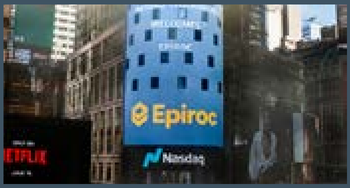
Annual and Sustainability Report 2018

A strong start for Epiroc

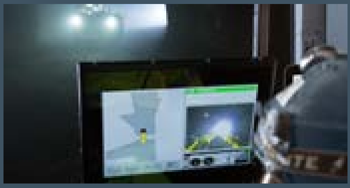
Epiroc

Content



2018 in brief p. 2
2018 was the first year for Epiroc as an independent company following the split from Atlas Copco and the listing of Epiroc on Nasdaq Stockholm on June 18, 2018. The year was characterized by high customer demand in both mining and infrastructure and strong growth in orders, revenues and operating profit.

CEO's statement p. 4
In our first year, we achieved strong revenue and profit growth. Our customers are ready for a major shift in technology towards more automation, digitalization, and battery power. We will continue to invest in more intelligent and sustainable methods in mining and infrastructure.



Automation p. 20, 52
Our customers want safety, efficiency, increased productivity, cost reductions and improved quality of life for their workers. Automation is making this possible and is changing the way mining is done.

Sustainability and corporate responsibility p. 38
Sustainability and corporate responsibility means to live by the highest ethical standards, invest in safety and wellbeing, use resources responsibly and efficiently and grow together with passionate people and courageous leaders.

About this report

The audited annual accounts and consolidated accounts can be found on pages 24–37 and 65–122. The corporate governance report examined by the auditors can be found on pages 56–64.

Epiroc reports its sustainability work for 2018 according to 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 38–49 and 126–135. The assurance report issued by the auditors can be found on page 136. More information and a detailed GRI Index can be found at 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.

This is Epiroc

Epiroc is a leading global productivity partner for the mining and infrastructure industries. With cutting-edge 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 145-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.

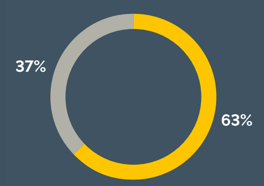
Sales in
150
Countries

Revenues
38,285
SEK million

Operating margin
19.3%

13,847
employees, Dec. 31

Equipment and aftermarket – share of revenues



Aftermarket
Equipment

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.

Innovation, commitment and collaboration

Our core values build the competitive advantages that help us maintain our leadership position, even in a changing environment.

Innovation is a significant attribute of Epiroc. We are creative and entrepreneurial and constantly seek to improve in everything we do. Our innovative spirit is part of who we are and a key method to achieve our goals.

We are **committed** to meeting and exceeding our customers' expectations on partnership and productivity. We always work hard to understand customers' needs and to earn their trust through industry-leading quality and reliability.

We believe in close **collaboration** with customers, business partners, colleagues and other stakeholders. Our working culture is service minded and action oriented, with a strong devotion to customers.

As a leading supplier of rock drilling and excavation equipment with a long history, we have gained considerable experience and knowledge of the applications and techniques that are practiced across the globe.

We back up our equipment sales with a broad range of services and consumables that deliver safety and high productivity. We focus on supply of spare parts and consumables, professional service, support solutions and training.

Our strategic priorities for sustainable profitable growth and responsible business are implemented in the daily operations. It is important for us to safeguard our reputation as a reliable and trustworthy company.

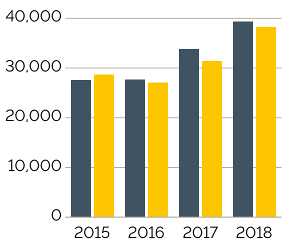
United in Performance Inspired by Innovation

With Epiroc as a dedicated partner, our customers gain a passionate team that supports them in a sustainable, efficient and safe way. No challenge is too big for our curiosity and our persistence to increase our customers' productivity. We can lift our customers' competitive advantage with our continuous drive to make good things better, from high-performance equipment and service excellence to building the mine of tomorrow. We deliver the performance our customers need to maximize their productivity every day — as well as the technology they need to compete in the future.

2018 in brief

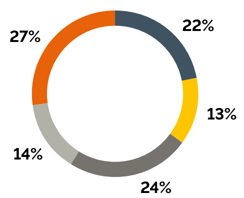
2018 was the first year for Epiroc as an independent company following the split from Atlas Copco in June. The year was characterized by high customer demand and strong growth on orders, revenues and operating profit.

Orders received and revenues



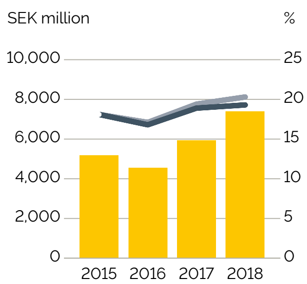
- Orders received, SEK million
- Revenues, SEK million

Geographical distribution of revenues



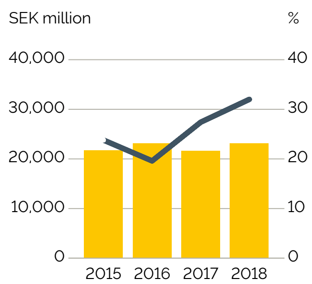
- North America
- Europe
- Asia/Australia
- South America
- Africa/Middle East

Operating profit and margin



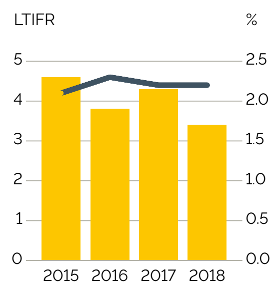
- Operating profit, SEK million
- Operating margin, %
- Adjusted operating margin, %

Return on capital employed



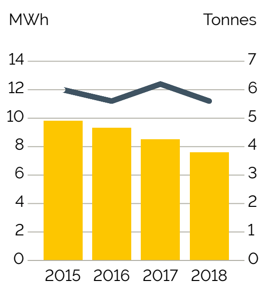
- Average capital employed, SEK million
- Return on capital employed, %

Lost time injury frequency and sick leave



- Lost time injury frequency rate, LTIFR
- Sick leave, %

Energy and CO_2



- MWh energy from operations/Cost of sales, SEK million
- Transport CO_2, tonnes/Cost of sales, SEK million

Comments on financial performance and highlights

- Orders received increased 16% to SEK 39,400 million (33,831), organic growth of 13%
- Revenues increased 22% to SEK 38,285 million (31,364), organic growth of 18%
- Operating profit was SEK 7,385 million (5,930), including costs of SEK 394 million (163) related to the split from Atlas Copco and change in provision for long-term incentive programs
- Operating margin was 19.3% (18.9) and adjusted for split costs and change in provisions for long-term incentive programs the margin was 20.3% (19.4)
- Basic earnings per share were SEK 4.50 (3.55)
- Operating cash flow of SEK 3,884 million (4,610)
- Six acquisitions closed and two agreements signed for acquisitions in 2019
- Epiroc listed on Nasdaq Stockholm on June 18 and refinanced as a stand-alone company
- The Board proposes a dividend of SEK 2.10 per share to be paid in two installments

SEK million	2018	2017	Change
Orders received	39,400	33,831	+16%
Revenues	38,285	31,364	+22%
Operating profit	7,385	5,930	+25%
Operating margin, %	*19.3*	*18.9*	
Profit before tax	7,201	5,793	+24%
Profit margin, %	*18.8*	*18.5*	
Net profit	5,437	4,298	+27%
Operating cash flow	3,884	4,610	–16%
Basic earnings per share, SEK	4.50	3.55	+27%
Dividend per share, SEK	2.10	–	
Return on capital employed, %	32.0	27.4	
Net debt/EBITDA ratio	0.14	0.75	
Lost time injury frequency rate, LTIFR	3.4	4.3	
Sick leave, %	2.2	2.2	
MWh energy from operations/ Cost of sales, SEK million	7.6	8.5	
Transport CO_2, tonnes/ Cost of sales, SEK million	5.6	6.2	

Note:
Financial statements prior to 2018 are combined. See note 1.

Second-generation battery-driven vehicles

In November, we launched our second generation of battery-operated machines that will lower mining customers' costs and promote a healthier work environment. The battery-driven underground loaders, trucks and drill rigs will create several benefits for mining companies globally, including improved health and safety, reduced greenhouse gas emissions and lower operating costs. The new battery-run products are 14 and 18-ton loaders, a 42-ton truck and a mid-sized drilling family including face drilling, production drilling and rock reinforcement rigs.

Sustainable underground mining

To set a new world standard for sustainable mining at great depth, Epiroc, LKAB, ABB, Combitech and AB Volvo announced **in June** that they have joined forces in a partnership and are starting a unique test bed in the iron ore fields of northern Sweden.

The test bed for carbon dioxide-free, digitalized and autonomous mining, Sustainable Underground Mining, will be created in LKAB's underground mines in Kiruna and Malmberget and will also take the form of a virtual mine. New technologies will be developed and tested in a real mining environment to ensure that the Swedish mining industry can remain competitive and can create jobs and growth. This includes control systems, new and improved mining equipment, as well as optimized and integrated management systems to meet the requirements in a modern and sustainable mine. Reaching that goal will demand a new type of collaboration, a digital ecosystem in which the partners' digital systems and operations are linked.

Acquisitions to strengthen our market position

We signed agreements for two important acquisitions supplementing our consumables business.

In October we agreed to acquire Fordia Group Inc., a Canadian manufacturer of exploration drilling tools. Fordia has sales in more than 70 countries, about 250 employees and annual revenues of about SEK 580 million. The acquisition was closed in January 2019.

In November we agreed to acquire Innovative Mining Products, widely known as New Concept Mining, a South African manufacturer of rock reinforcement products for underground mining. Innovative Mining Products is based in Johannesburg, South Africa and has facilities also in Peru, Zambia and Canada, and has about 900 employees and annual revenues of about SEK 600 million. The acquisition is expected to be closed during the quarter of 2019.

Listing of Epiroc on Nasdaq

2018 was the first year for us as an independent company following the split from Atlas Copco and the listing on Nasdaq Stockholm on June 18, 2018. The year was characterized by high customer demand from both mining and infrastructure and strong growth in orders, revenues and operating profit.

Large order for a new copper mine

In December, Epiroc was awarded a significant order from Anglo American for its new Quellaveco open pit copper mine in Peru. The machines will help ensure that the mine operates with optimal safety, productivity and efficiency. The order includes Pit Viper 351 and SmartROC D65 drill rigs, BenchREMOTE remote operator stations, rock drilling tools and HB 10000 hydraulic breakers. The machines incorporate state-of-the-art technology features. For example, operators can run rigs remotely from a safe distance. Delivery will start in early 2020.

A strong start for Epiroc

On June 18, 2018, Epiroc was listed on Nasdaq Stockholm. The split from Atlas Copco and the listing demonstrated the commitment to customer focus and long-term shareholder value. Epiroc is a leading global productivity partner, a dynamic new company with proven expertise and experience and in our first year, we achieved strong revenue and profit growth.

Epiroc was formed to be a strong and dedicated partner to customers across the globe. Originating from Atlas Copco, Epiroc builds on proven expertise and performance with the same people combined with a bold new drive to make what's good even better. Just like our name Epiroc says, we want to be on top of things. Epiroc means at or on rock, coming from Greek and Latin roots. It reflects our core business, our proximity to our customers and the strength of our partnerships.

A 145-year-old start-up

The formation of Epiroc has created energy and enthusiasm in our organization. In many ways we are like a start-up – a 145-year-old start-up. The Epiroc team has done a great job launching the new brand under the brand promise United in Performance, Inspired by Innovation. The Epiroc brand is already embraced by our customers as well as internally by our 14,000 dedicated employees. Of course, brand building will be a continuous effort during the years ahead, but we are off to a very good start.

Agile and resilient

Being exposed to the mining and infrastructure markets, with significant variability in equipment demand over time, the core of our strategy is to be agile and resilient. This means adapting to changes in demand by increasing our flexibility in production and supply-chains and to further develop our stable aftermarket business. With this we are able to defend our profitability over time, in other words to be resilient.

A year with high demand and growth

Already in our inaugural year, our agility was put to the test as markets developed strongly on the back of a recovery in mining investments that started in late 2016. During 2018, this coincided with a generally solid market for infrastructure developments globally, generating consecutive records for orders received in quarters one and two. In spite of growth rates slowing down during the second half of the year, orders received grew by 16% compared to 2017. While the high demand did put some pressure on our ability to ramp up production accordingly, we successfully increased deliveries throughout the year and revenues grew by 22%. Equipment demand was especially strong during the year, but our strategy to grow our aftermarket was also successful. Service revenues grew by 18%, driven by stronger offerings and increased customer penetration, and our Tools & Attachment segment grew by a healthy 9%. The strong aftermarket development will contribute to our resilience going forward.

Acquisitions enhance customer offerings

Our target is to grow by at least 8% per year on average over a business cycle. While we grew well beyond that in 2018, we believe that we need to make selective acquisitions in order to secure long-term growth as well as access to new technologies, markets and geographies. During the year, we closed six acquisitions and signed another two, mainly within the areas of service and rock drilling tools. These will enhance our customer offering in exploration and rock reinforcement, and will improve our service reach and spare parts distribution. We are happy to welcome our new colleagues on board for our exciting journey!

Targeting an industry-best operating margin

Epiroc's target is also to have an industry-best operating margin that is resilient over the business cycle. In 2018, our adjusted operating margin gradually improved as volumes increased, to 20.3% for the year. Our reported operating profit was SEK 7,385 million, an increase by 25% over 2017. The split from Atlas Copco meant that we absorbed some related costs during the year, and the production ramp-up did put pressure on our cost and capital efficiency. Still, we maintained our industry-leading position on margins.

Projects to improve customer service and cost efficiency

To continuously improve, we launched several projects on cost and capital efficiency. One notable project is related to our internal supply chain for rock drilling tools and service spare parts. Over the course of the three to four years needed to complete the project, we will transform the physical distribution, steering and control of the supply chain, spanning all markets across the world. This will improve our customer service and cost efficiency as well as lower our overall working capital. This is one example of several how we intend to make what's good even better.

"Our customers are ready for a major shift in technology towards more automation, digitalization and battery power. We will continue to invest in more intelligent and sustainable methods in mining and infrastructure."

Broadened product portfolio using new technology

All of our customers strive to improve their productivity and reduce their costs. We can help our customers achieve this is through automation and digitalization of their operations, and during 2018 we continued to broaden our portfolio in this area. We now have a comprehensive offering in vehicle automation, fleet management, mine monitoring and operations planning. Our philosophy is to be OEM agnostic in our development of solutions, as we believe our customers should be able to select the machines of their choice. A notable development in 2018 was the acquisition of 34% of US-based ASI Mining, a technological leader for autonomous mining vehicles. We also opened automation centers in all major markets to support customers and signed a cooperation agreement with leading communications technology provider Ericsson to jointly help mining companies achieve optimal wireless connectivity in their operations through LTE and 5G technologies.

Second generation of battery-powered machines

We continued to increase the pace of introducing new products. During the year we launched several new and upgraded drill rigs, loaders and trucks, rock drilling tools, hydraulic attachments and service products. One area we believe will contribute significantly to customers' cost and sustainability performance is battery-powered machines. Our first-generation underground battery products have been in operation for more than 65,000 hours with customers, and with that unrivalled experience we launched our second generation of electric-powered machines in November. They are bigger, with improved battery capacity and overall better performance. More models will be introduced in 2019. Together with our partners, we have developed a proprietary and highly flexible battery concept that will improve predictability, health, and safety, and will lower CO_2 emissions and costs.

Our customers are ready for a major technology shift towards more automation, digitalization and battery power. While the complete transition will take time, it is exciting to already see the positive reactions to our offerings. There is no doubt that this is the way forward and we will continue to invest in more intelligent and sustainable methods in mining and infrastructure.

Sustainability in the forefront of our daily business

Sustainability is at the forefront of our beliefs and practices and is part of our daily business. 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. Our Code of Conduct is our most important tool to uphold high standards and we have strong policies and processes in place within these areas. It is important for us to contribute towards the UN's Agenda 2030 and the Sustainable Development Goals (SDGs) in order to overcome global sustainability challenges. We have identified eight SDGs that we have the greatest opportunity to influence and contribute to, and we will continue to work with them.

Commitment, collaboration, and innovation are the essence

On a more personal note, I am very pleased and honored to join the Epiroc team. Starting in the beginning of the year on February 1, I have met nothing but friendly, open, hard-working, professional, and dedicated team members; and a very performance-oriented culture in Epiroc. We have worked intensely to convey our core values of commitment, collaboration, and innovation throughout the organization, and these values definitely capture the essence and the spirit of Epiroc. This is a great inheritance from our past and a fantastic foundation for our future. It will enable us to continue to grow, to meet our customers' expectations and to deliver shareholder value.

Per Lindberg
President and CEO
Stockholm, February 5, 2019

Market characteristics and competitive landscape

Market drivers support our business

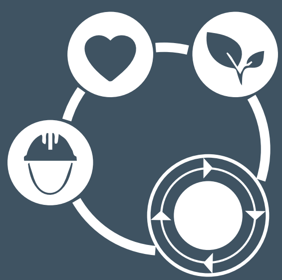
In our markets, there are a number of structural changes and market drivers that affect our business. These are expected to support long-term growth and positive development in our markets.

We operate in selected niches of the global mining and infrastructure equipment and services markets with a primary focus on hard rock drilling and excavation, demolition and recycling. The niches that we serve are affected by several drivers. A continuous growth in global population, particularly in urban areas, drives demand for minerals as well as for infrastructure development. A major shift is the trend for automation, interoperability and digitalization which can lead to cost reductions, productivity increases, improved health and safety as well as positive environmental impacts.

Mining and infrastructure companies have intensified their focus on controlling costs and prioritizing solutions with lower lifecycle costs, including costs associated with services, spare parts and fuel. In addition these companies are increasingly looking for comprehensive solutions, including high efficiency equipment. On top of their priorities is also increased safety for their employees and a sustainable business.

Global population growth and urbanization

The global population is expected to continue to grow in the coming years, with urban population expected to outgrow overall population growth. Population growth is leading to higher demands for infrastructure investments. This development is projected to drive additional demand for resources such as metals and minerals and infrastructure such as tunnels for roads, railways and hydroelectric power plants. This, in turn, is expected to support demand for our products, services and solutions.



Environment, health and safety

There is an increased focus on reducing the environmental impacts of mining and infrastructure, resulting in several legislative initiatives globally. Those regulations seek to reduce emissions, noise, industrial waste and other negative impacts on the environment. At the same time, there is a focus on improving safety conditions for employees. This development supports demand for products that enhance the working conditions and safety of these employees, such as rock reinforcement solutions, solutions for autonomous operations and remote control, and mechanized equipment.

Automation and digitalization

A major shift in our industry is the trend towards automation, interoperability and digitalization, as part of the emergence of intelligent mining and infrastructure. Customers demand higher productivity and lower cost of operations and see this coming from more advanced and efficient solutions. In addition to improved productivity, these solutions also offer improved safety and sustainability in customers' operations. Examples of solutions that are requested includes automation, increased connectivity and monitoring, including data-driven service.

The aftermarket is primarily driven by the total fleet of equipment in operation, as well as equipment utilization levels. Because equipment in mining and infrastructure is frequently used for abrasive applications in harsh environments, there is a need for regular maintenance and replacement of spare parts and consumables. The development of the aftermarket is, in general, more stable than the development of the market for equipment.

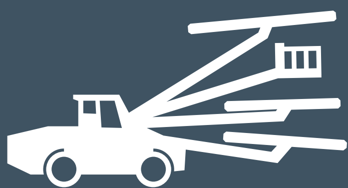
Our competitors

Within the broader mining and infrastructure equipment and services value chain, we primarily address the segment focused on hard rock drilling and excavation technologies. In general, this is a relatively consolidated segment of the market with a limited number of competitors on a global scale. In addition, this segment of the value chain tends to be characterized by relatively higher scale and technological capabilities.

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 players 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, with several smaller or local players focused on individual product lines.

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.



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 because open pit mines are becoming increasingly depleted, and because of the challenges associated with obtaining regulatory approvals for greenfield open pit mines. In addition, underground mines are going increasingly deeper. This trend is driving an increase in demand for underground mining equipment and solutions to increase safety in these underground mines, for example rock reinforcement solutions and automation solutions.

Commodity price development

Mining companies tend to expand and invest in equipment during periods of high commodity prices and reduce their investments, focus on efficiency and cost-savings, and sometimes even reduce production in times of lower commodity prices. Every mine has a different cost of production, which is determined by a number of factors such as ore grades, the depth of the mine and the efficiency of operations. Exploration for minerals exhibits a similar trend, where exploration companies tend to expand and prospect when commodity prices are high. In general, commodity prices have a higher impact on demand for new equipment and a lower impact on the aftermarket.

Leading productivity partner

Epiroc's mission is to be the leading global productivity partner and to deliver profitable growth. To achieve this 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.

Innovation and expertise

We continuously develop products and solutions that address our customers' key challenges, such as increased long-term productivity, safety and sustainability.

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. The innovations are centered on new technology and digitalization that can improve our customer offering in a way that is environmentally and economically constructive. Our long-term ambition is to continue to be a leading player in intelligent mining and infrastructure, automation and interoperability.

Safety and sustainability

By developing safe and eco-efficient products and solutions we help our customers to reduce their environmental impact and increase the safety in their operations.

We work in an industry where safety and sustainability risks and opportunities always are present. Work-related accidents are a reality both for our customers and for us and our operations affect the environment. We see sustainability as a competitive advantage and are convinced that our approach to sustainability will be a driver of long-term growth. Epiroc's 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 a driver in this development. To be a trustworthy provider of sustainable products, we adhere to high standards across the entire value chain, including strong commitment to respecting human rights and taking a clear stance against corruption. This is embedded in our Code of Conduct and applies to all employees and to our business partners, who are expected to act with the same level of integrity.

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 adaption to cyclical capital equipment demand, combined with a resilient and growing aftermarket business.

Goals	Description	2015–2018	2018
Growth	Epiroc's goal is to achieve an annual revenue growth of eight percent over a business cycle, and to grow faster than the market. Growth will be organic and supported by selective acquisitions.	**10%** Compound annual growth rate	**22%** Revenue growth
Profitability	Epiroc's goal is to have an industry-best operating margin, with strong resilience over the cycle.	**18.3%** Average operating margin	**19.3%** Operating margin
Capital efficiency	Epiroc's goal is to improve capital efficiency and resilience. Investments and acquisitions shall create value.	**25.7%** Average ROCE	**32.0%** ROCE
Capital structure	Epiroc is to have an efficient capital structure and have the flexibility to make selective acquisitions. The goal is to maintain an investment grade rating.		**BBB+** Epiroc is assigned a BBB+ long-term issuer credit rating with a stable outlook
Dividend policy	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 **47%** of net profit

Presence and penetration

We aim to expand our leadership in performance-critical applications by increased customer collaboration and new technologies.

We continuously improve the customer offering and strengthen our position where it is strategically important to have a strong presence. By primarily operating with direct sales and service, often having staff on customers' sites and involving customers in product and process development, we build strong relationships and an understanding of customer preferences, requirements and needs. We will take advantage of digitalization and new technology to build even closer customer relationships.

Operational and service excellence

We improve our agility by having scalable and lean manufacturing and increase our resilience by growing the aftermarket business.

We have a culture of continuously looking for ways to improve and make good things better and our organization is based on decentralized responsibility and authority. This facilitates quick decision-making and motivated employees, which leads to flexibility and better operating performance.

Equipment is primarily manufactured on the basis of customer orders and the majority of the components are purchased from external suppliers and a smaller part is produced internally. This makes us agile in the manufacturing process in order to meet demand fluctuations.

The aftermarket business, linked to the customer's production rather than to their investments, is more stable over time than equipment sales and improves our resilience. By expanding our product and service offerings, we will continue to grow our aftermarket business and increase our resilience further.

People and leadership

Working together and being challenged inspires our people to grow.

Our employees are hardworking, curious, passionate and dedicated. A talented workforce is essential to execute our strategy. We encourage employees to take ownership of their own development and careers with the support from their leaders to try different positions, to take on new challenges and continuously develop. A prerequisite to getting the best results is to have a diversified workforce in terms of nationality, gender, age, experience and education. We have a long-term view on our recruiting to make sure that we have the right expertise and leadership competences.

Sustainability goals

Epiroc has set a number of sustainability targets and key performance indicators 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 126–127.

Goals	Description	2015–2018	2018
We live by the highest ethical standards	% Significant suppliers that confirmed compliance with the Epiroc Code of Conduct	96%	98%
We invest in safety and well-being	Work-related Lost time injuries per one million working hours	4.0	3.4
We use resources responsibly and efficiently	Renewable energy from operations incl. renewable of mix, % of total energy	57%	60%
We grow together with passionate people and courageous leaders	Communicative Leadership Index	Target for Communicative Leadership Index to be set in 2019	
	% Female managers in the Group	18.8%	20.0%

Our strategies and goals

Value-creating actions

Our current business activities to attain the mission of profitable growth include technology development, improved customer offerings, cost efficiency and supplementary acquisitions – always with sustainability in mind.

Advance in innovations in new technologies

We will continue to invest in the development of innovative products and solutions based on new technologies to drive automation and interoperability. Our development projects include autonomous and remote-controlled equipment, as well as connectivity.

Intelligent mining and infrastructure requires a complex digitalized ecosystem. In addition to equipment with automation features, we develop digital solutions that can provide accurate data from an entire fleet of equipment and real-time positioning of equipment and the on-going activities in the mine. The solutions are equivalent to a traffic management system and can support customers with planning and execution of operations and maintenance. We have decided to go for a seamless interface with systems and solutions that can support equipment from any equipment manufacturer (OEM agnostic) and that are presented to the customer as one common interface.

In 2018, we launched our second generation of battery-powered equipment and we will continue to expand the portfolio of zero-emission machines. The development of battery-powered equipment is linked to the performance of the battery capacity and our vision is to offer a full range of battery-powered underground machines within five years. Electric equipment in the mine reduces the need and thus cost for ventilation and improves the air quality significantly, while also lowering energy consumption of the equipment.

Improve efficiency in the supply chain

Our customers require high quality and best-in-class after-market service. To support them, we have a global footprint reaching even very remote areas, which entail a certain amount of inventory of spare parts and consumables. To further improve the service level to our customers, optimize the level of inventory and reduce both costs and CO_2 emissions from transport, we initiated a supply-chain program in the beginning of 2018. We expect significant efficiency improvements from the program, which is expected to run until 2021. In addition, we have taken targeted measures to improve the product mix and efficiency in our rock drilling tools business in the segment Tools & Attachments. Measures include prioritizing products and businesses as well as internal efficiency improvements.

12 sustainability targets have been set

New machines are equipped with our monitoring system Certiq. We are also retrofitting the existing equipment.

Examples of activities to achieve our mission:

- Advance in innovations in new technologies
- Improve efficiency in the supply chain
- Increase service penetration
- Digitalization initiatives to develop our service business
- Set sustainability targets
- Support growth with bolt-on acquisitions

Increase service penetration

We have a significant aftermarket business, offering services that enables our customers to be more productive by ensuring ready availability of the needed equipment. During 2018 we further developed the service business. With targeted actions and the increased number of connected machines, our knowledge of location and usage of the equipment is further enhanced and we have been able to increase our market and customer share of service contracts. We have also developed a range of service products that are adapted to our customers' different requests for service. The ambition is to have a simple and transparent service offer.

Digitalization initiatives to develop our service business

Digitalization opens up new possibilities in service. Via fleet connectivity and our monitoring system Certiq we can, based on the real-time knowledge it provides about the usage of the equipment, offer preventive and even predictive maintenance. This helps the customer to increase productivity and lower the total cost of operations. New equipment is fitted with Certiq and we are also retrofitting existing equipment. We are creating a digital platform for customers, employees and third parties.

Set sustainability targets

Sustainability and corporate responsibility are integrated into all of our customer offerings and business processes. We believe this to be fundamental for building a company to be well equipped to tackle future challenges and to embrace possibilities in a rapidly changing world. In 2018, we defined the following four areas that we see as prioritized in order to achieve long-term success: to live by the highest ethical standards, to invest in safety and well-being, to use resources responsibly and efficiently and to grow together with passionate people and courageous leaders. For each area we have set targets, in total 12, and key performance indicators. The priorities are set to ensure that we can capture opportunities while at the same time reducing the risk to business.

Support growth with bolt-on acquisition

Acquisitions are part of our strategy and will support growth. In 2018, we completed six acquisitions, all in line with the four main criteria that we have defined for acquisitions:

- Increase presence and penetration
- Close gaps in the product portfolios
- Extend the service offering
- Add technology and save time to market

Zero emissions

Our vision is to offer a full range of battery-powered underground machines within five years.

Targeting customers' productivity, safety and sustainability

Our customers are companies in the mining and infrastructure industries that prioritize productivity and total cost of operations. We have knowledge of their key challenges and our solutions are targeted towards addressing and solving these challenges.

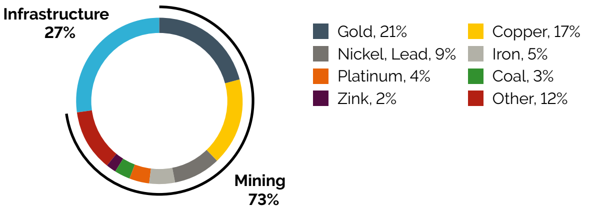
Our customers

In 2018, approximately 73% of our orders received were attributable to customers in the mining industry and customers in infrastructure applications represented approximately 27%.

Mining companies are often large with multiple worksites, but there are also companies that have one worksite. Mining companies sometimes use contractors for mine development, production and/or exploration. In 2018, Epiroc's ten largest customers accounted for 18% of our revenues. These were all mining companies that have multiple worksites. None of the ten largest customers is dominating. Customers extracting gold and copper represent a majority of our exposure to the mining industry and our exposure to these two minerals has been fairly stable over time.

Our customers in the infrastructure industry range from global players that have a large number of quarries or engage in large infrastructure projects to small local contractors that own a machine or a hydraulic attachment for contracting work and/or quarrying. Rental companies are also customers for our infrastructure equipment and services.

Exposure to mining (by minerals) and infrastructure



Estimated exposure based on orders received in 2018

Customer examples 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, which benefits larger and more stable players and full-service providers such as Epiroc.

Addressing our customers' challenges

Our customers' key challenges include increasing productivity and equipment utilization and reducing operating costs. The challenges also includes improving environmental performance and enhancing health and safety conditions for their employees. Epiroc's 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. Our equipment is often utilized on a 24/7 basis. It can be very costly if the equipment is not available when required because this can lead to a stoppage of 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. Our customers have a preference for suppliers who have a track record of high quality and reliability.

In the current environment, customers are increasingly focused on driving improvements in productivity through better utilization of equipment and more efficient use of employees. We help our customers increase productivity in a sustainable way, rather than by driving capacity growth. This is enabled by systems that are automated, interoperable and digitalized. Epiroc has developed and commercialized a number of disruptive technologies to meet its customers' challenges. We collaborate with a number of equipment and service providers, technology companies and universities to drive further innovation in the industry.

Customer priorities:

- Safer work environment
- Higher productivity
- Lower total cost of operations
- More advanced and efficient equipment
- Increased sustainability

Global customer base

Epiroc's products and services are sold to customers in more than 150 countries. Our customers are to a very large extent global companies and require partners who have similar global sales and service footprints. Our equipment is primarily sold directly to the end user through our extensive, global sales network, but also through distributors and to equipment rental companies. We have a large global service organization supplying services and spare parts. Equipment sales are often bundled with contracts that include services, spare parts and consumables. Our direct sales network creates significant customer intimacy and has contributed to our long-term collaborative customer relationships.

85%
Approximate share of direct sales

Geographical distribution of revenues

North America
22%

South America
13%

Europe
24%

Africa/Middle East
14%

Asia/Australia
27%

Our business model

Agile and resilient

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

Decentralized business

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 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.

Direct sales builds strong customer relations

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.

Agile manufacturing

Our asset-light manufacturing and logistics set-up has been organized to be able to adapt quickly and effectively 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 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-contractors, the production of equipment is flexible and can quickly be adjusted to volume changes.

Extensive R&D secures innovations

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, the environ-

Strong and proven operational model

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

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

Research and development costs

977

SEK million

>10,000

Employees in aftermarket business

ment, economics and increased efficiency go hand in hand. The development process starts with the customers and their challenges, priorities and needs.

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 it is also based on equipment usage traditions. Our purchasing organization is also active in the product development process in order to find suitable suppliers and the right components for the product being developed and with the service organization which is involved in mapping the potential and demand for service.

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 seven percent of the total workforce is working with 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, Saab Combitech 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 position) and ASI Mining (automation).

Resilience through the aftermarket

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 requires frequent maintenance, as well as the replacement of tools and attachments because they are used in harsh applications such as drilling, demolition and rock excavation. 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.

Our strength in the aftermarket is enabled by our global services network. In the aftermarket business we have over 10,000 employees, of which more than half are service technicians. This corresponds to more than 70% of the employees.

Global presence

At the end of 2018, we had 24 manufacturing facilities in 12 countries, of which 17 serves the Tools & Attachment segment and eight serve the Equipment & Service segment. One facility serves both segments. We have customer centers in more than 60 countries that capture the demand and the competitive situation in the more than 150 markets where we have sales.

Our offering

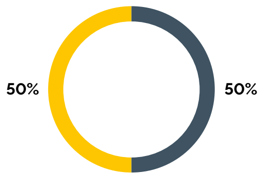
Performance-critical solutions

We are providing equipment, services and consumables for selected niches in the mining and infrastructure market. Our products are primarily used in hard rock applications. Customers all over the world rely on our expertise and innovations to help them develop their operations and become more sustainable, efficient and productive.

Overview of applications and offerings

Our products primarily address attractive niches of the mining and infrastructure markets, which primarily consist of hard rock drilling and excavation. Characteristics of these niches are that they require advanced high-performance equipment and significant service over the lifetime of the equipment. We offer solutions for both underground and surface applications, with a broader offering for underground.

Revenues by applications



- Surface applications
- Underground applications

Mining

Approximately 73% of our business is attributable to the mining industry. Applications include production and development work for both underground and open-pit mines, and for mineral exploration. In this area we mainly work with direct sales. Distributors are used to a lesser extent, mainly in markets where we have a relatively small customer base.

Our mining market is characterized by:

- Large customers
- High expenditure per customer
- Equipment remain in the mine, only moving within the site
- Continuous operations

Overview of mining applications and product offering

Underground mining

- Underground drill rigs
- Underground loading and haulage
- Mechanical rock excavation
- Ground support equipment
- Ventilation systems
- Rock drilling tools
- Hydraulic attachments
- Service and spare parts

Surface mining

- Surface drill rigs
- Rock drilling tools
- Hydraulic attachments
- Service and spare parts

Exploration

- Underground core drill rigs
- Surface core drill rigs
- Reverse circulation drill rigs
- Rock drilling tools
- Service and spare parts

Infrastructure

Infrastructure applications represent approximately 27% of our business. 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. Most of the sales is direct, but we also use distributors because the customer base is more fragmented than in mining. The highest share of distributors can be found in the hydraulic attachments business.

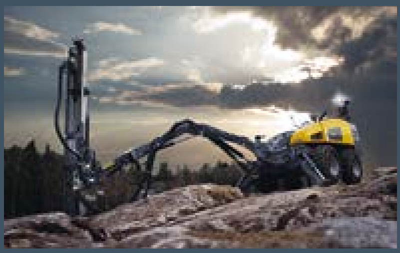
Our infrastructure market is characterized by:

- Large number of customers
- Lower expenditure per customer
- Equipment moving from worksite to worksite
- More project-based business

Overview of infrastructure applications and product offering

Underground civil engineering

- Underground drill rigs
- Underground loading and haulage
- Ground support equipment
- Ventilation systems
- Rock drilling tools
- Hydraulic attachments
- Underground core drill rigs
- Service and spare parts



Surface civil engineering and urban development

- Surface drill rigs
- Well drill rigs
- Rock drilling tools
- Hydraulic attachments
- Service and spare parts

Deconstruction and recycling

- Hydraulic attachments
  - Breakers, cutters, pulverizers, grapples, magnets, compactors, bucket crushers etc.
- Service and spare parts

Our offering
Aftermarket

Our worldwide service network is the backbone in our offering. Highly skilled and dedicated service personnel in the field ensure optimal machine performance and that we stay on top of customers' needs.

The equipment that we offer works primarily in harsh environments, which leads to significant maintenance requirements and regular replacement of spare parts and consumables exposed to wear and tear. Equipment is often sold together with contracts that include services, spare parts and consumables, in order to ensure availability as well as to optimize customer productivity and total cost of operations.

Approximately two-thirds of our revenues are driven by the aftermarket, which is based on our customers' operating expenditures on consumables, maintenance, refurbishment and overhaul.

Service
Service and spare parts are an integral part of our offering. The service organization focuses on spare parts supply, service, support solutions and training. Our service offering spans from complete service contracts that essentially take care of the entire equipment operation to pay-as-you-go solutions.

Our service technicians are specialized and have deep knowledge about the equipment and their applications. The service organization helps customers with training and support solutions and includes for example operator training for how to use our equipment, support in training of technicians, and automation solutions to create new ways of using the equipment through cutting-edge technology.

We have a global service network. Its density enables rapid response times by 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 on daily intervals. We provide a wide range of spare parts for the equipment sold by us, as well as a range of universal spare parts that are considered as standard in the industry.

Service packages are available for the complete range from customers who need our service personnel constantly on site to customers who prefer to take care of their equipment themselves. We also offer upgrades and conversion kits that add additional features or improvements to specific equipment. Remanufacturing and midlife services are solutions that extends the life of a component or a complete machine. Examples of our service offerings can be found in the illustration below.

