimbabwe	Epiroc Zimbabwe (Private) Ltd	Harare
Mexico	Epiroc México, S.A. de C. V.	Tlalnepantla			
Mongolia	Epiroc Mongolia LLC	Ulaanbaatar			
Morocco	Epiroc Maroc SARL	Casablanca			
Mozambique	Epiroc Moçambique Limitada	Maputo			
Namibia	Epiroc Mining (Namibia) (Pty) Ltd	Windhoek			
Norway	Epiroc Norge AS	Langhus			

## A20. Subsequent events

No subsequent events have occurred after the balance sheet date.

# Signatures of the Board of Directors

The financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, February 28, 2020

**Ronnie Leten**  
*Chairman*

**Per Lindberg**  
*Board member*  
*President and CEO*

**Lennart Evrell**  
*Board member*

**Johan Forssell**  
*Board member*

**Jeane Hull**  
*Board member*

**Ulla Litzén**  
*Board member*

**Astrid Skarheim Onsum**  
*Board member*

**Anders Ullberg**  
*Board member*

**Kristina Kanestad**  
*Employee representative*

**Bengt Lindgren**  
*Employee representative*

Our audit report was submitted on February 28, 2020

Deloitte AB

**Thomas Strömberg**  
*Authorized Public Accountant*

# Financial definitions

	Description	Reason for use
<b>Book to bill</b>	Book to bill is orders received divided by revenues.	Book to bill is an indicator of demand trends.
<b>Gross profit margin</b>	Gross profit margin is gross profit as a percentage of revenues.	Gross profit margin measures how much of the Company's revenues is left after paying the costs of goods sold.
<b>EBITDA</b>	EBITDA (earnings before interest, taxes, depreciation and amortization) is the operating profit plus depreciation, impairment and amortization.	EBITDA shows the business' performance, adjusted for the effect of depreciation and amortization, in relation to sales, which indicate the business' cash generating ability.
<b>Operating margin</b>	Operating margin is operating profit as a percentage of revenues.	Operating margin shows the business' operating result in relation to revenues and is a measurement of the profitability in Epiroc's operational business.
<b>Profit margin</b>	Profit margin is profit before tax as a percentage of revenues.	Profit margin shows the business' profit before tax in relation to revenues and is a measurement of the profitability in the entire company.
<b>Capital employed turnover ratio</b>	Capital employed turnover ratio is revenues <sup>2)</sup> divided by the average capital employed. <sup>1)</sup>	Capital employed turnover ratio shows how efficiently Epiroc generates revenues from the capital utilized to run the operations.
<b>Return on capital employed</b>	Return on capital employed is operating profit <sup>2)</sup> as a percentage of average capital employed. <sup>1)</sup>	Return on capital employed measures how efficiently Epiroc generates profits from the capital utilized to run operations.
<b>Net working capital</b>	Total of inventories, trade receivables, trade payables, other operating assets and liabilities.	Net working capital measures the company's liquidity and capital efficiency.
<b>Capital turnover ratio</b>	Capital turnover ratio is revenues <sup>2)</sup> divided by average total assets. <sup>1)</sup>	Capital turnover ratio shows how effectively total assets are used.
<b>Net debt</b>	Net debt consists of interest-bearing liabilities and post-employment benefits, adjusted for the fair value of interest rate swaps, less cash and cash equivalents and certain other financial receivables.	Net debt is a measurement of the financial position.
<b>Net debt/EBITDA ratio</b>	Net debt/EBITDA ratio is net debt in relation to EBITDA <sup>1)</sup> .	Net debt/EBITDA ratio is a measure of financial risk and puts interest-bearing debt in relation to cash generation.
<b>Net debt/equity ratio</b>	Net debt/equity ratio is net debt in relation to equity, including non-controlling interests.	Net debt/equity ratio helps showing the financial risk.
<b>Equity/assets ratio</b>	Equity/assets ratio is equity including non-controlling interests, as a percentage of total assets.	Equity/assets ratio is a measure of financial risk, which show how much of Epiroc's total assets that has been financed with equity.
<b>Return on equity</b>	Return on equity is net profit <sup>2)</sup> divided by total equity <sup>1)</sup> .	Return on equity shows the company's ability to generate return on the investments made by its shareholders.
<b>Operating cash flow</b>	Operating cash flow is cash flow from operations and cash flow from investing activities, excluding company acquisitions/divestments, as well as other adjustments.	Operating cash flow indicates the business' ability to generate sufficient positive cash flow to maintain and grow operations.
<b>Operating cash flow per share</b>	Operating cash flow per share is operating cash flow divided by the number of shares outstanding.	Operating cash flow per share shows the operating cash flow per share.
<b>Organic order growth</b>	Organic order growth is order growth that excludes effects from exchange rate differences, and acquisitions/divestments.	Organic order growth provides an understanding of the Group's order development driven by volume, price and product/service mix changes.
<b>Organic revenue growth</b>	Organic revenue growth is sales growth that excludes effects from exchange rate differences, and acquisitions/divestments.	Organic revenue growth provides an understanding of the Group's revenue development driven by volume, price and product/service mix changes.
<b>Organic profit growth</b>	Organic profit growth is profit growth that excludes effects from exchange rate differences, and acquisitions/divestments.	Organic profit growth provides an understanding of the Group's profit development driven by volume, price and product/service mix changes.

1) 2016 and 2015 is calculated as an average of two periods. 2017 and 2018 is calculated as an average of five quarters.

2) Calculated based on the 12 months value.

# Auditor's report

To the general meeting of the shareholders of Epiroc AB  
corporate identity number 556041-2149

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Epiroc AB for the financial year January 1-December 31, 2019, except for the corporate governance statement on pages 52-61. The annual accounts and consolidated accounts of the company are included on pages 38-51 and 62-121 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2019 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52-61. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

### Basis for Opinions

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

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

### Key Audit Matters

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

### Recognition of revenue in the appropriate period

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

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

### Our audit procedures

Our audit procedures included, but were not limited to:

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

### Valuation of trade receivables

The group has significant amounts of trade receivables from its sales to customers in more than 150 countries. There is a risk that parts of the receivables will not be paid. The risk may be higher in some geographies due to weaker economic conditions or geopolitical uncertainties. Procedures for collecting payments and assessing customers' ability to pay together with appropriate accounting policies to recognize provisions for doubtful receivables are important factors to ensure a fair valuation of trade receivables.

