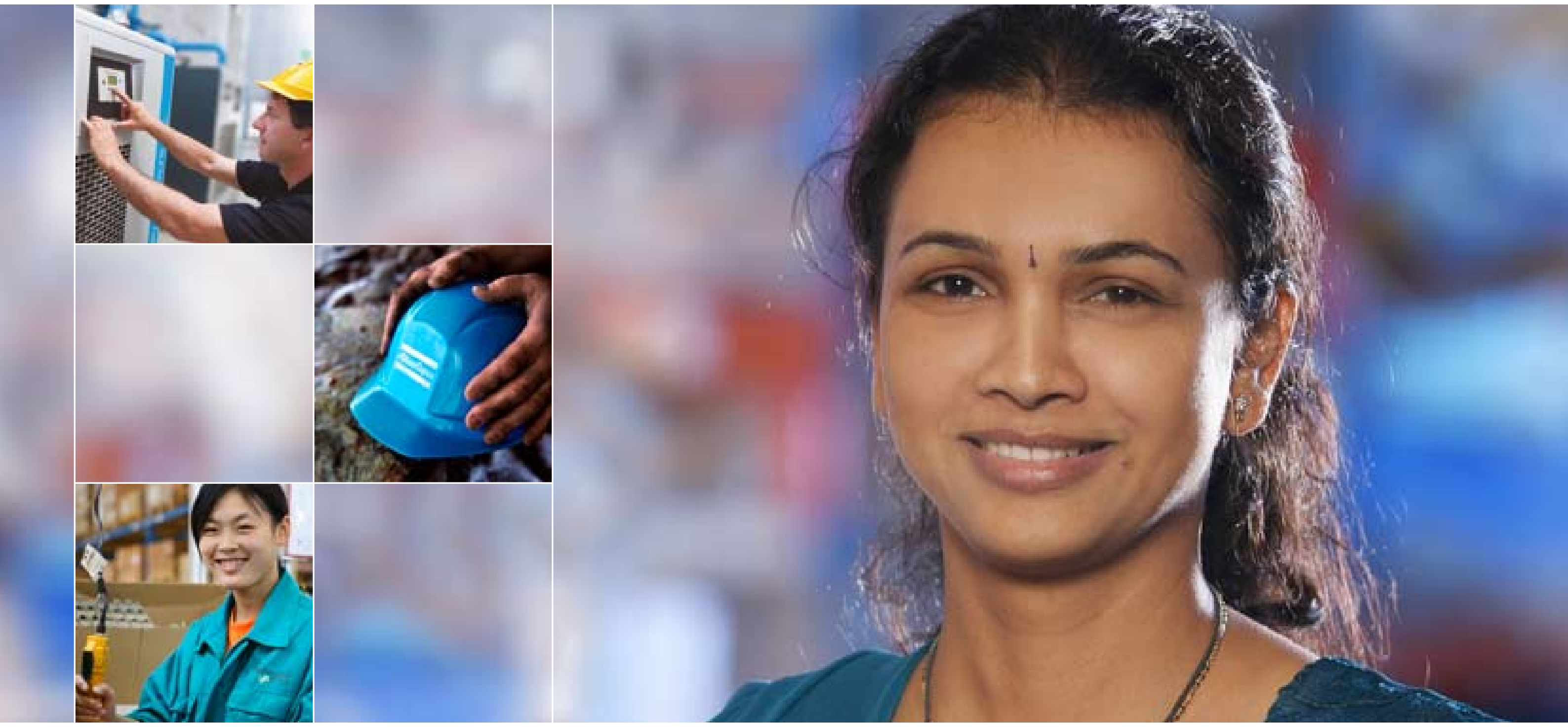
Atlas Copco

2010 – Strong demand recovery and record operating profit



Annual Report
Sustainability Report
Corporate Governance Report

10

Sustainable Productivity

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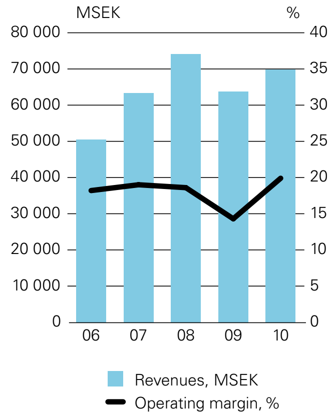
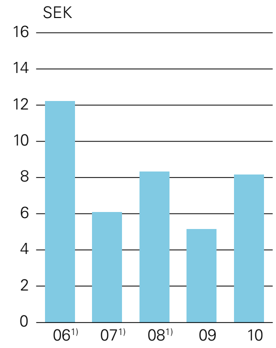
Revenues and operating margin



Earnings per share



1) Including discontinued operations.

Atlas

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

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

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

The Annual Report, the Sustainability Report and the Corporate Governance Report are published in one document.

www This symbol indicates that further information is available on Atlas Copco's website, www.atlascopco.com.

- The demand for Atlas Copco's products and services recovered strongly during 2010 from the low level of 2009.
- The Group strengthened its market presence and penetration and successfully introduced a number of new products and services.
- 29% organic order increase.
- Revenues were MSEK 69 875 (63 762), up 11% in volume.
- Operating profit increased 53% to a record MSEK 13 915 (9 090), corresponding to an operating margin of 19.9% (14.3).
- Profit for the year was MSEK 9 944 (6 276).
- Operating cash flow was MSEK 9 698 (13 761).
- Proposed distribution to shareholder of SEK 9.00 per share through
  – dividend of SEK 4.00 (3.00) per share.
  – extra distribution of SEK 5.00 per share through mandatory redemption.
- Updated goals for sustainable, profitable development.