Examples of service offering

Service agreements and audits

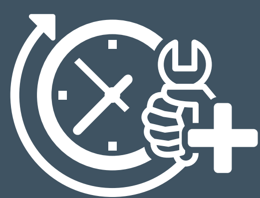
- Rig Scan – an audit service for maximum uptime
- CARE agreements – agreements with proactive inspections and preventive maintenance included
- On site agreements – technical, administrative and management support at both local and global levels

Replacement parts and kits

Repair and service kits, replacement components and preventive maintenance kits

Reman solutions

Used components remanufactured to original condition and specifications



Midlife services

Replacing old components with new, returning the equipment to maximum productivity and operating efficiency at a fraction of the cost of a new machine

Consumables

We also provide an extensive range of consumables, such as rock drilling tools and hydraulic attachments. These are included in our aftermarket business.

Tools

Rock drilling tools include for example drill bits and drill rods for drilling in both underground and surface applications, and rock bolting 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.

The rock drilling tools business share a lot of the characteristics of the service business. It is also an integral part of our offering and is often sold together with equipment and service. Our offering spans from full-service contracts where we take care of customers' full need of rock drilling tools, via normal supply agreements to single purchases.

Rock drilling tools

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.

The development in attachments is driven by for instance increased legislation. The demolition tools are often used in crowded and urban areas and stricter regulations are imposed to increase health and safety and decrease the environmental footprint. This requires solutions that can handle sorting and processing of demolition material and can reduce emissions, noise and vibrations.

The customer base in construction is more fragmented than in mining. The hydraulic attachment tools are sold mostly through specialized distributors worldwide. The distributors safeguard professional application support and also provide service, spare parts and consumables.

Hydraulic breaker

Midlife service

63%

of our business is aftermarket

Before...

...and after

Our offering

Solutions for automation, interoperability and sustainable operations

Automation enhances safety and productivity

Many of our customers are looking for ways to increase productivity and reduce costs while still maintaining site safety. Automation can be the answer to both. Features that are linked to automation are, for example, hole navigation systems, auto positioning, digital support software and sensors that measure engine and percussion hours, drilled meters, penetration rates, fuel consumption and so on.

The benefits of automation include improved safety by moving the people away from the hazardous areas at the work site to the safety of a control room. It also entails increased productivity, higher utilization, reduced unscheduled maintenance, improved fuel efficiency, improved working conditions, reduced driver fatigue and attrition, etc.

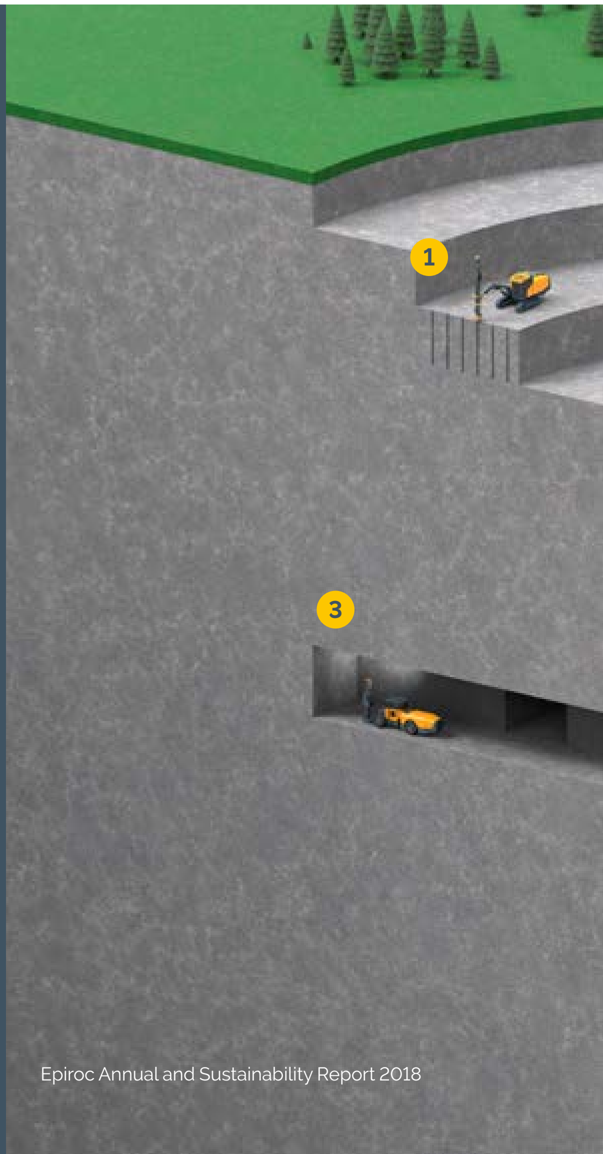
On a larger scale, automation is quickly gaining the attention of the industry, although the more comprehensive solutions, such as fully autonomous vehicles and traffic management solutions are still at an early stage. We work closely with our customers in many projects all over the globe and we have automation centers on five continents. Connected vehicles and autonomous machines are a reality in larger mines and construction sites.

Already in 1998, Epiroc introduced the first version of the rig control system (RCS) for underground drill rigs. It enabled the operator to exercise full control over all of the drilling functions using the onboard computer screen and control panel, providing a much higher level of precision and paving the way for automation. Today, all of our most advanced equipment for mining and infrastructure applications can be equipped with the latest version of RCS and can also be configured to be able to communicate with each other.

The RCS 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 remote 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. The full leap of automation is when the machine can work autonomously, i.e. without any operator intervention. This is also where the most productivity gains will be achieved.

Overview and examples of our equipment and services for surface and underground mining 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. Hydraulic breaker
10. Underground workshop with battery charging station
11. Control room

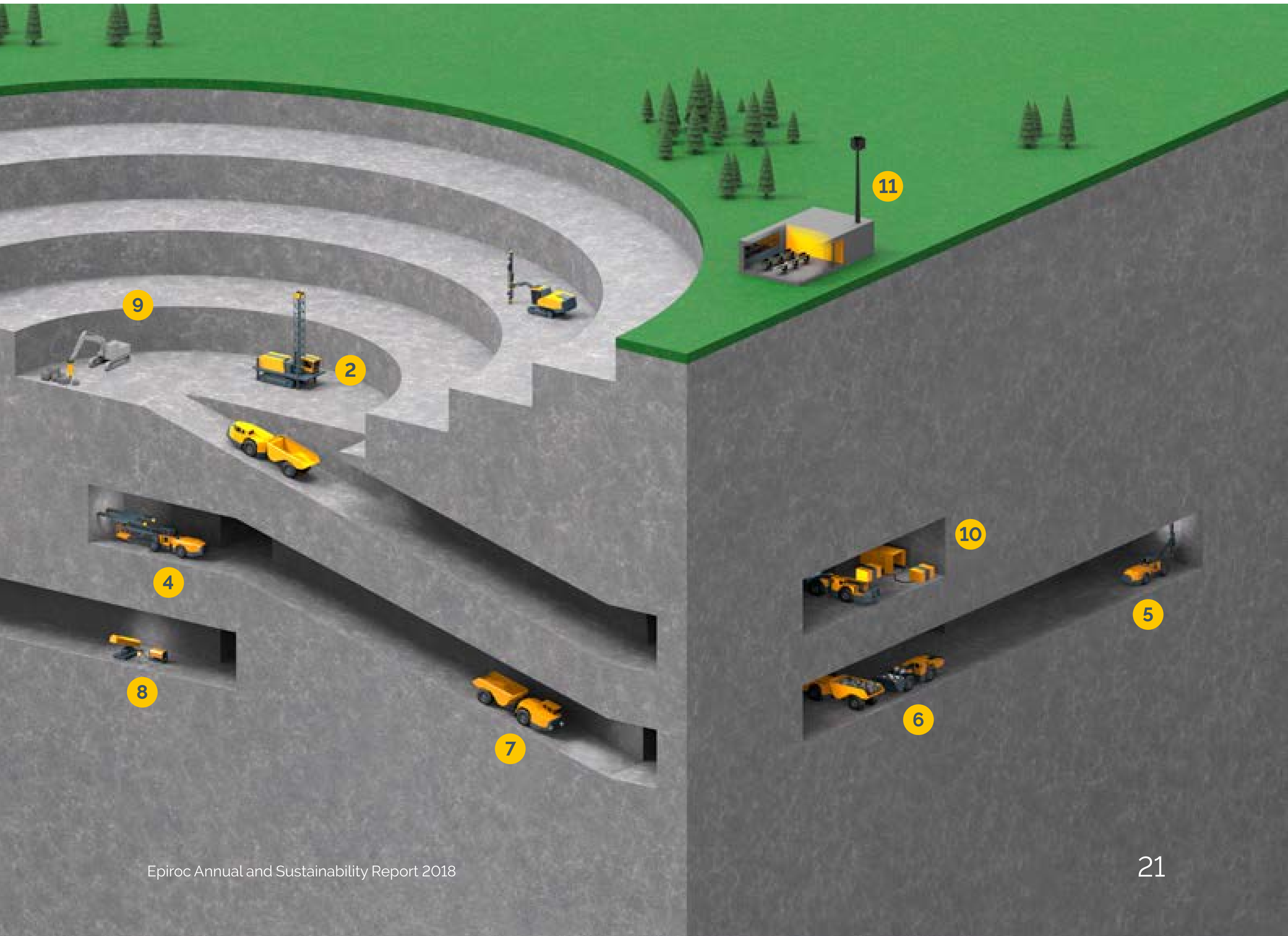


Our telematics system Certiq provides accurate production data about the individual units and the entire fleet, via a user-friendly web portal. It gives a total overview of the operations in real time. The system also communicates notifications, warnings or alarms from the equipment and it can handle the maintenance planning. We also have a system for tracking machines in real time called Mobilaris. With the knowledge of where assets are located, it is possible to increase the utilization and at the same time increase safety. We also have solutions for autonomous vehicles covering a broad spectrum of machines and applications including autonomous loading and haulage. Automated machines can be connected to a traffic management system and the operators can monitor the whole fleet of equipment and give instructions to the machines on what tasks to perform.

Battery technology and electrification for cost savings and improved environment

Our customers are looking for increased productivity and costs savings as well as safe and sustainable solutions. As a response to this, we have developed a 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 and become compliant 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, but they are connected to electricity through a cable when drilling. Diesel engines are then used for transportation of the rigs. We believe that the trend towards electrification will be stronger in the loading and haulage equipment than for drill rigs. This progress goes hand-in-hand with development of the battery technology and we have chosen a strategy for swapping the batteries in order to minimize the time the equipment has to be taken out of production due to charging.



Value creation

How we create value

Our strategy and business model are designed to maximize the value created for the Group's stakeholders. By developing, manufacturing and selling products, solutions and services that enhance our customers' competitiveness we also create value for our shareholders, employees, business partners and the society at large.

Natural resources
- Energy: 172 GWh
- 75% purchased components

Financial resources
- Total assets: SEK 36,155 million
- Investments in innovation, research and development costs: SEK 977 million
- Investments in property, plant and equipment: SEK 577 million

Know-how
- R&D partnerships with universities, customers and business partners
- 950 employees engaged in innovation/R&D
- More than 1,450 patents

Human resources
- 13,847 employees and additional workforce of 1,610 people

Macro economy development and market trends

Stakeholder expectations

Our Key Success Factors
- **Leadership in attractive, structural growth niches in the mining and infrastructure markets**
- **Strong and proven operating model**
- **Resilience driven by high aftermarket exposure**
- **Driving the future in intelligent mining and infrastructure**

Mission and strategy

Created value:

Customers

- Enhanced productivity and competitiveness
- Supports more environmental-friendly mining and infrastructure operations
- Supports safer working conditions for the customers' employees
- Reduced energy consumption
- Decreased total cost of operations

Shareholders

- Net profit: SEK 5,437 million
- 33.2% return on equity
- Proposed dividend to shareholders for 2018 of SEK 2,519 million

Employees

- 14,000 jobs in more than 60 countries
- Salaries and remuneration to employees: SEK 7,433 million
- Reduced lost time injury frequency rate to 3.4 (4.3)

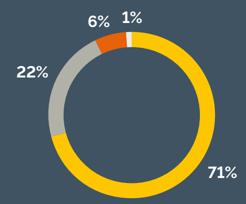
Environment/society

- Increased use of renewable energy
- Reduced total energy use in relation to cost of sales
- Reduced CO_2 emissions from transport in relation to cost of sales
- Improved environmental performance in Epiroc's customers' operations
- Reduced water consumption in water risk areas
- Increased payment of direct taxes to governments
- SEK 8.4 million in community investments
- Local purchasing in communities where Epiroc operates

Business partners

- Long-term relations and business opportunities for around 1,500 significant suppliers, agents, resellers and distributors
- Improved safety, health, environment, and quality through audits

Distribution of direct economic value of SEK 33,225 million*



- Business partners
- Employees
- Governments (taxes)
- Shareholders and other providers of capital

* Direct economic value according to Global Reporting Initiative Guidelines. The SEK 33,225 million of distributed economic value above does not include the SEK 5,280 million of economic value retained. See page 126.

Administration report
The year in review

2018 was the first year for Epiroc as an independent company, following the split from Atlas Copco. The year was characterized by high customer demand from both mining and infrastructure and strong growth in orders, revenues and operating profit.

Administration report for Epiroc AB
Corporate registration number 556041-2149

Important events

The split from Atlas Copco and the listing on Nasdaq Stockholm

On January 16, 2017, Atlas Copco announced its intention to separate and distribute its Mining and Rock Excavation Technique business area, as well as its Hydraulic Attachment Tools business (previously referred to as a part of the Construction Tools division), Epiroc, to its shareholders and list Epiroc on Nasdaq Stockholm. The annual general meeting of Atlas Copco held on April 24, 2018, decided to distribute all shares in Epiroc to the shareholders of Atlas Copco. Atlas Copco shareholders received one Epiroc share for each of their Atlas Copco shares. The first day of trading in Epiroc shares was June 18, 2018.

The background and reasons for the split can be summarized as follows: The Board and Group Management believe that long-term shareholder value will be by created by the split. Epiroc will be able to increase focus, customer value and development opportunities and to successfully realize its strategies under the leadership of a separate management team, with a separate Board of Directors and independent access to capital. As a separate company, Epiroc is also better positioned to meet the different challenges and opportunities offered by the targeted industries. A listing also provides opportunity for current and new shareholders to invest directly in Epiroc.

Epiroc's heritage dates back to 1873 when André Oscar Wallenberg and associates founded the company Atlas in Stockholm, producing equipment for the Swedish railway network. The first rock drill was produced in 1905 and the company has over the years developed to be one of the leading companies in rock drilling and excavation equipment and services for mining and infrastructure. Epiroc focuses on niches and applications where there is a need for performance-critical equipment and services, and where customers focus on productivity and total cost of ownership. The ambition is to develop strong customer relations through collaboration and commitment to innovation, safety and sustainability.

Split activities and Epiroc as an independent company

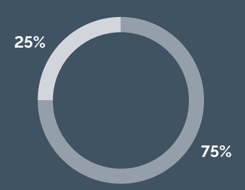
During 2017 and 2018, the majority of the functions and processes created to turn Epiroc into an independent company, separated from Atlas Copco, have gradually been established, meaning that historical financial figures related to corporate cost items are not fully representative. Epiroc believes that 2019 will be the first financial year in which the full effects on the costs related to the new functions can be observed.

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 32–33
Tools & Attachments on pages 34–35

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

Establishment of Board of Directors and Group Management

The Board of Directors and the Group Management team were presented in the second half of 2017. The Board of Directors with Chairman Ronnie Leten was elected at the AGM in April 2018. All Board members and the Group Management team are presented in the corporate governance report on pages 60–62.

Supply-chain program

A supply-chain improvement program in the first quarter 2018 with the aim to improve delivery service to customers, reduce costs, e.g. for transport, and reduce capital tied-up in inventories. The North American markets started implementing the new supply-chain set-up in the fourth quarter. The program is expected to be finalized in 2021.

Acquisitions and agreements

Six acquisitions were completed during the year, including an acquisition of a minority share of a company. The acquisitions added revenues of approximately SEK 380 million in 2018. One additional acquisition was completed in January 2019 and one is expected to be finalized before the end of the first quarter 2019. These two acquisitions add annual revenues of approximately SEK 1,180 million. In addition, several cooperation agreements were signed, including one with leading communications technology provider Ericsson to jointly help mining companies achieve optimal wireless connectivity in their operations.

Note:
Financial statements prior to 2018 are combined. See note 1.

Operational and financial review

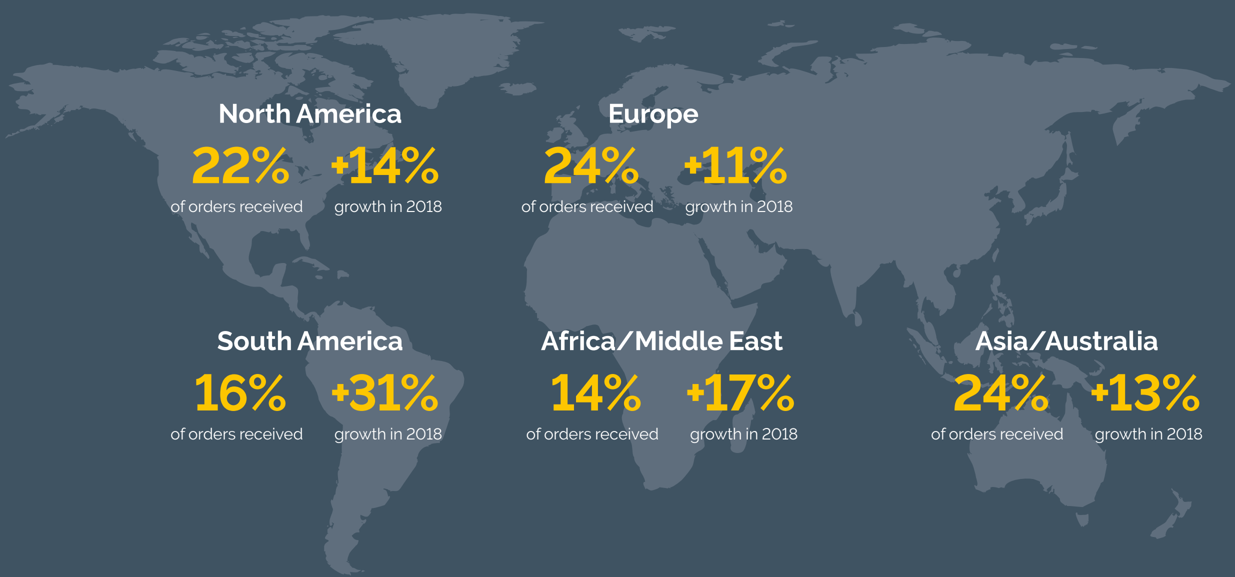
Market development and orders received

The customer demand for Epiroc's products and services improved in 2018. Activities were high both in the mining industry and in infrastructure and customers increased their investments. The orders received increased compared to 2017 in all geographic regions. Orders received increased 16% to SEK 39,400 million (33,831). Organic growth was 13%. Currency contributed with 1% and acquisitions and contract manufacturing with 2% to the growth.

The Equipment & Service segment had order intake of SEK 29,695 million (24,574) and achieved 17% organic order growth, whereof organic growth in equipment and service of 20% and 14%, respectively. Equipment demand was positively affected both by expansion and replacement investments in mining and by higher investments from infrastructure customers. The growth in the service business was attributable to continued positive market development and additional marketing and sales activities.

The Tools & Attachment segment had an order intake of SEK 9,611 million (9,047) corresponding to an organic order

Orders received by region and growth in local currencies



growth of 4%, which was supported by a good business environment.

Geographical development

North America

The order intake in North America increased 14% in local currencies. Growth was strong for Equipment & Service with particularly good development for large surface drill rigs. North America accounted for 22% (22) of orders received.

South America

The order intake in South America increased 31% in local currencies, with strong growth for both surface and underground equipment. South America accounted for 16% (14) of orders received.

Europe

The order intake in Europe increased 11% in local currencies, with the highest growth rate for underground equipment. Europe accounted for 24% (25) of orders received.

Africa/Middle East

The order intake in Africa/Middle East increased 17% in local currencies, with solid growth in both segments and strong development for underground equipment. Africa/Middle East accounted for 14% (14) of orders received.

Asia/Australia

The order intake in Asia/Australia increased 13% in local currencies. Growth was particularly strong for service. Asia/Australia accounted for 24% (25) of orders received.

Revenues

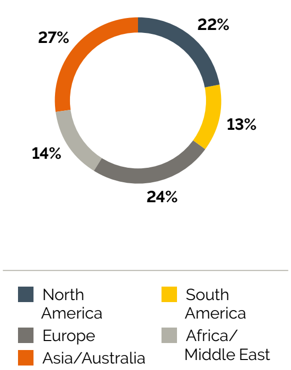
Revenues for 2018 increased 22% to SEK 38,285 million (31,364), corresponding to 18% organic increase. Revenues from acquisitions and contract manufacturing, mainly of road construction equipment, contributed with 3% and currency with 1% to the growth. Epiroc's goal is to achieve an annual revenue growth of 8% over a business cycle. The compound annual revenue growth has been 10% during the period 2015–2018. The business area Mining and Rock Excavation Technique of Atlas Copco, which represents approximately 93% of Epiroc and is a good proxy for Epirocs business had compound annual revenue growth of approximately 5% 2009–2017.

Book to bill was 103% (108).

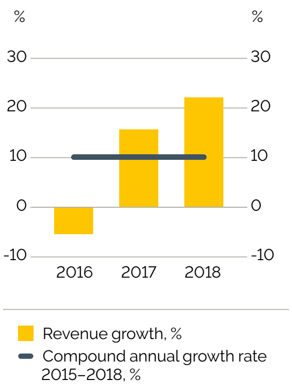
Revenues for the segment Equipment & Service increased 28% to SEK 28,540 million (22,383), corresponding to 24% organic increase. Revenues from acquisitions and contract manufacturing, mainly of road construction equipment, contributed with 3% and currency with 1% to the growth.

Orders received, revenues and book to bill

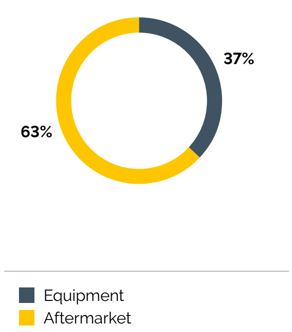
Revenues by geographic area



Annual and average revenue growth



Revenues split by equipment and aftermarket



Order growth
16%
in 2018

Revenue growth
22%
in 2018

Epiroc's goal is to achieve an annual revenue growth of 8% over a business cycle. The compound annual revenue growth has been 10% during the period 2015–2018.

Revenues for the segment Tools & Attachments increased 9% to SEK 9,519 million (8,738), corresponding to 7% organic increase. Revenues from acquisitions and currency contributed 1% each to the growth.

All geographic regions achieved revenue growth, with the highest growth rate in Asia/Australia and Africa/Middle East with growth rates of around 30%. North America, South America and Europe all achieved growth rates of more than 10%.

Aftermarket revenues accounted for 63% of total revenues and equipment for 37%.

Operating profit

The operating profit increased 25% to SEK 7,385 million (5,930) mainly as a result of the strong revenue growth and a positive impact from currency. The operating profit includes costs related to the split from Atlas Copco and change in provision for long-term incentive programs of SEK 394 million (163). Costs related to the split and the listing process were SEK 328 million and change in provision for share-based long-term incentive programs was SEK –66 million (–163).

The operating margin was 19.3% (18.9), affected positively by volume growth and currency and negatively by split and incentive program costs. The operating margin, adjusted for the costs related to the split and the change in provision for the long-term incentive programs was 20.3% (19.4).

The operating profit for the segment Equipment & Service increased 32% to SEK 6,751 million (5,107). The increase was mainly due to higher volumes and a positive impact from currency. The operating margin increased to 23.7% (22.8), affected positively by volume growth and currency and negatively by dilution from acquisitions and contract manufacturing.

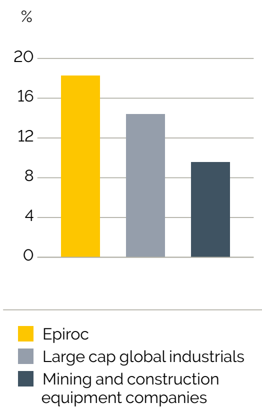
The operating profit for the segment Tools & Attachments increased 8% to SEK 1,239 million (1,146). The increase was mainly due to higher volumes and a positive impact from currency. The operating margin was 13.0% (13.1), affected positively by currency, but negatively by costs increases and product mix.

The operating profit for Common Group Functions was SEK –605 million (–323). The main reasons for the more negative development were the costs related to the split and the listing process of SEK 328 million and the costs for corporate functions that were built up during 2018 of SEK 217 million. The change in provision for share-based long-term incentive programs was lower than in the previous year and amounted to SEK –66 million (–163).

Epiroc's goal is to have an industry-best operating margin, with strong resilience over the cycle. The Group's average operating margin 2015–2018 was 18.3%.

Operating profit and operating margin

Operating margin average 2015–2018 vs. peers and industrial companies



Large cap global industrials:
3M, ABB, Alfa Laval, Assa Abloy, Atlas Copco, Caterpillar, Danaher, Deere, Dover, Eaton, Emerson, Geberit, General Electric, Graco, Honeywell, Illinois Tool Works, Kone, Legrand, Nordson, Parker-Hannifin, Rockwell Automation, Rolls-Royce, Roper Technologies, Sandvik, Schindler, Schneider Electric, Siemens, SKF, Smiths Group, Trelleborg, United Technologies, Volvo, Wärtsilä, Weir and Xylem.

Mining and construction equipment companies:
Caterpillar, Metso, Sandvik and Weir.

Reported data until February 27, 2019.

Operating profit
+25%

Operating margin
19.3%

Epiroc's goal is to have an industry-best operating margin, with strong resilience over the cycle. The Group's average operating margin 2015–2018 was 18.3%.

Sales and profit bridge

Epiroc Group

	Orders received SEK million, Δ, %	Revenues SEK million, Δ, %	Operating profit SEK million, Δ	Margin, %, Δ, pp
2017	**33,831**	**31,364**	**5,930**	**18.9**
Organic	+13	+18	+1,500	+1.1
Currency	+1	+1	+132	+0.2
Structure and other	+2	+3	–177	–0.9
Total	**+16**	**+22**	**+1,455**	**+0.4**
2018	**39,400**	**38,285**	**7,385**	**19.3**

Depreciation and EBITDA

Depreciation, amortization and impairment cost were SEK 1,369 million (1,254) and earnings before depreciation and amortization, EBITDA, reached SEK 8,754 million (7,183), corresponding to a margin of 22.9% (22.9).

Financial items

Financial income was SEK 181 million (232) and financial expenses were SEK 365 million (369). Net financial items were SEK –184 million (–137). Net interest costs were SEK 137 million (125). The refinancing of the company that was carried out in following the listing had a positive effect on the interest expense.

Profit before tax and income tax expense

Profit before tax amounted to SEK 7,201 million (5,793), corresponding to a margin of 18.8% (18.5). Income tax expense amounted to SEK 1,764 million (1,495), corresponding to an effective tax rate of 24.5% (25.8).

Profit for the year and earnings per share

Net profit for the year increased 27% to SEK 5,437 million (4,298). This corresponds to basic earnings per share of SEK 4.50 (3.55). Diluted earnings per share for 2018 was SEK 4.49.

Balance sheet

Balance sheet in brief

	2018	% of total assets	2017	% of total assets
Intangible assets	3,620	10	3,121	11
Rental equipment	1,233	3	1,215	4
Other property, plant and equipment	2,473	7	2,271	8
Other non-current assets	1,870	5	1,620	6
Inventories	10,516	29	8,440	31
Trade receivables	8,005	22	6,271	23
Other receivables	1,622	5	1,649	6
Financial assets	944	3	1,152	4
Cash and cash equivalents	5,872	16	1,808	7
Total assets	**36,155**	**100**	**27,547**	**100**
Total equity	18,847	52	12,047	44
Interest bearing liabilities	7,080	20	7,239	26
Non-interest bearing liabilities	10,228	28	8,261	30
Total equity and liabilities	**36,155**	**100**	**27,547**	**100**

Assets

The Group's total assets increased 31% to SEK 36,155 million (27,547). The growth and the related increase of inventory and customer receivables as well as the refinancing of the company in connection with the listing and the corresponding increase in cash and cash equivalents are the main reasons for the increase. Currency and acquisitions increased the assets by about 2% and 2%, respectively.

Tax rate

24.5%

Earning per share SEK

4.50

Profit for the year increased 27% to SEK 5,437 million.

Net debt

The Group's net debt amounted to SEK 1,208 million, of which SEK 283 million was attributable to post-employment benefits. The net debt/EBITDA ratio was 0.14. The net debt/equity ratio was 6.4%. Previous year's numbers are not comparable as the financing of the Group was finalized in 2018, see "Financing" below. The net debt was affected by share buy-backs related to the long-term incentive programs to a total amount of, net, SEK 1,307 million.

Financing

In connection with the listing in June 2018, the Group entered into a credit facility with a group of banks, a SEK 6,000 million bridge facility, of which SEK 5,000 million was utilized. In addition, Epiroc was granted a bilateral loan of MEUR 100 from the European Investment Bank with a maturity of four years. In December, SEK 4,000 million, of the utilized bridge facility, was replaced with long-term financing. SEK 2,000 million was refinanced through capital market borrowings with a maturity of five years. SEK 2,000 million was refinanced by a bilateral loan facility with a maturity of five years with two one-year extension options. The remaining SEK 1,000 million of the bridge facility is intended to be replaced in the beginning of 2019. As back-up facilities, the Group has a SEK 4,000 million revolving credit facility and a SEK 2,000 million commercial paper program, both unutilized at year-end 2018.

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 SEK 18,847 million (12,047), corresponding to 52.1% (43.7) of total assets. Equity per share was SEK 15.63 (9.94). Epiroc's market capitalization at year end was SEK 99,826 million.

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 SEK 5,365 million (3,593), see page 70.

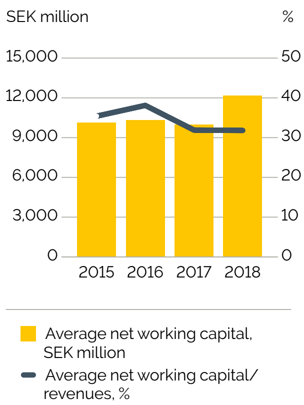
Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 2.10 per share be paid for the 2018 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 47% of net profit.

Working capital

Net working capital was SEK 12,897 million (10,173) at the end of the year, an increase of 27% mainly driven by higher volumes and the related increase in inventories and receivables, partly offset by higher payables. The average net working capital was SEK 12,158 million (9,991). As a percentage of revenues last 12 months, the average net working capital was 31.8% (31.9). The level of net working capital is high and measures have been taken to reduce it. Short term, inventories of equipment, spare parts and rock drilling tools have been analyzed and actions have been taken to reduce the level of inventories. This had some positive effects at the latter part of the year. Long term, a supply-chain program has been initiated as described above. One of the main objectives of this program is to have fewer stocking points and 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 buildup of stock in the key stocking points.

Net working capital



Net debt/EBITDA ratio

0.14

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 47% of net profit.

Capital turnover
The capital turnover ratio was 1.2 (1.1). The capital employed turnover ratio was 1.7 (1.4).

Return on capital employed and return on equity
Return on capital employed increased to 32.0% (27.4) and the return on equity to 33.2% (29.1). The increase is primarily due to the improved operating results.

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

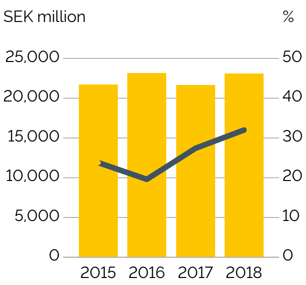
Operating cash flow and investments
Operating cash flow was SEK 3,884 million (4,610). Net cash flow from operating activities was SEK 4,324 million (5,176). Net financial items paid was SEK –483 million (–344). Taxes paid was SEK –1,747 million (–666) affected by payments of preliminary income taxes. Previous year's financial items and taxes paid were affected by the fact that Epiroc was not a Group. Working capital increased by SEK 1,875 million (403), mainly due to higher inventories and receivables following the strong growth. Net investments in rental equipment were SEK 374 million (371). Gross investments in property, plant and equipment were SEK 577 million (424) and sales were SEK 26 million (70). Net investments in property, plant and equipment were SEK 551 million (354). Significant 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 SEK 459 million (289).

Acquisitions and other investments
Six (two) acquisitions of subsidiaries and associated companies took place and the cash flow effect was SEK –546 million (–137), see note 3 and 14. Other investments were positive at SEK 219 million, net, including divestment of some Payment Solutions credit portfolios. Previous year's other investments are not comparable as they consist mainly of changes in cash-pool with Atlas Copco.

Cash flow from financing
Repurchase and sales of own shares related to the long-term incentive programs were, net, SEK –1,307 (–). Change in interest-bearing liabilities was SEK 2,367 million (–889), as a result of the refinancing of the Group.

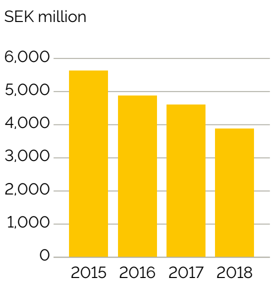
Employees
The average number of employees increased by 9% to 13,517 (12,355). At year end, the number of employees was 13,847 (12,948). Equipment & Service had 9,726 (8,896) employees, Tools & Attachments had 3,874 (3,934) employees and Common Group Functions 247 (118) employees. Epiroc uses an

Return on capital employed



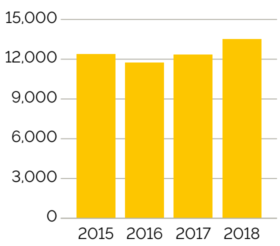
Average capital employed, SEK million
Return on capital employed, %

Operating cash flow



Operating cash flow, SEK million

Average number of employees



Return on capital employed

32.0%

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

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 1,610 (1,397) at the end of the year.

Average number of employees

	2018	% of total	2017	% of total
North America	2,064	15	1,822	15
South America	1,496	11	1,405	11
Europe	4,724	35	4,344	35
– of which Sweden	*3,094*	*23*	*2,714*	*22*
Africa/Middle East	1,462	11	1,390	11
Asia/Australia	3,771	28	3,394	28
Total	**13,517**	**100**	**12,355**	**100**

Workforce profile
Epiroc is a customer-focused company and 50% of all employees work in marketing, sales or service.

Employees by professional category, %	2018	2017
Service	37	36
Production	26	27
Administration	17	17
Marketing	7	7
Research & development	7	7
Sales and support	6	6
Total	**100**	**100**

Average number of employees by region

North America
2,064

South America
1,496

Europe
4,724

Africa/Middle East
1,462

Asia/Australia
3,771

Average number
of employees
13,517

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.

2018 in review

Market development and orders received

The demand for equipment and services was strong, driven by expansions of existing mines and replacement investments. Order volumes for both equipment and services increased in all regions. Investments were made in market presence, innovation and production to meet the favorable business climate.

The orders received for Equipment & Service increased by 21% to SEK 29,695 million (24,574), corresponding to 7% organic growth. Currency contributed with 1% to the growth and acquisitions and contract manufacturing with 3%. Geographically, orders received increased in all regions, with South America having the strongest order growth.

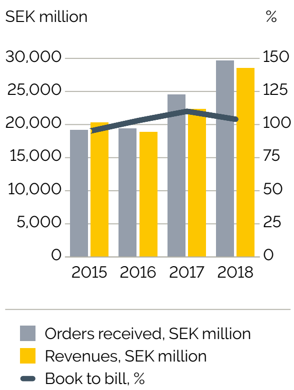
Equipment had an organic growth of 20% and orders received amounted to SEK 15,244 million (12,245). The demand for equipment from mining and infrastructure customers was good both in surface and underground applications. Order intake for surface equipment grew more compared to underground equipment with particularly strong development for large drill rigs for mining applications, Most of the orders from mining customers was related to expansion in or adjacent to existing mines rather than to replacement. Geographically, orders received for equipment increased in all regions, except Asia/Australia, with South America having the highest order growth.

The service business performed well and orders received increased by 17% to SEK 14,451 million (12,328). The organic growth was 14%, supported by a continued positive market development and additional marketing and sales activities. Acquisitions contributed with 3%. Geographically, orders received for service increased in all regions with Asia/Australia having the highest order growth.

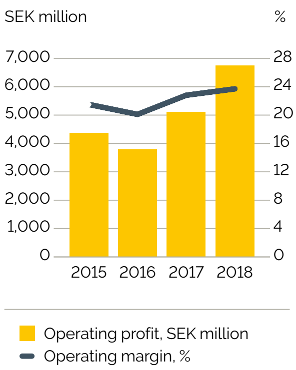
Revenues

Revenues increased by 28% to SEK 28,540 million (22,383), corresponding to an organic growth of 24%. Currency contributed with 1% and revenues from acquisitions and contract manufacturing with 3% growth. Book to bill was 104%. Equipment accounted for 50% (46) of the revenues in the segment and service 50% (55).

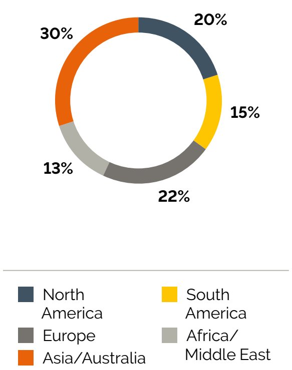
Orders received, revenues and book to bill



Operating profit and operating margin



Revenues by geographic area



Orders received

+21%

Operating profit

6,751

SEK million

Five acquisitions of subsidiaries and associated companies completed in 2018.