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

### Our audit procedures

Our audit procedures included, but were not limited to:

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

### Valuation of inventory

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

## AUDIT REPORT

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

### **Our audit procedures**

Our audit procedures included, but were not limited to:

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

### **Other information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-23, 122 and 134-136. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

### **Responsibilities of the Board of Directors and the Managing Director**

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

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

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

### **Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance

with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most signifi-

cance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Epiroc AB for the financial year January 1 - December 31, 2019 and the proposed appropriations of the company's profit.

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

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

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

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

### Auditor's responsibility

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

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

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

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

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

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 52-61 has been prepared in accordance with the Annual Accounts Act.

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

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

Deloitte AB, was appointed auditor of Epiroc AB by the general meeting of the shareholders on the May 9, 2019 and has been the company's auditor since June 17, 2010.

Stockholm 28 February 2020  
Deloitte AB

Thomas Strömberg  
Authorized Public Accountant

# Notes on Sustainability Performance

## Notes overview\*

1. Our approach to reporting
2. Materiality outcome and relevant UN Sustainable Development Goals (SDG)
3. Stakeholder dialogue and networks
4. Management approach/integrating sustainability
5. We use resources responsibly and efficiently
6. We invest in safety and well-being
7. We grow together with passionate people and courageous leaders
8. We live by the highest ethical standards

\* Additional information can be found on p. 26-37

## 1. Our approach to reporting

This is the second sustainability report for Epiroc as a separate group after the split from Atlas Copco and the distribution and listing of the shares in Epiroc AB on Nasdaq Stockholm. Between 2001 and 2017, sustainability issues were reported in accordance with the Global Reporting Initiative (GRI) as part of Atlas Copco's Annual Report.

### The scope

This sustainability report is part of this Annual and Sustainability Report 2019 and includes information regarding all aspects where Epiroc has a significant economic, environmental and social impact and how these impacts are managed. The report covers Epiroc's operations for the 2019 fiscal year, unless otherwise stated. The entities in the scope are companies where Epiroc has operational control, which are those companies that Epiroc AB, as the ultimate parent company, indirectly or directly owns. By the end of 2019, the number of subsidiaries was 103, as well as 4 associated companies. The report also covers indirect impacts along the value chain, among suppliers and when products are in use.

This report has been prepared in accordance with the GRI Standards: Core option. It comprises pages 24-37 and 126-133. Our GRI Index is available at [www.epirocgroup.com/en/sustainability](http://www.epirocgroup.com/en/sustainability). Reporting also meet requirements of Sweden's legislation on sustainability reporting as per Chapter 6 Section 11 of the Annual Accounts Act.

As of 2018, Epiroc is a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human and labor rights, environment and anti-corruption.

This report serves as our Communication on Progress (COP), and discloses performance in relation to the UN Global Compact's ten principles. This information is also made available at the above link and on UN Global Compact's website at [www.unglobalcompact.org/participation/report/cop](http://www.unglobalcompact.org/participation/report/cop).

This Annual and Sustainability Report contains information about sustainability aspects necessary for understanding Epiroc's development and performance, as well as impacts from our operations. Epiroc regards sustainability as an integral part of its business. To provide a more complete picture of its business, environmental and social information have been included in sections whenever relevant.

Also, information is provided about material topics, risks, relevant policies, activities and results. The ambition is that these disclosures provide investors and stakeholders with a comprehensive and easily accessible overview of Epiroc's most important activities.

### Changes to reporting

Significant changes from the previous reporting period are as follows:

- The definition of significant suppliers as well as for agents, resellers and distributors reporting period has been changed during the year

### Target audience

The report's primary target audience are investors and shareholders. We also strive to meet the information needs of other stakeholders such as customers, suppliers, employees and society.

### Review

The Annual and Sustainability Report has been reviewed and approved by Epiroc's Group Management and the Epiroc Board of Directors. The sustainability information in the 2019 Annual and Sustainability Report has been subject to limited assurance by Deloitte AB, see the auditors' report on page 133.

### Data collection, calculation and reporting

The Sustainability and Corporate Governance Reports are parts of the 2019 Annual and Sustainability Report. Quantified and other disclosures have been verified in accordance with Epiroc's procedures for internal control. Data collection is integrated into our reporting consolidation system and collected on a quarterly basis.

When a restatement of data is done, it is either due to a change of calculation method or scope. Values are not typically corrected retroactively.

Environmental data covers production units and distribution centers. Business partner data covers production units and distribution centers. Business partner data related to agents, resellers and distributors also covers customer centers. Employee data covers all operations. Responsibility for reporting employee data rests with the General Manager of each company. Responsibility to provide sustainability data rests with Divisional SHEQ managers. Data is reported at local operating unit level, aggregated to division and Group level. Data is verified at each level prior to submitting it to external auditors for verification.

Greenhouse gas emissions is reported in accordance with the GHG Protocol ([ghgprotocol.org](http://ghgprotocol.org)) and the International Energy Agency ([iea.org](http://iea.org)). Epiroc follows recommendations from the Swedish Network for Transport and Environment (NTM), which may impact reporting of CO<sub>2</sub> emissions from transport.

### Epiroc's material topics – management approach

Sustainability management (Disclosures on Management Approach) as per material topic is described in greater detail on the following pages as well as pages 26-37.

## 2. Materiality outcome and relevant UN Sustainable Development Goals (SDG)

Our materiality analysis helps ensure that we are disclosing, managing and monitoring our most relevant sustainability topics. The most material topics (illustrated in the graph on next page) for Epiroc to address and communicate on have been clustered into the four areas described on pages 26-37.

### Impact on Epiroc's non-financial targets

In consultation with stakeholders, our materiality process identified areas important for our strategy to create long-term value for stake-