Copco 2010

2010 in figures

MSEK	2010	2009	Change, %
Orders received	75 178	58 451	+29
Revenues	69 875	63 762	+10
Operating profit	13 915	9 090	+53
– as a percentage of revenues	*19.9*	*14.3*	
Profit before tax	13 495	8 271	+63
– as a percentage of revenues	*19.3*	*13.0*	
Profit for the year	9 944	6 276	+58
Basic earnings per share, SEK	8.16	5.14	
Diluted earnings per share, SEK	8.15	5.13	
Dividend per share	4.00 [1)]	3.00	+33
Mandatory redemption per share	5.00 [1)]	–	
Equity per share, SEK	24	21	
Operating cash flow	9 698	13 761	
Return on capital employed, %	28.6	17.7	
Return on equity, %	37.6	25.8	
Average number of employees	31 214	31 085	

[1)] Proposed by the Board of Directors.

For definitions, see page 99.

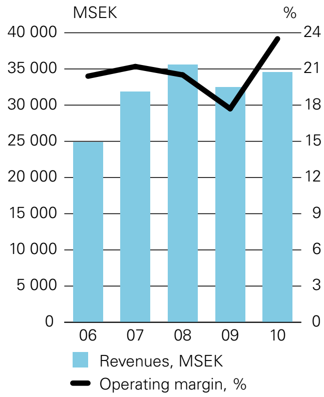
Atlas Copco Group

Atlas Copco is an industrial group with world-leading positions in compressors, construction and mining equipment, power tools and assembly systems. The Group delivers sustainable solutions for increased customer productivity through innovative products and services. Founded 1873, the company is based in Stockholm, Sweden, and has a global reach spanning more than 170 countries. In 2010, Atlas Copco had about 33 000 employees and revenues of BSEK 70. Learn more at www.atlascopco.com. www

The business | **Revenues and operating margin**

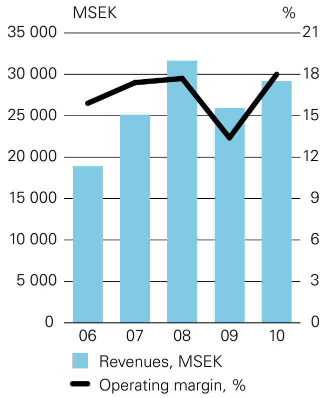
Compressor Technique

The Compressor Technique business area develops, manufactures, markets, and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electric power generators, air treatment and gas purification equipment and air management systems. It also offers specialty rental services. Principal product development and main manufacturing units are in Belgium.



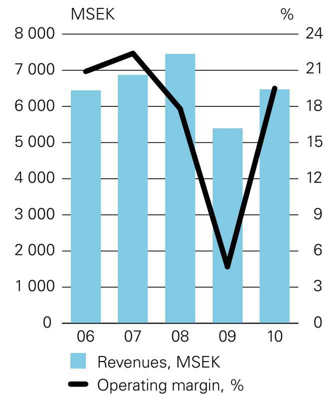
Construction and Mining Technique

The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, construction and demolition tools, mobile crushers and screeners, drill rigs and equipment. The business area has its principal product development and main manufacturing units in Sweden and the United States.

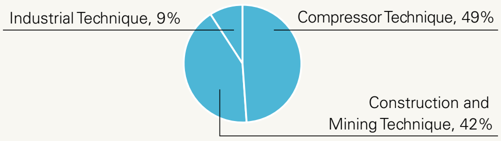


Industrial Technique

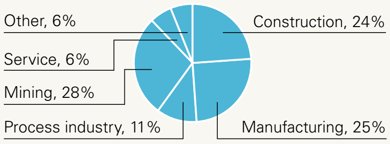
The Industrial Technique business area develops, manufactures and markets industrial power tools, assembly systems, aftermarket products, software and service. It innovates for sustainable productivity for applications in the automotive and aerospace industry, general industrial manufacturing and maintenance, and vehicle service worldwide. Principal product development and main manufacturing units are in Sweden and France.



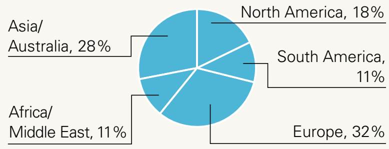
Revenues by business area



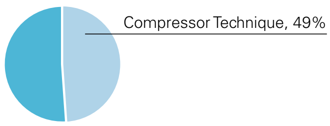
Orders received by customer category



Revenues by geographic area



Share of Group revenues



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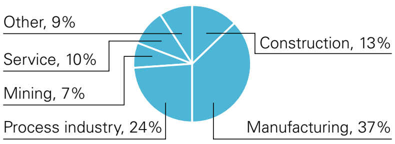
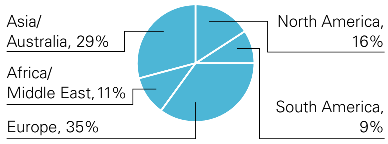
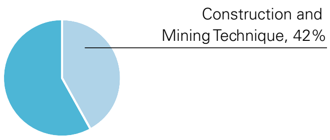


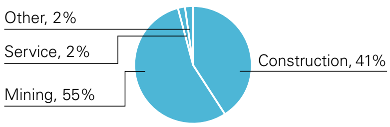
Revenues by geographic area



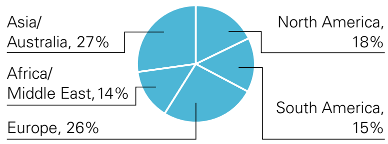
Share of Group revenues



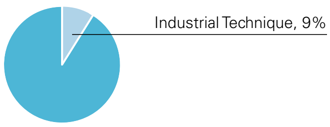
Orders received by customer category



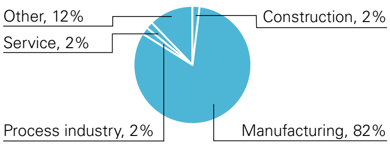
Revenues by geographic area



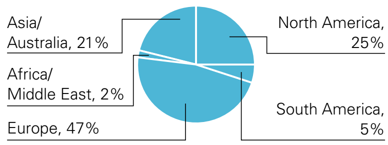
Share of Group revenues



Orders received by customer category



Revenues by geographic area



Atlas Copco is fit for more

It's hardly enough to describe 2010 as a year of recovery; the change we experienced was even more remarkable. In 12 months, Atlas Copco saw a very uncertain demand situation turn into a year-end close with record orders and profit. Our factories and service organization are now running at full speed and new co-workers join us every day. We have demonstrated the great agility of our organization, both in the downturn and in the upturn, and have revisited our goals for sustainable, profitable development, to strengthen our position as a company that is fit for more.