Revenues

28,540

SEK million

Operating margin

23.7%

Operating profit and margin
Operating profit was SEK 6,751 million (5,107). The increase was mainly due to higher volumes and a positive impact from currency. The operating margin increased to 23.7% (22.8), affected positively by volume growth and currency and negatively by dilution from acquisitions and contract manufacturing.

Sales and profit bridge
Equipment & Service

	Orders received SEK million, Δ, %	Revenues SEK million, Δ, %	Operating profit SEK million, Δ	Margin, %, Δ, pp
2017	**24,574**	**22,383**	**5,107**	**22.8**
Organic	+17	+24	+1,510	+1.1
Currency	+1	+1	+86	+0.2
Structure and other	+3	+3	+48	–0.4
Total	**+21**	**+28**	**+1,644**	**+0.9**
2018	**29,695**	**28,540**	**6,751**	**23.7**

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 innovation centers, automation centers and production facilities. A Control Tower was inaugurated in Epiroc's facilities in Örebro, 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 multiple locations around the world. The factory capacity improved and the efforts to bring it on par with the demand have yielded results.

Acquisitions
Equipment & Service completed five acquisitions of subsidiaries and associated companies in 2018. See note 3 and 14.

- Cate Drilling Solutions, a U.S. company that distributes and services Epiroc's drilling equipment and components with 35 employees.
- Rock Drill Services Australia, a rock drill specialist serving the Australian mining industry with revenues of SEK 90 million in the fiscal year ended June 30, 2017, with 37 employees.
- Hy-Performance Fluid Power, an Australian service provider for mining and infrastructure with revenues of SEK 50 million in the fiscal year ended June 30, 2017, with 26 employees.
- 34% of ASI Mining, LLC, a U.S.-based company that provides technology solutions for the autonomous operation of mining vehicles. ASI Mining is reported as an associate company.
- Sautec A.S., an Estonian distributor of mining and construction equipment.

Innovations in 2018
Several new products were introduced during the year, including:

- Exploration Manager, a tool available for underground exploration drill rigs that presents operational data that are recorded automatically during the drill cycle. This allows the mine management to improve utilization and productivity.
- Minetruck MT2200 is a truck with the same dimensions as its predecessor MT2010, which can transport 10% heavier loads. The truck is ergonomic, provides safety essentials, speed, high maneuverability and serviceability.
- RigLife service agreement, which includes the collection of machine data through Certiq (Epiroc's telematics system), RigScan audits (inspections) and extended warranty. This provides customers with information and guidance for more efficient machine maintenance.
- The second generation of battery-operated machines, which include 14 and 18-ton loaders, a 42-ton truck and a mid-sized drilling family including face drilling, production drilling and rock reinforcement rigs.

Agreements
Two cooperation agreements were signed to provide customer with even more productive solutions.

- Epiroc joined a partnership with LKAB (Europe's largest iron ore producer), ABB, Combitech and AB Volvo to set a new world standard for sustainable mining, where Epiroc will contribute with autonomous and battery-operated products and digital solutions that improve productivity and safety in the mines.
- In December, Epiroc signed a cooperation agreement with leading communications technology provider Ericsson to jointly help mining companies achieve optimal wireless connectivity in their operations through LTE and 5G technologies.

Innovation

Minetruck MT2200, a truck with the same dimensions as its predecessor, which can transport 10% heavier loads.

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.

2018 in review

Market development and orders received

The business environment in both the infrastructure and mining industry was good for Tools & Attachments with a high level of activity in almost all markets. Order volumes increased and investments were made in innovation, market presence and in manufacturing facilities.

The orders received for Tools & Attachments increased by 6% to SEK 9,611 million (9,047), corresponding to 4% organic growth. Currency contributed with 1% to the growth and acquisitions with 1%. Geographically, orders received increased in all regions, with Africa/Middle East having the strongest order growth. The order growth was higher for hydraulic attachments compared to rock drilling tools. The relatively lower growth for rock drilling tools was partly due to targeted measures to improve the product mix and to efficiency actions in the business.

Revenues

Revenues increased by 9% to SEK 9,519 million (8,738), corresponding to an organic growth of 7%. Currency contributed with 1% and revenues from acquisitions with 1% growth. Book to bill was 101%.

Operating profit and margin

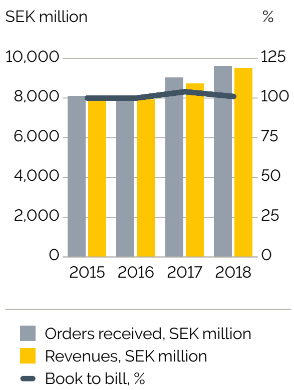
Operating profit was SEK 1,239 million (1,146). The increase was mainly due to higher volumes and a positive impact from currency. The operating margin was 13.0% (13.1), affected positively by currency, but negatively by costs increases and mix.

Sales and profit bridge

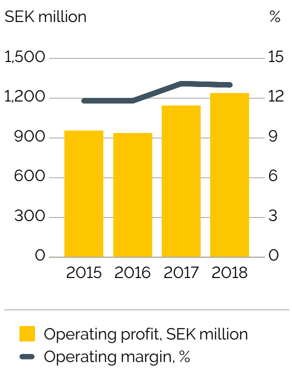
Tools & Attachments

	Orders received SEK million, Δ, %	Revenues SEK million, Δ, %	Operating profit SEK million, Δ	Margin, %, Δ, pp
2017	9,047	8,738	1,146	13.1
Organic	+4	+7	+50	–0.4
Currency	+1	+1	+35	+0.3
Structure and other	+1	+1	+8	–0.0
Total	**+6**	**+9**	**+93**	**–0.1**
2018	**9,611**	**9,519**	**1,239**	**13.0**

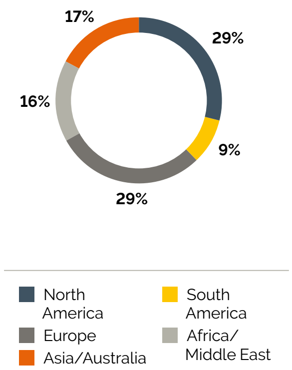
Orders received, revenues and book to bill



Operating profit and operating margin



Revenues by geographic area



Orders received

+6%

Operating profit

1,239

SEK million

Revenues

9,519

SEK million

Operating margin

13.0%

One acquisition was completed and agreements were signed for two additional acquisitions in 2018.

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. Targeted measures to improve the product mix were carried out in the rock drilling tools business, which resulted in lower growth.

Acquisitions

Tools & Attachments completed one acquisition, see also note 3, and signed agreements for two additional acquisitions in 2018.

- The acquisition of Renegade Drilling Supplies Proprietary, a South African manufacturer and distributor of drilling consumables for mining exploration with 22 employees, was completed in January 2018.
- Epiroc announced in October that it had agreed to acquire Fordia Group Inc., a Canadian manufacturer of exploration drilling tools. Fordia has about 250 employees and annual revenues of about SEK 580 million. The acquisition was completed in January 2019.
- In November, an agreement to acquire Innovative Mining Products (Proprietary) Limited, widely known as New Concept Mining, a South African manufacturer of rock reinforcement products for underground mining was announced. The company has about 900 employees and annual revenues of approximately SEK 600 million. The acquisition is expected to be completed in the first quarter 2019.

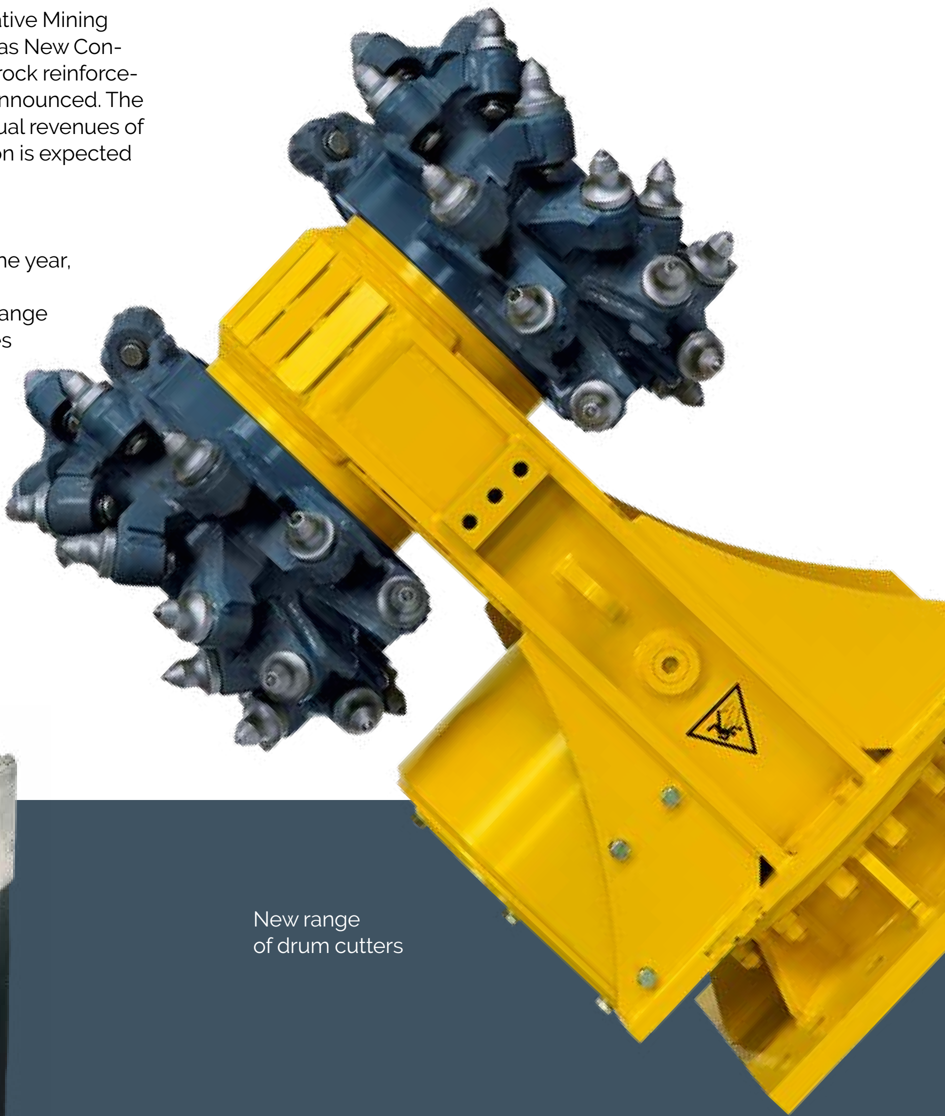
Innovations in 2018

Several new products were introduced during the year, including:

- A line of diamond drill bits that cover a wider range of applications. This means that fewer bit types than before are needed and it is easier to select the optimal bit for a certain job. This improves productivity for the drilling contractor.
- Intelligent Protection System (IPS), which is a fully automated system for Epiroc's hydraulic breakers, providing a simpler, more efficient and economical operation.
- The V-LOK No Weld Clamp, which is a system for holding the drill string together. It increases safety and productivity by eliminating the need for welding, grinding and hot permit.
- A range of reverse circulation drill pipes without o-rings. Reverse circulation is used in exploration and the pipes without o-rings significantly reduce pressure drop in the drill string. This contributes to higher productivity, lower cost per meter and better samples recovery and quality.
- Three new ranges of drum cutters were introduced. The new drum cutters are allowing even higher accuracy and productivity in challenging applications, and narrow trenching. The auger drive units are suitable for challenging soil and soft rock drilling applications. The new models deliver high reliability and productivity for a wide range of excavation and demolition tasks.

Innovations

Diamond drill bits for exploration drilling



New range of drum cutters

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. Epiroc AB was set up as a parent company for the Group during 2017 and had limited operations during 2017.

Earnings

Operating loss was SEK –199 million (–14). Profit before tax totaled SEK 4,208 million (0). Profit for the year amounted to SEK 3,281 million (0).

Financing

The total assets were SEK 56,375 million (50,129) at the end of the year and cash and cash equivalents amounted to SEK 1 million (0) and interest-bearing liabilities, excluding post-employment benefits, to SEK 6,023 (2,081) million. Equity represented 89% (88) of total assets and the non-restricted equity totaled SEK 49,553 million (43,886).

Employees

The average number of employees was 33 (5).

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 63–67 and note 27.

Shares and share capital

At year end, Epiroc AB's share capital totaled SEK 500 million (21). 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 2018, 13,991,877 class A shares were held by Epiroc. The Board of Directors will propose to the Annual General Meeting 2019 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 2.10 per share, which corresponds to SEK 2,519 million. The dividend is proposed to be paid in two equal installments, the first with record date May 13, 2019 and the second with record date October 30, 2019. 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	46,272, 443,010
Profit for the year	3,281,040,311
Total	49,553,483,321
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 2.10 per share	2,519,468,335
To be retained in the business	47,034,014,986
Total	49,553,483,321

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 2.10 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 128 in this document.

Four-year summary

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

1) Adjusted for costs for the split from Atlas Copco and change in provision for share-based long-term incentive programs
2) In 2015–2017, mainly changes in cash-pool with Atlas Copco and currency hedges of loans. In 2018, mainly currency hedges of loans and divestment of Payment Solutions portfolios.

Our approach to sustainability and corporate responsibility

Sustainability and corporate responsibility are truly integrated in Epiroc's customer offerings and our business processes. We believe this to be fundamental for building a company to be well equipped to tackle future challenges and embrace possibilities in a rapidly changing world.

Epiroc defines sustainability and corporate responsibility as the delivery of long-term value in economic, environmental, ethical and social areas. At the same time, it is important to reduce potential risks related to these areas. We are committed to using the triple bottom line approach, i.e. including not only financial factors, but also social and environmental factors, to evaluate our performance broadly as we believe this will help us create greater business value for us and our customers. It will also help reduce our environmental footprint along the value chain. In the Epiroc Code of Conduct, we have summarized our internal policy documents related to business ethics and social and environmental performance. The Sustainability Policy guides us in our work with sustainability issues. Targets and key performance indicators are in place, as well as priorities, to ensure that we stay competitive, innovative and ethically sound.

Sustainability as a competitive advantage

We are convinced that our approach to sustainability will be a driver of long-term growth and a key to reach our vision to be the customer's first choice. Therefore, we are focused on ensuring a responsible and efficient value chain, as well as creating increased customer value by consistent performance and service excellence. This is reflected in both how we manage and develop our own operations and products and how the use of our products contributes to increased sustainability

Four areas that capture our commitments

The four areas that we see as prioritized to achieve long-term success and that bring together the most significant material topics are;

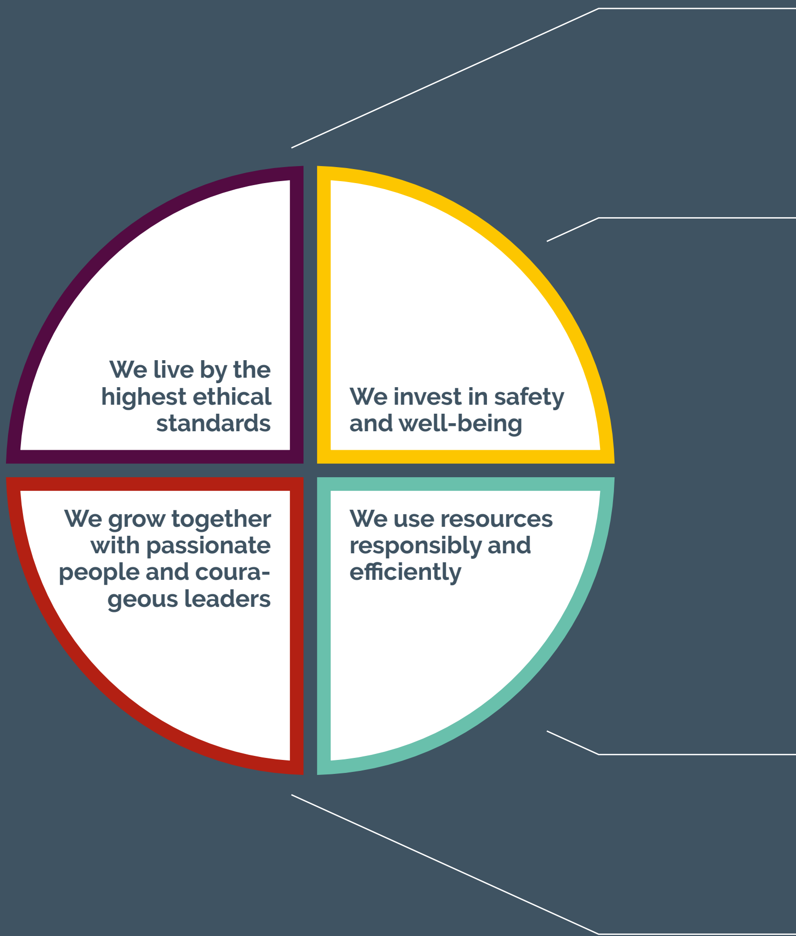
- to live by the highest ethical standards,
- invest in safety and well-being,
- use resources responsibly and efficiently and
- grow together with passionate people and courageous leaders.

Our sustainability targets

For each focus area there are a number of targets and key performance indicators to ensure that our business stays competitive, innovative and ethically sound. The priorities are set to ensure that we can capture opportunities while at the same time reducing the risks.

The 2030 Agenda for Sustainable Development

The 17 Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 define focus areas and goals for long-term sustainable development to be achieved by 2030. The eight SDGs that Epiroc has the greatest opportunity to contribute to and influence are; (5) gender equality; (6) clean water and sanitation; (7) accessible and clean energy; (8) decent work and economic growth; (9) industry, innovation and infrastructure; (12) responsible consumption and production; (15) life on land; and (16) peace, justice and strong institutions. These goals can also be linked to existing activities and targets within our operations.



for our customers. Our products are developed with the aim of meeting our customers' increased demand for solutions that reduce their environmental footprints and address emission regulations. Our products are also improving the safety and health conditions for employees thanks to solutions for autonomous operations and remote control, mechanized equipment and battery driven solutions to name a few.

By helping our customers reduce sustainability risks and environmental footprints in a cost-effective way, we can together meet the demand of today without compromising the future needs of tomorrow's generations.

The most material aspects of our business

This is the first sustainability report for Epiroc and an important component of our integrated sustainability approach, target setting and processes, is the materiality assessment. It includes the most material environmental, economic, safety, human rights, labor and ethical topics that we need to manage, monitor and communicate. The assessment is based on the two materiality criteria:

- Relevance to Epiroc given the operations we conduct and the sustainability impact our operations have
- Relevance to Epiroc's stakeholders

The assessment of the most material aspects of our business is the result of internal workshops and stakeholder dialogues, taking into account emerging trends and other input. During 2018, we conducted a stakeholder survey on our materiality assessment in order to better understand what sustainability topics influence the views and decisions of our key stakeholders in their decision-making. The results from the stakeholder survey were then discussed at a workshop with representatives from Group Management and senior managers. All this input contributes to the basis of the outline of the materiality assessment in the sustainability report. For a more complete summary of the ongoing dialogue with our key stakeholders, please see page 131.

Our key performance indicators	UN Sustainable Development Goals
● % Significant suppliers that confirmed compliance with the Epiroc Code of Conduct ● % Significant agents, resellers and distributors that confirmed compliance with the Epiroc Code of Conduct	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
● Number fatalities ● Lost time injury frequency rate ● Total recordable injuries frequency rate ● % Sick leave	8 DECENT WORK AND ECONOMIC GROWTH
● MWh energy from operations/Cost of sales ● % Renewable of total MWh energy used in operations ● Transport CO_2 (tonnes)/Cost of sales ● Water consumption m^3 at sites in water risk areas/Cost of sales	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 15 LIFE ON LAND
● % Female managers and % female employees in the Group ● Communicate Leadership Index (for 2019)	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH

● ● ● ● = Target areas

We live by the highest ethical standards

Living by the highest ethical standards is key to us and forms part of the foundation of our responsible business approach. Emphasis is therefore placed on communicating and monitoring adherence to Epiroc's values and Code of Conduct throughout the value chain: a chain that extends from responsible sourcing to a responsible sales process, including due diligence processes to assess, prevent and mitigate potential negative effects.

Epiroc's key performance indicators

The material topics
Business ethics including corruption, supply chain management, community engagement, human rights, crisis management and taxes

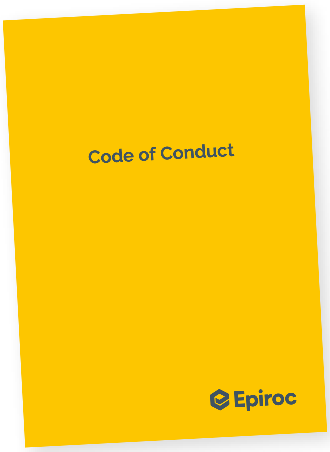
Target 2018
98% Significant suppliers confirming compliance with the Epiroc Code of Conduct
75% Significant agents, resellers and distributors confirming compliance with the Epiroc Code of Conduct

Outcome 2018
98% Significant suppliers that confirmed compliance with the Epiroc Code of Conduct
75% Significant agents, resellers and distributors that confirmed compliance with the Epiroc Code of Conduct

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

Our Code of Conduct forms the basis of everything we do

As a new company, which nonetheless has a legacy of more than 145 years, we are in a great position to include our values and standards from the beginning as a helping guide into the future. With customers in more than 150 countries, including complex and challenging markets, with different social and environmental laws, we are committed to doing business responsibly, to upholding the highest ethical standards, and to acting with integrity. The Code of Conduct ("the Code") is an important tool to achieve this and its objectives are: to build awareness of Epiroc's culture and policies; to enable us to "walk the talk", meaning to work according to our values with respect for ethics, social issues and the environment; to provide guidance in our work and integrate the Code into business processes; to develop commitment and an understanding of the importance of following the Code; and to handle possible non-compliance with our Code.



Translations of our CoC are available in several different languages; English, Finnish, French, German, Japanese, Portuguese, Russian, Simplified Chinese, Spanish and Swedish.

Implementation of the Code throughout the whole organization

Our employees and business partners should all adhere to the Code. The Compliance Board (see page 130 for further information) is responsible for implementation and adherence to the Code. The management is in turn responsible to promote the content of the Code and make sure that all their employees, existing as well as newcomers, are aware of this. Epiroc Managers have been requested to make a Code Compliance Commitment, which in 2018 was made by 91% (–) of said managers. The relatively low number is due to changes in the IT system and to reach a higher number will be prioritized in 2019. The Code is also handed out to all new employees as part of the onboarding process.

To explain our values and commitments and help our employees and business partners better understand the content of the Code, different Code training courses have been developed. A mandatory Code of Conduct E-learning Training for managers is available. In 2018, 91% (–) were trained in our Code of Conduct. Another example is the Code of Conduct Compliance Workshop for managers developed to further enhance the understanding of the content of the Code and the application of it in challenging situations. It was held during a Leadership forum at the Epiroc Days, where some 150 senior managers were gathered, as well as during the introduction training for new general managers.

Zero tolerance against corruption

We conduct business in countries with varying levels of risk exposure regarding corruption. As clearly stated in our Code, there is zero tolerance of corruption, including extortion and bribery. This applies to all our operations, meaning that corruption is never acceptable.

A whistleblower function to report any concerns

We encourage reporting of any behavior or actions that are violations of laws or of the Code to be reported to our whistleblower/hotline function. It can be used by our employees or external stakeholders to report concerns. The reports are followed up and investigated on a case-by-case basis. All reports are treated as confidential by the General Counsel and the person reporting is guaranteed anonymity. There are no negative consequences, such as demotion, penalty or other reprisals, for employees for reporting violations. For more information on reported potential violations through the whistleblower function see page 134. In 2019, measures to increase awareness of the whistleblower function will take place.

Implementing the UN Guiding Principles on Business and Human Rights (UNGP)

Being a global company means that our operations are conducted in countries with varying levels of risk exposure regarding different human rights issues, such as freedom of association, the right to collective bargaining, working hours, land rights and forced labor.

Epiroc is a signatory to the UN Global Compact and we are committed to working with the ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. 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 (UNGP). The UNGPs set out the corporate responsibility to respect human rights, stating that business enterprises should avoid infringing on human rights as well as addressing the adverse human rights impacts with which they are involved. The work on the implementation of the UNGPs in our operations is an ongoing process with awareness raising, development of processes, implementation and follow-up as important aspects throughout the value chain.

Conducting Human Rights Due Diligence

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 believe that our presence in complex markets and environments can positively contribute to a sustainable development and we firmly believe that the possibility of influencing matters is greater if we are present in those markets instead of leaving them. It is also important to pay close attention to countries under sanctions. We identify and manage human rights issues in a number of ways and internal processes, such as responsible sales assessments and responsible sourcing practices.

An assessment tool to investigate potential risks based on the environment, human rights and corruption in markets and industries where Epiroc is present is already available. During 2018, a project to further develop this tool and customize it for our sales operations was initiated. The responsible sales process includes a human rights due diligence to assess, prevent and mitigate potential negative impacts. Other issues taken into account are the risks of corruption, as well as environmental issues. Several different functions within the company participated in the development process and one important step was to identify criteria for 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, land rights and indigenous people and corruption
2. Customer – type of customer and project

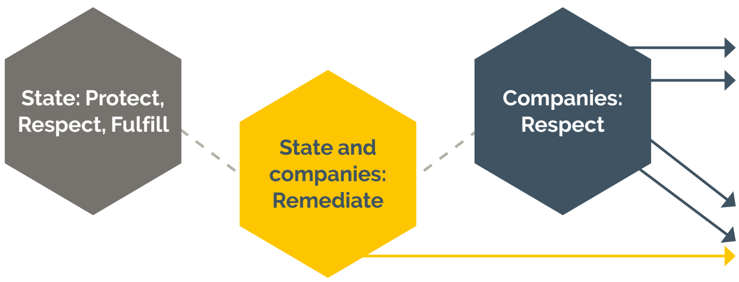
The implementation and follow-up of the process was strengthened and a pilot case was initiated in late 2018. Experiences from the pilot will be taken into consideration and the new assessment tool will be implemented during 2019. For more information about how we implement the UNGP, see page 134.

Responsible sourcing throughout a decentralized organization

Epiroc customers are based all over the world, often at locations not easily accessible, and customized solutions might be required to fulfill specific customer needs. To be flexible, we have a decentralized organization where each division is responsible for its business and results, including sourcing. To be able to serve our customers based on aforementioned market conditions, we have a broad range of products available at different stock locations globally. The implication for sourcing is that we have an extensive number of parts, as well as a large number of suppliers.

In order to capture economies of scale and to safeguard efficient processes, a Sourcing Council has been established. All divisions are represented in the Sourcing Council and opportunities related to processes, applications, targets and products are constantly reviewed to find the right balance

The UN Guiding Principles on Business and Human Rights



Company duties to respect include:

Policy commitments

Human rights due diligence

- Assessing impacts
- Acting on the findings
- Tracking effectiveness of responses
- Communicating

Stakeholder engagement

Remediation

between flexibility for the divisions and alignment and synergies within the Group. The Council is also responsible for the Purchasing Policy, whereas each division is responsible for being compliant with the content.

By creating a higher degree of transparency, alignment and cooperation between the divisions' sourcing functions, we will be able to minimize the risks related to the supplier base. Focus for risk management within sourcing is related to the suppliers that represent the main spending and the ones based in markets with the highest risk of corruption and violations of human rights. These suppliers are defined as "Significant Suppliers". In 2018, 1,298 (1,287), suppliers were in scope of this risk-based approach. In 2018 we set targets on how significant suppliers comply with our Code of Conduct. The Sourcing Council is responsible for the follow up of this target.

In order to make sure that other business partners also adhere to our values and ethical standards, in 2018 we set targets on how significant agents, resellers and distributors comply with our Code of Conduct. Focus for minimizing risks is related to all agents/resellers/distributors of goods and services that represent high spending and the ones based in markets with the highest risk of corruption and violations of human rights. These agents, resellers and distributors are defined as "Significant agents, resellers and distributors". In 2018, 280 (–), agents, resellers and distributors were in scope of this risk-based approach. The Marketing Council is responsible for the follow up of this target.

Epiroc Business Partner Criteria provide the guidelines

Suppliers, agents, resellers and distributors are required to comply with our Code of Conduct together with international standards, applicable legislation and regulations. The Epiroc Business Partner Criteria constitute the central policy based on the Code and provide an explanation of our basic expectations summarized in ten criteria. All our significant suppliers, agents, resellers and distributors, must sign their commitment to this document, and we will monitor and follow up on their compliance through surveys and audits. We will also review our business relationships if violations are detected and business partners will be immediately requested to adapt or change to meet the criteria by establishing an action plan to help them fulfill the requirements. Another condition for doing business with Epiroc is that our business partners and their subcontractors must allow us to perform audits.

With a wide range of suppliers, agents, resellers and distributors, we focus our activities related to compliance and follow-up on, i.e. "Significant Suppliers" and "Significant agents, resellers, and distributors".

Supplier evaluations that cover a wide range of issues

Supplier evaluations are well integrated into our sourcing organizations' main processes and are critical for minimizing risks related to the supply chain. Suppliers are impartially evaluated on parameters including price, quality and reliability as well as key environmental, social and ethical concerns such as safety, health, the environment, business ethics and human rights. Evaluations are primarily conducted by self-assessment questions and by audits. For maximum transparency and efficiency, all Epiroc divisions use the same tool for the supplier interaction and the storage of results.

All new suppliers are evaluated before introduction and are obliged to sign the Epiroc Business Partner Criteria Letter and Significant Suppliers are evaluated in five-year cycles. Status of confirmation to the Business Partner Criteria Letter and evaluation by audit for Significant Suppliers are reported on a yearly basis. The results are subject to target setting and the development is followed closely as key performance indicators. In 2018, 98% (97) of our Significant Suppliers confirmed our Business Partner Criteria and 297 (271) suppliers were audited in total. Of suppliers audited for safety, health, the environment, business ethics and human rights, 100% (100) were approved.

Epiroc Sourcing general process: Manage Procurement and Suppliers

We invest in safety and well-being

Safety and well-being are key priority areas for Epiroc. As an employer we have the responsibility to provide safe workplaces and to ensure that a strong safety culture is developed and maintained. Our business focuses on providing more advanced solutions, such as automation and remote control. This contributes to improved safety conditions for our employees and customers.

Epiroc's key performance indicators

The material topics
Safety, product safety

Target 2018
0 Number fatalities
3.5 LTIFR (Lost time injury frequency rate) (12M)
8.5 TRIFR (Total recordable injuries frequency rate) (12M)[1]
Keep below 2.5% sick leave (12M)

Outcome 2018
0 Number fatalities
3.4 LTIFR (Lost time injury frequency rate) (12M)
8.9 TRIFR (Total recordable injuries frequency rate) (12M)[1]
2.2% Sick leave (12M)

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

1) Total recordable injuries (Sum of Lost time injuries, Medical treatment injuries and fatalities) per million working hours (12M)

Striving towards a vision of zero work-related injuries

It is fundamental for us to ensure a safe workplace for our employees and we see it as crucial to attain a vision of zero work-related injuries. Our Sustainability Policy clearly states that we ensure the well-being of our employees and aim to offer a safe and healthy working environment in our operations.

Within the framework of our global management systems, which are certified according to OHSAS 18001, we are constantly working to improve our processes in order to make them efficient and safe. Risk assessment is the core activity in the health and safety part of our management systems.

A number of activities are undertaken to achieve our vision. Safety Working Groups are established within each division focusing on cutting down the number of injuries and we have also released and promoted new videos called "WorkSafe!"

The Epiroc Safety Commitments focus on how to behave in a safe manner. Everybody has to follow eight commitments and promise that if a task can´t be done safely, it should not be done until measures are in place. To develop our safety culture further, a global initiative will be rolled out in 2019 to address the fact that human error is the reason for the majority of all injuries. We will deploy an understanding that, by reflecting on our current state of mind before starting a job or an activity, we have the possibility of preventing critical errors.

In 2018, the number of work-related Lost time injuries (LTIs) among total workforce amounted to 99 (113). The relative number of work-related LTIs per million working hours for our workforce decreased to 3.4 (4.3) and the number of work-related Medical treatment injuries (MTIs) per million working hours was 5.4 (–). The majority of all injuries reported have been in Asia/Australia and North America regions, and the largest decrease among Lost time injuries was from operations in Europe. No (1) fatalities occurred within Epiroc's operations. Looking at our set of targets for occupational health and safety, the figures indicate improvements. Sick leave continued to stay on a low level. Preventive measures, such as increased trainings and awareness raising activities, were implemented during 2018 which lowered the number of LTIs. There is a continued focus on training and activities to reduce the number of LTIs.

Among the additional workforce, the LTIs decreased from 12 to 7 and 2.3 (5.2) LTIs per million working hours. The number of MTIs among the additional workforce amounted to 10 (–) per million working hours.

Developing a behavior with safety in mind is key

Creating workplaces that are characterized by good order is essential in order to avoid injuries. It demands that our employees' attitudes and behavior include looking out for their own safety and that of their colleagues. The risk exposure of our employees, such as service technicians, working in the field is material. Their work is often carried out in challenging work environments with and in use of heavy and advanced equipment requiring extensive experience in order to be handled safely. Both products and processes are continuously improved with safety as a high priority and risk assessments are carried out frequently. All Epiroc companies set targets and make action plans to enhance awareness and encourage safe behaviors. Leadership is also essential when creating risk based thinking in our organization.

The safety culture that we are seeking is a proactive mindset; moving away from reactive behavior in the event of accidents, towards employee awareness of their own responsibility, leading to behavior that takes responsibility for their own and their colleagues' safety. All around the organization, continuous efforts are made that are adapted to the local needs to strengthen the safety culture.

The Epiroc Global Safety Day was held in April and is an annual event with the aim of emphasizing safety at work and reinforcing our safety and health culture. We do this by giving all employees the possibility to openly discuss safety and how we can improve the working conditions for all our employees and also for our customers using Epiroc products. In addition to local challenges within the health and safety area, the Safety Day also included discussions around personal safety awareness. The activities varied and some examples were fire drills, training courses in first aid and cardiopulmonary resuscitation (CPR), including use of defibrillators in some cases. There were also training courses and workshops on a healthy lifestyle.

The Epiroc Health and Safety Award is an annual award aimed at promoting and inspiring companies in their work of improving the safety and health of employees and other stakeholders, and to increase the safety and health awareness in the Epiroc Group. It will support companies in their work to achieve the Group's vision of zero injuries and a safe and healthy working environment. The winner for 2018 will be announced in the spring of 2019.

Epiroc completed a number of activities focusing on different health issues within the cooperation program with the International Council of Swedish Industry (NIR), called the Swedish Workplace HIV/AIDS Programme in countries such as South Africa, Zambia, Zimbabwe, Botswana and Mozambique.

Working proactively on reducing sick leave

A good work environment is characterized by good leadership, committed employees and, of course, proactive health measures. In 2018, sick leave among our employees due to their own illness was 2.1% (2.1), which is below the targeted level of 2.5%, but continuous efforts to reduce this will take place in 2019.

We see that good leadership is crucial in order to capture signals of ill-health among our employees and, with preventive measures, give them the possibility to constructively deal with stress-related problems for instance, whether it is private or work-related, or a combination of both. In the event of injuries, longer periods of sick leave or other work-related problems, an active rehabilitation program is initiated to minimize the length of sick leave.

Contractor safety is important to us

Every year employees from external companies work at Epiroc, either to keep flexibility in handling fluctuations in demand or to provide specialized skills for fixed periods of time. The contractors are primarily hired in our manufacturing and assembly plants. To increase their safety awareness, we provide safety training sessions to ensure the safety of everyone working at our facilities.

Products that contribute to a healthier and safer work environment

A safe working environment is equally important to our customers. A majority of them are active in industries where work-related injuries can be a reality. Fundamental for all product development is making sure that all our products are in compliance with relevant safety and environmental regulations. Equally essential is our ambition to improve working conditions for employees in the mining and construction industries by meeting our customer needs and expectations on safety, quality and ergonomics.

These initiatives are supported by an increasing demand for safe solutions. Our autonomous and remote-controlled equipment and the transition from hand held to mechanized equipment significantly improve work safety since they move operators away from hazardous areas. Our focus on intelligent mining also includes the ambition of battery-powered machines, creating an emissions-free mining environment driven by electricity through battery or cable, and thereby creating a significantly healthier and safer work environment. Contributing to making work environments such as mines and major infrastructure projects less risky and healthier to those who work there is a strong driving force for us in our product development process.

A vision of zero work-related injuries
Safety is important for our customers and for us as we are engaged in industries where work-related accidents are a reality. We continuously strive to improve safety by providing equipment, which is designed with the safety of the user in mind.

We use resources responsibly and efficiently

Focus on innovation and delivering energy efficient products is a vital part of our strategy and is largely centered on new technology that can improve the customer offering in a way that is environmentally and economically constructive. We are continuously working to minimize our environmental impact across the value chain by taking a life cycle approach to innovation.