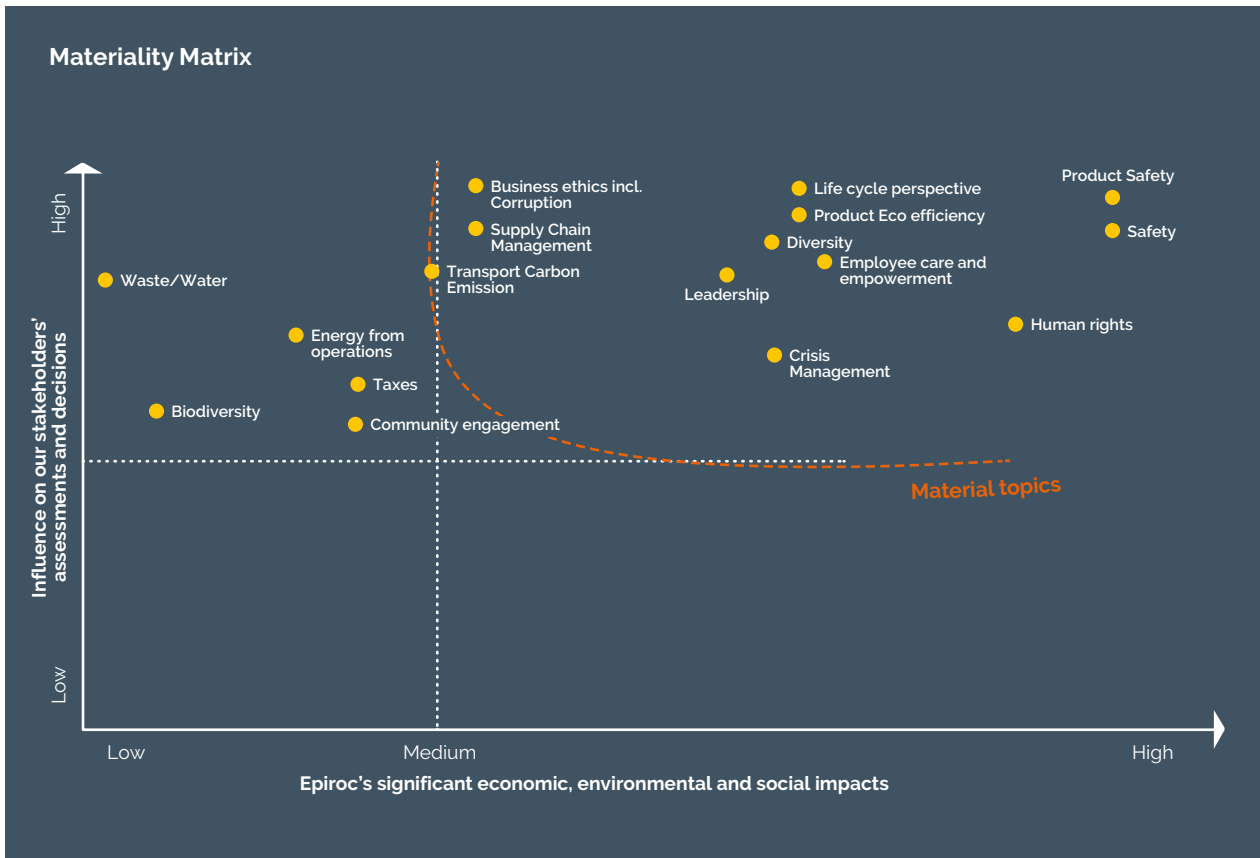


holders. Based on the outcome, we have adapted KPIs to reflect their relevance. We also strive to link KPIs to goals to support the UN Sustainable Development Goals and outcomes of the UN Climate Conference in Paris. Our KPIs help monitor and address risks, opportunities and impacts of our businesses in the parts of the value chain where they have been identified to be most material. The formulation of these KPIs has been guided by the GRI Standard indicators or KPIs similarly defined. The Group's consolidated targets on selected KPIs are presented throughout this report.

**UN Sustainable Development Goals (SDG) – how we contribute**

The United Nations Sustainable Development Goals (SDGs) are a universal call to action to shift to a more sustainable society. The 17 goals seek to put society on the right path to end poverty, protect the planet and create peaceful and inclusive societies to 2030. Epiroc has a role to play in this effort by reducing adverse impacts on people and the planet and by maximizing the value we deliver through our products and core business operations. We can make the greatest difference in eight of the SDG goals. Here's how:

<p><b>5 GENDER EQUALITY</b></p>	<p>We aim to contribute to ending all forms of discrimination of women. During 2019, we continued to strive to increase the proportion of female employees and managers. We have targets in place and measure progress. The Epiroc Global Female Mentorship Program is one example of activities with focus on gender equality.</p>	<p><b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p>	<p>We are contributing to upgrading infrastructure and retrofitting industries to make them sustainable, with increased adoption of clean and environmentally sound technologies through efficient high-productivity products and services. Business units are encouraged to develop more energy-efficient products. We're helping to shape the mine of the future as CO<sub>2</sub>-free, digitalized and autonomous.</p>
<p><b>6 CLEAN WATER AND SANITATION</b></p>	<p>We want to strengthen local communities in improving water and sanitation management. Epiroc has been engaged in 'Water for All' since 1984, an initiative founded by two of our employees. We also work to reduce water consumption in operations, particularly in water stressed areas. We have targets and measurements in place.</p>	<p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p>	<p>We are generating less waste through prevention, reduction, recycling and reuse from operations, and reducing use of fossil fuels. We handle chemicals with care. We are decreasing CO<sub>2</sub> emissions from transportation and have targets and KPIs in place to measure our impact. We report our sustainability performance in this Annual and Sustainability Report.</p>
<p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<p>Epiroc is contributing to the substantial increase of the share of renewable energy in the energy mix and to limit the use of energy overall. Targets and measurement are in place to improve efficiency. We are developing more efficient products and battery-powered equipment that support low-carbon alternatives and are reducing energy consumption in operations.</p>	<p><b>15 LIFE ON LAND</b></p>	<p>Through products that deliver efficiencies in the mining industry, we are contributing to more sustainable use of terrestrial ecosystems, lessens risks of desertification and biodiversity loss.</p>
<p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p>We are contributing to higher levels of economic productivity and decent job creation. People are our most vital resource. By providing safe and decent working conditions, we have the best opportunity to be a thriving company that contributes to sustainable growth.</p>	<p><b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b></p>	<p>We are contributing to reducing corruption and bribery in all their forms by maintaining zero tolerance to corruption along our value chain. We have processes and practices in place to monitor compliance. To strengthening the possibility to report violations of the Code of Conduct, a Speak Up line was rolled out during 2019 and a Responsible Sales Assessment process was also launched.</p>



### 3. Stakeholder dialogue and networks

We are in dialogue with stakeholders on a regular basis, addressing a range of topics. These dialogues include energy performance, product efficiency, emissions, supply-chain management, health and safety, diversity, working conditions, human rights, anti-corruption and other sustainability issues. We have identified the following core stakeholder groups: customers, employees, shareholders, business partners and society.