Summary of 2010

Early on in the year, we prepared for a double-dip in the global economy. This development did not materialize, however, and we instead saw a clear V-shape in both orders received and profitability, with solid, continuous improvement in demand for equipment and services. The growth in demand was led by countries such as Brazil, China, India and Australia, with booming activity among mining customers as well as other industries later in the year. There was also a solid recovery in the United States for industrial equipment and in the motor vehicle industry, while demand in southern Europe remained soft.

Atlas Copco's business model again proved its worth – as it did during the difficult period of late 2008 and early 2009. Our horizontal structure allowed us to focus on our core business and leverage the capabilities of our business partners. When the business climate was deteriorating we could efficiently reduce variable costs and working capital, and vice versa as the economy improved. With small incremental investments, we were able to quickly ramp up and meet our customers' growing needs.

We strengthened the organization by hiring for manufacturing as well as sales and service, adding almost 3 000 people during the year. Having a strong aftermarket business is a key to getting close to our customers, and we not only invested in additional "feet in the street," but also in competence development for our service people and in the overall service infrastructure across the world.

The fastest-growing professional group in 2010 was personnel within research and development, which grew by 200 people to more than 1 700. This is a prioritized area for the Group, and spending on product development increased 7% to almost BSEK 1.6. We also decided on investments to create research and development centers in China for construction and mining equipment as well as for compressors.

We opened new customer centers in the Democratic Republic of Congo, Panama, Dubai and Mali, as well as new factories in Hyderabad, India and in Shanghai, China. A new distribution center for compressor equipment and tools was opened in the United States, and we began building a new distribution center for Construction and Mining Technique in China.

The Group carried out several acquisitions of distributors and of companies that extend our product offer. The latter included Hartl in Austria, a manufacturer of mobile crushing and screening equipment, and Quincy Compressor, which we now have fully integrated into the Atlas Copco Group. In October, we acquired a Dutch company, Cirmac International, adding some very interesting technology for the renewable energy sector, with a great growth potential.

We decided on investments in existing production facilities, perhaps most notably in Fagersta, Sweden, where one of Atlas Copco's largest-ever manufacturing investments is being carried out: MSEK 450 over two years to expand the production capacity

for rock drilling tools. The Group is also consolidating manufacturing operations for road construction equipment and light compaction equipment, resulting in the closure of two factories in Germany and Sweden.

For the full year, we achieved a 29% order increase to BSEK 75, a new record, and the operating profit margin of 19.9% was also the highest yet. All three business areas showed a very strong development. The most marked improvement was seen within Industrial Technique, which worked hard to reverse the severe impact of the crisis.

Throughout the financial crisis and subsequent upturn, Atlas Copco has generated significant cash flows, and we can pay out a substantial dividend to shareholders without jeopardizing the capacity to finance further growth. The Board of Directors has proposed to the Annual General Meeting an ordinary dividend of SEK 4 per share and a share redemption program at SEK 5 per share, corresponding to a total BSEK 11.

Goals for sustainable, profitable development

The ordinary dividend corresponds to about 50% of net profit, which is a level we will aim to achieve also in the years to come. This is one of the financial goals we have identified as important to share shareholder value in the future. The priority for the use of capital is to develop and grow the business. We will intensify our focus on growth, while maintaining a strong profitability and a high return on capital employed. Over a business cycle, Atlas Copco's goal is to grow annual revenues by 8%, but of course we always want to grow faster than our most important competitors.

We have four main priorities in order to deliver this continuous, profitable growth: We will further extend our presence in growth markets, continue to develop our service organization, innovate for an even fitter product portfolio and focus on operational excellence in everything we do.

Atlas Copco today has customer centers in 86 countries and our sales reached 178 markets, practically the entire world. We will continue opening new customer centers wherever there is a clear benefit, but we will increasingly strengthen our presence in key growth markets through investing in additional design and development resources. Developing our multiple brand strategy will also deepen our market penetration.

Regional design and development will be of benefit in keeping our product portfolio in shape. We want to be certain that Atlas Copco always uses the latest technology and keeps abreast of our customers' needs. Working closely with partners, both customers and suppliers, is crucial for encouraging innovations in areas such as product design, efficiency and energy consumption. Combined with state-of-the art regional distribution centers, we can offer the right value proposition, tailored to the requirements of customers anywhere.

Throughout the year, we have invested to further improve our service business, and this is a process that will continue, for instance by making our service network even denser. We will have a clear focus on competence development to support the growth of talented employees, improving diversity among managers and mobility within the company. Diversity, both in terms of nationalities and gender, is a critical success factor for Atlas Copco in the growth markets, as it will ensure we have the best people with the best local knowledge.

Atlas Copco has also set a number of ambitious goals for the development of our products, services and solutions, as well as for our own operations. For Atlas Copco's profitable growth to be sustainable, we have to live up to high standards in terms of our impact on the environment, social responsibility in the areas where we operate, and ethical behavior.