Epiroc´s key performance indicators

The material topics
Energy from operations, life cycle perspective, product eco efficiency, transport carbon emission, waste/water, biodiversity

Target 2018
7.8 MWh energy from operations/Cost of sales (MSEK) (12M)
59% Renewable of total MWh energy used in operations (12M)
4.8 Transport CO_2 (tonnes)/Cost of sales (MSEK) (12M)
3.4 Water consumption m^3 at sites in water risk areas/Cost of sales (MSEK) (12M)

Outcome 2018
7.6 MWh energy from operations/Cost of sales (MSEK)
60% Renewable of total MWh energy used in operations
5.6 Transport CO_2 (tonnes)/Cost of sales (MSEK)
2.9 Water consumption m^3 at sites in water risk areas/Cost of sales (MSEK)

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

For us, this is what innovation is about

We have a Sustainability Policy and procedures in place to ensure that our products and services are developed with the aim of meeting the productivity, quality, functionality, safety and environmental needs of our customers.

Combating climate change is key for society as well as business and Epiroc's ambition is to be part of the solution by continuously developing new and improved products and services that add value to our customers and address their key challenges. A significant portion of the environmental footprint concerns the use-phase of our products. We work closely with our customers to supply them with strong service offerings and smart product design that can minimize waste and maximize the value of the customers' investments.

Our product development projects have targets to reduce our customers' environmental impact by, for example, reducing energy consumption, and to be on the forefront of breakthrough technologies, such as increasing automation and interoperability of the equipment. This approach is also reflected in our focus on intelligent mining that includes the ambition that the majority of our equipment in the underground mine should be battery-powered machines creating an emissions-free mining environment. Products are also designed to be refurbished and turned into "new" equipment again. There is also a market for used equipment.

Important steps towards sustainability in mining

The launch in 2018 of the second generation of electric battery-powered equipment is a good example of Epiroc's aim to boost our customers' productivity, enhance safety and cut emissions. One of the biggest expenditures in many mining operations, is the cost of ventilation related to higher temperatures at greater depths and the use of diesel equipment. With electric battery-powered machinery, costs can be cut significantly with savings on energy, maintenance, ventilation and improved employee health.

The expansion of our battery offering and zero-emission underground fleet includes 14- and 18-ton loaders, a 42-ton truck and a mid-sized drilling family, including face drilling, production drilling and rock reinforcement rigs. The new battery power-packs comply with CE standards. These high energy density batteries are either charged while connected to the grid, charged while the machine is idle or easily swappable for continuous operations.

Innovation case to increase energy efficiency

The biggest potential to increase energy efficiency and reduce emissions is through innovative products and services and thereby contributing to Sustainable Development Goals 7 and 9. Therefore, each division has identified one or two 'product families' whose performance can be followed up year-by-year in relation to energy efficiency according to the following criteria:

- The case chosen is significant to the business
- The case can be followed during a couple of years
- It must be possible to audit the data
- The energy efficiency gains may be reported throughout the value chain

For 2018, our second generation battery machines were chosen (for more information, please see page 50).

Sustainable Underground Mining – a unique collaboration with Swedish companies

The mine of the future is carbon-dioxide-free, digitalized and autonomous. To set a new world standard for sustainable mining at great depth, we have joined forces in a partnership with LKAB, ABB, Combitech and AB Volvo and are starting a unique

Major savings on energy
One of the biggest expenditures in many mining operation is the cost of ventilation related to higher temperatures at greater depths and the use of diesel equipment. Electric battery-powered machinery, such as the Boomer E2 Battery, results in significant savings on energy, maintenance and ventilation.

testbed in the ore fields of northern Sweden. We will study the best means of building an efficient autonomous production system that is carbon-dioxide-free and has the highest conceivable level of safety.

Committed to continuous efforts that reduce our emissions

In order to reduce the direct and indirect emissions from our operations and help to combat climate change, our work is aimed at reducing our impact throughout the value chain along with investments in energy efficiency. The direct emissions by our own operations are mainly generated from the production units' emissions to air and water while the indirect emissions come from the production unit's energy consumption and transports of goods.

During 2018, the direct emissions of greenhouse gases from our own operations increased to 6,180 (5,565) in metrics tons of CO_2 equivalent due to generally increased business and longer working hours in some entities. For one entity, the increased rig production and rig testing contributed to the increase in diesel consumption.

During 2018, the indirect emissions of greenhouse gases from our own operations increased to 157,346 (142,672) in metrics tons of CO_2 equivalent due to growing business which increased the number of transports. As a result of greater demand for our products, which has resulted in increased production, heat treatment and more operational hours in some entities, the energy consumption for the year amounted to 172,028 (155,497) MWh.

The share of renewable energy of total MWh energy used in operations increased to 60% (55). As the availability of renewable energy increases, we will endeavor to gradually attain CO_2-neutral production. A feasibility study was carried out in 2018 in order to analyze the energy mix available in our particular markets. This study is to be followed by an action plan in order to handle the available energy mix in the best possible way.

Our transports mainly comprise incoming transports of raw materials to the production units and outgoing transports of products to customers from the production units and distribution centers. Impact from these transports consists of emissions of greenhouse gases and other substances to air. For 2018, emissions of greenhouse gases from transports of goods was 5.6 (6.2) CO_2 (tons)/Cost of sales (MSEK). This means that the emissions from transports decreased due to actions that have been initiated during 2018. Combined transport of products and material, reduction in exports and increase in domestic sales are some examples of these actions. For some entities there has been development of local suppliers substituting imports and increased pre-planning of orders, thus helping to plan for sea shipments instead of air freights. Emissions of greenhouse gases from transports of goods CO_2 (tons)/Cost of sales (MSEK) in 2018 exceeded the target for 2018 with 17% due to refinement in calculation methods, which also explains the lowered key performance indicator for 2019 (for more information, see page 126).

In order to reduce CO_2 emissions, we constantly work on improvements of our planning processes. Increased digitalization and use of predictive maintenance will lead to improved forecasts and supplier collaboration that will also contribute to reduction of CO_2 emissions.

Water management with a focus on water-risk areas

Our overall water consumption is relatively low since the focus is on assembly. However, as some of our own operations are in countries that from year to year face water shortages, we use water indices to identify operations located in water-risk areas, from physical, legislative or cost perspectives. Operations in these areas are obliged to implement a water-risk management plan. The established KPI measuring water consumption in risk areas in relation to cost of sales amounted to 2.9 (3.7) m^3, a decrease by 22% (20). For comparable units, i.e. the same locations that were considered having water stress the previous year, the water consumption in risk areas in relation to cost of sales amounted to 3.2 m^3. Water consumption in water risk areas ('000 m^3) decreased to 65 (67). The decrease in water consumption is explained partly by an entity moving its production from a location with water stress to a location without water stress. Rain also reduced demand for irrigation requirements, which reduced water consumption for another entity.

We ensure that our waste is in safe hands

In 2018, the percentage of waste reused, recycled and recovered of the total waste in Epiroc's internal operations was 97% (97) of the waste in kg/total. While the amount of reused, recycled and recovered waste is already high, maintained focus is on increasing its share for the benefit of both customers and the environment.

We grow together with passionate people and courageous leaders

We believe all employees want to contribute, to make a difference, and to develop. Their skills and attitude, and the ability to work together, are the prerequisites for our ability to continue to provide market leadership in our chosen segments. Therefore, we strive to provide workplaces where managers create conditions for employees to succeed, where trust, diversity and collaboration are priorities.

Epiroc's key performance indicators

The material topics
Employee care and empowerment, leadership, diversity

Target 2018
Females in the Group
- 19.5% Managers
- 16.3% Employees

Outcome 2018
20.0% Female Managers
16.0% Female Employees

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

A collaborative culture that values innovation, commitment and collaboration

What makes Epiroc unique is its being a 145-year-old start-up company. There is a proud history, based on technological leadership and sustainability. We put a clear and sharpened attention to create even more value for customers, through innovation. A great deal of emphasis is placed on increased automation and interoperability of our solutions, as well as digitalization. As a value based company, we have defined our extended values. Focus is also given to collaboration – this being a new core value for the company. This energizes employees, who work even more closely together to create options and make things happen. Passion is released, and speed is enabled.

Innovation to us is to be open minded, with the imagination to develop new ideas and to bring them to market. At year-end 2018, the number of people employed in research and development represented 6.9% (6.7) of our total employees.

A mini survey to test the temperature amongst employees was carried out focusing on Epiroc Vision, Mission, Leadership and Motivation with overall very positive feedback. A more comprehensive survey will take place in 2019 and a Communicate Leadership Index Group KPI will be set for 2019.

A high performing, diverse workforce is essential to execute our strategy

We believe development comes from setting ambitious targets for employees, aligned with business targets, and then providing the freedom to deliver, with full accountability for results. A lot of attention is spent on searching for and recruiting people who will thrive in this environment of trust and individual responsibility. Training on responsible feedback was created and launched globally during the year, and continuous responsible feedback is given by managers, with the intent to improve each person's capabilities and performance. The company is characterized by good development opportunities, diversity, dedicated leadership, a safe work environment and an ethical business approach in every part of the business.

A wide range of individual development opportunities

We strive to be the preferred employer for both current and potential employees. Being industry experts in a dynamic technological environment, with employees globally working in roles across the whole value chain – from R&D, purchasing/sourcing, and manufacturing, to sales and services – we offer a wide range of individual development opportunities and require at the same time a variety of skills and experiences.

We encourage internal mobility across geographical, organizational and cultural boundaries. All open positions except the position as President and CEO are advertised on the internal job market, and people are appointed after professional recruitment processes, with the aim of finding the person ideally suited to the needs. In 2018, 499 (–) positions were announced, of which 47 (–) were international. The total internal mobility among employees increased to 12% (11). Overall external recruitment decreased to 17% (18). There is also increasing work in cross-functional projects teams, quite often also working globally.

As part of the development of Epiroc, we have strengthened our focus on social media to reach and attract talent in various fields of expertise and geographies. In addition, we strive to

At year-end 2018, we had a total of 13,847 (12,948) employees worldwide. Equipment & Service had 9,726 (8,896) employees, Tools & Attachments had 3,874 (3,934) employees and Common Group Functions 247 (118) employees. Additional workforce is engaged in addition to permanent employees either to keep flexibility in handling fluctuations in demand or to provide specialized skills for fixed periods of time. The additional workforce is primarily hired in our manufacturing and assembly plants. As at December 31, 2018, the additional workforce amounted to 1,610 (1,397) people.

Being industry experts in a dynamic technological environment, with employees globally working in roles across the whole value chain – from R&D, purchasing/sourcing, and manufacturing, to sales and services – we offer a wide range of individual development opportunities and require at the same time a variety of skills and experiences

increase awareness of Epiroc among students at universities, colleges and technical high schools, as well as in apprentice programs. This is to help grow the recruitment base, and to explain what we can offer as an employer in areas, such as sustainable development, technical innovation, individual development and as a global organization.

Leadership dedicated to lead and guide our people

Having the right managers and leadership skills in place is key to creating empowered and high performing teams. New global development programs were put in place in 2018 to strengthen leadership skills – including a 3-day introduction program and a mentorship program for new General Managers – and these will continue in 2019. We will also measure how employees perceive leadership capabilities annually from 2019.

Professional growth and learning among employees

We believe employees learn most effectively when they succeed with challenges. Managers, therefore, set ambitious goals, and provide continuous responsible feedback. Training is available through an internet-based Competence Portal, which provides the basic and core skills needed to do the job. In addition, we have mentorship programs and promote collaboration with experienced people. During the year, Epiroc University was created to provide more resources to the training and development portfolio. The average number of training hours per employee 2018 was 39 (35) hours; in addition, considerable time was spent on on-the-job learning.

Employees are expected to take responsibility for their own professional development, supported by their managers and other stakeholders in the company. During the year, focus was placed on improving performance management and talent development – starting from the needs of each employee.

Transparent, constructive and systematic feedback on performance and expectations is a fundamental success factor for building trust and confidence between employees and managers. The target is for all employees to take part in a performance review and development discussion with their immediate superior at least once a year. In 2018, 88% (87) of employees took part in a performance review and development discussion.

Equal opportunities and zero tolerance against discrimination

All employees at Epiroc are to be treated fairly and with dignity, without discrimination. The ambition is to ensure that the workforce reflects the diversity of the local society and protects a culture of respect, including raising awareness of and preventing harassment. Epiroc takes a firm stance on discrimination and sees it as important to secure awareness about Epiroc's values and rules regarding discrimination. In 2018, 2 (1) cases of discrimination were reported.

We are convinced that diversity leads to more dynamic and creative teams and improved performance. Therefore, our ambition, as stated in our Diversity Guidelines, is to have a diversified workforce in terms of nationality, gender, age, experience and education, as well as personality. One important action is to incorporate the diversity perspective when putting together teams. It is also important to conduct an ongoing discussion all around the organization with the aim of drawing up action plans that ensure the inclusion of the diversity perspective in recruitment, career development, assessment and skills development.

To achieve this vision, we undertake a number of activities. All Epiroc subsidiaries shall define and implement their own local diversity objectives and processes in line with the Guidelines and local laws. All Epiroc operational units shall identify their local diversity issues and objectives, and follow these up in line with other business development targets. In addition, to complement local diversity actions and initiatives, Epiroc has a Global Female Mentorship program. In 2018, 58 female applicants from 26 countries around the world were matched with experienced managers as mentors. The purpose is to create an arena where the mentor and mentee can exchange experiences and guide the mentee in her professional and personal development.

A better gender balance is desirable and the objective is to increase the proportion of women, both overall and at managerial levels. In total, 16.0% (15.7) of all our employees are women, of which 81.6% (81.6) work in white-collar roles. The percentage of female managers in the organization is 20.0% (18.2). In 2018, success was achieved in a number of areas; moving forward, our target is for at least 35% external recruitment to be women, as well as to increase the percentage of female managers.

Our leaders on international assignments are from 21 (–) countries and work in 23 (–) countries. In 2018, 69% of all senior managers were locally employed. Around 30 nationalities are represented among Epiroc's most senior managers worldwide.

Freedom of association and the right to collective bargaining

All employees have the right to choose whether they wish to be represented by a trade union or not. Trade unions and employee representation are viewed as a valuable support system for our employees, which fosters relationships based on mutual respect and constructive dialogue. In 2018, a total of 42.0% (42.6) of our employees were covered by collective bargaining agreements.

Water for All

Access to clean water is a human right and the foundation for improved living conditions. For nearly 35 years, our main community engagement project, Water for All, has been run by our employees on a voluntary basis with the help of their donations. Our aim is ultimately to help people help themselves and a typical Water for All project cycle involves.

Employees within Epiroc in a particular country establishing a local Water for All organization and facilitating voluntary donations from their fellow employees, which are then doubled by the local company, meaning if the employee donates SEK 100, the company donates SEK 200, a total of SEK 300.

The local Water for All organization investigating and selecting 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 oversees the project implementation, but the actual work in the field together with the local community is managed by the partner organization.

So far, Water for All has provided clean drinking water and sanitation to more than two million people and supports projects all over the world.

Water for All is run on a voluntary basis by employees within the Epiroc Group and Atlas Copco Group.

For more information, see www.water4all.org

Case: Fossil-free mining environment

Epiroc leads the charge on battery power

Fighting global climate change is as important as ever. For society to succeed in that effort, we must increase our share of renewable energy. The mining industry has traditionally used diesel to power most of their machines. But now a momentous shift toward greener energy in the industry is taking place – and Epiroc is leading the charge. In 2014 we took the lead with our first-generation battery-powered machines, and at a big customer event in November 2018 we launched our second generation, consisting of heavier and more diversified machines.

The battery-driven underground loaders, trucks and drill rigs will create a number of benefits for customers and society. The benefits include lower operating costs, reduced greenhouse gas emissions and improved health and safety for operators, not the least for those working in underground mines.

Also in 2018, Epiroc established a strategic relationship with Northvolt, which is building a very large battery factory in Sweden. Northvolt will supply responsibly produced, top-quality batteries for our machines.

Erik Svedlund is Head of Marketing, Epiroc Electrification. He has been heavily involved in outlining our vision of battery-powered machines creating an emissions-free mining environment.

Erik, why is this switch toward battery-operated machines happening now?
There are several global trends coming together at the same time. The technology enabler are the modern lithium ion batteries and the falling costs realized by the volumes generated by the automotive industry. The focus on safety and health is also a driver. The internal combustion engine and emissions are under tight scrutiny worldwide. The global consensus is that we have to reduce our environmental footprint to minimize the effects of global warming. Underground mining and tunneling as an industry will move fast to battery-powered machines because of the strong benefits underground with this technology.

Tell us more about the customer benefits.
Battery machines produce zero emissions underground. The diesel machines' exhaust gases must be removed using ventilation systems that are costly to install and operate. The ventilation is normally the highest energy cost for a mine. Zero emission machines improve the safety and health aspects underground and also offer cost savings in service and maintenance.

Do the battery-driven machines perform as well as the diesel versions in the often very tough mining conditions?
We have since the launch of our first-generation machines generated over 65,000 hours operation in real mining conditions. The overall experience is that the battery machine can have same or better performance compared to the diesel machine in virtually all aspects. Faster acceleration, instant torque, higher speed-up ramp and reduced energy consumption by 70–80%. The operating time per charge is still not on par with diesel but as battery technology improves the gap is closing and with the introduction of the second-generation machines and the parallel improvements in battery capacity this may not be a limiting factor anymore.

How do you view the potential for electrification of our machines?
The future of underground mining is electric, digital and autonomous. With the new generation battery-powered equipment that we launched in November 2018, we will be able to offer battery electrification on a large scale – in machine size, number of models and markets. Epiroc is well positioned to achieve our target: to have the core fleet electrified within five years. I would say the potential is huge and the future is bright. The future is electric!

Case: Automation

Hand me that remote control – customers empowered by automation

Being able to tuck in their kids to bed at night is a big plus for the rig operators at Australian mining giant BHP's Yandi iron ore mine. Since the mine is located some 1,300 kilometers away from Perth, where the operators work and live, this is quite extraordinary. The explanation? Epiroc's remote-controlled Pit Vipers. They are one example of a growing list of automation solutions that Epiroc is bringing to customers, boosting safety, productivity and cost efficiency.

By partnering with industry-leading mining companies, Epiroc is working to transform the drilling process. One example of such partnership is our cooperation with BHP. In 2016, we began the process of automating the global mining company's fleet of Pit Vipers at the Yandi mine, located far off in the large, dry, thinly populated but mineral-rich region of Pilbara in Western Australia.

Initially the fleet of autonomous rigs was controlled on site in Pilbara, but the rig fleet is now remotely operated from a modern office building in Perth. Since the trial at Yandi was so successful, BHP has installed Epiroc's remotely-controlled Pit Vipers at several more sites. No wonder, as the benefits are plenty:

Improved working environment. Automation is not just about technology. It is very much about the people. Instead of being away for days in a remote area, the operators work from a comfortable control room in their home city. This increases safety, reduces tiredness and allows the workers to get home to their families daily like any office workers.

Increased productivity. The drill rigs operate faster per hole when they are automated compared to when operated by humans. And since the drills rarely need a break, BHP gets up to 30% increased capacity.

Empowered mining process. Drilling is in the early stage of the mining process, so starting with an autonomous Epiroc rig means the customer gets improved predictability, efficiency and quality for its process downstream, including crushing and screening of the ore.

Lower operating costs. Not having to fly operators in and out to remote areas means lower costs. The autonomous operation also generates a better understanding of the machines' health status, which reduces maintenance costs.

Many other customers are also realizing the benefits with automation. One is Goldcorp, which has seen lots of positive effects after switching from manual drills to our autonomous Pit Vipers at its Peñasquito open pit mine in Mexico. Here the operators work close to the mine but in a safe control room away from the active, busy mining area. Also here the customer reports improved staff safety, better precision, higher productivity and lower operating costs.

The Pit Vipers' safety features include proximity detection that stops the drill if anyone gets close, and geofencing that ensures the drill stays within its designated working area.

Going underground

While the Pit Vipers work on the surface, automation is also coming to underground mining.

Utilization of equipment is normally lower underground than in surface operations. During shift changes and ventilation time after blasting, personnel is not allowed underground and machines are not in use. This is traditionally a costly bottle-neck for our customers. Automation lets the mine operation continue even while no workers are allowed in the mine, for example during ventilation after blasting.

One example of our underground offering is the Scooptram Automation Regular, an automation package for our underground loader. It is the next step up from line-of-sight remote control.

Areas where blasting has just occurred are hazardous for the operator with the risk of rocks falling down. Operating the Scooptram from a distance lowers the risk for personnel injuries and boosts efficiency.

It is an exciting time for innovation in the mining industry, and we strongly believe in the value that comes with automation. Our customers want safety, efficiency, higher productivity, lower cost, and improved quality of life for workers. Automation addresses all these issues, changing the way mining is done.

Epiroc's Regional Application Centers support customers' automation journey

Epiroc has Regional Application Centers in five key cities around the world: Denver, USA; Toronto, Canada; Santiago, Chile; Perth, Australia; and Johannesburg, South Africa. The centers focus on supporting customers' requests for enhanced productivity and technical assistance for the complete range of Epiroc's smart equipment. Converting manual drill rigs to automatic and training and educating rig operators how to supervise remote-controlled equipment are some of the many important tasks at the Regional Application Centers.

Case: Digital solutions

Epiroc's Control Tower – on the cutting edge of mine digitalization

Watching a drill rig in the United States being remotely operated from Sweden is but one way for Epiroc's customers and partners to get first-hand experience of what mining digitalization can do for them. This and much else is on offer at Epiroc's Control Tower, which was inaugurated in 2018 at our facilities in Örebro.

The Control Tower is designed to showcase our state-of-the art automation and information management solutions. But the room, filled with big screens showing various stages of the mining operation, is much more than a showroom. It is built to be a collaboration arena for our customers and partners where we together can develop solutions to make mining and construction operations more productive, efficient and safe. The Control Tower has already been visited by hundreds of representatives from mining companies and other customers and partners as well as media. It has quickly become a key part of our strategy to be a supportive and innovative partner that creates value for customers.

The screens showcase our information management solutions. Whether mining operators need to plan where and when to use the machines, dispatch equipment or service the equipment – the Control Tower brings all the needed data together into one intelligent, user-friendly overview – making production much easier to control. Here we also demonstrate our remote-controlled capabilities. Ever dreamt of operating a Pit Viper, Scooptram or Simba drill rig? Here, visitors can either operate simulators or remotely connect to real rigs in our test mine in Sweden or at our facility in Garland, Texas.

At the Control Tower you also find the groundbreaking Mobilaris Mining Intelligence. The system opens the lid on underground mines by providing a 3D-image of the often complex mining tunneling system and real-time awareness of where the equipment and employees are.

Whether a customer seeks more productivity, efficiency or safety – at Epiroc's Control Tower the future is here now.

Empowering customers with real-time machine data

For equipment owners it is vital to continuously know the status of their machine fleet. Certiq, Epiroc's machine monitoring system, gives them the information they need to run their machines as productively as possible.

Mining and construction companies are constantly asking questions regarding their machines' performance. What are the drill rigs' positions? How many holes have been drilled and to what depth? (A must-know before starting up a blasting operation). What is the fuel status? The engine and hydraulic oil pressures? Any alerts that need immediate attention?

With Certiq, the answers to these types of questions are now easily accessible, and that is regardless of whether the equipment owner happens to be on site or not. As long as the site has internet connection, Certiq will give the customer a complete overview of his or her operations in real time, 24/7, from anywhere in the world. Certiq gathers, compares and communicates data from individual machines and entire fleets to the user via a web portal. The information is presented visually pleasing with tables, graphs and bar charts.

Information is power, and that's what Certiq does – empowering customers.

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, suppliers, 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 (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 to 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

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.

1. Shareholders

At year-end 2018, the total number of shareholders was 76,872. The proportion of foreign ownership was 54.0% of the number of shares on the market. One shareholder, Investor, more than 10% of the company. At year-end, Investor owned 207,645,611 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 138–139, and on the website, www.epirocgroup.com/en/investors/share/shareholders.

2. 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 senior management team. 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 2019 will be held at 4 PM on May 9, 2019 at Aula Medica, Nobels väg 6, Solna, Sweden.

Corporate Governance structure

3. Nomination Committee

The main task of the Nomination Committee is to propose Board members and auditors, as well as remuneration for such persons, and a proposal for a 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. The composition of the committee is based on ownership statistics on the last day of trading in August 2018. The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2019. For further information about the committee instructions, see the website 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 or by mailing Jörgen Ekelöw, 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 2019:
- Petra Hedengran, Investor AB (chair)
- Ramsay Brufer, Alecta
- Jan Andersson, Swedbank Robur Funds
- Hans Ek, SEB Investment Management AB

4. 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 appointed 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 established 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 12 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 60–61.

The Chairman leads the work, is responsible for ensuring that the Board's work is carried out efficiently and that the Board fulfils 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.

In, 2018, the Board has made a thorough review of the strategy and followed up on the progress of the split from Atlas Copco and the listing. The Board held 13 meetings in 2018, including the inaugural meeting. Five of the meetings were physical meetings, one was a telephone meeting and seven were per capsulam. In addition, the Board made a study trip to the Garpenberg mine in Sweden. See also the illustration on pages 58–59. The attendance at Board meetings is presented on page 59. 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 April 25, 2018 resolved that remuneration to the Board members elected by the General Meeting, for the period from the first day of trading of Epiroc's shares on Nasdaq Stockholm until the next Annual General Meeting should be as per below
- The Chairman of the Board was granted an amount of SEK 1,950,000.
- Each of the other Board members not employed by the Group was granted SEK 625,000.

- An amount of SEK 225,000 was granted to the chair of the Audit Committee and SEK 150,000 to each of the other members of this committee
- An amount of SEK 100,000 was granted to the chair of the Remuneration Committee and SEK 75,000 to each of the other members of this committee was granted.
- In addition it was decided in an extra general meeting on May 3, 2018 to grant an amount of SEK 60,000 to each non-executive director who, in addition, participates in committee work decided upon by the board.

Prior to the first day of trading in Epiroc's shares on Nasdaq Stockholm on June 18, 2018, the Board members had the following remuneration: Ronnie Leten was remunerated a pro rata amount of a yearly remuneration of SEK 1,300,000 from October 1, 2017. Ulla Litzén and Lennart Evrell were both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from October 1, 2017. Anders Ullberg was remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from April 25, 2018. Jeane Hull and Astrid Skarheim Onsum are both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from January 1, 2018. Johan Forssell did not receive a remuneration prior to June 18, 2018. See also note 5.

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 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 the Group and its management.

6. 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 2018.

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 2018 introduced a performance based personnel option plan for 2018. The option plan is directed at a maximum of 100 key employees.

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

Board work 2018

Q1

February 12
Full-year 2017 results and decision on Epiroc's financial goals

March 15
Long-term incentive program – per capsulam

March 23
- The listing of Epiroc
- Review of the Rocktec division

Q2

April 25
Inaugural Board meeting – per capsulam

May 3
- Q1 2018 results
- Review of the Surface and Exploration Drilling division
- Review of the Mining and Rock Excavation Service division

May 25
Approval of prospectus – per capsulam

June 5
- Split the existing shares – per capsulam
- Resolution about the record date for the split – per capsulam

7. 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.

8. 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 business. In addition to Per Lindberg, President and CEO, the management team consists of Helena Hedblom, Senior Executive Vice President Mining and Infrastructure, Anders Lindén, Senior Vice President (CFO), Jörgen Ekelöw, Senior Vice President General Counsel, and Mattias Olsson, Senior Vice President Corporate Communication. As of March 1, 2019, the management team was expanded to also include Martin Hjerpe, Senior Vice President M&A and Strategy. For further information about the members of Group Management, see page 62.

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.

9. 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 2018 the auditor Deloitte AB, Sweden, was elected external auditing firm until the AGM 2019 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	6	7	5	2	4
Anders Ullberg	6	7	5		4
Astrid Skarheim Onsum	6	7			
Jeane Hull	5	7			
Johan Forssell	6	7		2	
Lennart Evrell	6	7		2	
Per Lindberg	6	7			
Ulla Litzén	4	7	5		
Bengt Lindgren	6	7			
Kristina Kanestad	6	7			
Mårten Karlsson	5				
Gustav El Rachidi	4				
Total meetings	**6**	**7**	**5**	**2**	**4**

Q3

July 19
- Q2 2018 results
- Decision to utilize the mandate related to purchase, transfer and sale of own shares granted by the AGM – per capsulam

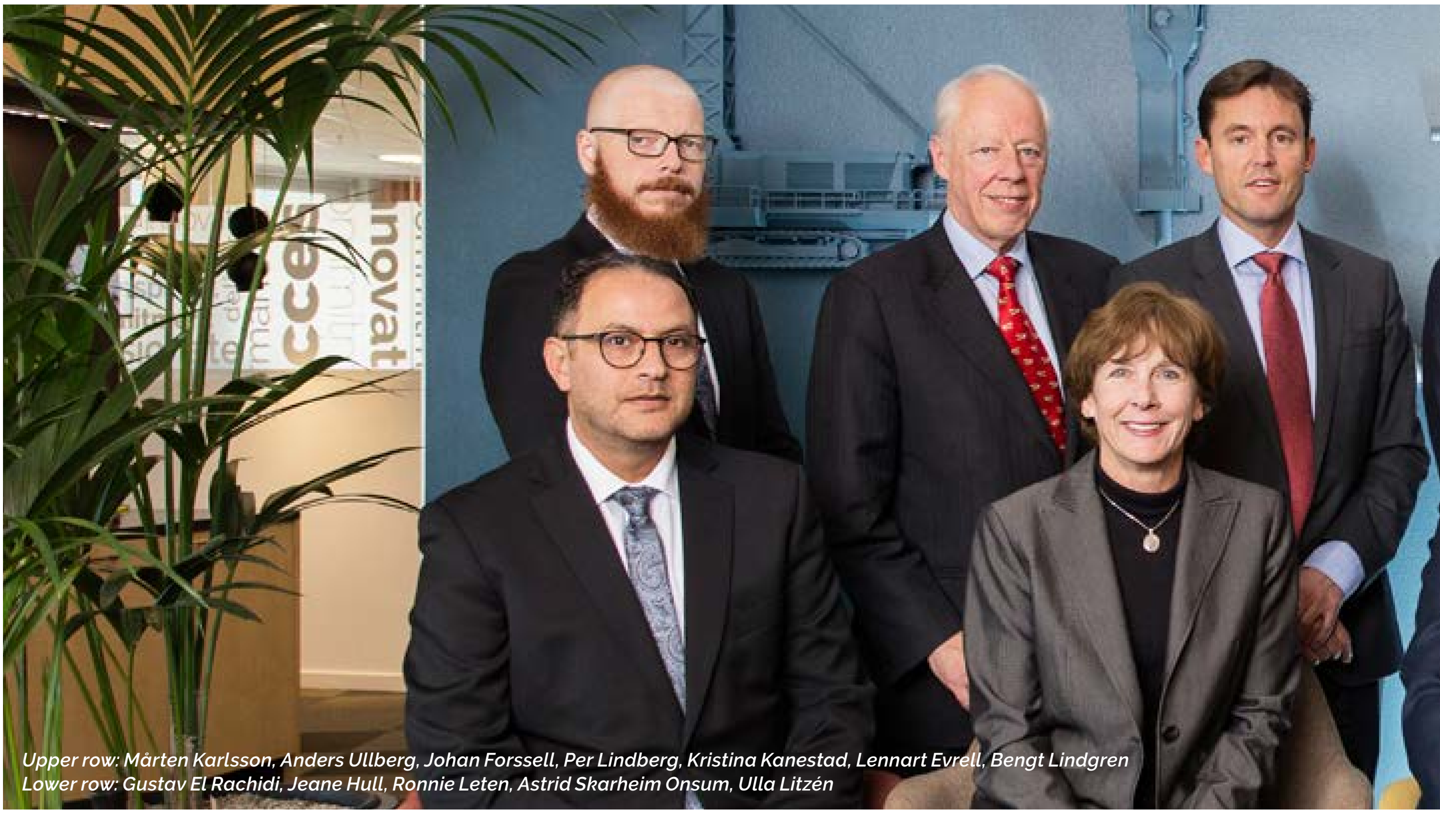
August 20–22
- Field trip to a mine
- Strategy review meeting in Örebro, Sweden
- Review of the Underground Rock Excavation division
- Review of the Rock Drilling Tools division

Q4

October 24
- Q3 2018 results
- Review of the Drilling Solutions division

November 19
Approval of the Euro Medium Term Note program – per capsulam

Board of Directors


Upper row: Mårten Karlsson, Anders Ullberg, Johan Forssell, Per Lindberg, Kristina Kanestad, Lennart Evrell, Bengt Lindgren
Lower row: Gustav El Rachidi, Jeane Hull, Ronnie Leten, Astrid Skarheim Onsum, Ulla Litzén

Ronnie Leten

Chairman Elected 2017

Nationality / Born
Belgian / 1956

Education
M.Sc. in Applied Economics from the University of Hasselt, Belgium.

Principal working experience and other information
Ronnie Leten is Chairman and member of the Board of Directors of Telefonaktiebolaget LM Ericsson, and member of the Boards of Directors of AB SKF and IPCO AB. He previously held the position of President and CEO of Atlas Copco AB.

Holdings in Epiroc AB
11,308 Class A shares
55,650 Class B shares

Indepence of Epiroc / major shareholders
No[1] / No[2]

Johan Forssell

Board member Elected 2017

Nationality / Born
Swedish / 1971

Education
M.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.

Principal working experience and other information
Johan Forssell is 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. He previously held the position of Managing Director, Head of Core Investments, of Investor AB.

Holdings in Epiroc AB
5,000 Class B shares
1,621 Synthetic shares

Indepence of Epiroc / major shareholders
Yes / No[3]

Anders Ullberg

Board member Elected 2017

Nationality / Born
Swedish / 1946

Education
B.Sc. in Economics from the Stockholm School of Economics, Sweden.

Principal working experience and other information
Anders Ullberg is 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. He is also Chairman of the Swedish Financial Reporting Board and a member of the Board of the European Financial Reporting Advisory Group. He previously held the positions of Executive Vice President and CFO and President and CEO of SSAB AB.

Holdings in Epiroc AB
14,000 Class A shares
10,000 Class B shares

Indepence of Epiroc / major shareholders
Yes / Yes

Ulla Litzén

Board member Elected 2017

Nationality / Born
Swedish / 1956

Education
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.

Principal working experience and other information
Ulla Litzén is a member of the Boards of Directors of AB Electrolux, NCC AB, Husqvarna AB and Ratos AB. She previously held the positions of President of W Capital Management AB and Managing Director and member of Group Management of Investor AB.

Holdings in Epiroc AB
75,800 Class A shares
3,000 Class B shares

Indepence of Epiroc / major shareholders
Yes / Yes

Principal working experience and other information and holdings in Epiroc AB as per December 31, 2018. Holdings include those of close relatives and legal entities.

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

2) Ronnie Leten has a consultancy agreement with Investor AB, which is a major shareholder

3) Johan Forssell is President and CEO of Investor AB, which is a major shareholder

4) Per Lindberg is President and CEO of Epiroc AB

Lennart Evrell
Board member Elected 2017

Nationality / Born
Swedish / 1954

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

Principal working experience and other information
Lennart Evrell is a member of the Board of Directors of Svenska Cellulosa AB (SCA) and of The Confederation of Swedish Enterprise (Svenskt Näringsliv). He previously held the position of President and CEO of Boliden AB.

Holdings in Epiroc AB
–

Indepence of Epiroc / major shareholders
Yes / Yes

Per Lindberg
Board member and President and CEO Elected 2018

Nationality / Born
Swedish / 1959

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

Principal working experience and other information
Per Lindberg is the President and CEO of Epiroc since 2018. Previously, he was President and CEO of BillerudKorsnäs AB.

Holdings in Epiroc AB
35,000 Class A shares
1,000 Class B shares

Indepence of Epiroc / major shareholders
No[4)] / Yes

Jeane Hull
Board member Elected 2018

Nationality / Born
American / 1955

Education
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.

Principal working experience and other information
Jeane Hull is a member of the Boards of Directors of Interfor Corporation and Cloud Peak Energy 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.

Holdings in Epiroc AB
2,541 Synthetic shares

Indepence of Epiroc / major shareholders
Yes / Yes

Astrid Skarheim Onsum
Board member Elected 2018

Nationality / Born
Norwegian / 1970

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

Principal working experience and other information
Astrid Skarheim Onsum is 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.

Holdings in Epiroc AB
2,541 Synthetic shares

Indepence of Epiroc / major shareholders
Yes / Yes

Bengt Lindgren
Board member, employee representative Elected 2018

Nationality / Born
Swedish / 1957

Holdings in Epiroc AB
–

Kristina Kanestad
Board member, employee representative Elected 2018

Nationality / Born
Swedish / 1966

Holdings in Epiroc AB
1,200 Class B shares

Mårten Karlsson
Deputy employee representative
Elected 2018

Nationality / Born
Swedish / 1978

Holdings in Epiroc AB
–

Gustav El Rachidi
Deputy employee representative
Elected 2018

Nationality / Born
Swedish / 1970

Holdings in Epiroc AB
–

Group Management

From the left: Mattias Olsson, Anders Lindén, Helena Hedblom, Per Lindberg, Jörgen Ekelöw

Per Lindberg
President and CEO
In current position since 2018

Nationality / Employed / Born
Swedish / 2018 / 1959

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

Principal working experience and other information
Per Lindberg was President and CEO of BillerudKorsnäs.

Holdings in Epiroc AB
35,000 Class A shares
1,000 Class B shares

Helena Hedblom
Senior Executive Vice President Mining and Infrastructure
In current position since 2017

Nationality / Employed / Born
Swedish / 2017 / 1973

Education
M.Sc. in Material Technology from the Royal Institute of Technology, Stockholm, Sweden.

Principal working experience and other information
Helena Hedblom is a member of the Boards of Directors of IPCO AB and Föreningen för gruvor, mineral- och metallproducenter i Sverige (SveMin). Previously, she was President of Atlas Copco Mining and Rock Excavation Technique business area.