**External networks**

Epiroc is a member—or is represented on the boards—of a range of networks. Here, we learn, contribute to and influence specific agendas material to our business. Networks include:

- Swemin
- Swedish Leadership for Sustainable Development (SLSD)
- International Council of Swedish Industry (NIR)
- UN Global Compact Network Sweden
- EU Battery Alliance
- EIT RawMaterials
- Committee for European Construction Equipment, Technical Commission
- Global Mining Guidelines Group
- International Tunneling and Underground Space Associations
- EIT Innoenergy

**The ongoing stakeholder dialogue**

Stakeholder	Definition	Dialogue forum
Customers	Existing and potential	Meetings, interaction via customer centers as well as joint projects, exhibitions, customer surveys, materiality assessment
Employees	Current and potential	Workplace meetings, management meetings, internal councils, employee surveys, performance review, trade unions and other cooperation councils, employee engagements, materiality assessment
Shareholders	Current and potential shareholders, investors and analysts	Investors and analysts' meetings, Capital Market Days, website, annual and sustainability report, questionnaires and surveys, materiality assessment
Business partners	Suppliers, sub-suppliers, joint-ventures partners, agents, distributors and resellers	Business partners evaluations and audits, procurements, meetings, materiality assessment, joint projects, development projects
Society	Governments, local communities, non-governmental organizations, industry partners, academia, the general public	Meetings, stakeholder dialogues, participation in industry groups, research projects, materiality assessment, collaboration with academia and governments, interaction with industry peers

### 4. Management approach/integrating sustainability

**Governance system**

Epiroc's governance system is the foundation of how we work. Embedded in our management system, the Epiroc Way, our Code of Conduct (CoC) forms the basis for what we do and how we should act in our relationships with one another and with stakeholders. The CoC reflects our commitments to the international standards in the box below. The board has approved the CoC. All employees and managers in Epiroc, as well as business partners, are expected to adhere to the CoC.

Targets and KPIs are based on our materiality assessment and they help ensure that we stay competitive, innovative and ethically sound. Our priorities are informed by stakeholder input and integrated into the Group's strategy and planning process to ensure that the Group can capture opportunities while reducing risks to business.

Our Sustainability Policy guides our work. The policy is applicable to all units within the Epiroc Group. Operational responsibility of each Divisional President, General Manager and Manager in the Group includes all sustainability aspects as well as communication and implementation of the policy and its spirit.

Sustainability and corporate responsibility issues are anchored at the highest levels of Epiroc, including the Board of Directors. The CEO has ultimate responsibility for sustainability issues. Group Management is responsible for formulating and integrating our priority topics, targets and activities. The Vice President Corporate Responsibility is responsible for coordinating and driving sustainability and corporate responsibility work at Group level, and reports to the Senior Vice President Corporate Communication, a member of Group Management. Sustainability is integrated into the daily work within the Group. Epiroc has a Group Safety, Health, Environment and Quality (SHEQ) Council to support integration of safety, health, the environment and quality priorities. It includes representatives from each division and relevant Group functions. Similarly, with respect to responsible sourcing issues, a Sourcing Council exists.

How we manage material topics in the areas of economic, environmental and social impact is described below and p. 26-37.

**Epiroc's management system**

The Epiroc Way is our single most important management tool and is available to employees via our intranet. It includes policies, guidelines, processes and instructions within all main areas, covering a number of different sustainability and corporate responsibility topics, such as: purchasing, safety, health, the environment, quality, trade compliance, tax, anti-corruption and human rights. This ensures a management system that works to integrate sustainability and corporate responsibility commitments into every aspect of how we conduct business. The management system is certified according to different standards (see box). In addition, local policies, instructions, guidelines, tools and management systems correspond to specific risks.

Group Management decides on strategies and KPIs for profitable growth, sustainability KPIs and three-year targets. The Group Management also follows up and monitors progress.

Implementation is carried out by divisions. Divisions are the highest operational units, responsible for delivering results in line with the strategies and objectives set for financial and non-financial targets. Each division has global responsibility for its own product range and its management leads and develops the business through its product companies, distribution centers and customer centers. Each division has an administrative responsibility for its operational entities, such as customer centers or product companies. Administrative responsibility ensures compliance and understanding of Group procedures as per the Epiroc Way, and all legal requirements.

For more information, see our approach for material topics on pages 26-37. See also the Corporate Governance Report pages 52-59.

### Crisis and risk management

Epiroc's ability to prevent, detect and manage the risks related to the business is crucial for effective governance and control. Having an efficient risk management in place is key from both risk reduction and business opportunity perspectives.

Risk management follows the decentralized structure of Epiroc, and local companies are therefore responsible for managing, monitoring and regularly following up their own risk management. Group functions are responsible for legal, insurance, treasury, tax, controlling, accounting, and providing policies, guidelines and instructions regarding risk management. Implementation is regularly audited by internal and external audits. For an overview, see the Corporate Governance report pages 52-59. For more information on Epiroc's risk management and processes to deal with disruptive and unexpected events that could harm the organization, the environment or our stakeholders, see pages 60-65.

## Epiroc's policies, guidelines and certificates

### Epiroc is a signatory of:

- UN Global Compact (UNGC)

### Epiroc is committed to conducting its business in accordance to:

- UN Guiding Principles on Business and Human Rights (UNGPR)
- United Nations International Bill of Human Rights
- International Labor Organization Declaration on Fundamental Principles and Rights at Work (ILO)
- OECD's Guidelines for Multinational Enterprises
- UN Sustainable Development Goals (SDG)

### Sustainability policies and guidelines

We have internal policies and guidelines that cover ethical, quality, environmental, labor, health and safety issues. Some examples:

- Sustainability Policy (including Health and Safety, Quality and Environmental issues)
- Alcohol and Drug Policy
- Speak Up Policy
- Purchasing Policy
- Guidelines for Diversity
- Tax Policy

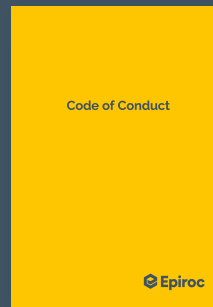
### Epiroc's certified management system

We work with a global certified management system that ensures that our operations review significant issues, set targets, measure performance, follow-up on progress and continuously improved performance. Certification programs also demand documented delegation of responsibilities on each site and that relevant competences are upheld. The following standards are adopted:

- ISO 1400:2015 (Environment)
- OHSAS 18001:2007 (Occupational health and safety)
- ISO 9001:2015 (Quality)

For all major operating units, we strive to be triple-certified for ISO 9001, ISO 14001 and OHSAS 18001. All production units, distribution centers and customer centers with more than 70 employees are to be triple certified. Acquired product units are normally certified within a two year period.