The Group decided to double its contribution to the employee-driven organization *Water for All* as of 2011. *Water for All* has been operating since 1984, funding projects to improve the supply of clean drinking water for people in need, and has helped more than one million people since its start. Atlas Copco employees contribute with voluntary donations, which the Group from now on will match by 200% from now on.

Our products, which stand for the Group's most significant impact on the environment, should constantly become more efficient in terms of energy consumption. To drive this development, we have committed to the goal that Atlas Copco should increase our customers' energy efficiency by 20% by the year 2020, compared to the current situation. All product development projects have to take this into consideration. We see huge potential in modernizing the compressor equipment of the world's industries: if all of our customers switched to Atlas Copco's Variable Speed Drive (VSD) compressors and install heat recovery equipment, we would really help both the environment and our customers' productivity.

» We will intensify our focus on growth, while maintaining a strong profitability and a high return on capital employed.

We have vowed to reduce carbon dioxide emissions from our own factories and transportation by 20% in the same period of time. Other goals are to keep water consumption at current levels, reuse or recycle waste and to ensure that any new Atlas Copco buildings are constructed according to sustainable building standards.

During 2010, we stepped up Atlas Copco's work with safety and health, and have seen clear results from these efforts. Twenty of our factories were granted the OHSAS 18001 certification, an internationally recognized standard for occupational health and safety management systems, and the number of work-related accidents and sick-leave hours within the Group declined.

Hungry for market share and profitability

There will of course be challenges ahead. Emerging markets are expected to continue to grow considerably in the coming years, which may put some strain on our supply chain, and we will need to be able to increase capacity without losing our agility as a company. At the same time, the economic outlook for the mature markets in Europe and North America is less promising.

However, the past years have already proven our ability to be "best in class" when it comes to profitability, both during cyclical peaks and troughs. We will continue creating value by driving operational excellence; having the best supply chain management, and leveraging the strength of our partners.

This all means that Atlas Copco is fit for more. We have a broad global sales network, a strong presence in growing markets and customer segments, an attractive aftermarket platform and an innovative product portfolio. Above all, we have a team that is hungry to take a larger part of the market.

We have had an exciting past year, and our talented employees and business partners really delivered results. Let me thank everybody who contributed, including our customers for their loyalty. The outlook for the global economy is solid, with continued strong development in the emerging markets, and we look forward to another promising year for Atlas Copco.

Ronnie Leten
President and CEO
Stockholm, February 2, 2011

Committed to Sustainable Productivity

Vision

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice® of its customers and prospects, and of other key stakeholders.

Mission

Atlas Copco is an industrial group with world-leading positions in compressors, construction and mining equipment, power tools and assembly systems. The Group delivers sustainable solutions for increased customer productivity through innovative products and services.

Strategy

Atlas Copco has strong positions globally in most segments where it offers products and solutions. The Group concentrates on strengthening its position within segments where it has core competence.

To reach its vision First in Mind—First in Choice®, the Group has three overall strategic directions:

Organic and acquired growth

Growth should primarily be organic, supported by selected acquisitions. Growth can be achieved by:

- geographic expansion, by opening additional customer centers
- deeper market penetration, by intensified training for service and sales personnel
- increasing the scope of supply
- improving distribution channels and brands
- continuously launching new products for existing applications
- finding new applications for existing products
- acquiring more channels to the market, for example more brands or more distributor channels
- acquiring products for existing applications
- acquiring technology/expertise in related applications.

Innovations and continuous improvements

To be a market leader demands continuous substantial investment in research and development. Customers should be offered products and solutions that increase their productivity and reduce their cost. New products and solutions should provide extra benefits for the customer compared to the existing products or to the competition.

Strengthened aftermarket

The aftermarket comprises accessories, consumables, parts, service, maintenance, and training. A strengthened aftermarket offers the Group a stable revenue stream, high growth potential, and optimized business processes. In addition, the product development organization gets a better understanding of the customers' needs and preferences.

Structure

The Group is organized in three separate, focused but still integrated business areas, each operating through divisions.

The role of the business area is to develop, implement, and follow up the objectives and strategy within its business.

The divisions are separate operational units, each responsible to deliver growth and profit in line with strategies and objectives set by the business area. The divisions generally conduct business through customer centers, distribution centers, and product companies.

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

Processes

Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are controlling and accounting, legal, people management, crisis management, insurance, communications and branding, information technology, Group standards, Business Code of Practice, and environmental management. The information is stored electronically and is available to all employees. Although most of the documentation is self-explanatory, training on how to implement the processes is provided to managers on a regular basis. Wherever they are located, Atlas Copco employees are expected to operate in accordance with the principles and guidelines provided.