Holdings in Epiroc AB
6,242 Class A shares
316,760 personnel options
12,534 matching shares

Anders Lindén
Senior Vice President Controlling and Finance (CFO)
In current position since 2017

Nationality / Employed / Born
Swedish / 2017 / 1962

Education
B.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.

Principal working experience and other information
Anders Lindén was Vice President Business Control of Atlas Copco Mining and Rock Excavation Technique business area.

Holdings in Epiroc AB
4,000 Class A shares
136,872 personnel options

Mattias Olsson
Senior Vice President Corporate Communications
In current position since 2018

Nationality / Employed / Born
Swedish / 2018 / 1968

Education
M.Sc. in Business Administration from the University of Linköping, Sweden.

Principal working experience and other information
Mattias Olsson was Head of Investor Relations at Assa Abloy.

Holdings in Epiroc AB
2,015 Class A shares
1,200 Class B shares

Jörgen Ekelöw
Senior Vice President General Counsel
In current position since 2017

Nationality / Employed / Born
Swedish / 2017 / 1955

Education
Master of Law from Lund University, Sweden.

Principal working experience and other information
Jörgen Ekelöw was General Counsel M&A and Global Projects at Atlas Copco.

Holdings in Epiroc AB
3,221 Class A shares
188,192 personnel options

Martin Hjerpe
Senior Vice President M&A and Strategy
Starts on March 1, 2019

Nationality / Employed / Born
Swedish / 2019 / 1976

Education
M.Sc. in Engineering Physics from Chalmers University of Technology, Sweden

Principal working experience and other information
Martin Hjerpe was Partner at McKinsey & Company.

Holdings in Epiroc AB as per December 31, 2018, including those of close relatives and legal entities.

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, the CEO and a dedicated Group function overseeing internal control. 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 or the Board of Directors.

Epiroc's internal control framework

Key financial reporting risks	Control activities
Revenues are not recognized in the appropriate accounting period	• Customer contracts are signed at appropriate level within the Group. • Revenues are disaggregated and analyzed by type (e.g. goods and services) and by period at local, division and Group level. • Revenues for goods shipped are scrutinized at period end against transfer of controls and the fulfillment of performance obligation for services and projects are assessed at each reporting date.
Inventory is not appropriately valued at the lower of cost or net realizable value	• Inventory counts are performed on a regular basis. • Inventories are appropriately reconciled at each reporting date. • Inventory costs and productions 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. • Inventory levels and saleability of inventory are assessed at each reporting date together with obsolescence.
Income taxes are not accounted for in accordance with applicable tax legislation	• Tax calculations are prepared and reviewed at each reporting date. • The effective tax rate for each company is analyzed at each reporting date by Group Tax. • Compliance with transfer pricing policies is monitored regularly. • Ongoing tax audits and disputes are monitored and provision levels are evaluated by Group tax specialists.
Provision for bad debt is not calculated based on Group's guidelines	• A strong process and tools are in place for collection of accounts receivable. • Bad debt provision calculation guidelines are available in the Group's intranet. • Bad debt provision needs are recalculated and booked during each reporting cycle. • Balance sheet reviews are conducted to ensure the entity has followed Group guidelines when calculating provisions.
Journal entries are not accurate or supported	• Journal entries are prepared and supported by sufficient documents. • Reviews and approvals of journal entries are in place. • Access to financial transactions is restricted to appropriate personnel. • Balance Sheet reconciliations are done on a regular basis.
Reporting processes and procedures are not well documented	• A documented manual of the business system and financial system used exist and is updated accordingly. • Period end closing checklists exist, are maintained and used for financial reporting tasks. Management reviews the completed checklists on a timely basis.
Implementation of new IFRS standards is not done accordingly	• New IFRS standards applicable to Epiroc are known prior to their effective date. • Group Financial Reporting leads the implementation of new IFRS standards and sets a plan for all levels impacted. • Training for local finance teams is done. • Group guidelines are updated to reflect the requirements for the new IFRS standards.

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 results in 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, page 63.

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.

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 67–68 the 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

Market risks	• Products and services are used in industries which are either cyclical or affected by general economic conditions. • Mineral commodity prices are volatile and may affect the demand for Epiroc's products and services.
Competition risks	• Highly competitive markets. • Competitors may continue to consolidate.
Regulatory and political risks	• Regulatory and other risks associated with international operations. • 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.
External environmental risks	• Physical changes in climate and natural resources, climate change, pollution, changes in regulations, taxes and resource prices.

Operational risks

Product development risks	• Failing to develop, launch and market new products or respond to technological development and customer demand for sustainable products.
Production risks	• Manufacturing and production facilities may get damaged, destroyed or closed.
Distribution risks	• Epiroc is dependent on the efficiency of its distribution centers and its customer centers' sales and service organization.
Supply chain risks	• Epiroc relies on third party suppliers and interruption and lack of capacity could affect deliveries. • Risks may arise if suppliers do not comply with Epiroc's Code of Conduct.
Risks with acquisitions and divestments	• Difficulties in completing acquisitions, integrating acquired businesses and achieving anticipated synergies, as well as in completing divestments.
Employee risks	• Risk of not being able to attract and retain key personnel or skilled employees. • Work stoppages or strikes.
Human rights risks	• Epiroc operates in countries where violations of human rights occur and encounters customers, who are also exposed to human rights issues.
Risks to reputation	• 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 • May be exposed to product liability and warranty claims. • Complaints and litigation could damage Epiroc's brand and reputation and divert management resources.
Information technology (IT) risks	• 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. • Epiroc may be unable to protect its intellectual property. • Risk with dependency on IT-systems in operations.
Risks of corruption and fraud	• Epiroc's governance, internal controls and compliance processes may not prevent regulatory penalties, reputational harm and fraud.
Insurance risk	• Epiroc's insurance policies may provide insufficient protection.
Environmental risks	• Not actively reducing negative environmental impact may negatively affect operations either directly or by disrupting the supply chain. • Lack of Environmental compliance can lead to substantial fines.
Safety and health risks	• Lack of adherence to safety and health regulations can lead to accidents causing damage to people, productivity and brand.

Legal risks and Compliance

- Epiroc's governance, internal controls and compliance processes may not prevent regulatory penalties, trade compliance, reputational harm 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.

Risk and Context	Risk mitigation	Opportunities
Market risks 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.	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.	Lean initiatives in the manufacturing enable a more agile setup with enhanced flexibility. Opportunity to further develop the aftermarket business. This will enhance the resilience of the business.
Competition risks 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. Intense competition from significant competitors and to a lesser extent small regional companies, and also, increasingly, companies operating with lower costs and margins.	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.	Development high quality solutions that are in line with customer demands such as increase productivity and lower total cost of ownership. Opportunities to continuously increase operational efficiency and lower costs of operations and improve competitive position.
Product development risks 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. 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.	Continuous investments in research and development to develop products in line with customer demand and expectations, even during economic downturns. Designing products with a life-cycle perspective and measurable efficiency targets for the main product categories. Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements.	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. Promote the integration of the Sustainable Development Goals in operations.
Supply chain risks 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. 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. Risk that Epiroc´s business partners do not share the same values as expressed in Epiroc´s Code of Conduct. Risk that products contain components which are not sustainably produced, e.g. that electronic components contain conflict minerals.	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. Establishment of a global network of sub- suppliers, to prevent supplier dependency. Providing suppliers with timely and sufficient information in order to manage changes in volumes. Business partners sign a compliance letter to the Code of Conduct. Continue the process to investigate and eradicate the presence of conflict minerals in the value chain.	Further increase business agility and reduce costs by improving supplier inventory management in response to changes in demand. Continue to be a preferred business partner and promote efficiency, sustainability and safety. Good supplier relations help to improve Epiroc´s competitive position. Promote human rights and work towards improving labor conditions, reducing corruption and conflicts. Opportunity to strengthen customer relationships by being ready to support customers who are impacted by the Dodd Frank legislation on conflict minerals. Promote the integration of the Sustainable Development Goals in operations.
Employee risks 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. 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	Mapping of competences and requirements are continuously carried out to secure access to people with the right expertise at the right time. Recruitment can take place both externally and internally, Internal recruitment and job rotation are facilitated by an internal job market. Salaries and other conditions are adapted to the market and linked to business priorities. Epiroc strives to maintain good relationships with unions. An employee survey is carried out every two years and followed up actively.	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. Motivated and skilled employees and managers are crucial to achieve or exceed business targets. A lot of attention is spent on searching for and recruiting a high performing workforce who will thrive in an environment of trust and individual responsibility. Promote the integration of the Sustainable Development Goals in operations.

Risk and Context	Risk mitigation	Opportunities
Risks to reputation Epiroc´s reputation and business results could be negatively affected for various reasons, including: • If customers start to lose confidence in the safety and quality of the products and services provided • 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 • 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 • 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.	All products are tested and also quality assured. Monitoring of product labeling and regular communications training. Epiroc has a clear well-known brand promise. The Group actively engages in stakeholder dialogue. Code of Conduct training includes the yearly signing of a Compliance Statement for managers. Behavior or actions that are violations of laws or of the Code of Conduct can be reported to the whistleblower function.	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. Delivering tested and quality assured products improve customer satisfaction and promote repeat business. Attract and develop employees that adhere to the Code of Conduct
Risks of corruption and fraud Corruption and bribery exist in many countries where Epiroc operates. Epiroc faces the risk of corruption and other illegal acts committed by its employees. 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. 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. 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.	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. 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. All managers are required to sign a Code of Conduct Compliance Commitment, Training on the Code of Conduct is available for all employees. 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 it.	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.
Safety and Health risks Lack of adherence to safety and health regulations can lead to accidents causing damage to people, productivity and the Epiroc brand. Health and safety laws and regulations are becoming more complex. The cost of complying with, and the liabilities and the potential sanctions imposed pursuant to health and safety laws and regulations could be significant.	Assess and manage safety and health risks in the operations. All major units are certified in accordance with the OHSAS 18001 standard. To develop a behavior with safety in mind is key and activities to highlight this such as Epiroc Safety Day is organized throughout the Group. Business partners are trained in Epiroc's policies including health and safety.	Improved safety and health increases productivity and satisfaction of employees and business partners. Promote the integration of the Sustainable Development Goals in operations.

Financial information

Group financial information

Consolidated income statement

For the year ended December 31 Amounts in SEK million	Note	2018	2017
Revenues	4	38,285	31,364
Cost of sales		–24,317	–20,101
Gross profit		**13,968**	**11,263**
Marketing expenses		–2,574	–2,280
Administrative expenses		–2,589	–2,121
Research and development expenses		–977	–795
Other operating income	7	42	80
Other operating expenses	7	–477	–216
Share of profit in associated companies and joint ventures	14	–8	–1
Operating profit	**4, 5, 6, 16**	**7,385**	**5,930**
Financial income	8	181	232
Financial expenses	8	–365	–369
Net financial items		**–184**	**–137**
Profit before tax		**7,201**	**5,793**
Income tax expense	9	–1,764	–1,495
Net Profit		**5,437**	**4,298**
Profit attributable to:			
– owners of the parent		5,430	4,298
– non-controlling interests		7	0
Basic earnings per share, SEK	11	4.50	3.55
Diluted earnings per share, SEK	11	4.49	–

Consolidated statement of comprehensive income

For the year ended December 31 Amounts in SEK million	Note	2018	2017
Profit for the year		**5,437**	**4,298**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		–122	65
Income tax relating to items that will not be reclassified to profit or loss		25	–14
		–97	**51**
Items that may be reclassified subsequently to profit or loss			
Translation differences on foreign operations		8	–756
Cash flow hedges		22	–
Income tax relating to items that may be reclassified to profit or loss	10	–5	–
		25	**–756**
Other comprehensive income for the year, net of tax	**10**	**–72**	**–705**
Total comprehensive income for the year		**5,365**	**3,593**
Total comprehensive income attributable to:			
– owners of the parent		5,358	3,594
– non-controlling interests		7	–1

Consolidated balance sheet

Amounts in SEK million	Note	Dec. 31, 2018	Dec. 31, 2017
Assets			
Non-current assets			
Intangible assets	12	3,620	3,121
Rental equipment	13	1,233	1,215
Other property, plant and equipment	13	2,473	2,271
Investments in associated companies and joint ventures	14	208	94
Other financial assets and receivables	15	1,119	1,101
Deferred tax assets	9	543	425
Total non-current assets		**9,196**	**8,227**
Current assets			
Inventories	16	10,516	8,440
Trade receivables	17	8,005	6,271
Other receivables	18	1,289	1,362
Income tax receivables		333	287
Financial assets	15	944	1,152
Cash and cash equivalents	19	5,872	1,808
Total current assets		**26,959**	**19,320**
Total assets		**36,155**	**27,547**
Equity			
Share capital	20	500	21
Retained earnings		18,297	12,020
Total equity attributable to owners of the parent		**18,797**	**12,041**
Non-controlling interests		50	6
Total equity		**18,847**	**12,047**
Liabilities			
Non-current liabilities			
Interest-bearing liabilities	21	5,095	2,250
Post-employment benefits	23	283	181
Other liabilities		125	10
Provisions	25	287	279
Total non-current liabilities		**5,790**	**2,720**
Current liabilities			
Interest-bearing liabilities	21	1,702	4,808
Trade payables		4,711	3,966
Income tax liabilities		605	436
Other liabilities	24	4,211	3,300
Provisions	25	289	270
Total current liabilities		**11,518**	**12,780**
Total equity and liabilities		**36,155**	**27,547**

Consolidated statement of changes in equity

2018			Equity attributable to owners of the parent					
Amounts in SEK million	Share capital	Other paid-in capital	Translation reserve	Cash flow hedge	Retained earnings	Total	Non controlling interests	Total equity
Opening balance, Jan. 1	21	3	182	–	11,835	12,041	6	12,047
Impact of change in accounting principles					1	1		1
Restated balance, Jan. 1	**21**	**3**	**182**	–	**11,836**	**12,042**	**6**	**12,048**
Profit for the year					5,430	5,430	7	5,437
Other comprehensive income for the year			8	17	–97	–72		–72
Total comprehensive income for the year			**8**	**17**	**5,333**	**5,358**	**7**	**5,365**
Bonus issue	479				–479	–		–
Divestment of 518,482 series A shares					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
Closing balance, Dec. 31	**500**	**3**	**190**	**17**	**18,087**	**18,797**	**50**	**18,847**

2017			Equity attributable to owners of the parent					
Amounts in SEK million	Share capital	Other paid-in capital	Translation reserve	Cash flow hedge	Retained earnings	Total	Non controlling interests	Total equity
Opening balance, Jan. 1	20	4	937	–	14,852	15,813	0	15,813
Impact of change in accounting principles					–47	–47		–47
Restated balance, Jan. 1	**20**	**4**	**937**	–	**14,805**	**15,766**	**0**	**15,766**
Profit for the year					4,298	4,298	0	4,298
Other comprehensive income for the year			–755	–	51	–704	–1	–705
Total comprehensive income for the year			**–755**	–	**4,349**	**3,594**	**–1**	**3,593**
Dividends to Atlas Copco					–5,178	–5,178		–5,178
Bonus issue	1	–1				–		–
Share-based payment, equity settled								
– expense during the year					–	–		–
– exercise option					–45	–45		–45
Other transactions with shareholders					–2,096	–2,096	7	–2,089
Closing balance, Dec. 31	**21**	**3**	**182**	–	**11,835**	**12,041**	**6**	**12,047**

Consolidated statement of cash flows

For the year ended December 31, Amounts in SEK million	Note	2018	2017
Cash flows from operating activities			
Operating profit		7,385	5,930
Adjustments for:			
Depreciation, amortization and impairment	12, 13	1,369	1,254
Capital gain/loss and other non-cash items		101	–134
Net financial items received/paid		–483	–344
Taxes paid		–1,747	–666
Pension funding and payment of pension to employees		–52	–90
Cash flow before change in working capital		**6,573**	**5,950**
Change in:			
Inventories		–1,684	–1,481
Operating receivables		–1,607	–1,197
Operating liabilities		1,416	2,275
Change in working capital		**–1,875**	**–403**
Increase in rental equipment		–896	–793
Sale of rental equipment		522	422
Net cash from operating activities		**4,324**	**5,176**
Cash flows from investing activities			
Investments in other property, plant and equipment		–577	–424
Sale of other property, plant and equipment		26	70
Investments in intangible assets	12	–459	–289
Acquisition of subsidiaries and associated companies	3	–546	–137
Proceeds to/from other financial assets, net		219	6,323[1]
Net cash from investing activities		**–1,337**	**5,543**
Cash flows from financing activities			
Acquisition of non-controlling interest		–	6
Dividend paid to Atlas Copco		–	–5,178
Repurchase of own shares, net		–1,307	–
Change in interest-bearing liabilities		–	–889
Borrowings		6,396	–
Repayment of borrowings		–414	–
Net repayment of borrowings to former owners		–3,572	–
Settlement of Credit Support Annex (CSA)		11	–
Payment of finance lease liabilities		–54	–
Net cash from financing activities		**1,060**	**–6,061**
Net cash flow for the year		**4,047**	**4,658**
Cash and cash equivalents, Jan. 1		1,808	481
Exchange-rate difference in cash and cash equivalents		17	–39
Other cash flow from transactions with shareholders		–	–3,292
Cash and cash equivalents, Dec. 31	**19**	**5,872**	**1,808**
Operating cash flow			
Net cash flow from operating activities		4,324	5,176
Net cash from investing activities		–1,337	5,543
Acquisition of subsidiaries and associated companies		546	137
Other adjustments		351	–6,246[2]
Operating cash flow		**3,884**	**4,610**

1) The increase in cash flow from investing activities in 2017 is mainly related to a reduction of funds placed with the Atlas Copco cash-pool.

2) Mainly changes in cash-pool with Atlas Copco and currency hedges of loans.

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 March 1, 2019. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on May 9, 2019.

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.

Epiroc's historical information for year 2017 is presented as combined financial statements. The formation of the Epiroc Group in year 2017 comprised transactions between entities that were under common control via Atlas Copco AB's ownership. Since these transactions are not covered by any IFRS standard, a suitable accounting principle for the historical information were applied in accordance with IAS 8. A suitable and established method is to use the previous carrying amount (predecessor basis of accounting), which is the principle that the Epiroc Group has applied. In short, this entails that the assets and liabilities of the units forming part of the Epiroc Group have been aggregated and recognized based on the carrying amounts they represent in Atlas Copco AB's consolidated financial statements as from the date they became part of the Atlas Copco AB Group.

Considering that it was not only separate legal entities that were transferred as part of Epiroc's formation, but also parts of legal entities, specific considerations were taken into account in the preparation of the historical information to determine which assets, liabilities, revenues and expenses as well as cash flows that are included. See note 1 "Significant accounting principles, accounting estimates and judgements" in the prospectus "Admission to trading of shares in Epiroc AB on Nasdaq Stockholm" for these considerations and accounting principles applied for the historical information prepared as combined financial statements.

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 other than the formation of the Epiroc group 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. Transactions costs that the Group incur in connection with a business combination are expensed as incurred.

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

Non-controlling interest is initially measured either
- at fair value, or
- at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Subsequent profit or loss attributable to the non-controlling interest is allocated to the non-controlling interest, even if it puts the non-controlling interest in a deficit position. Acquisitions of non-controlling interests are recognized as a transaction between 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 and 14.

Associated companies and joint ventures

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

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

Functional currency and foreign currency translation

The 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 (SEK million).

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

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

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 shown in note 27.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the 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 reportable 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 occur 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 good 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 statement of financial position within "Other liabilities". A corresponding adjustment is made to the cost of sales and recognized in the statement of financial position within "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 contains 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 contains 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 sales of rental equipment are included in cash flows from operating activities.

Other operating income and expenses

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

Financial income and expenses

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

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

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

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

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

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

Earnings per share
Basic earnings per share are calculated based on the profit for the year attributable to owners of the parent and the basic 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 cost for assets that need a substantial period of time to get ready for their intended use are included in the cost value until the assets are substantially ready for their use or sale and are thereafter depreciated. The Group capitalizes costs on initial recognition and on replacement of significant parts of property, plant and equipment if it is probable that the future economic benefits embodied will flow to the Group and the cost can be measured reliably. All other costs are recognized as an expense in profit or loss when incurred.

Rental equipment
The rental fleet is comprised of 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 lives of the equipment. Rental equipment is depreciated to a residual value estimated at 0–10% of cost.

Depreciation and amortization
Depreciation and amortization is calculated based on cost using the straight line method over the estimated useful life of the asset. Parts of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately when the useful 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.

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

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

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

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

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

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

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

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

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

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

If the effect of the time value of money is material, the provision is determined by discounting the expected future cash flows of estimated expenditures. Provisions for product warranties are recognized as cost of sales at the time the products are sold based on the estimated cost using historical data for level of repairs and replacements. A restructuring provision is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or been announced publicly.

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

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

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

The cost for defined benefit plans is calculated using the Projected Unit Credit Method, which distributes the cost over the employee's service period. The calculation is performed annually by independent actuaries using actuarial assumptions such as employee turnover, mortality 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 may be offered synthetic shares.

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

The fair value of the share appreciation rights, synthetic shares, and options with a choice for employees to settle in shares or cash is recognized in accordance with principles for cash-settled share-based payments. The value is recognized as an employee expense with a corresponding increase in liabilities. The fair value, measured at grant date and remeasured at each reporting date using the Black-Scholes formula, is accrued and recognized as an expense over the vesting period. Changes in fair value are, during the vesting period and after the vesting period until settlement, recognized in profit or loss as an employee expense. The accumulated expense recognized equals the cash amount paid at settlement. Social security charges are paid in cash and are accounted for in consistence with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments. See note 23 for details.

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

Financial assets and liabilities – financial instruments
Accounting principle according to IFRS 9 from year 2018
Recognition and derecognition
Financial assets and liabilities are recognized when the Group becomes a party to the contractual provision of the instrument. Transactions of financial assets are accounted for at trade date, which is the day when the Group contractually commits to acquire or dispose of the assets. Trade receivables are recognized on issuance of invoices. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay. Derecognition, fully or partially, of a financial asset occurs when the rights in the contract have been realized or mature, or when the Group no longer has control over it. A financial liability is derecognized, fully or partially, when the obligation specified in the contract is discharged or otherwise expires. A financial asset and a financial liability are offset and the net amount presented in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

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

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

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

Financial assets at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method. Assets classified at amortized cost 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 and collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial instruments in this category are recognized at fair value at initial recognition and changes in fair value are recognized in "Other comprehensive income" (OCI) until derecognition, when the amounts in OCI are reclassified to profit or loss. The assets are subject to a loss allowance for expected credit losses.

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

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

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

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

Impairment of financial assets
Financial assets, except those classified at fair value through profit and loss (FVTPL), are subject to impairment for expected credit losses. In addition, the impairment model applies to contract assets, loan commitments and financial guarantees that are not measured at FVTPL. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk, at first recognition of an asset or receivable. 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, contract assets and certain other financial receivables. A loss allowance is recognized over the expected lifetime of the receivable or asset. For other items subject to ECL, the impairment model with a three stage approach is applied. Initially, and at each reporting date, a loss allowance will be recognized for the following 12 months, or a shorter time period depending on the time to maturity (stage 1). If it has been a significant increase in credit risk since origination a loss allowance will be recognized for the remaining lifetime of the asset (stage 2). For assets that are considered as credit impaired, allowance for credit losses will continue to capture the lifetime expected credit losses (stage 3). For credit impaired receivables and assets, the interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount as in previous stages. An asset is credit impaired when the asset is past due more than 90 days and/or if there are other evidence that it is unlikely that the asset will be paid.

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

The financial assets are presented in the financial statements at amortized cost, i.e. net of gross carrying amount and the loss allowance. Changes in the loss allowance is recognized in profit or loss as impairment losses. 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 are subsequently measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Changes in fair value for derivatives that do not fulfill the criteria for hedge accounting are recognized as operating or financial transactions based on the purpose of the use of the derivative. Interest payments for interest rate swaps are recognized as interest income or expense, whereas changes in fair value of future payments are presented as gains or losses from financial instruments.

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

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

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

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.

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

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

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

For cash flow hedges any gain or loss recognized in "Other comprehensive income" and accumulated in equity at 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 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.

Financial assets and liabilities – financial instruments
Accounting principle according to IAS 39 for year 2017
Recognition and derecognition
Financial assets and liabilities are recognized when the Group becomes a party to the contractual provision of the instrument. Transactions of financial assets are accounted for at trade date, which is the day when the Group contractually commits to acquire or dispose of the assets. Trade receivables are recognized on issuance of invoices. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay.

Derecognition, fully or partially, of a financial asset occurs when the rights in the contract have been realized or mature, or when the Group no longer has control over it. A financial liability is derecognized, fully or partially, when the obligation specified in the contract is discharged or otherwise expires. A financial asset and a financial liability are offset and the net amount presented in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Measurement of financial instruments
Financial instruments are measured, classified and recognized according to IAS 39 in the following categories: The Group classifies its financial assets in the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Assets available for sale

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

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

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

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

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

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

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

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

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

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

Cash flow hedges: Changes in the fair value of the hedging instrument are recognized in other comprehensive income to the extent that the hedge is effective and the accumulated changes in fair value are recognized as a separate component in equity. Gains or losses relating to the ineffective part of hedges are recognized immediately in profit or loss. The amount recognized in equity through other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in other comprehensive income and ac-cumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

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

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

Assets held for sale

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

Contingent liabilities

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

New or amended accounting standards and interpretations in 2018

The Group applied IFRS 15 and IFRS 9 for the first time from 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described in note 2.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

New or amended accounting standards effective after 2018

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2018 and have not been applied by the Group.

IFRS 16 - Leases; the nature and effect of the changes as a result of adoption of this new accounting standard are described in note 2.

In addition to the above, other new or revised accounting standards have been published, but are not yet effective. 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 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, if any, of impairment could affect the financial position and results of operation. See note 12.

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

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 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.

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 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces, among other things, a new model for impairment of financial assets. The purpose of the model is to recognize credit losses earlier than IAS 39. Additionally, the classification of some financial instruments have changed.

The Group and the Parent Company applied IFRS 9 prospectively, with an initial application date of January 1, 2018. The Group has not restated the comparative information which is reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings and other components of equity. For Epiroc there were no material effects as a result of the implementation of IFRS 9. These effects are summarized and disclosed below.

a) Classification and valuation

All financial assets that are valued at fair value under IAS 39 will continuingly be valued at fair value. Investments made in debt instrument belonging to the insurance operations are valued at fair value through profit and loss. Investments in liquidity funds are valued to fair value through profit and loss. The Group has made the judgement that accounts receivables also continuingly under IFRS 9 fulfills the criteria to be valued as amortized cost.

b) Impairment

The Group apply the simplified method for accounting for expected losses related to trade receivables and lease receivables. This means that expected losses for remaining maturity will be taken into account. For certain financial receivables and cash and cash equivalents, the general method of expected losses is applied, but these receivables generally have a short maturity.

Summary

In summary, the impact of the implementation of IFRS 9 was as follows:

Consolidated balance sheet

Amounts in SEK million	Adjustments Jan. 1, 2018
Assets	
Deferred tax assets	(b) 0
Trade receivables and other receivables, including lease receivables and cash equivalents	(b) –1
Total assets	**–1**
Equity	
Retained earnings	–1
Total Equity	**–1**

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. The standard has been applied by Epiroc Group from January 1, 2018, using the full retrospective method. The same accounting principle for revenue recognition has therefore been applied for all periods presented in the Annual report. The following expedients has been used by the Group:

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

The below implications have been identified to effect the timing of revenue from contracts with customers:

(a) Sales of goods

In some cases, the Group has made a different assessment of when control has passed to the customer compared to when risk and rewards have passed to the customer. According to IFRS 15 revenue should be recognized when the goods has been transferred to the customer, i.e. when the customer obtains control of the goods.

(b) Rendering of service

The Group provides installation, commissioning and other services with certain equipment. These services are either sold separately in contracts with customers or bundled together with the sale of the equipment to the customer. Due to the more detailed requirements for determining whether goods or services are performance obligation under IFRS 15, the assessment of identified performance obligation might differ from identified deliverables according to IAS 18. IFRS 15 also requires allocation of the transaction price to the identified performance obligations.

(c) Variable consideration

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

(d) Other adjustments

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

Summary

In summary, the impact of the implementation of IFRS 15 was as follows:

2. Changes in accounting policies, cont.

Consolidated balance sheet

Amounts in SEK million	2017 before restatement		Adjustments	2017 after restatement
Assets				
Deferred tax assets	407	(d)	18	425
Inventory	8,272	(a) (b) (c)	168	8,440
Total assets	**27,361**		**186**	**27,547**
Liabilities				
Other Liabilities	3,053	(a) (b) (c)	247	3,300
Total liabilities	**15,253**		**247**	**15,500**
Retained earnings	**12,081**		**–61**	**12,020**
Non-Controlling interest	6		0	6
Total equity	**12,108**		**–61**	**12,047**

Consolidated income statement

Amounts in SEK million	2017 before restatement		Adjustments	2017 after restatement
Revenue	31,440	(a) (b) (c)	–76	31,364
Cost of Sales	–20,157	(a) (b) (c)	56	–20,101
Income tax expense	–1,500	(d)	5	–1,495
Net profit for the year	**4,313**		**–15**	**4,298**
Profit attributable to:				
– owners of the parent	4,313		–15	4,298
– non controlling interest	0		0	0
Basic earnings per share, SEK	3.56		–0.01	3.55

Consolidated statement of comprehensive income

Amounts in SEK million	2017 before restatement	Adjustments	2017 after restatement
Other comprehensive income for the year	–705	0	–705
Total comprehensive income for the year	3,608	–15	3,593
Profit attributable to:			
– owners of the parent	3,609	–15	3,594
– non controlling interest	–1	0	–1

IFRS 16 Leases

IFRS 16 Leases was published in January 2016 and is replacing the former IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27, and is effective for annual periods beginning on or after January 1, 2019. The standard defines the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The changes in accounting principles mainly relate to the accounting treatment by the lessee. IFRS 16 introduces a single accounting model and requires the recognition of substantially all leases in the balance sheet and the separation of depreciation of lease assets from interest on lease liabilities in the income statement. For the Epiroc Group it implies that rental contracts for property, equipment, vehicles and machinery used in manufacturing facilities will be recognized on the balance sheet. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 requires lessees and lessors to make more extensive disclosures compared to IAS 17.

Transition to IFRS 16

Epiroc Group has during the year performed a detailed analysis of the impact on the financial statements. In transition the modified retrospective approach is applied. Comparative information is therefore not restated. At the date of initial application of IFRS 16 the right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. The lease liability was measured at the present value of the remaining lease payments, discounted using the Incremental borrowing rate (IBR). The weighted average IBR as of January 1, 2019 was approximately 1.5%, largely affected by the Group's property leases in Sweden. Epiroc Group has established the IBR at the date of transition based on the different contract currencies and lease terms. Lease contracts for property, equipment, vehicles and machinery will be recognized in the balance sheet as a non-current asset and financial liability. Non-lease components such as cost for maintenance is excluded from the amount of right of use asset and lease liability for the Group's property leases.

The Group has at transition decided to apply the practical expedient that permits not to reassess whether a contract is, or contains, a lease 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. Such leases 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 of low value.

2. Changes in accounting policies, cont.

There is no material impact on the Groups income statement. The lease expenses for previous operating leases in operating profit have been replaced by depreciation on the right of use asset and interest expense on the lease liability, the latter is presented in net financial items. The timing of current cash flows are not impacted by the new standard. However, the amortization portion of Epiroc's lease payment will be 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

Due to the adoption of IFRS 16, the Group's tangible assets and interest-bearing liabilities have increased. The Groups leased properties in Sweden, Germany and Australia contributes to the amount of right-of-use asset to a large extent. The transition to IFRS 16 will impact EBITDA, which increases due to lease expenses being replaced by depreciation and interest expense, however the impact is not considered material. 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 will increase due to additional interest-bearing liabilities.

In summary the impact of IFRS 16 adoption, i.e. the amount of lease liability and right-of-use asset in transition, is expected to be as follows:

Impact on the statement of financial position as at 1 January 2019:

Amounts in SEK billion	
Assets	
Right-of-use assets	2.0
Liabilities	
Lease liabilities, interest bearing	2.0
Net impact on equity	**–**

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

3. Acquisitions

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.

Acquisitions 2018

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

In January, reportable 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 SEK 26 million and goodwill of SEK 48 million were recorded on the purchase of *Rockdrill Services Australia Pty. Ltd.* and SEK 91 million of intangible asset and SEK 65 million of goodwill were recorded on the purchase of *Cate Drilling Solutions LLC*.

In February, reportable 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 SEK 25 million and goodwill of SEK 48 million were recorded on the purchase.

In November, reportable 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 SEK 5 million and goodwill of SEK 6 million were recorded on the purchase.

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

Acquisitions 2017

In February 2017, reportable segment Tools & Attachments acquired *Erkat Spezialmaschinen und Service GmbH*. The company makes drum cutter attachments for excavators used primarily in construction and demolition and quarries and tunnels. Drum cutters are a complementary product for Epiroc as a solution provider in rock excavation, tunnel and foundation profiling and demolition. Intangible assets of SEK 25 million and goodwill of SEK 28 million were recorded on the purchase.

4. Segment information

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
Total revenues	**28,540**	**9,519**	**315**	**–89**	**38,285**
Operating profit	**6,751**	**1,239**	**–638**	**33**	**7,385**
– of which share of profit in associated companies and joint ventures	*–8*	–	–	–	*–8*
Net financial items					–184
Income tax expense					–1,764
Profit for the year					**5,437**
Non-cash expenses					
Depreciation/amortization	913	313	199	–57	1,368
Impairment	1	–	–	–	1
Other non-cash expenses	52	30	162	–	244
Segment assets	**19,079**	**7,329**	**1,359**	**–761**	**27,006**
– of which goodwill	*943*	*933*	–	–	*1,876*
Investments in associated companies and joint ventures	208	–	–	–	208
Unallocated assets					8,941
Total assets					**36,155**
Segment liabilities	**7,014**	**2,077**	**1,088**	**–565**	**9,614**
Unallocated liabilities					7,694
Total liabilities					**17,308**
Capital expenditures					
Property, plant and equipment	1,099	245	245	–66	1,523
– of which assets leased	*26*	*24*	–	–	*50*
Intangible assets	502	11	–54	–	459
Total capital expenditures	**1,601**	**256**	**191**	**–66**	**1,982**
Goodwill acquired	163	9	–	–	172

2017	Equipment & Service	Tools & Attachments	Common group functions	Eliminations	Group
Revenues from external customers	22,330	8,691	253	–	31,274
Inter-segment revenues	53	7	39	–99	–
Revenue from Atlas Copco	0	40	50	–	90
Total revenues	**22,383**	**8,738**	**342**	**–99**	**31,364**
Operating profit	**5,107**	**1,146**	**–309**	**–14**	**5,930**
– of which share of profit in associated companies and joint ventures	*–1*	–	–	–	*–1*
Net financial items	–	–	–	–	–137
Income tax expense	–	–	–	–	–1,495
Profit for the year					**4,298**
Non-cash expenses					
Depreciation/amortization	811	287	218	–62	1,254
Impairment	0	0	–	–	–
Other non-cash income/expenses	–2	–25	98	–	71
Segment assets	**14,793**	**7,014**	**1,324**	**–640**	**22,491**
– of which goodwill	*731*	*907*	–	–	*1,638*
Investments in associated companies and joint ventures	94	–	–	–	94
Unallocated assets					4,962
Total assets					**27,547**
Segment liabilities	**5,603**	**1,658**	**7,230**	**–4,530**	**9,961**
Unallocated liabilities					5,539
Total liabilities					**15,500**
Capital expenditures					
Property, plant and equipment	779	207	383	–116	1,253
– of which assets leased	*20*	*16*	–	–	*36*
Intangible assets	217	8	64	–	289
Total capital expenditures	**996**	**215**	**447**	**–116**	**1,542**
Goodwill acquired	–	28	–	–	28

4. Segment information, cont.

The Group is organized in separate and focused, but integrated operating segments, so called divisions, aggregated into two reportable segments; Equipment & Services and Tools & Attachments. The reportable segments offer different products and services. They are also, together with the operating segments, the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker.

Common group functions includes Epiroc Payment Solutions, i.e. functions which serve all operating segments or the Group as a whole, is not considered a segment. Revenue 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 are comprised of property, plant and equipment, intangible assets, other non-current receivables, inventories, and current receivables. Segment liabilities include the sum of non-interest-bearing liabilities such as operating liabilities, other provisions, and other non-current liabilities. Capital expenditure includes property, plant and equipment, and intangible assets, but excludes the effect of goodwill, intangible assets and property, plant and equipment through acquisitions.