By the end of 2019, 5% of required units lack triple certification. The same measure for each individual certification is 4% for ISO 9001, 5% for ISO 14001 and 5% for OHSAS 18001. These units are mainly acquisitions still within the recommended two-year compliance time frame, or represent units that are newly restructured. Some units not yet triple-certified are in the process of doing so.



## Epiroc's Code of Conduct

The Code of Conduct (CoC) is our guide to doing business ethically and to optimizing social and environmental impacts of our operations. Laws, environmental standards and social conditions vary in the countries where we operate. The CoC is designed to make sure that we always act with the highest ethical standards and integrity.

### The Compliance Board

To ensure implementation of, and compliance to, the CoC, a Compliance Board was created in 2018. The mandate of the Compliance Board is to decide, guide, support and follow-up on the implementation of the CoC.

The Compliance Board consisted of the General Counsel (Chair), President and CEO, Senior Executive Vice President Mining and Infrastructure, Senior Vice President Corporate Communications, Vice President Corporate Responsibility, Vice President Human Resources and the Head of Internal Control and Assurance. For the complete version of Epiroc's CoC, please see [www.epirocgroup.com/eng/sustainability](http://www.epirocgroup.com/eng/sustainability)

## 5. We use resources responsibly and efficiently

### Environmental performance

Epiroc has integrated its most material environmental KPIs into its planning process. The KPIs help monitor and drive improvements and efficiency so that the Group can reduce the environmental impact.

### We comply with applicable environmental laws in countries where we operate

It is mandatory to report incidents or fines for non-compliance within environmental legislation, as well as incidents involving chemical, oil or fuel spillages. There were 4 (12) accidents resulting in adverse environmental effects. All accidents were addressed fully and with corrective actions. Clean-up costs amounted to SEK 26 (82.5).

### Permits in compliance with the Swedish environmental regulations

Three production units require permits as in accordance to Swedish environmental regulations. These operations mostly involve machinery and assembly of components. Permits relate to areas such as emissions to water and air, as well as noise pollution. None of these permits were under revision in 2019.

### Environmental management

To help minimize environmental impacts and to ensure that the precautionary approach is applied, we have implemented environmental management systems into most of our units through our global triple certification.

### Product responsibility

All products and services come with relevant product, service and safety information. Information contains instructions for service and safe use of the product. Customer training is included when relevant, to secure the safe handling of products. Any safety issues arising in the field or from service are tracked through safety campaigns fol-

## SUSTAINABILITY NOTES

lowed by appropriate actions. 0 (0) incidents for non-compliance with regulations and/or voluntary codes concerning the health and safety impacts of products and services were reported for 2019.

### Conflict minerals

Responsible sourcing of the minerals included in our products is important to us. Suppliers of products containing tin, tungsten, tantalum or gold (3TG) are required to identify and declare the origin of such minerals present in the products and components sold to us. This ensures that the minerals do not directly or indirectly finance or benefit the armed groups in the Democratic Republic in Congo, e.g. that the products are conflict free. In 2019, 89% of the suppliers required to provide the origin of 3TG provided such information. Information on the presence and origin of 3TG in Epiroc products is consolidated and shared with interested parties. 202 suppliers of products containing 3TG responded. 335 smelters of tin, tungsten, tantalum and gold were identified by our suppliers, none of which finance the armed groups in Democratic Republic of Congo.

The fact that our products do not use conflict minerals is important not only for Epiroc, but it also supports our customers and their obligations to report the origins of tin, tungsten, tantalum and gold in a transparent way. Broad industry cooperation is needed to meet the challenges with conflict minerals. In 2018 we joined the Responsible Minerals Initiative (RMI) which has grown into one of the most utilized and respected resources for companies addressing issues related to the responsible sourcing of minerals in their supply chains. Our membership in RMI is a good source of information to keep us updated and prepared for new emerging issues.

Although it is not yet a regulated metal, cobalt is a concern for Epiroc. In 2019, suppliers of batteries as well as cobalt metal were asked to declare the origin of the cobalt included in the products to get an understanding of supplier awareness.

### Hazardous substances in products and processes

Epiroc maintains lists of hazardous substances, which are either prohibited or which must be declared due to their potential negative impact on health or the environment. Substances included in the Epiroc Prohibited List may not be included in any products, components or used in processes. The presence of substances included in the Epiroc Declarable List must be reported. Suppliers' use of listed substances is regularly checked, and if prohibited substances is found, they must immediately be replaced by appropriate alternatives. Compliance to the prohibited and Declarable lists is included in the Epiroc Business Partner Criteria letter which is signed by Epiroc suppliers.

Both lists are continuously revised according to applicable legislation, including REACH and global conventions. The lists on prohibited and declarable substances are published on the Epiroc website together with Epiroc's Substance of Concern Policy, which explains actions required by suppliers and the internal organization for substances included in either of the lists.

## 6. We invest in safety and well-being

### Geographical spread of injuries among Epiroc's total workforce

	Number in Epiroc's workforce	Number of work-related LTIs, 2019	Number of work-related MTIs, 2019
North America	2 367	17	44
South America	1 491	15	3
Europe	5 369	34	24
Africa/Middle East	2 199	4	5
Asia/Australia	4 511	12	26
Total	15 937	82	102

The majority of injuries reported have been in Asia/Australia, North America and Europe (85% of total injuries). However compared to 2018 the amount of injuries in Asia/Australia has decreased by 50%. Lost time injuries (LTIs) from operations globally has decreased by 17%. There is a continued focus on training and activities to further reduce the number of injuries.

LTI's for additional workforce has increased to 3.7 compared to 2.3 in 2018. The increase is partly due to increased production volumes. We give the additional workforce the same safety introduction as hired staff. Discussions about why the accidents among additional workforce has increased is a topic in focus.

## 7. We grow together with passionate people and courageous leaders

Number of employees, December 31, 2019	14 268
The average number of training hours per employee	39 hours
The average number of training hours among	
- blue-collar employees	45 hours
- white-collar employees	33 hours

### Employee turnover 2019

Employee turnover increased compared to the 12-months period ending in December 2018 with 5.7 %.

30% of total turnover during 2019 was in Asia/Australia, 23 % in Europe, 24 percent in North America, 14 % in South America and 9 % in Africa/Middle East.

Number of new employee hires 2019	1 467
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Number of new hires decreased compared to the 12-months period ending in December 2018 with 37 %.

25% of new hires in 2019 were represented in Europe, 30 % in Asia/Australia, 18 % in North America, 15% in South America and 13% in Africa/Middle East

In 2019, voluntary employee turnover was 7.3%.