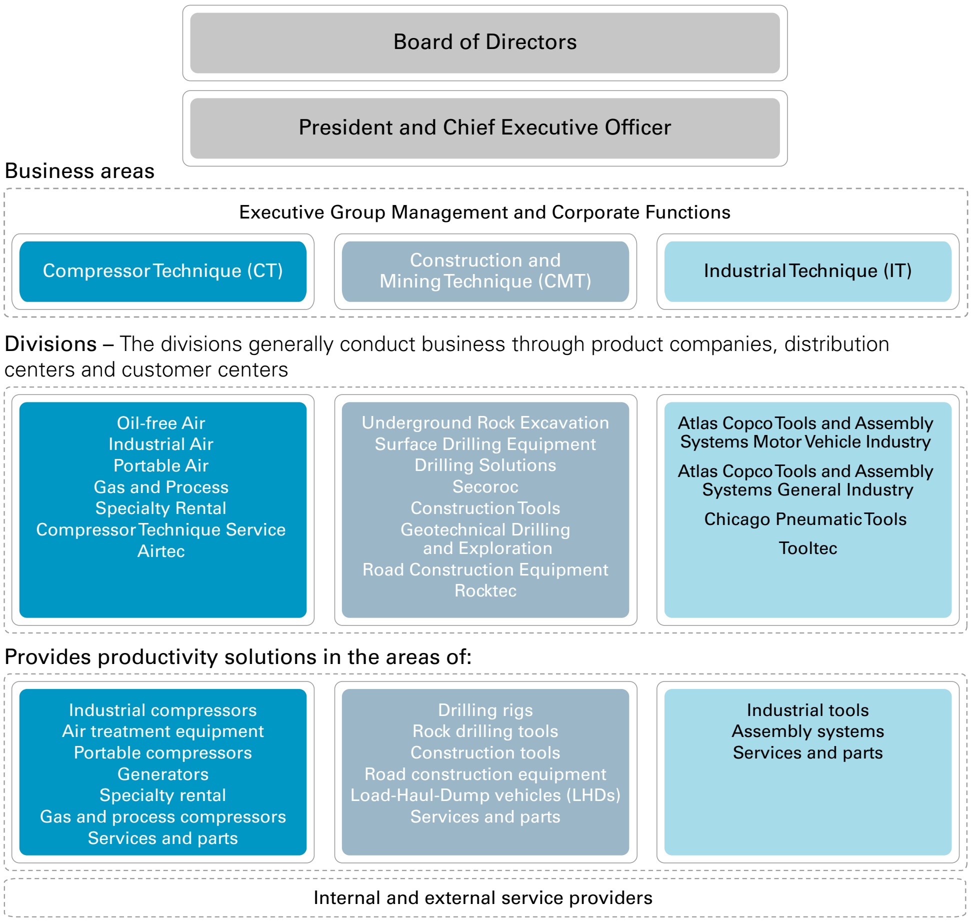
People

Atlas Copco's growth is closely related to how the Group succeeds in being a good employer, attracting, developing, and keeping qualified and motivated people. With a global business conducted through numerous companies, Atlas Copco works with continuous competence development, knowledge sharing and in implementing the core values – interaction, commitment, and innovation. Everybody is expected to contribute by committing themselves to Group objectives and to their individual performance targets.

The Atlas Copco Group is unified and strengthened through:

- a shared vision and a common identity
- the sharing of brand names and trademarks
- the sharing of resources and infrastructure support
- common processes and shared best practices
- the use of common service providers
- financial and human resources
- a common leadership model
- the corporate culture and the core values: interaction, commitment, and innovation.

Organization 2011



Primary Drivers of Revenues

Capital goods investment in various private and public sectors, such as manufacturing, infrastructure, and mining are drivers for Atlas Copco's revenues. Important customer groups in manufacturing and process industries demand and invest in compressed air products and solutions, industrial tools and assembly systems. Such industrial machinery investments are influenced by customers' ambitions to increase capacity, reduce cost, improve productivity and quality. Customers in the construction and mining industries invest in equipment, e.g. for rock excavation, demolition and road construction. Large infrastructure investments, such as tunnel construction for roads, railways and hydroelectric power plants often depend on political decisions. Private investments from the construction and mining industries can be influenced by a number of factors, e.g. underlying construction activity, interest rates, metal prices, and metal inventory levels.

Customers also demand service and maintenance, training, parts, accessories, consumables, and equipment rental. The demand arises during the time the equipment or product is in use, i.e. during industrial production, construction activity and ore production.

Additionally, there is an outsourcing trend that is driving demand as customers increasingly look for suppliers that offer additional services or functions rather than only the equipment. Demand for aftermarket is relatively stable compared to the demand for equipment. Aftermarket and rental revenues are generating about 40% of Atlas Copco's revenues.

	Equipment, 60%	Aftermarket and rental, 40%
Industry	Industrial machinery investment	Industrial production
Construction	Investment in infrastructure	Construction activity/outsourcing
Mining	Mining machinery investment	Metal and ore production

Goals

Increasing productivity is the foundation for all of Atlas Copco's business activities.

It means helping customers get more out of every investment. Be it making products faster, more energy efficient, safer or more ergonomic, the effect should be increased productivity. Atlas Copco achieves this by adhering to a few core values: commitment, interaction and innovation.

Being committed to sustainable productivity includes the perspective that Atlas Copco always takes the long-term view. Customers need to know they will be productive not just today or tomorrow, but a year or even ten years from now. Atlas Copco always strives to provide the highest possible productivity, but believes doing so with a short-term view would ultimately damage both the company and its customers.

Sustainable productivity covers a range of subjects: making safe, efficient products with a minimum of environmental impact, interacting with customers, developing innovative products, having a good, diverse workplace, investing in competence development, and engaging in the local communities.

Atlas Copco's ambition for sustainable development is also manifested by goals for its operations, products, services and solutions. See the table below for a summary of all goals.

Committed to sustainable productivity

is Atlas Copco's brand promise. This is a promise to ensure reliable, lasting results with a responsible use of resources; human, natural and capital.

Goals for sustainable, profitable development

Products, services and solutions	Increase customer satisfaction year-on-year.	Increase energy efficiency of products by 20% by 2020*	Offer safe and reliable products and services	
Operations	Develop new products and services with a life-cycle perspective	Decrease CO_2 emissions from operations by 20% in relation to cost of sales by 2020*	Decrease CO_2 emissions from transport of goods by 20% in relation to cost of sales by 2020*	Keep water consumption at current level
	Reuse or recycle waste	Construct Atlas Copco buildings according to sustainable building standards**	No corruption or bribes	Work with business partners committed to high ethical, environmental and social standards
	Zero work-related accidents	Competence development and yearly appraisals to all employees	Safe and healthy working environment for all employees. Sick leave below 2.5%.	Increase diversity in both gender and nationality. Encourage internal mobility.
Financials	Annual revenue growth of 8% over a business cycle	Sustained high return on capital employed	All acquired businesses to contribute to economic value added	Annual dividend distribution about 50% of earnings per share

* Base year 2010.
** Leadership in Energy and Environmental Design (LEED) or comparable green building criteria.