Geographical information

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

By geographic area/country

	Revenues		Non-current assets	
	2018	2017	2018	2017
North America				
U.S.A.	3,864	3,304	1,604	1,372
Canada	2,992	2,428	233	245
Other countries	1,591	1,404	58	54
	8,447	**7,136**	**1,895**	**1,671**
South America				
Chile	2,028	1,686	125	105
Peru	1,271	1,224	51	74
Brazil	722	610	35	52
Other countries	1,005	756	30	24
	5,026	**4,276**	**241**	**255**
Europe				
Russia	2,582	1,848	20	24
Sweden	1,142	1,068	2,241	2,020
Germany	526	460	213	215
Finland	437	321	70	62
Great Britain	316	290	40	47
Other countries	4,101	4,005	399	362
	9,104	**7,992**	**2,983**	**2,730**
Africa/Middle East				
South Africa	1,930	1,685	87	84
Zambia	846	390	26	22
Other countries	2,577	2,010	83	42
	5,353	**4,085**	**196**	**148**
Asia/Australia				
Australia	4,057	3,041	350	168
China	1,917	1,615	919	930
India	1,704	1,149	366	367
Kazakhstan	820	504	9	7
Other countries	1,857	1,566	367	331
	10,355	**7,875**	**2,011**	**1,803**
Total	**38,285**	**31,364**	**7,326**	**6,607**

4. Segment information, cont.

Revenues

	2018	2017
Equipment & Service	28,540	22,383
whereof Equipment	*14,238*	*10,276*
whereof Service[1)]	*14,302*	*12,107*
Tools & Attachments	9,519	8,738
Common Group functions/eliminations	226	243
Total	**38,285**	**31,364**

1) "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, 2018) are as follows:

Within one year	26
More than one year	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 1 year
- Contracts meeting the requirement for the right to invoice expedient.

5. Employees and personnel expenses

Average number of employees

	2018			2017		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	18	15	33	3	2	5
Subsidiaries						
North America	297	1,767	2,064	267	1,555	1,822
South America	175	1,321	1,496	160	1,245	1,405
Europe	893	3,798	4,691	801	3,538	4,339
– of which Sweden	*597*	*2,464*	*3,061*	*496*	*2,213*	*2,709*
Africa/Middle East	206	1,256	1,462	196	1,194	1,390
Asia/Australia	545	3,226	3,771	509	2,885	3,394
Total subsidiaries	**2,116**	**11,368**	**13,484**	**1,933**	**10,417**	**12,350**
Total	**2,134**	**11,383**	**13,517**	**1,936**	**10,419**	**12,355**

Females in the Board of Directors and Group Management

Amounts in %	Dec. 31, 2018	Dec. 31, 2017
Parent Company		
Board of Directors	40	20
Group Management	20	n/a

Remuneration and other benefits

Amounts in SEK million	2018	2017
Group		
Salaries and other remuneration	6,111	5,642
Contractual pension benefits	344	313
Other social costs	978	907
Total	**7,433**	**6,862**

5. Employees and personnel expenses, cont.

Remuneration and other benefits to the Board

Amounts in KSEK	Fee	Value of synthetic share at grant date	Number of shares at grant date	Other fees[3]	Total fees incl. Value of synthetic shares at grant date 2018[4]	Adj. due to vesting and change in stock price[5]	Total expense recognized 2018	Total expense recognized 2017[1]
Chairman:								
Ronnie Leten	1,648	–	–	293	1,941	–	1,941	325
Other members of the Board:								
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	104
Ulla Litzén	528	–	–	225	753	–	753	104
Union representatives[2]	76	–	–	–	76	–	76	–
Total	**3,867**	**691**	**6,703**	**775**	**5,333**	**–129**	**5,204**	**533**

1) The fees during 2017 refers to Q4 2017 (excl. social costs)
2) Union representatives receive compensation to prepare for their participation in board meetings earned in 2018 (paid out in 2019)
3) Refers to fees in board committees.
4) Provision for synthetic shares (excl. social costs) at December 31, 2018, amounted to MSEK 0.6.
5) Refers to synthetic shares received in 2018

Remuneration and other benefits to Group Management

Amounts in KSEK	Base salary	Variable compensation[1]	Other benefits[2]	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments[3]	Total expense recognized 2018
President and CEO							
Per Lindberg	10,385	6,542	157	3,538	20,622	790	21,412
Other members of Group Management (4 positions)	9,268	4,228	2,541	3,230	19,267	3,157	22,424
Total 2018	**19,653**	**10,770**	**2,698**	**6,768**	**39,889**	**3,947**	**43,836**

1) Variable compensation refers to amount earned in 2018 and paid in 2019.
2) Refers to vacation pay, company car, medical insurance and other benefits. Other benefits are also related to extraordinary payments to two of the other members of Group Management due to the split and payout of saved vacation days.
3) Refers to the stock options received in 2014–2018 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
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 2018 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 April 25, 2018 decided that fees to the board members elected by the general meeting, for the period from the first day of trading of Epiroc's shares on Nasdaq Stockholm until the next annual general meeting should be as per below

- The chair of the board was granted an amount of SEK 1,950,000.
- Each of the other board members not employed by the Group were granted SEK 625,000.
- An amount of SEK 225,000 was granted to the chair of the audit committee and SEK 150,000 to each of the other members of this committee.
- An amount of SEK 100,000 was granted to the chair of the remuneration committee and SEK 75,000 to each of the other members of this committee.
- In addition it was decided in an extra general meeting on May 3, 2018 to grant an amount of SEK 60,000 to each non-executive director who, in addition, participates in committee work decided upon by the board.

Prior to the first day of trading in Epiroc's shares on Nasdaq Stockholm on June 18, 2018, the board members had the following remuneration: Ronnie Leten was remunerated a pro rata amount of a yearly remuneration of SEK 1,300,000 from October 1, 2017. Ulla Litzén and Lennart Evrell were both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from October 1, 2017. Anders Ullberg was remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from April 25, 2018. Jeane Hull and Astrid Skarheim Onsum are both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from January 1, 2018. Johan Forssell did not receive a remuneration prior to June 18, 2018.

The board members may choose to receive their whole remuneration, for the period from January 1, 2018 until the annual general meeting 2019, in cash or 50% of the remuneration in cash and 50% of their remuneration in the form of synthetic shares. The synthetic shares represent a future payment, the value of which corresponds to the value of a certain number of shares of class A at the time of payment. The payment is made five years after the annual general meeting of Epiroc held on April 25, 2018. 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. The right for each board member to utilize the synthetic shares depends on the board member's continued position. The qualifying pace is 25% of the synthetic shares per started quarter of the year.

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".

5. Employees and personnel expenses, cont.

Group Management

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

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

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 70% of the base salary for the 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 option.
- 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 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 retirement age is 65.

Stock Options holdings for Group Management

The stock options holdings as at December 31, 2018 are detailed below. See also note 23 for additional information.

Stock Options holdings as at Dec. 31, 2018

Grant Year[1]	President and CEO	Other members of Group Management
2014	–	51,320
2015	–	139,922
2016	–	299,651
2017	–	150,931
2018[2]	276,377	221,913
Total	**276,377**	**863,737**

1) Grants in prior years relates to Atlas Copco plans transferred to Epiroc.
2) Estimated grants for the 2018 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.

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.

Remuneration and other committees

In the fall of 2017 two board committees were formed. A remuneration committee consisting of Ronnie Leten (Chair), Johan Forssell and Lennart Evrell was formed and an audit committee consisting of Ulla Litzén (Chair), Anders Ullberg and Ronnie Leten was formed. The committees started their work in the beginning of 2018. In preparation for the listing and the long-term incentive programs, a repurchase committee was also formed.

Proposed principles for remuneration to Group Management 2019

The proposed principles for remuneration to Group Management for Annual General Meeting of the shareholders in 2019 is as follows;

The term "senior executives" covers the President & CEO and the other members in the Group management team. The elements of the total remuneration for senior executives are designed to successfully attract and retain high quality and competent people in order to create long lasting value for the corporation and its stakeholders. The total remuneration for senior executives shall consist of:

- base salary,
- annual variable compensation,
- long term incentive programs,
- pension premiums, and
- additional benefits.

The base salary reflects the position, qualification and individual performance.

The size of the annual variable compensation depends 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 & CEO, to 60% for the Business Area Executives and to 40% for the other senior executives.

Pension premiums are paid in accordance with a premium based plan within a range of 25–35% of the base salary, depending on age. The standard retirement age is 65 years.

Additional benefits consist of company car and private health insurance. For expatriates certain other benefits apply in compliance with the Company's Conditions for Expatriate Employees.

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 and a minimum of 12 months base salary depending on age, length of employment and possible income from other economic activity or employment.

The Board shall have the right to deviate from these guiding principles if special reasons for such deviation exist in an individual case.

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 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 board thus intends to work for the arrangement in Epiroc.

6. Remuneration to auditors

Audit fees and other services

	2018	2017
Deloitte		
Audit fee	28	19
Other services, tax	2	1
Other services, other	3	2
Other audit firms		
Audit fee	1	1
Total	**34**	**23**

Audit fee 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 2018, Deloitte was elected as auditor for the Epiroc Group until the Annual General Meeting 2019.

7. Other operating income and expense

Other operating income

	2018	2017
Commissions received	2	2
Capital gain on sale of property, plant and equipment	11	45
Other operating income	29	33
Total	**42**	**80**

Other operating expenses

	2018	2017
Capital loss on sale of property, plant and equipment	–7	–30
Capital loss on divestment of business	–	–2
Exchange-rate differences	–82	–166
Other operating expenses	–388	–18
Total	**–477**	**–216**

Other operating expenses of 388 (18) includes costs for the split from Atlas Copco amounting to 328 (0).

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 7,433 (6,862) whereof expenses for post-employment benefits amounted to 344 (313). See note 5 for further details.

Included in the operating profit are exchange rate changes on payables and receivables. Amortization, depreciation and impairment charge for the year amounted to 1,369 (1,254). Costs for research and development, including amortization, depreciation and impairment charge, amounted to 977 (795). Amortization related to development expenditure for 2018 amounted to 325 (265). See note 12 and 13 for further details.

8. Financial income and expense

Financial income and expenses

	2018	2017
Interest income		
– cash and cash equivalents	22	8
– financial lease receivables	153	187
Capital gain		
– other assets	2	6
Change in fair value -other assets	4	31
Financial income	**181**	**232**
Interest expenses		
– borrowings	–170	–34
– borrowings from Atlas Copco group	–	–231
– derivatives	–111	–14
– pension provisions, net	–4	–5
– other	–27	–36
Change in fair value – other liabilities and borrowings	–1	–
Foreign exchange loss, net	–39	–31
Impairment loss	–13	–18
Financial expenses	**–365**	**–369**
Financial expenses, net	**–184**	**–137**

Foreign exchange loss, net includes foreign exchange gains of 436 (135) on financial assets at fair value through profit and loss and foreign exchange losses of 475 (166) on other liabilities.

9. Taxes

Income tax expense

	2018	2017
Current taxes	–1,921	–1,590
Deferred taxes	157	95
Total	**–1,764**	**–1,495**

The income tax expense was –1,764 (–1,495), which corresponds to an effective tax rate of 24.5% (25.8) The major differences between the effective tax rate and the expected tax rate are explained below. The expected tax rate is calculated based on profit before tax multiplied by the nominal tax rate in each country.

Bridge of the effective tax rate

	2018	2017
Profit before tax	**7,201**	**5,793**
Weighted average tax based on national rates	–1,687	–1,425
– in %	23.4%	24.6%
Tax effect of:		
Non-deductible expenses	–138	–55
Non-taxable income	109	30
Withholding taxes	–	–46
Adjustments from prior years:		
– current taxes	–49	–7
– deferred taxes	–21	–17
Tax loss carryforwards/credits, net	13	–20
Change in tax rate, deferred tax	9	12
Other items	0	33
Income tax expense	–1,764	–1,495
Effective tax in %	**24.5%**	**25.8%**

The income tax expense was mainly impacted by non-deductible expenses and non-taxable income. Non-deductible expenses include costs related to long term incentive plans. Included in non-taxable income is income subject to reduced taxation under local law; for 2018 primarily related to reduced taxation in China and the US. Adjustments from prior years, current and deferred taxes, relate to tax provisions and tax assessments for previous years. The net effect from tax credits and tax loss carryforwards relates to expired tax credits and tax loss carryforwards, also including utilized tax credits and tax loss carryforwards for which no deferred tax assets were previously recognized. Change in tax rate relates mainly to the reduced tax rate in Sweden from 2019 (and the reduced tax rate in US from 2018).

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

Change in deferred taxes

	2018	2017
Opening Net balance, Jan. 1	425	346
Business acquisitions	–1	–
Charges to profit for the year	157	95
Tax on amounts recorded to equity	24	–14
Transaction differences	–7	–10
Transaction with shareholders	–55	8
Net balance, Dec. 31	**543**	**425**

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

Deferred tax assets and liabilities

	2018			2017		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	48	406	–358	50	390	–340
Property, plant and equipment	149	279	–130	142	240	–98
Other financial assets	16	10	6	10	14	–4
Inventories	793	56	737	662	38	624
Current receivables	62	14	48	100	9	91
Operating liabilities	296	3	293	177	0	177
Provisions	78	2	76	68	–	68
Post-employment benefits	56	0	56	41	0	41
Borrowings	15	–	15	8	2	6
Loss/credit carryforwards	19	–	19	27	–	27
Other items[1)]	11	230	–219	8	175	–167
Deferred tax assets/liabilities	**1,543**	**1,000**	**543**	**1,293**	**868**	**425**
Netting of assets/liabilities	–1,000	–1,000	–	–868	–868	–
Net deferred tax balances	**543**	–	**543**	**425**	–	**425**

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

Epiroc has tax loss carryforwards that totals 73 (325), for which deferred tax assets of 19 have been recognized. There are no tax loss carryforwards for which no deferred tax assets have been recognized.

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

9. Taxes, cont.

Deferred taxes recognized in the income statement

	2018	2017
Intangible assets	–1	101
Property, plant and equipment	–4	31
Other financial assets	6	7
Inventories	101	25
Current receivables	–45	13
Operating liabilities	115	–12
Provisions	7	–17
Post-employment benefits	–7	–10
Borrowings	10	–3
Other items	–17	–42
Changes due to temporary differences	**165**	**93**
Loss/credit carry-forwards	–8	2
Charges to profit for the year	**157**	**95**

10. Other comprehensive income

Other comprehensive income for the year

	2018			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit plans	–122	25	–97	65	–14	51
Items that may be reclassified subsequently to profit or loss						
Translation differences on foreign operations	8	–	8	–755	–	–755
Cash flow hedges	22	–5	17	–	–	–
Total other comprehensive income	**–92**	**20**	**–72**	**–690**	**–14**	**–704**
Attributable to non-controlling interests						
Translation differences on foreign operations	0	–	0	–1	–	–1
Total other comprehensive income	**–92**	**20**	**–72**	**–691**	**–14**	**–705**

11. Earnings per share

Earnings per share

Amounts in SEK	2018	2017
Basic earnings per share	4.50	3.55
Diluted earnings per share	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 SEK million	2018	2017
Profit for the year	5,430	4,298

Average number of shares outstanding

In thousands of shares	2018	2017
Basic weighted average number of shares outstanding	1,205,608	1,212,360
Effect of employee stock options	699	–
Diluted weighted average number of shares outstanding	**1,206,307**	**1,212,360**

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.

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% (3).

The Group's average weighted cost of capital was 8% (8) after tax (approximately 8.4% (10.5) before tax and has been used in discounting the expected future cash flow to generate a return well above the values to be tested, including sensitivity analyses/worst case scenarios. Sensitivity analyses show that no reasonable change to key parameters give rise to any impairment requirement.

The table below presents the carrying value of goodwill allocated by operating segments and reportable segments.

Carrying value of goodwill by cash generating unit:

Goodwill

	2018	2017
Underground Rock Excavation	145	145
Surface and Exploration Drilling	371	322
Drilling Solutions	116	106
Mining & Rock Excavation Service	311	158
Equipment & Service	**943**	**731**
Rock Drilling Tools	794	771
Hydraulic Attachment Tools	139	136
Tools & Attachments	**933**	**907**
Total	**1,876**	**1,638**

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

	2018		2017	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	0	16	0	5
Marketing expenses	1	40	1	31
Administrative expenses	13	13	28	9
Research and development expenses	304	21	237	28
Total	**318**	**90**	**266**	**73**

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

	Internally generated		Acquired				
2018	Product development	Other technology and contract based	Trademarks	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost							
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
Closing balance, Dec. 31	**2,904**	**241**	**138**	**456**	**887**	**1,876**	**6,502**
Amortization and Impairment losses							
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
Closing balance, Dec. 31	**1,853**	**216**	**79**	**260**	**474**	**–**	**2,882**
Carrying amounts							
At Jan. 1	1,030	40	58	73	282	1,638	3,121
At Dec. 31	**1,051**	**25**	**59**	**196**	**413**	**1,876**	**3,620**

12. Intangible assets, cont.

	Acquired and internally generated intangible assets					
2017	Product development	Trademarks	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost, Amortization and Impairment losses						
Opening balance, Jan. 1	1,098	55	92	286	1,654	3,185
Investments	176	–	–	113	–	289
Amortization	–235	–11	–19	–74	–	–339
Business acquisitions	0	15	5	5	28	53
Disposals	–1	–	–	0	–	–1
Transactions with owners	32	0	0	–1	–	31
Translation differences	–40	–1	–5	–7	–44	–97
Closing balance, Dec. 31	**1,030**	**58**	**73**	**322**	**1,638**	**3,121**

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

2018	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
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
Closing balance, Dec. 31	**1,225**	**5,420**	**262**	**6,907**	**2,300**
Depreciation and impairment losses					
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
Closing balance, Dec. 31	**518**	**3,916**	**–**	**4,434**	**1,067**
Carrying amounts					
At Jan. 1	667	1,389	215	2,271	1,215
At Dec. 31	**707**	**1,504**	**262**	**2,473**	**1,233**

2017	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost, depreciation and impairment losses					
Opening balance, Jan. 1	650	1,441	194	2,285	1,370
Investments	8	226	226	460	793
Depreciation for the period	–43	–415	–	–458	–457
Business acquisitions	–	2	–	2	–
Disposals	–23	–33	–4	–60	–267
Reclassifications	32	172	–192	12	–161
Transactions with owners	78	35	–6	107	–5
Translation differences	–35	–39	–3	–77	–58
Closing balance, Dec. 31	**667**	**1,389**	**215**	**2,271**	**1,215**

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

Accumulated capital participation

	2018	2017
Opening balance, Jan. 1	94	15
Acquisitions of associated companies	117	81
Dividends	–1	–
Profit for the year after income tax	–8	–1
Translation differences	6	–1
Closing balance, Dec. 31	**208**	**94**

Summary of financial information for associated companies

2018	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, %1)
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

2017	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, %1)
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	129	61	68	112	4	25
Zhejiang GIA Machinery Manufacturing Co., Ltd	China	34	1	33	36	0	49
Mobilaris MCE AB	Sweden	74	29	45	13	–7	34

1) 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.

During the fourth quarter 2018 Epiroc acquired 34% ownership and voting power in ASI Mining LLC.

15. Other financial assets

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

	2018	2017
Non-current		
Pension and other similar benefit assets (note 23)	14	39
Financial assets classified at amortized cost		
– financial lease receivables	318	423
– other financial receivables	787	639
Closing balance, Dec. 31	**1,119**	**1,101**
Current		
Cash-pool – other Group	–	7
Financial assets classified at amortized cost		
– financial lease receivables	376	479
– other financial receivables	568	666
Closing balance, Dec. 31	**944**	**1,152**

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

16. Inventories

	2018	2017
Raw materials	420	356
Work in progress	2,122	1,520
Semi-finished goods	1,705	1,362
Finished goods	6,269	5,202
Closing balance, Dec. 31	**10,516**	**8,440**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 240 (309). Reversals of write-downs which were recognized in earnings totaled 60 (139). Previous write-downs have been reversed as a result of improved market conditions in certain markets. Inventories recognized as expense amounted to 18,532 (14,126).

17. Trade receivables

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

Expected credit losses, trade

	2018	2017
Provisions at Jan. 1	336	377
Change in accounting principles	–1	–
Business acquisitions and divestments	0	1
Provisions recognized for expected credit losses	91	96
Write-offs	–80	–104
Transaction with shareholders	–	–23
Translation differences	9	–11
Closing balance, Dec. 31	**355**	**336**

Trade receivables of 8,005 (6,271) are reported net of impairment amounting to 355 (336). Impairment recognized in the income statement totaled 159 (166). Other receivables amount to 1,289 (1,362). Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days. The acquisition of subsidiaries increased trade receivables with 22 (29). For credit risk information, see note 27.

18. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2018	2017
Derivatives		
– classified at fair value through profit and loss	108	193
Financial assets classified at amortized cost		
– other receivables	883	920
– accrued income	34	31
Prepaid expenses	264	218
Closing balance, Dec. 31	**1,289**	**1,362**

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 1,289 (1,362). 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 of cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents had an estimated average effective interest rate of 0.7% (0.7). See note 27 for additional information. The committed, but unutilized, credit line is SEK 4,000 million. See note 21 for additional information.

	2018	2017
Cash	2,335	1,639
Cash equivalents	3,537	169
Closing balance, Dec. 31	**5,872**	**1,808**

20. Equity

At year end, Epiroc's share capital totaled SEK 500 million (21). 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, each with a quota value of approximately SEK 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 April 25, 2018 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 2019 and allows:

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 performance-based 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.

The Epiroc Board decided, on July 19, 2018, to utilize the mandates granted by the Annual General Meeting to purchase, transfer and sell own shares as stated above in items 1. through 4. on the conditions presented to and approved by the Annual General Meeting. During 2018 Epiroc purchased 14,510,359 shares class A and divested 518,482 shares class A in accordance with mandates granted. As of December 31, 2018, Epiroc AB held 13,991,877 shares class A. More information regarding the employee stock option plans can be found in note 23.

In calculating earnings per share for historical periods the number of shares have been based on the number of shares in Atlas Copco as of April 24, 2018, the date of the decision made by the shareholders in Atlas Copco to distribute one share in Epiroc per Atlas Copco share. Such number of shares was 1,212,360,000 and has been applied for the presented historical period (2017).

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 50 (6). During 2018 Epiroc acquired 34% ownership and voting power in ASI Mining LLC. 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.

	2018	2017
Effective tax adjustment	–55	330
Group contribution	–	–4,122
Effective tax on group contribution	–	907
Shareholder contribution from former owners	4,358	–
Acquisition of subsidiaries	–1,559	–345
Change in non-controlling interest	37	7
Pensions IAS 19	27	43
Share based compensation	44	105
Transfer of assets and liabilities without consideration[1]	–122	986
Total	**2,730**	**–2,089**

1) 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 2.10 per share, totaling SEK 2,519 million if shares held by the company on December 31, 2018 are excluded.

Amounts in SEK	
Retained earnings including reserve for fair value	46,272,443,010
Profit for the year	3,281,040,311
The Board of Directors proposes that these earnings be appropriated as follows;	
To the shareholders, a dividend of SEK 2.10 per share	2,519,468,335
To be retained in the business	47,034,014,986
Total	**49,553,483,321**

21. Borrowings

	Maturity	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Non-current					
Medium Term Note Program SEK 1,250 million, Fixed	2023	1,247	1,258	–	–
Medium Term Note Program SEK 750 million, Float	2023	748	752	–	–
Bilateral borrowings EUR 100 million, Float	2022	1,028	1,034	–	–
Bilateral borrowings SEK 2,000 million, Float	2023	2,000	2,045	–	–
Other bank loans		–	–	20	20
Borrowings from Atlas Copco		–	–	2,169	2,169
Less current portion of long-term borrowings		–	–	–1	–1
Total non-current bonds and loans		**5,023**	**5,089**	**2,188**	**2,188**
Financial lease liabilities		71	71	62	62
Other financial liabilities		1	1	0	0
Total non-current borrowings		**5,095**	**5,161**	**2,250**	**2,250**
Current					
Current portion of long-term borrowings		–	–	1	1
Bridge facility		1,000	1,000	–	–
Loans		654	654	658	658
Borrowings from Atlas Copco		–	–	4,108	4,108
Financial lease liabilities		36	36	41	41
Other financial liabilities		12	12	–	–
Total current borrowings		**1,702**	**1,702**	**4,808**	**4,808**
Closing balance Dec. 31		**6,797**	**6,863**	**7,058**	**7,058**

The difference between carrying amount and fair value of borrowings relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 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 connection with the listing on June 18, 2018, the Group entered into a credit facility with a group of banks, a SEK 6,000 million bridge facility, of which SEK 5,000 million was utilized and partly used to repay borrowings to Atlas Copco (SEK 3,752 million). In addition, Epiroc was granted a bilateral loan of EUR 100 million from the European Investment Bank. During November 2018, Epiroc issued a 5-year SEK 2,000 million bond. Epiroc AB also entered into a bilateral loan agreement with Swedish Export Credit Corporation and Svenska Handelsbanken amounting to SEK 2,000 million, with maturity in 2023 with two one year extension options. The financing has been used to repay SEK 4,000 million of the bridge facility. The remaining part of the bridge facility, SEK 1,000 million, will be replaced in the beginning of 2019. On December 5, 2018, Epiroc was assigned a BBB+ credit rating with a stable outlook by S&P Global Ratings. The table below shows the Group's back-up facilities.

Back-up facilities

	Facility size, MSEK	Utilized, MSEK
Revolving credit facility[1]	4,000	–
Commercial paper program	2,000	–
Total back-up facilities	**6,000**	**–**

1) The revolving credit facility matures in 2023 with two one year extension options.

Reconciliation of changes in liabilities

	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
Non-current								
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
Total non-current borrowings	**2,250**	**2,819**	**36**	**11**	**0**	**8**	**–29**	**5,095**
Current								
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
Total current borrowings	**4,808**	**–3,150**	**8**	**5**	**–**	**2**	**29**	**1,702**
Total	**7,058**	**–331**	**44**	**16**	**0**	**10**	**0**	**6,797**

22. Leases

Operating leases – lessee
The leasing costs of assets under operating leases amounted to 365 (324) 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 (294) and contingent rent of 43 (30). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2018	2017
Less than one year	417	264
Between one and five years	844	576
More than five years	289	261
Total	**1,550**	**1,101**

The total of future minimum sublease payments expected to be received was 29 (1).

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

	2018	2017
Less than one year	409	454
Between one and five years	307	416
More than five years	7	18
Total	**723**	**888**

Contingent rent recognized as income amounted to 12 (5).

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

2017	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1,	68	69
Carrying amounts, Dec. 31,	71	42

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
Total	**116**	**10**	**106**

2017	Minimum lease payments	Interest	Principal
Less than one year	46	5	41
Between one and five years	65	7	58
More than five years	5	1	4
Total	**116**	**13**	**103**

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

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
	736	**694**
Unearned finance income	–	42
Total	**736**	**736**

2017	Gross investment	Present value of minimum lease payments
Less than one year	508	479
Between one and five years	426	419
More than five years	4	4
	938	**902**
Unearned finance income	–	36
Total	**938**	**938**

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. Prior years, the United States was one of the most significant countries. However during 2017, these plans were transferred to Atlas Copco in its entirety.

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 2018, Alecta's surplus in the form of its so-called collective funding amounted to 142% (154%). 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, counterparty risk, liquidity and inflation risk and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple assets classes, markets and issuers should be utilized. 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:

	2018	2017
Financial assets (note 15)	–14	–39
Post-employment benefits	283	181
Other provisions (note 25)	51	47
Closing Balance, net	**320**	**189**

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 320 (189). The weighted average remaining duration of the obligation is 21.5 (21.1) years.

Post-employment benefits

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
Present value of net obligations	**204**	**61**	**–3**	**51**	**313**
Effect of asset ceiling	7	–	–	–	7
Other long-term service obligations	–	–	0	–	0
Net amount recognized in balance sheet	**211**	**61**	**–3**	**51**	**320**

2017	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
Present value of defined benefit obligations	1,245	46	–	46	1,337
Fair value of plan assets	–1,149	–	–	–	–1,149
Present value of net obligations	**96**	**46**	**–**	**46**	**188**
Other long-term service obligations	–	–	1	–	1
Net amount recognized in balance sheet	**96**	**46**	**1**	**46**	**189**

23. Employee benefits, cont.

Plan assets consist of the following:

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
Closing balance, Dec 31	**922**	**319**	**1,241**

2017	Quoted market price	Unquoted market price	Total
Debt instruments	521	–	521
Equity instruments	131	–	131
Property	33	291	324
Assets held by insurance companies	151	–	151
Cash	19	–	19
Investment funds	3	–	3
Closing balance, Dec 31	**858**	**291**	**1,149**

Movement in plan assets

	2018	2017
Fair value of plan assets at Jan. 1	1,149	1,189
Interest income	30	27
Remeasurement – return on plan assets	37	96
Settlements	–1	–47
Employer contributions	8	9
Plan members contributions	1	1
Benefit paid by the plan	–24	–27
Reclassifications	0	–
Transactions with Atlas Copco	26	–95
Translation differences	15	–4
Fair value of plan assets at Dec 31	**1,241**	**1,149**

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:

	2018	2017
Europe	1,208	1,143
Rest of the world	33	6
Total	**1,241**	**1,149**

Asset ceiling

	2018	2017
Asset ceiling at Jan. 1	–	–
Remeasurements – asset ceiling	7	–
Translation difference	0	–
Asset ceiling, Dec. 31	**7**	**–**

Movement in present value of the obligations for defined benefits

	2018	2017
Defined benefit obligations at Jan. 1	1,337	1,460
Current service cost	72	61
Past service cost	1	–18
Gain/loss on settlement	1	–
Interest expense (+)	34	32
Actuarial gains (–)/ losses (+) arising from experience adjustments	38	–13
Actuarial gains (–)/ losses (+) arising from financial assumptions	122	58
Actuarial gains (–)/ losses (+) arising from demographic assumptions	1	–3
Settlements	–1	–47
Benefits paid from plan or company assets	–67	–70
Reclassifications	0	5
Transactions with Atlas Copco	–	–120
Translation differences	16	–8
Defined benefit obligations, Dec. 31	**1,554**	**1,337**

Remeasurements recognized in other comprehensive income amounts to 122 (–65) and 8 (9) in profit and loss. The Group expects to pay 53 (48) in contributions to defined benefit plans in 2019. Transactions with Atlas Copco during 2017 refers to the liability for defined benefits in the US, which was transferred to Atlas Copco in its entirety.

Expenses recognized in the income statement

	2018	2017
Current service cost	72	61
Past service cost	1	–18
Gain/loss on settlements	1	–
Net interest cost	4	5
Employee contribution/ Participant contribution	–1	–1
Remeasurement of other long-term benefits	8	9
Total	**85**	**56**

The total benefit expense for defined benefit plans amounted to 85 (56) of which 81 (51) has been charged to related functions under operating expenses and 4 (5) to financial expenses. Expenses related to defined contribution plans amounted to 263 (245).

23. Employee benefits, cont.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages, in %)

	2018	2017
Discount rate		
Europe	2.34%	2.46%
Future salary increases		
Europe	2.77%	2.55%

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

2018	Europe
Change in discount rate + 0.50%	–149
Change in discount rate – 0.50%	171
Increase in life expectancy, + 1 year	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 thus 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 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 104).

Performance based employee stock option plan 2018

The annual general meeting of Epiroc held on April 25, 2018 thus resolved, based on a proposal from the Board of Directors, to introduce a performance based employee stock option plan for 2018, which is similar in structure as the option plans taken over from Atlas Copco. The Board of Directors' proposal was also approved by Atlas Copco's annual general meeting held on April 24, 2018.

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 2,833,090 shares of Class A in Epiroc. The issuing of options depend on the value increase expressed as Economic Value Added of Epiroc during 2018. In an interval of SEK 700,000,000, 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, 2019. 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 2018. 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 ongoing basis during the term of the plan, be reported in accordance with IFRS 2, and is estimated to amount up to approximately SEK 52 million. The estimated costs for advice and administration linked to the program are approximately SEK 3.5 million. 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 (11 participants) in the performance based employee stock option plan is an investment of a maximum of 10% of the participants' respective base salary for 2018 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 and 2017. 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 2018 option plan was based, subject to continued employment and continued ownership of the shares.

For all the programs, 2014–2018, a total maximum of 12,859,419 shares could be delivered to employees, corresponding to approximately 1.1% 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 was not feasible. In the 2014–2018 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

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

23. Employee benefits, cont.

Key assumptions

	2018 Program (Dec. 31, 2018)
Expected exercise price	SEK 92.22/62.88[1]
Expected volatility	30%
Expected options life (years)	4.64
Expected share price	SEK 83.84
Expected dividend (growth)	SEK 1.73 (6%)
Risk free interest rate	1.00%
Expected average grant value	SEK 14.10/23.90[1]
Number of outstanding options	2,532,225
– of which forfeited	–69,535
Number of matching shares	50,566

1) Matching shares for senior executives.

The expected volatility has been determined by analyzing the historic development of the Epiroc A Share price as well as Atlas Copco A share 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.

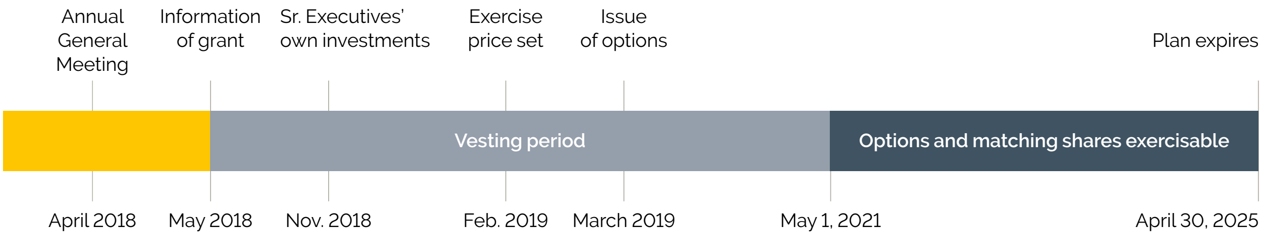
For the stock options in 2014–2018 programs, the fair value is recognized as an expense over the following vesting periods:

Program

	Vesting period		Exercise period	
Stock options	**From**	**To**	**From**	**To**
2014	May 2014	April 2017	May 2017	April 2019
2015	May 2015	April 2018	May 2018	April 2020
2016	May 2016	April 2019	May 2019	April 2023
2017	May 2017	April 2020	May 2020	April 2024
2018	May 2018	April 2021	May 2021	April 2025

For the 2018 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 2019.

Timeline 2018 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 2018 for the Epiroc Group for all share-based incentive programs amounted to 54 (135) excluding social costs of which 8 (13) 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 Epiroc Group for share appreciation rights and stock options classified as cash-settled as of December 31, 2018, amounted to 129 (140). See additional information about the Epiroc Group's share-based incentive program in Note 5.

23. Employee benefits, cont.

Summary of share value based incentive programs

Program	Initial number of employees June 18, 2018	Number of options after split June 18, 2018	Expiration date	Exercise price, SEK	Type of share	Fair value at grant date	Intrinsic value for vested SARs
Stock options							
2014	17	786,560	4/30/2019	65.71	A	13.10	–
2015	41	1,308,754	4/30/2020	47.43	A	8.39	–
2016	66	4,966,702	4/30/2023	75.75	A	16.53	–
2017	64	2,095,148	4/30/2024	94.38	A	15.90	–
Matching shares							
2014	1	3,178	4/30/2019	44.91	A	23.84	–
2015	2	8,735	4/30/2020	32.43	A	15.65	–
2016	3	11,029	4/30/2023	51.79	A	26.29	–
2017	7	22,993	4/30/2024	64.37	A	26.84	–
Share appreciation rights							
2014	7	359,240	4/30/2019	65.71	A	–	18.13
2015	8	311,567	4/30/2020	47.43	A	–	36.41
2016	12	954,761	4/30/2023	75.75	A	–	–
2017	14	446,150	4/30/2024	94.38	A	–	–

Number of options/rights 2018

Program	Outstanding June 18, 2018	Exercised	Expired/ forfeited	Outstanding Dec. 31	–of which exercisable	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options							
2014[1)]	786,560	186,192		600,368	600,368	4	99.09
2015[2)]	1,308,754	268,140		1,040,614	1,040,614	16	99.07
2016[3)]	4,966,702		218,370	4,748,332	–	28	–
2017[4)]	2,095,148		89,259	2,005,889	–	40	–
Matching shares							
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	–
Share appreciation rights							
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	–

1) of which 385,088 have been accounted for as cash settled
2) of which 772,673 have been accounted for as cash settled
3) of which 3,510,902 have been accounted for as cash settled
4) of which 1,500,088 have been accounted for as cash settled

The 2018 program, which is not granted as of December 31, 2018, is described on pages 102–103.

24. Other liabilities

Other financial liabilities are classified at amortized cost. Fair value of other liabilities corresponds to carrying value.

Other current liabilities

	2018	2017
Derivatives		
– classified at fair value through profit and loss	7	21
Other financial liabilities		
– other liabilities	708	661
– accrued expenses	2,051	1,724
Advances from customers[1)]	1,343	856
Deferred revenues service contracts[1)]	102	38
Closing balance, Dec 31	**4,211**	**3,300**

1) In advances from customers and deferred revenue, 999 (640) are related to contract liabilities. The significant increase from prior year is the result of new advances from the increase of orders received where the control of the goods have not yet been transferred to the customer. 561 of the advances from customers and deferred revenue 2017 have been recognized as revenue during 2018.

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

25. Provisions

2018	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	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
Closing balance, Dec. 31	**217**	**40**	**319**	**576**
Non-current	4	34	249	287
Current	213	6	70	289
Total	**217**	**40**	**319**	**576**

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
Total	**217**	**40**	**319**	**576**

2017	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	182	76	217	475
Business acquisitions	1	–	2	3
During the year				
– provisions made	166	6	196	368
– provisions used	–108	–25	–62	–195
– provisions reversed	–35	–1	–50	–86
Translation differences	–8	–1	–7	–16
Closing balance, Dec. 31	**198**	**55**	**296**	**549**
Non-current	7	42	230	279
Current	191	13	66	270
Total	**198**	**55**	**296**	**549**

2017, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	191	13	66	270
Between one and five years	7	40	230	277
More than five years	–	2	0	2
Total	**198**	**55**	**296**	**549**

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

26. Assets pledged and contingent liabilities

Epiroc had no material amounts for 2018 or 2017 concerning assets pledged and contingent liabilities. In 2018, Epiroc had 29 (10) in securities and other contingent liability. These primarily relate to pension commitments and commitments related to customer claims and various legal matters.