### Freedom of association and the right to collective bargaining

Employees have the right to choose whether they wish to be represented by a trade union or not. In 2019 a total of 45 % (42%) of our employees were covered by collective bargaining agreements.

## 8. We live by the highest ethical standards

### Suppliers' commitment

	2019	2018
Significant suppliers, number	1 406	1 298
Safety, health, social and environment evaluated suppliers, %	11	11
Approved suppliers, %	95	95
Conditionally approved suppliers (monitored), %	5	5
Rejected suppliers, %	0	0
Suppliers asked on commitment to the Epiroc's CoC, number	1 402	1 297
Significant suppliers that have confirmed their commitment to Epiroc's CoC, %	99	98

### Agents, resellers and distributors' commitment

	2019	2018
Significant agents, resellers and distributors, number	329	280
Agents, resellers and distributors asked on commitment to the Epiroc's CoC, number	323	249
Significant agents, resellers and distributors that have confirmed their commitment to Epiroc's CoC, %	81	75

For the definition of high risk countries, risk indices provided by an external risk indices firm are used.

The old scope of significant suppliers previously included all suppliers of goods and services, direct and indirect, with a purchasing value above EUR 100 000, based on 12-month values from October to September of the reporting year. Suppliers were also deemed significant when located in high-risk countries, with a purchasing value above EUR 12 500, based on 12-month values from October to September of the reporting year.

The new scope of significant suppliers includes all suppliers of goods and services, direct and indirect, with a purchasing value above EUR 100 000, based on 12-month values from October 2017 to September 2018. All suppliers are also deemed significant when they are located in high-risk countries, have a purchasing value above EUR 12 500, based on 12-month values from October 2017 to

September 2018. The same method applies to significant agents, distributors and resellers.

Epiroc's significant suppliers during 2019 amounted to 1 406 (1 298). Evaluations on their performance and impacts are conducted by Epiroc teams at the suppliers' site. 1 402 (1 297) suppliers were requested to commit to the CoC and Business Partner Criteria Letter. If a supplier after negotiations refuses to accept our CoC, but can show that their own Code is equivalent to ours, they may be exempted. However, each case is to be closely evaluated and decisions are taken based on the specific supplier's situation.

Epiroc's significant agents, resellers and distributors during 2019 amounted to 329 (280). 323 (249) agents, resellers and distributors were asked to commit to the CoC.

**The supplier evaluation process examines:**

- Business partners' record of governance, ethics and stance against corruption
- Labor issues: Rejection of forced, compulsory or child labor, elimination of discrimination, safeguarding employee health and safety, collective bargaining rights
- Environmental performance: Managing waste, minimizing emissions, and reducing consumption of natural resources
- Human rights issues: Responsible sourcing and respect for human rights in operations

**Speak Up cases**

Reported potential violations, number

	2019	2018
Fraud and corruption	12	7
Labor related matters	26	11
Safety	1	1
Discrimination	1	2
Harassment	2	2
Conflict of interest	0	1
Other	2	2
Total	44	26

In 2019, 4 cases are still under investigation, whereof 3 concern labor relations and 1 harassment. 0 case was material during the year.

No fines related to non-compliances reported through our Speak Up line have been paid during the year. There have been 0 instances of anti-competitive behavior brought to the attention of Epiroc management.

No significant fines or non-monetary sanctions related to non-compliance with laws and/or regulations in the social and economic area have been paid during the year.

**Implementing the UN Guiding Principles on Business and Human Rights (UNGPs)**

We are committed to addressing and integrating human rights across our business operations in accordance with the UN Guiding Principles on Business and Human Rights (UNGPs). The Compliance Board monitors the implementation of the Code, including human rights issues. Our commitment and how we conduct human rights due diligence is described on pages 36-37.

**Knowledge about human rights is key to understand risks**

A key priority is to raise the employees' awareness about human rights and at the same time create an understanding in the organization of the different challenges that may need to be addressed along the value chain – in relation to both suppliers and customers. How to address human rights issues are therefore part of the CoC and the internal CoC-training sessions. One example of the latter is the internal training for the sourcing organization on the Business Partner Ten Criteria Letter and the CoC. This training session, developed during 2018 and launched in 2019, includes special attention to labor standards, such as working hours, modern slavery and forced labor, conflict minerals, non-discrimination and other human rights issues. The e-learning on Responsible Sales Assessment includes sessions on how Epiroc should implement the UNGP. It covers different human rights issues and aims to build a greater awareness of specific human rights challenges.

**Stakeholder consultation**

Epiroc's ability to influence in order to effect change in possible wrongful practices along the value chain, is an important way to take action in accordance with the UNGPs. Therefore, human rights issues are on the agenda for dialogues with Epiroc's identified stakeholders. Feedback from these consultations are implemented into operations as a way to build a better understanding, as well as assessing and mitigating human rights risks in complex markets. We are fully committed to continuously addressing and monitoring human rights challenges.

**Leverage**

Leverage is important for the implementation of the UNGPs. It exists where we can effect change in the wrongful practices of an entity that causes harm (principle 19, UNGPs). We are exploring this aspect through dialogue with business partners and non-governmental organizations, finding examples of how we can better understand and assess human rights risks in complex markets.

**Remediation**

Both states and companies have roles to play in ensuring that victims of business related human rights abuses have access to effective remedy. Remedy means taking action to repair any harm done to people. Behavior or actions that are, or for good reasons may be perceived as, violations of laws or of the Epiroc CoC should be reported. The Speak Up line may be used by employees or external stakeholders to report concerns.

**Management of taxes – observing the spirit as well as the letter of laws of each country**

Epiroc is a global company with a presence in many countries and through compliance with the Arm's Length principle, we aim to pay the fair amount of tax in each country. We strive to be a good and reliable corporate citizen through prudent and sustainable management of taxes.

We also recognize the importance of tax in the area of advancing economic development and contributing to society by paying corporate income taxes as well as other taxes, levies and social security contributions. Our action is in accordance with IFRS, all applicable tax laws and regulations as well as international standards from the OECD and the UN. During 2018 the board approved a Tax Policy which is available at ([www.epirocgroup.com/en/investors/tax-policy](http://www.epirocgroup.com/en/investors/tax-policy)).