Value Creation

The past years have proven Atlas Copco's ability to capture a best-in-class position vis-à-vis its industrial peers in terms of profitability – both during cyclical peaks and troughs.

The ambition for the company going forward is to intensify its focus on growth, while maintaining strong profitability. This will ensure that profit is increased and, together with continued efficiency improvements on capital employed, that more economic value is generated.

The emerging markets are expected to continue to grow considerably in the years ahead and with a significant presence in these markets, Atlas Copco is well placed to capture this growth. On the other hand, the mature markets in Europe and North America are facing more challenges for growth than in the last decade.

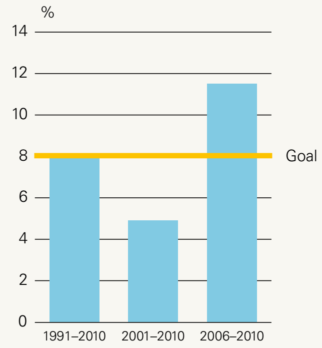
The Group's goal for annual revenue growth is 8%, measured over a business cycle. At the same time the ambition is to grow faster than the most important competitors.

The return on capital employed, i.e. operating profit divided by net operating assets, for the current Atlas Copco business portfolio, has been consistently strong over the years. The goal is to continue to deliver high return on capital employed, by constantly striving for operational excellence and generating the growth indicated above. All acquired businesses are expected to make a positive contribution to economic value added (i.e. a return on capital employed above the Group's weighted average cost of capital).

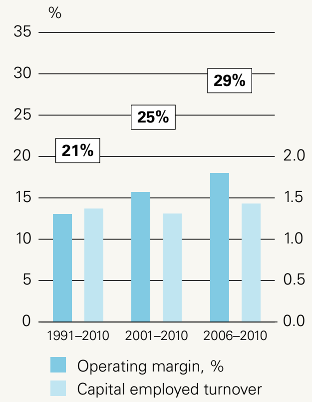
Atlas Copco aims to have a strong but also cost-efficient financing of the business. The priority for the use of capital is to develop and grow the business. The strong sustainable profitability and cash generation that have been reached allow the Group to do that and at the same time raise the goal for dividend distribution to shareholders to about 50% of earnings per share.

HISTORIC PERFORMANCE

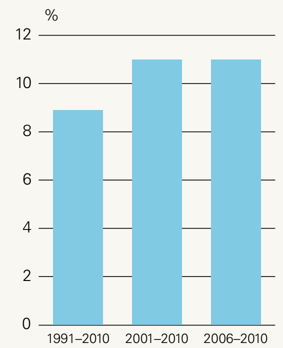
Revenue growth



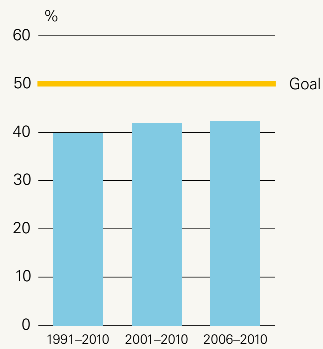
Return on Capital Employed



Operating cash flow/Revenues



Dividend/Earnings per share



Board of Directors' Report on 2010 Operations

Market Review and Demand Development

The demand for Atlas Copco's products and services recovered strongly during 2010 from the low levels of 2009, which was heavily influenced by the financial crisis. Demand started to recover at the end of 2009 and sequential growth was recorded in all quarters of 2010, and was particularly strong in the first half of the year. The best development was noted in customer segments that had a difficult year in 2009, such as mining, construction and manufacturing, whereas segments like oil and gas and public services and utilities, recorded more moderate growth.

The Group strengthened its market presence and penetration and successfully introduced a number of new products and services. This also contributed to the strong development.

Orders received increased 29%, to MSEK 75 178 (58 451). Volumes increased 28% for comparable units. The main growth driver was higher order intake for equipment, but solid double digit growth was also recorded in the aftermarket business. Compressor Technique volumes increased 20%, Construction and Mining Technique 38% and Industrial Technique 31%. Prices increased 1%, while currency translation effects had a negative impact of 4%. Cancellations of orders in the beginning of 2009 corresponded to 2%. See also business area sections on pages 24–35.

North America

Sales improved significantly in North America, which accounted for 18% (16) of orders received. In total, orders received increased 50% in local currencies, including approximately 8% from acquisitions. The demand for all major types of equipment recovered strongly, most pronounced for compressed air equipment, industrial tools and assembly systems from the manufacturing industry, as well as for mining and construction equipment. The activity level in most customer segments improved and order intake for aftermarket recorded healthy growth.

South America

South America, representing 11% (10) of orders received, was also affected by the global financial crisis in 2009, but demand held up better than in most other regions. Equipment investments and the aftermarket business increased significantly in 2010 and order intake was record high. All customer segments developed well, and demand from the mining industry was exceptionally strong. In total, orders received increased 40% in local currencies.

> **Near-term demand outlook**
>
> The overall demand for the Group's products and services is expected to increase somewhat. The demand in the emerging markets as well as from the mining industry is expected to stay strong. Some mature markets, like North America, are expected to continue the recent improvement.
>
> *Published February 2, 2011*

Europe

Europe accounted for 31% (36) of orders received, which increased 20% in local currencies. Demand improved in most segments and markets. Sales of mining equipment and related aftermarket recovered strongly and demand for construction equipment improved, but was still at a relatively low level. Activity and capacity utilization in the manufacturing and process industries picked up, which resulted in increased demand for both maintenance and equipment. Consequently, the aftermarket business recorded healthy growth and sales of industrial compressors, industrial tools and assembly systems increased.