27. Financial risk management

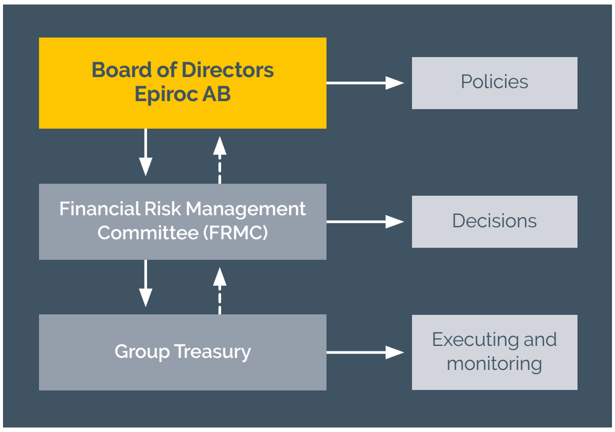
Epiroc is in its operations exposed to a variety of financial risks; funding and liquidity risk, currency risk, interest rate risk and credit risk.

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 will meet on a quarterly basis 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 FRMC on a quarterly basis and FRMC reports to the Audit Committee.



Capital structure

The Group defines capital as borrowings and equity. The Group's financial goals is to have an efficient capital structure and have the flexibility to make selective acquisitions, while maintaining an investment grade rating. The Group's goal is to provide long-term 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 ratio 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, is:

Net debt and net debt/equity ratio

	2018	2017
Interest-bearing liabilities	6,797	7,058
Post-employment benefits	283	181
Cash and cash equivalents	–5,872	–1,808
Certain other financial receivables	–	–7
Net debt	**1,208**	**5,424**
Total equity	**18,847**	**12,047**
Net debt/equity ratio, %	6.4	45.0

Rating

Another variable in the assessment of the Group's capital structure is the credit rating. In December 2018, Epiroc was assigned a BBB+ long-term issuer credit rating with a stable outlook by S&P Global Ratings.

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 renegotiated 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 (SEK 3,000 million). According to the policy the Group should maintain a minimum of committed credit facilities (SEK 4,000 million) and ensure a short-term liquidity reserve.

Comments for the year

In connection with the listing on June 18, 2018, the Group entered into a credit facility with a group of banks, a SEK 6,000 million bridge facility, of which SEK 5,000 million was utilized. In addition, Epiroc was granted a bilateral loan of EUR 100 million from the European Investment Bank with a maturity of four years. By end of December, SEK 4,000 million of the bridge facility has been refinanced through capital market borrowings of SEK 2,000 million and a bilateral loan facility of SEK 2,000 million. The remaining part of the bridge facility will be replaced in the beginning of 2019. As back-up facilities, the Group has a SEK 4,000 million revolving credit facility and a SEK 2,000 million commercial paper program, both unutilized at year-end.

As per December 31, 2018, the Group's total interest bearing loans amounted to 6,797 (7,058). The average time to maturity of the Group's external debt was 3.9 years (N.A.) at year end. Cash and cash equivalents for the Group totals to 5,872 (1,808). 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.

27. Financial risk management, cont.

Financial liabilities

	2019	2020	2021	2022	2023	>2023
Liabilities to credit institutions	70	66	48	1,071	4,038	5
Derivatives	–	–	–	–	–	–
Other liabilities	–	20	–	–	–	–
Non-current financial liabilities	**70**	**86**	**48**	**1,071**	**4,038**	**5**
Liabilities to credit institutions	1,690	–	–	–	–	–
Derivatives	7	–	–	–	–	–
Other accrued expenses	2,051	–	–	–	–	–
Trade payables	4,711	–	–	–	–	–
Other liabilities	696	–	–	–	–	–
Current financial liabilities	**9,155**	**–**	**–**	**–**	**–**	**–**
Total financial liabilities	**9,225**	**86**	**48**	**1,071**	**4,038**	**5**

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, 2018, the nominal amount of the outstanding interest rate swaps was 250 (0) and the fair value was 0 (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 Group's borrowings was 0.54%. For more information about the Group's borrowings, see note 21.

A one percentage point shift up in interest rates would affect the Group's borrowings and interest rate derivatives and impact the Group's net interest by approximately –50 (N.A.) and a similar downwards shift would impact the Group's net interest by approximately +18 (N.A.).

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. Currency exposure/risk 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 cause currency exposure that affects the Group's earnings in the event of exchange rate fluctuations.

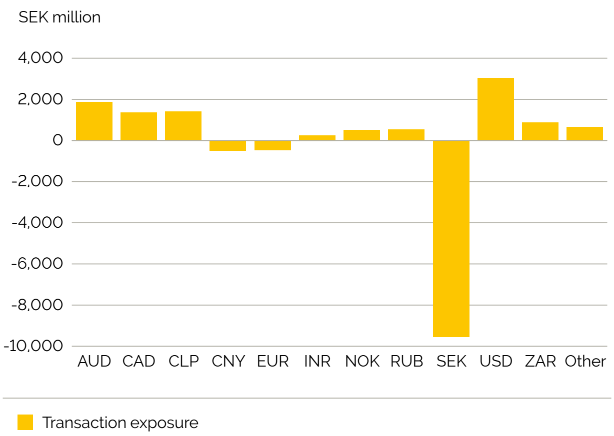
Policy

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. The Financial Risk Management Committee can, however, 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.

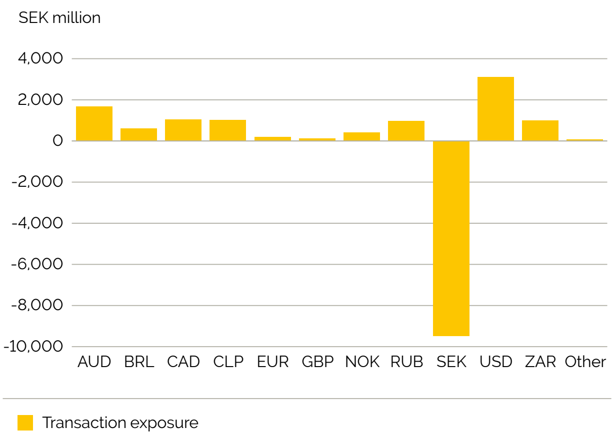
Comments for the year

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 9,489 (9,367).

Estimated operational transaction exposure in the Group's most important currencies, 2018



Estimated operational transaction exposure in the Group's most important currencies 2017



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 after decision by the Financial Risk Management Committee been hedged with FX forward contracts, all maturing within 12 months.

27. Financial risk management, cont.

Cashflow hedges

	2018		2017	
	Nominal amount	Fair value	Nominal amount	Fair value
AUD	–65 MAUD	16 MSEK	–	–
USD	–64 MUSD	7 MSEK	–	–

The table below shows the effect on pretax earnings that one-sided fluctuations in each currency may have.

Transaction exposure sensitivity[1)]

	2018	2017
AUD Currency rate +/–1%	19	17
USD Currency rate +/–1%	30	22
SEK Currency rate +/–1%	96	94

1) 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 is fully hedged by Group Treasury.

Translation exposure

When translating the results of foreign subsidiaries into SEK currency exposure occurs, 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).

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 Financial Risk Management Committee 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 +/–34 (24).

Credit risk

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

Credit risk

	2018	2017
Loans and receivables		
– trade receivables	8,005	6,271
– financial lease receivables	694	902
– other financial receivables	1,355	1,305
– other receivables	883	920
– accrued income	34	31
– cash and cash equivalents	5,872	1,808
Derivatives	108	193
Total	**16,951**	**11,430**

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 dispersed among many customers, of whom no single customer represents a significant share of the Group's commercial risk, the monitoring of commercial credit risks is primarily done at the divisional or business unit level. Each business unit 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 long-term 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.

Comments for the year

The Group has an in-house customer finance operation (part of Epiroc Payment Solutions) as a means of supporting equipment sales. At December 31, 2018, the credit portfolio of the customer financial operations totaled approximately to 1,997 (2,253) consisting of 15 (65) reported as trade receivables, 684 (894) reported as financial lease receivables, and 1,298 (1,294) reported as other financial receivables. In addition, Epiroc Payment Solutions also has non-cancelable operating lease contracts of 611 (705). 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 22.

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

Provision for expected credit losses

The business units establish provisions for their estimate of expected credit losses in respect of financial assets where the policies for impairment are applied. The measure for expected credit losses for these assets is based on the following models;

Trade receivables and contract assets

The measure for expected credit losses for trade receivables and contract assets is based on an individually assessed impairment for receivables which are credit impaired and receivables with observable evidence of higher credit risk. For all other receivables an impairment based on historical loss rates is estimated. This is done by grouping the receivables and using the expected loss rate based on historical default statistics. Rapid, major market changes is separately considered and impairment level is adjusted, if needed, to reflect identified changes for the specific market as they occur.

Lease receivables and certain financial receivables

For other financial assets where the policies for impairment are applied, i.e. lease receivables and certain financial receivables, a rating model is used 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. The measurement of expected credit loss consider the value of the collaterals and the delay. The assessment also take into account the degree of insurance. Current rating asses if changes in the credit risk has occurred since initial recognition and helps assess the change, if any, in the risk of default over the expected life of lease. Both external credit agencies rating and internally developed rating methods are applied. In addition, rapid, major market changes is separately considered and impairment level is adjusted, if needed, to reflect identified changes for the specific market as they occur.

At year-end 2018, the expected credit loss amounted to 4.3% (5.1) of gross total customer receivables. The following table presents the gross value of trade receivables, both current and non-current, together with the related impairment provisions.

27. Financial risk management, cont.

Trade receivables

2018	Gross	Impairment
Impairment assessed for individual receivables	86	68
Impairment assessed for grouped receivables	8,274	287
Total	**8,360**	**355**

2017	Gross	Impairment
Not past due	4,145	5
Past due but not impaired		
0–30 days	1,411	–
31–60 days	283	–
61–90 days	138	–
More than 90 days	550	–
Past due and individually impaired		
0–30 days	17	1
31–60 days	4	1
61–90 days	2	1
More than 90 days	57	60
Collective impairment	–	268
Total	**6,607**	**336**

The total estimated fair value of collateral for trade receivables amounted to 89 (411). The collateral mainly consisted of repossession rights and export credit insurance. The Group evaluates the concentration of risk with respect to trade receivables (and contract assets) as low and the credit risk to be limited, based on historical default statistics and the diversified customer base. For further information see note 17 and note 18.

The gross amount of financial lease receivables amounted to 716 (930), of which 21 (28) have been impaired, and the gross amount of other financial receivables amounted to 1,400 (1,392), of which 47 (87) have been impaired. The total estimated fair value of collateral to financial lease receivables and other financial receivables was 462 (534) and 1,134 (1,031) respectively, consisting primarily of repossession rights.

Financial credit risk

Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparts related to the Group's investments, bank deposits or derivative transactions. 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 SEK 2,000 million per counterpart). Derivative transactions can only be undertaken with counterparts for which CSA (Credit Support Annex) agreements are established. Furthermore, financial transactions are only to be entered into with counterparts 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 2018, the measured credit risk on derivatives, taking into account the mark-to-market value and collaterals, amounted to 90 (172). The table below presents the reported value of the Group´s derivatives.

Outstanding derivative instruments

	2018	2017
Interest rate swaps		
Assets	0	–
Liabilities	–	–
Foreign exchange forwards		
Assets	108	193
Liabilities	7	21

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 108 (193) for assets and 7 (21) for liabilities. The table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments

	Gross	Offset in Balance sheet	Net in Balance sheet	Master netting agreement	CSA	Net position
Assets						
Derivatives	108	–	108	–7	–11	90
Liabilities						
Derivatives	7	–	7	–7	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 often coincide with strong end-customer demand and are offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In 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 2017, 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.

27. Financial risk management, cont.

Currency rates used in the financial statements

			Year-end rate		Average rate	
	Value	Code	2018	2017	2018	2017
Australia	1	AUD	6.33	6.42	6.49	6.53
Canada	1	CAD	6.59	6.56	6.71	6.57
China	1	CNY	1.31	1.26	1.31	1.26
EU	1	EUR	10.28	9.84	10.26	9.63
Chile	1	CLP	12.86	13.38	13.57	13.15
South Africa	1	ZAR	0.62	0.67	0.66	0.64
USA	1	USD	8.97	8.22	8.70	8.55

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 there have been 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 SEK 4,150 million 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 SEK 3,752 million 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, 2018 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, as well as the Atlas Copco group.

	2018	2017
Revenues	1	93
Goods purchased	51	422
Service purchased	0	66
Borrowings	–	231
Derivative income	–	135
Fair value change expense	–	6
At Dec, 31:		
Receivables	13	4
Cash-pool	–	7
Payables	17	11
Current borrowings	–	4,108
Non-current borrowings	–	2,169
Derivatives	–	193

29. Subsequent events

In January 2019, the acquisition of Fordia Group, a Canadian manufacturer of exploration drilling tools was finalized. The company has about 250 employees and annual revenues of about CAD 85 million (SEK 580 million). The business becomes part of Epiroc's Rock Drilling Tools division.

On February 1, 2019, Epiroc acquired the assets of Noland Drilling Equipment, a U.S. distributor of water well drilling equipment and related parts, services and consumables. The company operates in several states mainly in the southeastern United States and will become a part of Epiroc's Mining and Rock Excavation Service division.

Parent Company financial information

Income statement

For the year ended December 31, Amounts in SEK million	Note	2018	2017
Administrative expenses	A2	–143	–8
Marketing expenses		–13	–
Other operating income	A3	72	0
Other operating expenses	A3	–115	–6
Operating result		**–199**	**–14**
Financial income	A4	17	0
Financial expense	A4	–34	0
Profit after financial items		**–216**	**–14**
Appropriations	A5	4,424	14
Profit before tax		**4,208**	**0**
Income tax	A6	–927	0
Profit for the year		**3,281**	**0**

Statement of comprehensive income

For the year ended December 31, Amounts in SEK million	Note	2018	2017
Profit for the period		3,281	0
Total comprehensive income for the year		**3,281**	**0**

Balance sheet

As at December 31, Amounts in SEK million	Note	2018	2017
Assets			
Non-current assets			
Intangible assets	A7	1	–
Tangible assets	A8	7	3
Financial assets			
- Deferred tax assets	A9	4	0
- Shares in Group companies	A10, A21	45,776	45,571
- Other financial assets	A11	5,035	0
Total non-current assets		**50,823**	**45,574**
Current assets			
Income tax receivable		–	1
Other receivables	A12	5,552	4,554
Cash and cash equivalents	A13	1	–
Total current assets		**5,553**	**4,555**
Total assets		**56,376**	**50,129**
Equity			
Restricted equity			
Share capital		500	21
Legal reserve		3	3
Total restricted equity		**503**	**24**
Non-restricted equity			
Retained earnings		46,272	43,886
Profit for the year		3,281	0
Total non-restricted equity		**49,553**	**43,886**
Total equity		**50,056**	**43,910**
Provisions			
Post-employment benefits	A15	6	0
Other provisions	A16	161	0
Total provisions		**167**	**0**
Liabilities			
Non-current liabilities			
Borrowings	A17	5,023	–
Other liabilities		0	–
Total non-current liabilities		**5,023**	–
Current liabilities			
Borrowings	A17	1,000	2,081
Tax liabilities		76	–
Other liabilities	A18	54	4,138
Total current liabilities		**1,130**	**6,219**
Total equity and liabilities		**56,376**	**50,129**

Statement of changes in equity

2018		Equity attributable to owners of the parent				
Amounts in SEK million	**Number of shares outstanding**	**Share capital**	**Legal reserve**	**Reserve for fair value – translation reserve**	**Retained earnings**	**Total Equity**
Opening balance, Jan. 1	206,885	21	3	0	43,886	43,910
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					–177	–177
-exercise option					–8	–8
Closing balance, Dec. 31	**1,199,746,826**	**500**	**3**	**0**	**49,553**	**50,056**

See note A14 for additional information.

2017		Equity attributable to owners of the parent				
Amounts in SEK million	**Number of shares outstanding**	**Share capital**	**Legal reserve**	**Reserve for fair value – translation reserve**	**Retained earnings**	**Total Equity**
Opening balance, Jan. 1	200,000	20	4	0	15	39
Total comprehensive income for the year					0	0
Increase of share capital through shareholders' contribution					43,871	43,871
Increase of share capital through bonus issue	6,885	1	–1			–
Closing balance, Dec. 31	**206,885**	**21**	**3**	**0**	**43,886**	**43,910**

Statement of cash flows

For the year ended December 31, Amounts in SEK million	Note	2018	2017
Cash flows from operating activities			
Operating profit/loss		–199	–14
Adjustments for:			
Depreciation, amortization and impairment	A7, A8	1	–
Capital gain/loss and other non-cash items		–22	0
Operating cash surplus/deficit		**–220**	**–14**
Net financial items received/paid		–17	–1
Group contributions received		14	7
Taxes paid		–851	–1
Cash flow before change in working capital		**–1,074**	**–9**
Change in:			
Operating receivables		–715	0
Operating liabilities		2,113	9
Change in working capital		**1,398**	**9**
Net cash from operating activities		**324**	**0**
Cash flows from investing activities			
Investments in tangible assets		–8	–
Investments in intangible assets		–1	–
Repayments/Investments in financial assets		–5,030	–
Net cash from investing activities		**–5,039**	**–**
Cash flows from financing activities			
Repurchase and divestment of own shares		–1,307	–
Change in interest-bearing liabilities		6,023	–
Net cash from financing activities		**4,716**	**–**
Net cash flow for the year		**1**	**0**
Cash and cash equivalents, Jan. 1		0	0
Net cash flow for the year		1	0
Cash and cash equivalents, Dec. 31	**A13**	**1**	**0**

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 most recent annual financial statements of Epiroc AB have been prepared in accordance with the Annual Accounts Act and the standard from the Swedish Accounting Standards Board BFNAR 2012:1 Annual report and consolidated accounts (K3). The transition did not have an impact on the Parent Company. The financial statements are presented in Swedish krona (SEK), rounded to the nearest million.

The Parent Company's accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 in the Group's consolidated financial statements, except for those disclosed in the following sections. For information regarding accounting estimates and judgments, see page 80.

Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. The carrying amounts of participations in subsidiaries are reviewed for impairment in accordance with IAS 36, Impairment of Assets. See the Group's accounting policies, Impairment of financial assets, for further details. Transaction costs incurred in connection with a business combination are accounted for by the Parent Company as part of the acquisition costs and are not expensed.

Lease contracts

All lease contracts entered into by the Parent Company are 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 IFRS9 "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

	2018			2017		
	Women	Men	Total	Women	Men	Total
Sweden	18	15	33	3	2	5

Women in Epiroc Board of Directors and Group Management, %

	2018	2017
Board of Directors excl. union representatives	43	38
Group Management	20	–

Salaries and other remuneration

	2018		2017	
	Board members and Group Management 1)	Other employees	Board members and Group Management 1)	Other employees
Sweden	38	12	1	4
of which variable compensation 2)	11		–	

1) Includes 7 (3) board members who receive fees from Epiroc AB as well as the President and CEO for 2018 and 4 (0) members of the group Management who are employed by and receive salary from the Company.

2) Refers to variable compensation earned in 2018 to be paid in 2019.

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

	2018	2017
Contractual pension benefits for Board Members and Group Management	7	–
Contractual pension benefits for other employees	6	1
Other social costs	19	3
Total	**32**	**4**

Remunerations to auditors

	2018	2017
Deloitte		
– audit fee	3	0
– audit activities other than audit assignment	1	–
– other services, tax	1	–
– other services, other	2	–
Total	**7**	**0**

Audit fee refers to audit of the financial statement 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 2018, Deloitte was elected as auditors for the Group until the Annual General Meeting 2019.

A3. Other operating income and expenses

	2018	2017
Other operating income		
Management fees[1]	72	–
Total other operating income	**72**	**–**
Other operating expenses		
Management fees[2]	–22	–
Exchange-rate differences net	–1	0
Other operating expenses[3]	–92	–6
Total other operating expense	**–115**	**–6**

1) Income related to services for common group functions placed in Parent Company.

2) Expenses related to services for common group functions placed in Epiroc Rock Drills AB.

3) Other operating expenses refer to one time cost due to the split of Atlas Copco Group.

A4. Financial income and expenses

	2018	2017
Interest income		
– cash and cash equivalents	0	–
– receivables from Group companies	17	–
– other	–	0
Financial income	**17**	**0**
Interest expenses		
– borrowings	–33	–
– liabilities to Group companies	–1	0
– other	0	–
Financial expense	**–34**	**0**
Financial expense, net	**–17**	**0**

A5. Appropriations

	2018	2017
Group contributions paid	–	–4,127
Group contributions received	4,424	4,141
Total	**4,424**	**14**

A6. Income tax

	2018	2017
Current tax	–931	–
Deferred tax	4	0
Total	**–927**	**0**

	2018	2017
Profit before tax	4,208	0
The Swedish corporate tax rate, %	22	22
National tax based on profit before taxes	–926	0
Tax effect of:		
Non-deductible expenses	–4	0
Tax-exempt income	3	0
Adjustments from prior years	0	0
Income tax expense	**–927**	**0**
Effective tax in %	22.0	11.9

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2018	2017
Accumulated cost		
Opening balance, Jan. 1	–	–
Investments	1	–
Closing balance, Dec. 31	**1**	**–**
Accumulated depreciation		
Opening balance, Jan. 1	–	–
Depreciation for the year	–	–
Closing balance, Dec. 31	**–**	**–**
Carrying amount		
At Jan 1	–	–
At Dec 31	**1**	**–**

A8. Property, plant and equipment

2018	Buildings and land	Machinery and equipment	Total
Accumulated cost			
Opening balance, Jan. 1	3	0	3
Investments	2	3	5
Reclassification	–1	1	0
Closing balance, Dec. 31	**4**	**4**	**8**
Accumulated depreciation			
Opening balance, Jan. 1	0	0	0
Depreciation for the period	0	1	1
Closing balance, Dec. 31	**0**	**1**	**1**
Carrying amounts			
At Jan. 1	3	0	3
At Dec. 31	**4**	**3**	**7**

2017	Buildings and land	Machinery and equipment	Total
Accumulated cost			
Opening balance, Jan. 1	–	–	–
Investments	3	–	3
Closing balance, Dec. 31	**3**	**–**	**3**
Accumulated depreciation			
Opening balance, Jan. 1	–	–	–
Depreciation for the period	–	–	–
Closing balance, Dec. 31	**–**	**–**	**–**
Carrying amounts			
At Jan. 1	–	–	–
At Dec. 31	**3**	**0**	**3**

A9. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities

	2018			2017		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Post-employment benefits	1	–	1	0	–	0
Other Provisions	3	–	3	–	–	–
Deferred tax assets/liabilities	**4**	**–**	**4**	**0**	**–**	**0**

	2018	2017
Net balance, Jan 1	0	–
Charges to profit for the year	4	0
Net balance 31 Dec	**4**	**0**

A10. Shares in Group companies

	2018	2017
Accumulated cost		
Opening balance, Jan. 1	45,571	–
Investments	–	34,500
Shareholders contributions	205	11,071
Closing balance, Dec. 31	**45,776**	**45,571**

For further information about Group companies, see note A21.

A11. Other financial assets

	2018	2017
Receivables from Group companies	5,031	–
Endowment insurances	4	0
Closing balance Dec 31	**5,035**	**0**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see notes A15 and A20)

A12. Other receivables

	2018	2017
Receivables from Group companies	5,517	4,552
Financial assets classified as loans and receivables		
– other receivables	3	1
Prepaid expenses and accrued income	32	1
Closing balance Dec 31	**5,552**	**4,554**

A13. Cash and cash equivalents

	2018	2017
Cash	1	–
Closing balance Dec 31	**1**	**–**

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2018, see note 20 in the consolidated financial statements.

The Parent Company's equity includes legal reserve which is a part of the restricted equity and is not available for distribution.

A15. Post-employee benefits

	2018			2017		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan 1	0	0	0	–	–	–
Provision made	4	2	6	0	0	0
Closing balance, Dec 31	**4**	**2**	**6**	**0**	**0**	**0**

The Parent Company has endowment insurances of 4 (0) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

Description of defined benefit pension plans
The Parent Company has two defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Epiroc AB which benefits are secured through the Epiroc pension trust. The second plan relates to a group of employees earning more than 10 income base amounts who have opted out from the ITP plan, which is insured.

	2018			2017		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	–	2	2	–	0	0
Fair value of plan assets	–	–	–	–	–	–
Present value of net obligations	**–**	**2**	**2**	**–**	**0**	**0**
Not recognized surplus	–	0	0	–	0	0
Net amount recognized in balance sheet	**–**	**2**	**2**	**–**	**0**	**0**

Reconciliations of defined benefit obligations

	2018			2017		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	–	0	0	–	–	–
Service cost	–	2	2	–	0	0
Interest expense	–	0	0	–	0	0
Defined benefit obligations at Dec 31.	**–**	**2**	**2**	**–**	**0**	**0**

Pension commitments provided for in the balance sheet

	2018	2017
Costs excluding interest	2	0
Total	**2**	**0**
Pension commitments provided for through insurance contracts		
Service cost	4	0
Total	**4**	**0**
Net cost for pensions, excluding taxes	**6**	**0**
Special employer's contribution	1	0
Total	**7**	**0**

A16. Other provisions

	2018	2017
Opening balance, Jan. 1	0	0
During the year		
– provisions made	180	0
– provisions used	–19	–
Closing balance, Dec. 31	**161**	**0**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

A17. Borrowings

		2018		2017	
	Maturity	Carrying amount	Fair Value	Carrying amount	Fair Value
Non-current					
Euro MTN Program SEK 1,250 million, Fixed	2023	1,247	1,258	–	–
Euro MTN Program SEK 750 million, Float	2023	748	752	–	–
Bilateral borrowings EUR 100 million, Float	2022	1,028	1,034	–	–
Bilateral borrowings SEK 2,000 million, Float	2023	2,000	2,045	–	–
Total non-current borrowings		**5,023**	**5,089**	**–**	**–**
Current					
Current borrowings from Group companies		–	–	2,081	2,081
Bridge Facility		1,000	1,000	–	–
Total current borrowings		**1,000**	**1,000**	**2,081**	**2,081**
Closing balance Dec 31		**6,023**	**6,089**	**2,081**	**2,081**
Whereof external borrowings		***5,023***	***5,089***	**–**	**–**

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.

A18. Other liabilities

	2018	2017
Accounts payable	10	5
Liabilities to Group companies	2	4,126
Other financial liabilities	2	1
Accrued expenses and prepaid income	38	6
Closing balance, Dec 31	**54**	**4,138**

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

A19. Financial risk management

Financial credit risk

	2018	2017
Cash and cash equivalents	1	–
Receivables from Group companies	5,517	4,552
Total	**5,518**	**4,552**

Financial credit risk
Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparts related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see note 27 of the consolidated financial statements.

The table above shows the actual exposure of financial instruments as per December 31.

A20. Assets pledged and contingent liabilities

	2018	2017
Assets pledged for pension commitments		
Endowment insurances	4	0
Total	**4**	**0**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	–
– for Group companies	78	–
Closing balance, Dec 31	**81**	**0**

Sureties and other contingent liabilities include commercial and financial bank and parent company guarantees.

A21. Directly owned subsidiaries

	2018			2017		
	Number of share	Percent held (%)	Carrying value	Number of share	Percent held (%)	Carrying value
Epiroc Rock Drills AB, 556077-9018, Örebro	1,026,897	100	45,776	1,026,897	100	45,571
Carrying amount, Dec 31			**45,776**			**45,571**

A22. Related parties

Relationships
The Parent Company has related party relationships with its largest shareholder, its subsidiaries, its associates, its joint ventures and with its Board members and Group Management. The Parent Company's largest shareholder, Investor AB, controls approximately 23% of the voting rights in Epiroc AB. The subsidiaries that are directly owned by the Parent Company are presented in note A21 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 87–89.

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:

	2018	2017
Revenues		
Group contribution	4,424	4,141
Interest income	17	–
Expenses		
Group contribution	–	–4,127
Interest expenses	–1	0
Receivables	**5,517**	**4,552**
Liabilities	**2**	**6,206**
Guarantees	**78**	**–**

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
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
Austria	Epiroc Österreich GmbH	Vienna
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
Canada	Epiroc Canada Holding Inc.	Toronto
	Epiroc Canada Inc.	Toronto
Chile	Epiroc Chile S.A.C.	Santiago
	Epiroc Financial Solutions Chile Ltda	Santiago
China	Epiroc (Nanjing) Construction and Mining Equipment Co., Ltd	Nanjing
	Epiroc (Shenyang) Trading Co., Ltd	Shenyang
	Epiroc (Zhangjiakou) Construction & Mining Equipment Co., Ltd	Zhangjiakou
	Epiroc Financial Leasing Co., Ltd	Shanghai
	Epiroc Trading Co., Ltd	Nanjing
	GIA (Shanghai) Mining Equipment Co., Ltd	Shanghai
	Shandong Rock Drilling Tools Co., Ltd	Shandong
Colombia	Epiroc Colombia S.A.S	Bogota
Croatia	Epiroc Croatia d.o.o.	Zagreb

A22. Related parties, cont.

Country	Company	Location (City)
Czech Republic	Epiroc Czech Republic s.r.o.	Prague
Democratic Repuplic of the Congo	Epiroc DRC SARL	Lubumbashi
Ecuador	Epiroc Ecuador S.A.	Guayaquil
Estonia	Sautec AS	Tallinn
Finland	Epiroc Finland Oy Ab	Vantaa
	Oy Epiroc Drilling Tools Ab	Tampere
France	Epiroc France S.A.S.	Cergy Pontoise
Germany	Anbaufräsen PC GmbH	Thüringen
	Construction Tools GmbH	Essen
	Epiroc Deutschland GmbH	Essen
Ghana	Secoroc Ghana Ltd	Accra
Greece	Epiroc Hellas S.A.	Athens
Hong Kong	Epiroc Hong Kong Ltd	Hongkong
India	Epiroc Mining India Ltd	Pune
Indonesia	PT Epiroc Southern Asia	Jakarta
Italy	Epiroc Italia S.r.l.	Milan
	Epiroc Stonetec S.r.l.	Bagnolo Piemonte
Japan	Epiroc Japan KK	Kanagawa
Kazakhstan	Epiroc Central Asia LLP	Astana
Kenya	Epiroc Eastern Africa Ltd	Nairobi
Mali	Epiroc Mali SARL	Bamako
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
Panama	Epiroc Central América S.A.	Panama
Peru	Epiroc Perú S.A.	Lima
Philippines	Epiroc Philippines Inc.	Laguna
Poland	Epiroc Polska Sp. z o.o.	Warsaw
Portugal	Epiroc Portugal Unipessoal Lda	Porto Salvo
Russia	Epiroc RUS LLC	Moscow
Serbia	Epiroc Srbija a.d.	Belgrade
South Africa	Atlas Copco Investment Company (Pty) Ltd	Johannesburg
	Atlas Copco Secoroc (Pty) Ltd	Johannesburg
	Coalfields Drilling Services (Pty) Ltd	Johannesburg
	Epiroc Holdings South Africa (Pty) Ltd	Boksburg
	Epiroc South Africa (Pty) Ltd	Boksburg
South Korea	Epiroc Korea Co., Ltd	Seongnam
Spain	Epiroc Minería e Ingeniería Civil España, S.L.U	Coslada
Sweden	Construction Tools PC AB	Kalmar
	Epiroc Drilling Tools AB	Fagersta
	Epiroc Financial Solutions AB	Nacka
	Epiroc Rock Drills AB	Örebro
	Epiroc Sweden AB	Norsborg
	Epiroc Treasury AB	Nacka
	Epiroc Welltech AB	Partille
Switzerland	Epiroc Meyco AG	Frauenfeld
Tanzania	Epiroc Tanzania Ltd	Dar es Salaam
Thailand	Epiroc (Thailand) Ltd	Bangna
Turkey	Epiroc Makina AS	Istanbul
Ukraine	Epiroc Ukraine LLC	Kiev
United Arab Emirates	Epiroc Middle East FZE	Dubai
United Kingdom	Epiroc UK and Ireland Ltd	Hemel Hempstead
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
Uzbekistan	Epiroc Tashkent LLC	Tashkent
Zambia	Epiroc Zambia Ltd	Chingola
Zimbabwe	Epiroc Zimbabwe (Private) Ltd	Harare

A23. 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, March 1, 2019

Ronnie Leten
Chairman

Per Lindberg
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

Gustav El-Rachidi
Employee representative

Kristina Kanestad
Employee representative

Mårten Karlsson
Employee representative

Bengt Lindgren
Employee representative

Our audit report was submitted on March 1, 2019

Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Auditor's report

To the annual 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, 2018 – December 31, 2018 except for the corporate governance statement on pages 56–64. The annual accounts and consolidated accounts of the company are included on pages 24–37 and 65–122 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 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 56–64. 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 our best knowledge and belief, no prohibited services referred to in the Auditors Regulation (537/2014) Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies in the EU.

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

Key Audit Matters

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

Recognition of revenue in the appropriate period

The group generates revenues from product and product related offerings 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. All 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 and 2 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 transaction for revenue recognition in the appropriate period.

Valuation of trade receivables

The group has significant amounts of trade receivables from its sales to customers in 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 policy for recognizing impairment of trade receivables is described, and note 17 describes the provisions for bad debts and note 27 disclose the ageing of trade receivables.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for recognizing bad debt for compliance with IFRS,
- evaluating processes and controls for credit assessments and approval of credit limits,
- on a sample basis confirming trade receivables against customer statements alternatively against 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 centers in many countries. Valuation of inventory requires clear policies and is subject to management's estimates for determining its cost, judgment about its saleability and its net realizable value as well as procedures for safeguarding and keeping track of the inventory.

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

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy and the individual entities' accounting for inventory in compliance with IFRS,
- observations of physical inventory counts,
- on a sample basis testing of the valuation of inventory,
- evaluating management's estimates of the obsolescence 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, 49–55 and 137–143. The Board of Directors and the Managing Director are responsible for this other information.

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

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

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this 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 intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibility

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

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed 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, 2018 – December 31, 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 56–64 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 annual general meeting of the shareholders on April 25, 2018 and has been the company´s auditors since June 17, 2010.

Stockholm, March 1, 2019

Deloitte AB
Thomas Strömberg
Authorized Public Accountant

Notes to the sustainability performance [1)]

Economic value	Note	2015	2016	2017	2018	Targets 2018*	Targets 2019*
Direct economic value							
Revenues [2)]		29,030	27,490	31,675	38,500		
Economic value distributed							
Operating costs [3)]		17,746	16,145	18,651	23,501		
Employee wages and benefits, including other social costs		5,933	6,583	6,862	7,433		
Costs for providers of capital [4)]		667	731	5,547	365		
Costs for direct taxes to governments		1,410	1,065	1,590	1,921		
Economic value retained		3,274	2,966	–975	5,280		
– Redemption of shares		–	–	–	–		
We live by the highest ethical standards							
% Managers made a Code Compliance Commitment		–	–	–	91		
% Managers trained in Epiroc Code of Conduct		–	–	–	91		
% Significant suppliers confirmed compliance with the Epiroc Code of Conduct [5)]	5	92	98	97	98	98	100
% Significant agents, resellers and distributors confirmed compliance with the Epiroc Code of Conduct [6)]	5	–	–	–	75	75	83
We invest in safety and well-being							
Work-related Lost time injuries, number [7)]	6	116	91	113	99		
Work-related Lost time injuries, number per one million working hours [7)]	6	4.6	3.8	4.3	3.4	3.5	3.2
Lost days due to Lost time injuries, number per one million working hours [7)]	6	159	158	93	97		
Work-related Medical treatment injuries, number [7)]	6	–	–	–	158		
Work-related Medical treatment injuries, number per one million working hours [7)]	6	–	–	–	5.4		
Total recordable injuries frequency rate (TRIFR)	6	–	–	–	8.9	8.5	7.4
Fatalities		0	0	1	0	0	0
Sick leave due to illness, %		2.0	2.1	2.1	2.1		
Sick leave due to illness and Lost time injuries, %		2.1	2.3	2.2	2.2	<2.5	<2.5
We use resources responsibly and efficiently							
Renewable energy from operations, % of total energy		48	45	45	49		
Renewable energy from operations incl. renewable of mix, % of total energy [8)]		–	55	55	60	59	60
Direct energy use in GWh [9)]		34	29	27	30		
Indirect energy use in GWh [9)]		127	124	129	142		
Total energy use in GWh [9)]		162	153	155	172		
Total energy use in MWh/COS [9)]		9.8	9.3	8.5	7.6	7.8	6.7
CO_2 emissions '000 tonnes (direct energy) – scope 1 [10)]		7	6	6	6		
CO_2 emissions '000 tonnes (indirect energy) – scope 2 [10)]		28	26	28	29		
CO_2 emissions '000 tonnes (total energy) – scope 1+2 [10)]		35	32	34	35		
Location-based CO_2 emissions '000 tonnes (total energy) scope 1+2 [11)]		39	36	37	40		
CO_2 emissions '000 tonnes (transports) – scope 3 [10)]		100	92	114	128		
CO_2 emissions tonnes (transports)/COS [10)]		6.0	5.6	6.2	5.6	4.8	5.3
Proportion of reused or recycled waste, %		96	96	97	97		
Water consumption in water risk areas ('000 m^3) [12)]		86	76	67	65		
Water consumption in water risk areas (in m^3)/COS [12)]		5.2	4.6	3.7	2.9	3.4	2.8

We grow together with passionate people and courageous leaders	Note	2015	2016	2017	2018	Targets 2018*	Targets 2019*
White-collar employees, %		53	53	51	51		
Blue-collar employees, %		47	47	49	49		
Employee turnover white-collar employees, %	8	5.7	4.8	5.7	7.4		
Employee turnover blue-collar employees, %	8	5.0	4.3	4.7	7.4		
Total turnover, voluntary leave %	8	5.0	4.6	5.2	7.4		
Yearly performance and development discussion, %		83	90	87	88		
Proportion of women employees, period end, %		14.7	15.1	15.7	16.0	16.3	16.6
Proportion of women managers, period end, %		16.8	20.3	18.2	20.0	19.5	21.5
New hires of women into the Group, share of total external recruitment, %		15.2	15.9	18.4	17.4		
Nationalities among senior managers, number		–	–	–	30		

* Epiroc's key performance indicators for sustainability.