**Epiroc Sourcing general process: Manage Procurement and Suppliers**



# Notes to the sustainability performance<sup>1)</sup>

Economic value	Note	2016	2017	2018	2019	Targets 2019*	Targets 2020*
<b>Direct economic value</b>							
Revenues <sup>2)</sup>		27 490	31 675	38 500	41 096		
<b>Economic value distributed</b>							
Operating costs <sup>3)</sup>		16 145	18 651	23 399	24 326		
Employee wages and benefits, including other social costs		6 583	6 862	7 535	8 454		
Costs for providers of capital <sup>4)</sup>		731	5 547	365	2 926		
Costs for direct taxes to governments		1 065	1 590	1 921	1 992		
Economic value retained		2 966	-975	5 280	3 398		
<b>We live by the highest ethical standards</b>							
% Managers made a Code Compliance Commitment		-	-	91	95		
% Managers trained in Epiroc Code of Conduct		-	-	91	95		
% Significant suppliers confirmed compliance with the Epiroc Code of Conduct <sup>5)</sup>	5	98	97	98	99	100	100
% Significant agents, resellers and distributors confirmed compliance with the Epiroc Code of Conduct <sup>6)</sup>	5	-	-	75	81	83	97
<b>We invest in safety and well-being</b>							
Work-related Lost time injuries, number <sup>7)</sup>	6	91	113	99	82		
Work-related Lost time injuries, number per one million working hours <sup>7)</sup>	6	3.8	4.3	3.4	2.7	3.2	2.3
Lost days due to Lost time injuries, number per one million working hours <sup>7)</sup>	6	158	93	97	70		
Work-related Medical treatment injuries, number <sup>7)</sup>	6	-	-	158	102		
Work-related Medical treatment injuries, number per one million working hours <sup>7)</sup>	6	-	-	5.4	2.7		
Total recordable injuries frequency rate (TRIFR)	6	-	-	8.9	6	7.4	5.3
Fatalities		0	1	0	1	0	0
Sick leave due to illness, %		2.1	2.1	2.1	2.1		
Sick leave due to illness and Lost time injuries, %		2.3	2.2	2.2	2.1	<2.5	<2.5
<b>We use resources responsibly and efficiently</b>							
Renewable energy for operations, % of total energy		45	45	49	53		
Renewable energy for operations incl. renewable of mix, % of total energy <sup>8)</sup>		55	55	60	63	60	64
Direct energy use in GWh <sup>9)</sup>		29	27	30	29		
Indirect energy use in GWh <sup>9)</sup>		124	129	142	132		
Total energy use in GWh <sup>9)</sup>		153	155	172	161		
Total energy use in MWh/COS <sup>9)</sup>		9.3	8.5	7.6	6.8	6.7	6.5
CO <sub>2</sub> emissions '000 tonnes (direct energy) – scope 1 <sup>10)</sup>		6	6	6	6		
CO <sub>2</sub> emissions '000 tonnes (indirect energy) – scope 2 <sup>10)</sup>		26	28	29	22		
CO <sub>2</sub> emissions '000 tonnes (total energy) – scope 1+2 <sup>10)</sup>		32	34	35	28		
Location-based CO <sub>2</sub> emissions '000 tonnes (indirect energy) scope 2 <sup>11)</sup>		30	31	33	28		
CO <sub>2</sub> emissions '000 tonnes (transport) – scope 3 <sup>10)</sup>		92	114	128	105		
CO <sub>2</sub> emissions tonnes (transport)/COS <sup>10)</sup>		5.6	6.2	5.6	4.5	5.3	4.4
Proportion of reused or recycled waste, %		96	97	97	95		
Water consumption in water risk areas ('000 m <sup>3</sup> ) <sup>12)</sup>		76	67	65	55		
Water consumption in water risk areas (in m <sup>3</sup> )/COS <sup>12)</sup>		4.6	3.7	2.9	2.4	2.8	2.4
<b>We grow together with passionate people and courageous leaders</b>							
Note	2016	2017	2018	2019	Targets 2019*	Targets 2020*	
White-collar employees, %	53	51	51	49			
Blue-collar employees, %	47	49	49	51			
Employee turnover white-collar employees, %	8	4.8	5.7	7.4	7.5		
Employee turnover blue-collar employees, %	8	4.3	4.7	7.4	7.3		
Total turnover, voluntary leave %	8	4.6	5.2	7.4	7.4		
Yearly performance and development discussion, %		90	87	88	88		
Proportion of women employees, period end, %		15.1	15.7	16.0	15.5	16.6	17.5
Proportion of women managers, period end, %		20.3	18.2	20.0	19.3	21.5	22.4
New hires of women into the Group, share of total external recruitment, %		15.9	18.4	17.4	16.2		
Nationalities among senior managers, number		-	-	30	32		

\* Epiroc's key performance indicators for sustainability.

# Auditor's Limited Assurance Report on Epiroc AB's Sustainability Report and statement regarding the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To Epiroc AB, corporate identity number 556041-2149

## Introduction

We have been engaged by the Board of Directors of Epiroc AB to undertake a limited assurance engagement of the Epiroc AB Sustainability Report for the year 2019. The Company has defined the scope of the Sustainability Report and the Statutory Sustainability Report on page 126.

## Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 126 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

## Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented and does therefore not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12. The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according

to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Epiroc AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm, February 28, 2020

Deloitte AB

**Thomas Strömberg**  
Authorized Public Accountant

**Lennart Nordqvist**  
Expert Member of FAR

## Footnotes to page 132

- 1) Calculations according to GRI Standards Guidelines, [www.globalreporting.org](http://www.globalreporting.org).
- 2) Revenues include revenues, other operating income, financial income, profit from divested companies and share of profit in associated companies.
- 3) Operating costs include cost of sales, marketing expenses, administration expenses, research and development expenses, other operating expenses, deducted for employee wages and benefits. COS when presented in relation to sustainability information refers to cost of sales at standard cost in MSEK.
- 4) Costs for providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.
- 5) Since 2017, the scope of business partner reporting in the annual report includes distribution centers in addition to the previous scope including only production units. The change in scope does not have a significant impact on the KPIs compared with previous years.
- 6) In 2018, agents, resellers and distributors data covers customer centers, distribution centers and production units.
- 7) During 2018, the Safety reporting changed from accidents and incidents to Lost time injuries and Medical treatment injuries to better be aligned with the rest of the mining industry. Lost time injury has same definition as previous accident. Medical treatment injuries replaced incidents with its new definition. Medical treatment does not include first aid treated injuries, which incidents did.
- 8) Renewable of mix does not have any certificate or similar statement from the energy provider that assures only renewable energy sources are used for the electricity or district heating provided according to the contract. Target in 2020 is set as no improvement compared to 2019 due to lower expected proportion renewable energy incl. renewable of mix in acquired companies in 2020.
- 9) The total energy includes both indirect and direct energy used. The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity and district heating used at the sites. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, gasoline, coal, bio-fuel, propane and natural gas.
- 10) Standardized conversion factors published by the Greenhouse Gas Protocol Initiative and International Energy Agency are used to calculate CO<sub>2</sub> emissions, see [www.ghgprotocol.org](http://www.ghgprotocol.org) and [www.iea.org](http://www.iea.org). Latest purchase consists of factors until year 2018. These factors are used for 2019. Previous years, factors from 2012 were used which partly explains the decrease..
- 11) A location-based method reflects the average GHG emissions intensity of grids on which energy consumption occurs, using mostly grid-average emission factor data. A market-based method reflects emissions from electricity that an organization has purposefully chosen (or its lack of choice).
- 12) Water risk mapping was carried out using the water risk maps generated by a third-party risk analytics firm. Categories "medium, high and extreme" are used in Epiroc's water risk scope.