Geographically, the strongest development of orders received was seen in Eastern Europe, particularly Russia. Growth was also strong in markets with a high share of export business, e.g. Germany and Sweden. Demand was weak in many markets in Southern and Southwest Europe with low order intake, e.g. Spain and Italy.

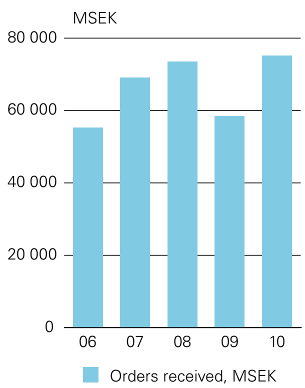
Africa/Middle East

The Africa/Middle East region accounted for 11% (12) of orders received. Order intake for mining and construction equipment improved significantly in the region, whereas it remained at the previous year's level for compressed air equipment. In total, orders received increased 22% in local currencies.

Asia/Australia

The demand in Asia/Australia, representing 29% (26) of orders received, increased significantly and orders received reached a new record. In total, orders received increased by 43% in local currencies. Demand for mining and construction equipment improved strongly, as did the demand for industrial tools and standard stationary and portable compressors. The sales of aftermarket products and services developed very well and recorded strong double-digit growth. Strong growth and record order intake was recorded in China, India and many other emerging markets in the region. Sales grew strongly also in South Korea, but moderately in Japan. In Australia, the mining business recovered rapidly and also here order intake reached a new record.

Orders received



Geographic distribution of orders received, by business area, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
North America	16	18	24	18
South America	9	14	6	11
Europe	35	25	47	31
Africa/Middle East	9	15	2	11
Asia/Australia	31	28	21	29
Total	**100**	**100**	**100**	**100**

Distribution of orders received, by geographic region, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
North America	44	44	12	100
South America	37	59	4	100
Europe	52	35	13	100
Africa/Middle East	40	59	1	100
Asia/Australia	50	44	6	100
Total	**47**	**44**	**9**	**100**

Orders received by customer category, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
Construction	13	41	2	24
Manufacturing	37	0	82	25
Process industry	24	0	2	11
Mining	7	55	0	28
Service	10	2	2	6
Other	9	2	12	6
Total	**100**	**100**	**100**	**100**

Customers are classified according to standard industry classification systems. The classification does not always reflect the industry of the end user.

Significant Events and Structural Changes

Acquisitions

The Group completed eight acquisitions during the year, which added revenues of MSEK 1 104 in 2010. The Compressor Technique business area acquired Quincy Compressor, a United States-based manufacturer of compressors, Cirmac International B.V., a company based in the Netherlands and specialized in biogas upgrading systems for the renewable energy industry and in gas treatment systems for the oil, gas and chemical industries, as well as two distributors in the United States. Construction and Mining Technique acquired Hartl Anlagenbau GmbH, Austria, a company that manufactures and sells mobile crushers and screeners, and an independent local manufacturer and distributor of drilling equipment in Great Britain. Industrial Technique acquired two sales and service operations in the United States. Acquisitions are always integrated into the existing business structure in order to give the best possibilities for profitable growth and to exploit synergies.

In January 2011, an agreement was signed to acquire the pump business from J.C. Carter LLC, based in the United States. The deal is expected to be closed in the first quarter 2011. See also business area sections on pages 24–35 and note 2.

Strengthened market presence and penetration

In 2010, Atlas Copco established four new customer centers, in the Democratic Republic of the Congo, in Panama, in Dubai (United Arab Emirates), and in Mali, and two new distribution centers; in the United States and in China.

In February 2011 it was announced that Atlas Copco has decided to invest approximately MSEK 60 to build a new research and development center in Nanjing, China. The center will support the Construction and Mining Technique business area.

The new entities will improve local presence and support and demonstrate the Group's commitment to the respective markets.

Investments

Several investments for increased capacity, productivity and efficiency were made during the year. In November, for example, a new production facility for gas and process turbo compressors and turbo expanders was inaugurated in China.

Atlas Copco decided in December to invest approximately MSEK 450 to expand production capacity of rock drilling tools in Fagersta, Sweden to meet the demand from the mining and construction industries. The investment in modern machine technology will increase the capacity and create around 70 new job opportunities locally over the coming two to three years.

Restructuring

In August, the decision to consolidate the road construction equipment manufacturing was announced. The plan included the closure of one factory in Lingen, Germany and expansions of the factories in Wardenburg, Germany and Karlskrona, Sweden. The Lingen factory was closed at the end of 2010. Costs related to this restructuring amounted to MSEK 100.

In January 2011, Atlas Copco initiated negotiations with unions regarding a plan to relocate production of light compaction equipment from Ljungby, Sweden to Rousse, Bulgaria.

Updated Goals for Sustainable Profitable Development

Atlas Copco's vision is to become and remain First in Mind—First in Choice® for its stakeholders. This vision drives the Group's strategies and goals for its operations.

The updated goals for sustainable, profitable development were presented on February 2, 2011. See pages 10–11.

Dividend and Mandatory Redemption of Shares

The Board of Directors proposes to the Annual General Meeting a distribution to shareholders of SEK 9.00 per share through:

– annual dividend for 2010, SEK 4.00 (3.00) per share and
– extra distribution of SEK 5.00 per share through mandatory redemption.

See also page 23.

Financial Summary and Analysis

Revenues

The Group's revenues increased 10% to MSEK 69 875 (63 762). Volume increased 11% for comparable units attributable to all business areas; Compressor Technique +7%, Construction and Mining Technique +13%, and Industrial Technique +26%. Prices increased 1%, while currency translation effects were –4%. See also the business area sections on pages 24–35 and notes 2 and 3.