Footnotes to page 126–127

1) Calculations according to GRI Standards Guidelines, 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 KPI:s 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 2019 is set as no improvement compared to 2018 due to lower expected proportion renewable energy incl. renewable of mix in acquired companies in 2019.
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_2 emissions, see www.ghgprotocol.org and www.iea.org. Latest purchase consists of factors until year 2012.
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.

Notes overview*

*additional information can be found on p. 38–49

1. Our sustainability reporting approach

About the sustainability report
This is the first 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
The sustainability report is included in this Annual and Sustainability Report 2018 and includes information regarding all aspects where Epiroc has a significant economic, environmental and social impact. The report covers Epiroc's operations for the 2018 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 2018 the number of subsidiaries was 89, as well as 4 associated companies.

This first report is prepared in accordance with the GRI Standards Version 2016, at "Core" option and comprises pages 20–23, 38–49 and 126–135. The GRI Index is available at www.epirocgroup.com/en/sustainability. Sustainability reporting also includes the Statutory Sustainability Report under Chapter 6 Section 11 of the Annual Accounts Act including the requirements for reporting on sustainability.

Epiroc is a signatory to the UN Global Compact as of 2018, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. This report is also our Communication on Progress (COP), a report on performance in relation to the UN Global Compact's ten principles. It can be found at the link above and on UN Global Compact's website at www.unglobalcompact.org/participation/report/cop.

This Annual and Sustainability Report contains information about sustainability aspects necessary for understanding Epiroc's development and results, as well as the impacts from the operations. Epiroc regards sustainability as an integral part of its business and to provide a more complete picture of its business, environmental and social information has been integrated into the annual report where appropriate. Also, information is provided about material issues, risks, relevant policies, activities and results. The ambition is that this integrated report provides 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 (for reference please see Atlas Copco's 2017 Annual Report) are as follows:
- Consolidated targets and outcomes for safety matters are reported as Lost time injuries (LTIs) and Medical treatment injuries (MTIs) instead of accidents and incidents.
- New reporting requirement according to the GRI Emissions Standard. Location-based CO_2 emissions is reported together with previous market-based CO_2 emission.
- Extended business partner reporting including agents, resellers and distributors and their compliance with the Epiroc Code of Conduct.

Target group
The primary target groups of the report are investors and shareholders. Other stakeholders such as customers, suppliers, employees and society will also find their most essential questions answered in this report.

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 2018 Annual and Sustainability Report has been subject to limited assurance by Deloitte AB, see auditors' report on page 136.

Data collection, calculation and reporting
The Sustainability Report and the Corporate Governance Report are integrated in the 2018 Annual and Sustainability Report. Reported facts and figures 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 historically reported numbers is done, this can be due to a change of calculation method or scope. Reported values are normally not 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 rests with the General Manager of each company. Data is reported at local operating unit level, aggregated to division and Group level. Data verification is performed at each level before submitting to external auditors for verification. The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org) and the International Energy Agency (iea.org). Epiroc follows the recommendation from the Swedish Network for Transport and Environment (NTM), which may impact the reporting guideline of CO_2 emissions from transport.

Epiroc's material topics – management approach
Sustainability management (GRI's Management Approach) by material topic in the areas of economic, environmental and social impacts is described in more detail on the next pages.

External networks
Epiroc is a member or represented on the boards of a number of networks of various kinds to learn from, contribute towards and to influence development. Some examples are:
- International Council of Swedish Industry (NIR)
- Swemin
- 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

2. Management approach

Sustainability and corporate responsibility are integrated parts in all of our strategic priorities and activities. Our ambitions are high and we work pro-actively with governance by formulating targets, processes, policies and guidelines that are important to our operations from a sustainability and corporate responsibility point of view.

Governance system

Epiroc's governance system is the foundation of how we work and can be found in the Epiroc Way. Our Code of Conduct ("the Code") forms the basis for what we do and how we should act. The Code includes commitments to:

- UN Global Compact's Ten Principles (UNGC)
- UN Guiding Principles on Business and Human Rights (UNGP)
- United Nations International Bill of Human Rights
- International Labor Organization Declaration on Fundamental Principles and Rights at Work
- OECD's Guidelines for Multinational Enterprises

The board approves the Code. All employees and managers in Epiroc, as well as business partners, are expected to adhere to the Code.

Our Sustainability Policy guides us for our work with sustainability issues. Targets and key performance indicators are based on the materiality assessment (see p. 132) to ensure that we stay competitive, innovative and ethically sound. Our priorities are developed through stakeholder involvement and integrated into the Group's strategy and planning process to ensure that the Group can capture opportunities while reducing the risks to business.

The Sustainability Policy is applicable to all units within the Epiroc Group. The operational responsibility of each Divisional President, General Manager and Manager in the Group includes all sustainability aspects as well as the 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 the ultimate responsibility for sustainability issues and Group Management is responsible for formulating and integrating sustainability and corporate responsibility strategies, targets and activities. The Vice President Corporate Responsibility is responsible for coordinating and driving sustainability and corporate responsibility work at the Group level and reports to the Senior Vice President Corporate Communication, a member of Group Management. Sustainability is integrated into the day-to-day work within the Group. To support work related to safety, health, the environment and quality, Epiroc has a Group Safety, Health, Environment and Quality (SHEQ) Council, which includes representatives from each division and relevant Group functions. Similarly, with respect to responsible sourcing issues, a Sourcing Council exists.

The sustainability management (GRI's Management Approach) by material topic in the areas of economic, environmental and social impact is described in more detail on the following pages.

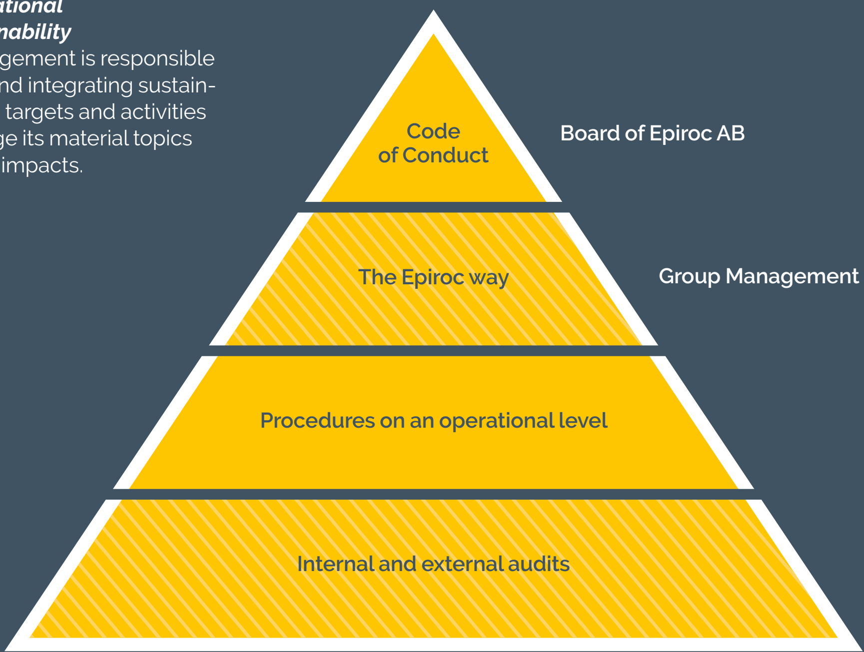
Epiroc's management system

The management system starts with the Epiroc Way of which the Code is a key part. The Epiroc Way is available to employees via our intranet and is our single most important management tool. It includes policies, guidelines, processes and instructions within all main areas, covering a number of different sustainability and corporate responsibility issues 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 ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007.

In addition, there are also local policies, instructions, guidelines, tools and management systems that correspond to the challenges

Epiroc's organizational structure; sustainability

The Group Management is responsible for formulating and integrating sustainability strategies, targets and activities on how to manage its material topics and their related impacts.



the company faces. The Group Management decides on strategies and key performance indicators (KPIs) for profitable growth, sustainability KPIs and three-year targets. The Group Management also follows up and monitors progress. Implementation is done by the divisions. The divisions are the highest operational units, responsible for delivering results in line with the strategies and objectives set, both for financial and non-financial targets. For more information, see the Corporate Governance Report pages 56–64.

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.

The overall risk management follows the decentralized structure of Epiroc, and the local companies are therefore responsible for handling, monitoring and regularly following up their own risk management. Group functions are responsible for legal, insurance, treasury, tax, controlling and accounting and provide policies, guidelines and instructions regarding risk management. The implementation is regularly audited by internal and external audits. For an overview, please see the Corporate Governance report pages 56–64. For more information on Epiroc's risk management and processes to deal with a disruptive and unexpected event that threatens to harm the organization or our stakeholders, please see pages 65–68.

Epiroc's Code of Conduct

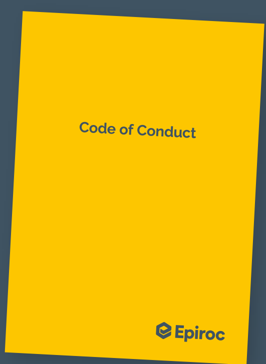
The Code of Conduct ("the Code") is our guide to doing business ethically and to optimizing the social and environmental impacts of our operations. Laws, environmental standards and social conditions vary in the countries where we operate. The Code is designed to make sure that we always act with the highest ethical standards and integrity. That means that we strive to uphold these high standards in all countries where we operate, even in challenging environments where the national legislation is weaker. All employees and managers in Epiroc, as well as business partners, are expected to adhere to these policies.

The Compliance Board

With the mission to safeguard that the Code is implemented and complied with, 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 Code.

The Compliance Board consists of 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 Code, please see www.epirocgroup.com/se/sustainability/code-of-conduct



Epiroc's policies, guidelines and certificates

Epiroc is a signatory to:

- UN Global Compact (UNGC)

Epiroc is committed to:

- UN Guiding Principles on Business and Human Rights (UNGP)
- United Nations International Bill of Human Rights
- International Labor Organization Declaration on Fundamental Principles and Rights at Work
- OECD's Guidelines for Multinational Enterprises
- UN Sustainable Development Goals (SDG)

Sustainability policies and guidelines

We have a wide range of internal policies and guidelines that include ethical, quality, environmental, labor, health and safety issues. Some examples:

- Sustainability Policy (including Health and Safety, Quality and Environmental issues)
- Alcohol and Drug Policy
- Whistleblower 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. The 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)

All product units should be certified according to ISO 14001 in order to manage and reduce their environmental impact. Acquired product units are normally certified within a two-year period. 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 all customer centers above 70 employees are to be triple certified.

By the end of 2018, the number of required units not being triple certified constitute 6% of the total number of operational units. The same measure for each individual certification is 5% for ISO 9001, 5% for ISO 14001 and 6% for OHSAS 18001. These units are mainly acquisitions still within the recommended two-year timeframe to comply or units that are newly restructured. Some units not yet triple-certified are in the process of doing so, and a smaller portion has lacked the resources so far to commit to a triple certification.

Management approach at Epiroc

Epiroc's material topics	Epiroc's management approach
Economic	Finance is responsible for economic follow-up and reporting in general.
Environment	The Division is our highest operational unit. A Division has global responsibility for its product range and its management is leading and developing the business through its product companies, distribution centers and customer centers. Each Division has an administrative responsibility over a number of operational entities, such as Customer Centers or Product Companies. The administration responsibility ensures the understanding of and compliance with Group procedures in Epiroc Way, as well as any legal requirements. The managers of the operational entities are responsible for work on improvements, supported by the business and management systems.
Labor practices	Responsibility for and governance of health and safety rests with the Divisional heads, and the unit managers to run it operationally.
Human rights	The CEO bears the responsibility for ensuring that the Code is implemented and complied with. A manager has the responsibility to promote the values in the Code and to help implement it to the manager's employees. Every employee shall be aware of and take responsibility for ensuring that the Code is applied. The Sourcing Council is responsible for the Purchasing Policy, whereas each division is responsible for being compliant with the content.
Society	The CEO is responsible for steering Epiroc's work on compliance with the law together with the legal function, which also formulates policies on anti-corruption and competition issues.
Product responsibility	The Division has product and production responsibility. Products are developed in the Division's product company in close cooperation with the Divisions' Customer Centers. The Product Company supports the Customer Center with product know-how and product marketing. The Division's Product Company is responsible for ensuring that regulations, legislation and other requirements are met. Each division is responsible for registering grievances and complaints about products and other product-related management.

Epiroc's stakeholder dialogue

We interact with our stakeholders on a regular basis on a number of different topics including energy performance, product efficiency, emissions, supply chain management, health and safety, diversity, working conditions, human rights, anti-corruption and other sustainability issues. Based on our operations, the following stakeholder groups have been identified as core: customers, employees, shareholders, business partners and society.

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 assess.
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

3. Materiality

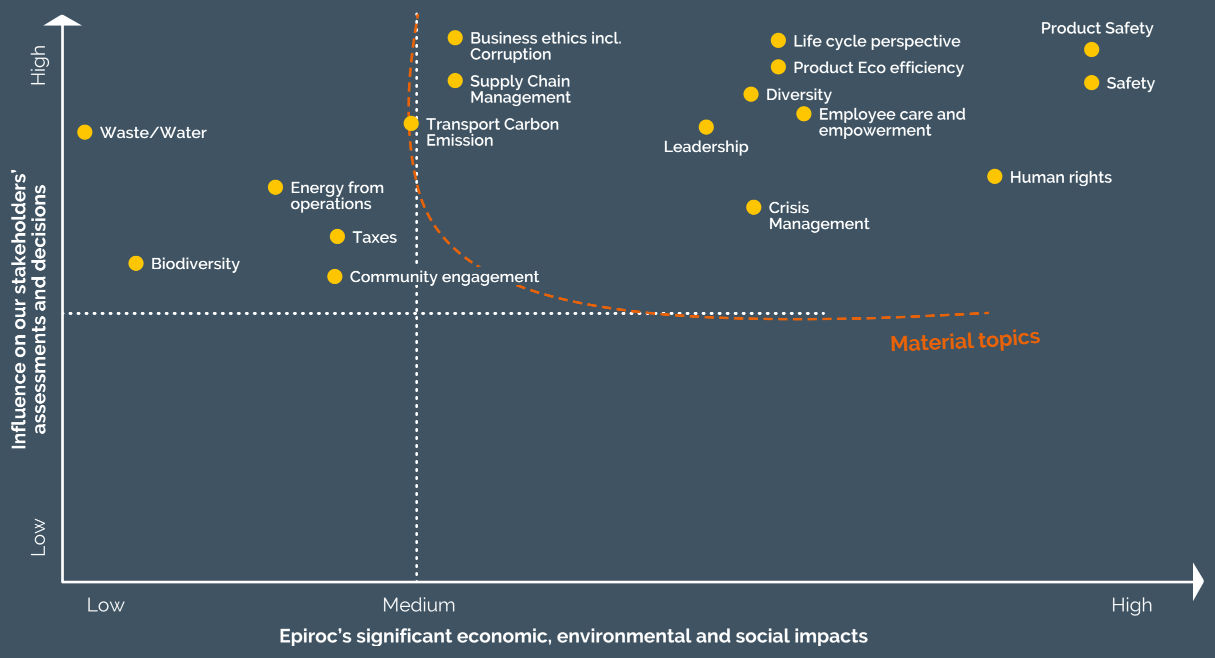
This is the first sustainability report for Epiroc and the materiality analysis is made to also ensure that this report identifies and includes the most material environmental, safety, human rights, labor and ethical topics that we need to manage, monitor and communicate.

In summary, the topics (which are illustrated in the graph below) that are to be regarded as the most important for Epiroc to address and communicate on, have been gathered into the following four areas:

- to live by the highest ethical standards
- invest in safety and well-being
- use resources responsibly and efficiently
- grow together with passionate people and courageous leaders

Impact on Epiroc's non-financial targets
The materiality process identifies key areas important for our long-term strategy to create value for all stakeholders. As a result, we have adapted our KPIs to reflect these principles. We also strive to link the KPIs and goals to support the UN Sustainable Development Goals and outcomes of the UN Climate Conference in Paris. Our KPIs address and manage risks, opportunities and impacts of our businesses in parts of the value chain where they have been identified to be material during the consultation with our stakeholders. The formulation of these KPIs has been guided by the GRI Standard topics, but not limited to the definitions as proposed in the guidelines. The Group consolidated targets on selected key performance indicators are presented throughout this report.

Materiality Matrix
Taxes, biodiversity, diversity, human rights, and energy from operations have been identified by stakeholders as rising priorities.



4. UN Sustainable Development Goals (SDG) – how we contribute

The Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 define focus areas and goals for international sustainable development to be achieved by 2030. All goals are important but we have decided to focus on the ones we believe we can have the greatest impact on through our core business operations. The focus goals are eight of the 17 UN sustainable development goals:

Epiroc offers equal opportunities for women and men. We strive to increase the proportion of female employees and managers. We measure the ratio between men and women in the external recruitment and ensure that the proportion of women is constantly increasing.

Epiroc works to reduce water consumption in operations, particularly in water-stressed areas. Local activities that target water consumption and preservation are carried out. Epiroc has been engaged in the initiative Water for All since 1984, which was started by two of our employees.

Epiroc strives to increase the use of renewable energy and to limit the use of energy overall. We develop new, improved products and find new ways to reduce energy consumption in operations.

Safety and well-being is one of the focus areas for Epiroc. Sick leave, number of fatalities, lost time injuries and medical treatment injuries are monitored by the company. Epiroc requires all business partners to comply with the company's values as expressed in the Code of Conduct. Child labor or forced labor is not tolerated and compliance is assessed and audited. Epiroc ensures the right to collective bargaining also with business partners.

Epiroc's innovative spirit results in efficiency high-productivity products and services. The main environmental footprint is in the use-phase of our products. Business units are encouraged to develop more energy efficient products and energy efficiency in products and service is a key performance indicator for the company.

Epiroc's first sustainability data were released in 2001 as part of Atlas Copco AB's annual report. We strive to reduce waste from operations, and to conserve use of fossil fuels. We handle chemicals with care. The company focuses on decreasing CO_2 emissions from transport as one of its key performance indicators.

Epiroc develops new and improved products in order to facilitate a more sustainable use of terrestrial ecosystems, combat desertification and halt biodiversity loss.

Epiroc has zero tolerance towards corruption. This is clearly communicated in the Code of Conduct, which all employees and business partners must comply with. All managers must sign their commitment annually and take an on-line Code of Conduct training. The goal is that 100% of global managers will sign the annual compliance statement.

5. We live by the highest ethical standards

Suppliers' commitment

	2018	2017
Significant suppliers, number	1,298	1,287
Safety, health, social and environment evaluated suppliers, %	11	10
Approved suppliers, %	95	91
Conditionally approved suppliers (monitored), %	5	9
Rejected suppliers, %	0	0
Suppliers asked on commitment to the Epiroc's CoC, number	1,297	1,263
Significant suppliers that have confirmed their commitment to Epiroc's CoC, %	98	97

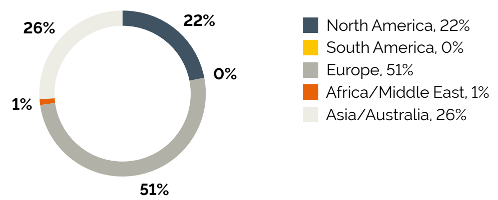
Agents, resellers and distributors' commitment

	2018	2017
Significant agents, resellers and distributors, number	280	–
Agents, resellers and distributors asked on commitment to the Epiroc's CoC, number	249	–
Significant agents, resellers and distributors that have confirmed their commitment to Epiroc's CoC, %	75	–

Epiroc's significant suppliers during 2018 amounted to 1,298 (1,287). The evaluations are conducted by Epiroc teams at the suppliers' site. The number of suppliers asked for commitment to the Code and Business Partner Criteria Letter was 1,297 (1,263). Epiroc's significant agents, resellers and distributors during 2018 amounted to 280. The number of agents, resellers and distributors asked on commitment to the Code was 249. If a supplier after negotiations refuses to accept our Code of Conduct, but can show that their own Code is equivalent to ours we might accept this. However, each case is closely evaluated and decisions are taken based on the unique situation for that specific supplier.

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

Geographical spread of suppliers



Whistleblower cases
Reported potential violations, number

	2018	2017*
Fraud and corruption	7	11
Labor relations	11	10
Safety	1	–
Discrimination	2	1
Sexual harassment	2	–
Conflict of interest	1	–
Other	2	–
Total	**26**	**22**

* Number of cases in 2017 does not include cases from new Hydraulic Attachment Tools division and new corporate functions. There was no separate classification for Safety and Conflict of interest in 2017.

Six cases are still under investigation, whereof two concern fraud and corruption, one discrimination and three labor relations. No case was material during the year. No fines related to the hotline/whistleblower have been paid during the year. There have been no 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 year.

Implementing the UN Guiding Principles on Business and Human Rights (UNGP)
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 (UNGP).

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 page 41.

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 Code and the internal Code-training sessions. One example of the latter is the internal training for the sourcing organization on the Business Partner Ten Criteria Letter and the Code. This training session, developed during 2018 and to be implemented in 2019, includes special attention to labor standards, such as working hours, modern slavery and forced labor, child labor, non-discrimination and other human rights issues. In 2019, additional customized human rights training sessions will be held in order to build a greater awareness of specific human rights challenges.

Stakeholder consultation
Epiroc's ability to influence in order to effect change in the 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 Epiroc's stakeholder dialogues with customers, investors, civil society and governments. 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 and dialogues with business partners and non-governmental organizations are 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 Code of Conduct should be reported. Epiroc's whistleblower channel 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 contribute 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).

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, 2018	Number of work-related MTIs, 2018
North America	2,173	21	55
South America	1,511	11	15
Europe	5,350	35	30
Africa/Middle East	1,545	11	5
Asia/Australia	4,527	21	53
Total	**15,106**	**99**	**158**

The majority of all injuries reported have been in Asia/Australia and North America regions, and the largest decrease among Lost Time Injuries was from operations in Europe. There is a continued focus on training and activities to reduce the number of LTIs.

Definitions
To be classified as a work-related Lost time injury (LTI) the following criteria must be met:
1. A sudden event
2. An external cause
3. The existence of an injury
4. A causal link between the event and the injury
5. The event must have occurred in the work environment
6. The event must be work-related
7. Requiring professional medical treatment
8. Involving at least one day of absence beyond the actual day of the event

To be classified as a work-related Medical treatment injury (MTI) the following criteria must be met:
1. A sudden event
2. An external cause
3. The existence of an injury
4. A causal link between the event and the injury
5. The event must have occurred in the work environment
6. The event must be work-related
7. Requiring professional medical treatment
8. Involving no or less than one day of absence

7. We use resources responsibly and efficiently

Environmental performance
Epiroc has integrated its most material environmental key performance indicators into its planning process. The key performance indicators drive improvements and efficiency, while reducing the environmental impact for the Group.

We comply with all applicable environmental laws in the countries where we operate
To report incidents or fines for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, with a high degree of transparency is mandatory to us. There were 12 (7) accidents resulting in adverse environmental effects according to reporting. All accidents were addressed fully and with corrective actions. Clean-up costs amounted to SEK 83 (33) thousand.

Permits in compliance with the Swedish environmental regulations
Three of our production units require permits based on Swedish environmental regulations. These operations mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. Epiroc has been granted three permits needed to conduct its business and none were under revision in 2018.

Environmental management
To help minimize the environmental impact and to ensure that the precautionary approach is applied, we have environmental management implemented in most of our units through our global triple certification (see description on page 130).

Energy surveys
For larger units, energy surveys are done regularly in accordance with the Energy Efficiency Directive (Directive 2012/27/EU). The survey will provide assistance in steering measures and investments in the direction where they will provide the greatest benefit.

Product responsibility
All of our products and services come with relevant product, service and safety information. The information contains instructions for service and safe use of the product. Customer training is included when relevant, to secure safe handling of products. Any safety issues arising in field or from service are tracked and actions taken through safety campaigns.

No (0) incidents for non-compliance with regulations and/or voluntary codes concerning the health and safety impacts of products and services were reported for 2018.

Conflict minerals that are included in our products
Responsible sourcing of minerals included in our products is important for us. Suppliers of products containing tin, tungsten, tantalum or gold are asked to declare the origin of such minerals present in the products to ensure the minerals do not direct or indirectly finance or benefit the armed groups in Democratic Republic in Congo, e.g. that the minerals are conflict free. That our products do not use conflict minerals is not only important for Epiroc, this also supports our customers and their obligations to report the identified origin of tin, tungsten, tantalum and gold in a transparent way. Broad industry cooperation is needed to meet the challenges with conflict minerals and 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.

Hazardous substances in products and processes
Epiroc maintains lists of 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 must not be included in any products or processes, and 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 should be found, they must immediately be replaced by appropriate alternatives.

Both lists are continuously revised according to applicable legislation, including REACH and global conventions. The list on prohibited and declarable substances is published on the Epiroc website together with the Epiroc Substance of Concern Policy which explains actions needed by suppliers and organizations for substances included in either of the lists.

8. We grow together with passionate people and courageous leaders

Number of employees, December 31, 2018
13,847

The average number of training hours per employee 2018
39 hours
The average number of training hours among blue-collar employees is 43 hours and among white-collar employees 35 hours.

Employee turnover 2018
998
Employee turnover increased compared to the 12-months period ending in December 2017 with 54%. 34% of total turnover during 2018 was in Asia/Australia, 29% in Europe, 19 percent in North America, 12% in South America and 6% in Africa/Middle East.

Number of new employee hires 2018
2,325
Number of new hires increased compared to the 12-months period ending in December 2017 with 6%. 30% of new hires in 2018 were represented in Europe, 27% in Asia/Australia, 22% in North America, 11% in South America and 10% in Africa/Middle East.

Auditor's Limited Assurance Report on Epiroc AB's Sustainability Report and statement regarding the Statutory Sustainability Report

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's Sustainability Report for the year 2018. The Company has defined the scope of the Sustainability Report and the Statutory Sustainability Report on page 128 in this document.

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 128 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The 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.

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 March 1, 2019

Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

This report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original, the latter shall prevail.

Financial definitions

	Description	Reason for use
Book to bill	Book to bill is orders received divided by revenues.	Book to bill is an indicator of demand trends.
Gross profit margin	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.
EBITDA	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 is valuable to indicate the business' cash generating ability.
Operating margin	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.
Profit margin	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.
Capital employed turnover ratio	Capital employed turnover ratio is revenues[2] divided by the average capital employed.[1]	Capital employed turnover ratio shows how efficiently Epiroc generates revenues from the capital utilized to run the operations.
Return on capital employed	Return on capital employed is operating profit[2] as a percentage of average capital employed.[1]	Return on capital employed measures how efficiently Epiroc generates profits from the capital utilized to run operations.
Net working capital	Total of inventories, trade receivables, trade payables, other operating assets and liabilities.	Net working capital measures the company's liquidity and capital efficiency.
Capital turnover ratio	Capital turnover ratio is revenues[2] divided by average total assets.[1]	Capital turnover ratio shows how effectively total assets are used.
Net debt	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.
Net debt/ EBITDA ratio	Net debt/EBITDA ratio is net debt in relation to EBITDA[1].	Net debt/EBITDA ratio is a measure of financial risk which puts interest-bearing debt in relation to cash generation.
Net debt/ equity ratio	Net debt/equity ratio is net debt in relation to equity, including non-controlling interests.	Net debt/equity ratio helps showing the financial risk.
Equity/assets ratio	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.
Return on equity	Return on equity is net profit[2] divided by total equity, calculated as the 12 months value.	Return on equity shows the company's abilities to generate return on the investments made by its shareholders.
Operating cash flow	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.
Operating cash flow per share	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.
Organic order growth	Organic order growth is order growth that excludes translation 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.
Organic revenue growth	Organic revenue growth is sales growth that excludes translation 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.
Organic profit growth	Organic profit growth is profit growth that excludes translation 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) 2017 and 2018 is calculated as an average of five quarters, and 2016 and 2015, respectively, is calculated as an average of two periods.
2) Has been calculated based on the 12 months value.

The Epiroc share

Share price development and returns

Epiroc was listed on Nasdaq Stockholm on June 18, 2018 and the price at the end of the first day was SEK 90.85 for the A share and 85.80 for the B share. Until year-end 2018, the price of the A share decreased 7.7% to SEK 83.84 and the price of the B share decreased 8.1% to SEK 78.88. The corresponding development for OMX Stockholm All share (OMXSPI) and OMX Stockholm Industrials (SX2000PI) was –9.0% and –16.3%, respectively.

Shares and share capital

At year-end 2018, Epiroc's share capital totaled SEK 500 million. 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. Net of 13,991,877 class A shares held by Epiroc, 1,199,746,826 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Class A shares and class B shares carry equal rights to a part of the company's assets and profit.

Trading and market capitalization

The Epiroc shares are listed on Nasdaq Stockholm, which represented 38% of the total trading of the A share (57% of the B share) in 2018. Other markets, so called Multilateral Trading Facilities (MTF), accounted for some 27% (15% of the B share), and the remaining 35% (28% of the B share) were traded outside public markets, for example through over-the-counter trading. The market capitalization at year end 2018 was SEK 98,653 million and the company represented 1.7% of the total market value of Nasdaq Stockholm.

Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the Annual General Meeting 2019 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, 2018 appears in the table below.

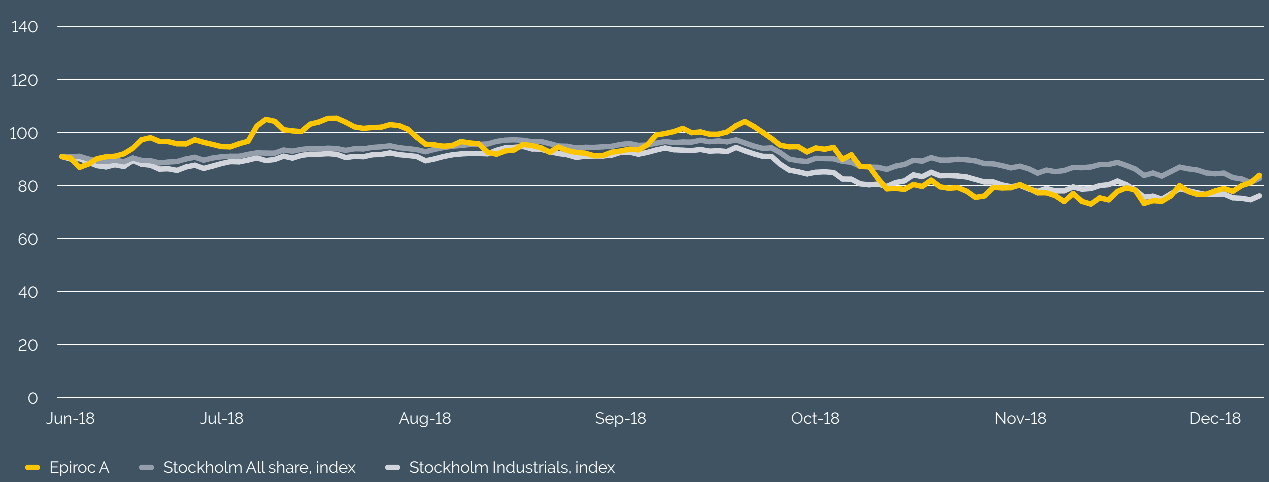
Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 2.10 per share be paid for the 2018 fiscal year. The dividend for 2018 is proposed to be paid in two equal installments. The goal is to provide long-term stable and rising dividends to its shareholders. The dividend should correspond to 50 percent of net profit over the cycle. The proposed dividend correspond to 47% of earnings per share.

Share information

December 31, 2018	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	13,991,877	–
– % of votes	1.6	–
– % of capital	1.2	–

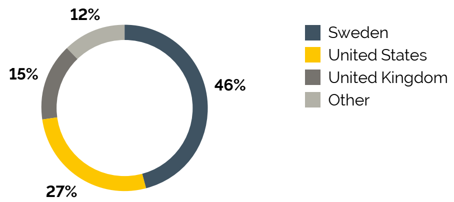
Share price



Ownership structure

At the end of 2018, Epiroc had 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 32.2% of the voting rights and 30.7% of the number of shares. Swedish investors held 43% of the voting rights and 46% of number of shares.

Shareholders by country, December 31, 2018, % of capital



Important dates

2019	April 30	First quarter results 2019
	May 9	Annual General Meeting
	May 10*	Shares trade excluding right to dividend of SEK 1.05
	May 16	Dividend payment date (preliminary)
	July 18	Second quarter results 2019
	October 25	Third quarter results 2019
	October 29*	Shares trade excluding right to dividend of SEK 1.05
	November 4	Dividend payment date (preliminary)
2020	January 31	Fourth quarter results 2019

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

Key figures per share

SEK	2015 Full year	2016 Full year	2017 Full year	2018 Full year
Basic earnings per share 1)	2.95	2.66	3.55	4.50
Dividend 2)	–	–	–	2.10
Dividend, as % of basic earnings per share	–	–	–	47
Dividend yield, %	–	–	–	2.3
Diluted earnings per share	–	–	–	4.49
Basic number of shares outstanding, millions 1)	1,212	1,212	1,212	1,206
Diluted number of shares outstanding, millions	–	–	–	1,206
Equity per share, period end	12.3	12.7	9.9	15.6
Operating cash flow per share	4.6	4.0	3.8	3.2
Share price, December 31, A share	–	–	–	83.84
Share price, December 31, B share	–	–	–	78.88
Average share price, A share	–	–	–	90.40
Average share price, B share	–	–	–	82.93

1) Calculations based on Atlas Copco's basic number of shares outstanding, prior to the listing of Epiroc shares in June 2018.
2) As proposed by the Board of Directors.

More information

For more information on distribution of shares, option programs and repurchase of own shares, see notes 5, 20 and 23.

Detailed information on the share and debt can be found on www.epirocgroup.com/en/investors

Ten largest shareholders*

December 31, 2018	A shares	B shares	Total shares	% of votes	% of capital
Investor AB	194,803,726	12,841,885	207,645,611	22.7	17.1
Alecta	24,000,000	35,286,044	59,286,044	3.2	4.9
Swedbank Robur Fonder	21,698,585	26,064,795	47,763,380	2.8	3.9
SEB Investment Management	9,385,357	396,308	9,781,665	1.1	0.8
SPP Fonder AB	4,473,564	2,500,032	6,973,596	0.6	0.6
Fjärde AP-fonden	3,734,747	8,509,540	12,244,287	0.5	1.0
Nordea Investment Funds	3,058,381	1,213,014	4,271,395	0.4	0.4
Länsförsäkringar fondförvaltning AB	2,832,806	1,107,211	3,940,017	0.3	0.3
Handelsbanken fonder	1,507,803	12,454,153	13,961,956	0.3	1.2
Tredje AP-fonden	2,266,572	4,197,781	6,464,353	0.3	0.5
Other	542,012,436	285,402,086	827,414,522	67.8	69.3
Total	**823,765,854**	**389,972,849**	**1,213,738,703**	**100.0**	**100.0**
Whereof shares held by Epiroc	*13,991,877*	*0*	*13,991,877*	*1.6*	*1.2*

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

145 years of innovation

Atlas Copco's board proposed to spin-off Epiroc as a separate entity in 2017. Epiroc has a long history as a part of Atlas Copco

Year	Event
1873	André Oscar Wallenberg and associates founded the company Atlas in Stockholm, Sweden, producing equipment for the Swedish railway network
1905	First rock drill produced, soon followed by Cyklop, a lightweight, handheld rock drill, which was produced well into the 1930s
1936	The Swedish Method was introduced, meaning that lighter and mobile equipment was used. This meant that drilling could be conducted by one man with one machine compared to the previous method that required more labor. The groundbreaking method revolutionized the drilling industry and laid the ground for the company's international activity
1951	Manufacturing company "Växlar och Signaler" (En. "railways maintenance and repair") in Örebro, Sweden, was acquired. Örebro is today Epiroc's largest manufacturing site
1963	Rig-mounted hydraulic breaker patented, changing the demolition industry
1988	Rock drilling tools specialist Secoroc in Fagersta, Sweden, was acquired
1995	The Group provides drill rigs and drill bits for construction of the 24.5 km long Lærdalstunneln in Norway. At the time, it was the longest road tunnel ever built
2004	Ingersoll-Rand Drilling Solutions, a manufacturer of large blasthole drill rigs, was acquired
2004	Production of loaders and mining trucks were moved from Portland, Oregon, United States, to Örebro, Sweden
2005	The first almost silent surface drill was launched, enabling work around the clock in densely populated areas
2011	New Mining and Rock Excavation R&D center opened in Nanjing, China
2017	Atlas Copco announced a split of the group to form Epiroc
2018	Epiroc was listed on Nasdaq Stockholm.

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