# The Epiroc share

## Listing and shares

Epiroc's shares were listed on Nasdaq Stockholm on June 18, 2018 at an opening price of SEK 88.0 and SEK 84.0 respectively (A and B share). Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Class A shares and class B shares carry equal rights to a part of the company's assets and profit.

## Return and market capitalization

In 2019, the price of the A share increased 36.4% (decreased 7.7% in 2018) to SEK 114.35 and the price of the B share increased 40.8% (decreased 8.1%) to SEK 111.05. The corresponding development for OMXSPI, i.e all shares, and OMX Stockholm Industrials (SX2000PI) was 29.6% and 44.6%, respectively. Epiroc's market capitalisation at the end of 2019 was MSEK 137 504 (99 826).

## Trading

Epiroc was the 26th (29th) most traded name on Nasdaq Stockholm during the year. The total turnover in Epiroc shares was BSEK 53.6 (48.3), corresponding to average daily turnover of MSEK 214.3 (355.2). Nasdaq Stockholm accounted for 39% (48) of the total trading in Epiroc in 2019. Around 23% (47) of the trading was conducted on the open market, while the remainder was outside the public market, e.g. through over-the-counter trading and dark pools.

## Ownership structure

At the end of 2019, Epiroc had 70 717 (76 872) shareholders. The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 33.5% (32.2) of the voting rights and 33.0% (30.7) of the number of shares. Swedish investors held 47% (43) of the voting rights and 46% (46) of number of shares.

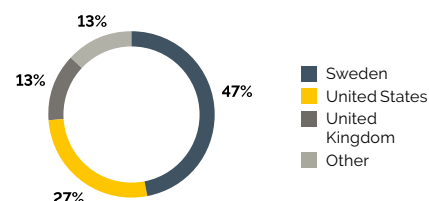
## Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the Annual General Meeting 2020 a similar performance-based long-term incentive program as in previous year. The intention is to cover the plan through the repurchase of the company's own shares. The company's holding of own shares on December 31, 2019 appears in the table on the next page.

## Dividend policy and dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 2.40 per share be paid for the 2019 fiscal year. The dividend is proposed to be paid in two equal instalments. Epiroc's goal is to provide long-term stable and rising dividends to its shareholders. The dividend should correspond to 50% of net profit over the cycle. The proposed dividend correspond to 49% (47) of earnings per share.

Shareholders by country,  
December 31, 2019, % of capital



## Ten largest shareholders\*

December 31, 2019	A shares	B shares	Total shares	Capital	Votes
Investor AB	194 915 960	12 841 885	207 757 845	17.1%	22.7%
Alecta pensionsförsäkring	28 947 000	41 206 588	70 153 588	5.8%	3.8%
Swedbank Robur Fonder	17 572 603	18 044 810	35 617 413	2.9%	2.3%
Didner & Gerge Fonder	4 459 820	14 545 303	19 005 123	1.6%	0.7%
AMF - Försäkring och Fonder	0	18 792 574	18 792 574	1.6%	0.2%
Folksam	8 547 938	4 825 810	13 373 748	1.1%	1.1%
SEB Investment Management	12 539 678	508 013	13 047 691	1.1%	1.5%
Handelsbanken fonder	2 557 036	9 179 303	11 736 339	1.0%	0.4%
AP4	1 130 831	7 481 013	8 611 844	0.7%	0.2%
Carnegie fonder	0	7 750 000	7 750 000	0.6%	0.1%
Other	553 094 988	254 797 550	807 892 538	67.1%	65.3%
<b>Total</b>	<b>823 765 854</b>	<b>389 972 849</b>	<b>1 213 738 703</b>	<b>100.0%</b>	<b>100.0%</b>
Whereof shares held by Epiroc**	10 786 679	0	10 786 679	0.9%	1.3%

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

\*\*Including transactions on December 30, 2019, not yet recorded in Euroclear's system at year end.



Key figures per share

SEK	2018	2019
Market capitalization, year end, MSEK	99 826	137 504
Basic/diluted earnings per share	4.50	4.89
Dividend per share	2.10	2.40*
Dividend as % of earnings	47	49*
Operating cash flow per share	3.22	5.57
Equity per share, year end	15.63	19.00
A/B Share price, year end	83.84/78.88	114.35 /111.05
A/B Highest share closing price	105.32/93.80	118.55/115.00
A/B Lowest share closing price	72.95/70.44	82.42/77.51
A/B Average closing price	90.40/82.93	99.11/94.61
A/B Price/Earnings ratio, year end	18.6/17.5	23.4/22.7

\* As proposed by the Board of Directors.

Share information

December 31, 2019	A share	B share
Nasdaq Stockholm	EPI A	EPI B
ISIN code	SE0011166933	SE0011166941
Total number of shares	823 765 854	389 972 849
- % of votes	95.5	4.5
- % of capital	67.9	32.1
Whereof shares held by Epiroc*	10 786 679	-
- % of votes	1.3	-
- % of capital	0.9	-

\* Including transactions on December 30, 2019, not yet recorded in Euroclear's system at year end.

Important dates

April 23, 2020	Q1 2020
May 12, 2020	Annual General Meeting at 4 PM at Norra Latin City Conference Centre in Stockholm, Sweden.
July 23, 2020	Q2 2020
October 23, 2020	Q3 2020

## Epiroc's strengths



We are a leading productivity partner in attractive niches



We have a high proportion of recurring business



We have a strong and proven operating model



We drive the future in intelligent mining and infrastructure



We create value for our stakeholders

## Share price



# Addresses

## Epiroc AB

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