Operating profit

Operating profit increased 53%, to a record MSEK 13 915 (9 090), corresponding to a margin of 19.9% (14.3). Restructuring costs and other items affecting comparability were MSEK –100 (–569) and the adjusted operating margin was 20.1% (15.1). The margin was positively affected by the cost reductions and efficiency measures from 2009 in combination with the higher production volumes in the factories. A favorable sales mix, and price increases also supported the operating margin. Changes in exchange rates had a negative effect of MSEK 65 on the operating profit, but affected the margin positively with about half a percentage point.

Operating profit for the Compressor Technique business area increased 41% to MSEK 8 127 (5 752), corresponding to a margin of 23.5% (17.7). Previous year's profit includes restructuring costs and other items affecting comparability of MSEK –234 and the adjusted operating margin was 18.4%. The margin benefited from volume, mix, efficiency improvements, product cost reductions, price increases and more favorable exchange rates. The return on capital employed was 69% (45).

Operating profit for the Construction and Mining Technique business area increased 51% to MSEK 5 243 (3 470), corresponding to a margin of 18.0% (13.4). Restructuring costs and other items affecting comparability were MSEK –100 (–143) and the adjusted operating margin was 18.3% (13.9). The margin was supported primarily by increased volumes in combination with cost efficiency measures implemented after the financial crisis. A favorable sales mix with more revenues from spare parts and service also contributed to the margin. Return on capital employed was 27% (17).

Operating profit for the Industrial Technique business area increased 399% to MSEK 1 262 (253), corresponding to a margin of 19.5% (4.7). Previous year's profit includes restructuring costs and other items affecting comparability of MSEK –187 and the adjusted operating margin was 8.2%. Significantly higher volumes in combination with efficiency improvements and reduced operating costs affected the profit and margin positively. Return on capital employed was 50% (9).

Costs for common group functions and eliminations increased to MSEK –717 (–385), partly due to revaluation of the provision for share-related long-term compensation programs. The programs are hedged with own shares but this off-setting credit is only recorded in equity when the programs are exercised, not in the income statement.

Depreciation and EBITDA

Depreciation and amortization totaled MSEK 2 498 (2 470), of which property and machinery accounted for MSEK 995 (1 026), rental equipment for MSEK 680 (720), and amortization of intangible assets for MSEK 823 (724). Earnings before depreciation and amortization, EBITDA, was MSEK 16 413 (11 560), corresponding to a margin of 23.5% (18.1).

Net financial items

The Group's net financial items totaled MSEK –420 (–819). The net interest expense decreased to MSEK –423 (–808). The reduced interest cost reflects a lower net interest-bearing debt, thanks to a strong cash generation. Financial foreign exchange differences were MSEK –25 (19).

Other financial items were MSEK 28 (–30). See note 27 for additional information on financial instruments, financial exposure and principles for control of financial risks.

Profit before tax

Profit before tax increased 63% to MSEK 13 495 (8 271), corresponding to a profit margin of 19.3% (13.0).

Taxes

Taxes for the year totaled MSEK 3 551 (1 995), corresponding to an effective tax rate of 26.3% (24.1) in relation to profit before tax. See also note 10.

Profit and earnings per share

Profit for the year increased 58% to MSEK 9 944 (6 276), of which MSEK 9 921 (6 244) and MSEK 23 (32) are attributable to owners of the parent and non-controlling interests, respectively. See also note 3. Basic and diluted earnings per share were SEK 8.16 (5.14) and SEK 8.15 (5.13), respectively.

Key figures by business area

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets[1]	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Compressor Technique	34 602	32 524	8 127	5 752	23.5	17.7	69	45	506	659
Construction and Mining Technique	29 156	25 909	5 243	3 470	18.0	13.4	27	17	1 029	854
Industrial Technique	6 472	5 392	1 262	253	19.5	4.7	50	9	60	94
Common Group functions/eliminations	–355	–63	–717	–385					98	116
Total Group	**69 875**	**63 762**	**13 915**	**9 090**	**19.9**	**14.3**	**29**	**18**	**1 693**	**1 723**

[1] Excluding assets leased.

Key figures

MSEK	2010	2009
Orders received	75 178	58 451
Revenues	69 875	63 762
Operating profit	13 915	9 090
– in % of revenues	19.9	14.3
Profit before tax	13 495	8 271
– in % of revenues	19.3	13.0
Profit for the year	9 944	6 276
Basic earnings per share, SEK	8.16	5.14
Diluted earnings per share, SEK	8.15	5.13

Sales bridge

MSEK	Orders received	Orders on hand, December 31	Revenues
2008	73 572	20 692	74 177
Cancellations, %	+1		–
Structural change, %	0		0
Currency, %	+7		+8
Price, %	+1		+1
Volume, %	–30		–23
Total, %	**–21**		**–14**
2009	58 451	14 265	63 762
Cancellations, %	+2		–
Structural change, %	+2		+2
Currency, %	–4		–4
Price, %	+1		+1
Volume, %	+28		+11
Total, %	**+29**		**+10**
2010	75 178	18 677	69 875

For more details and comments, see the business area sections on pages 24–35.

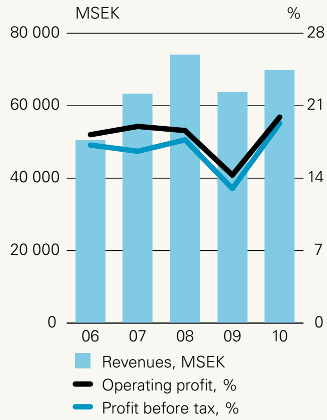
Balance sheet

The Group's total assets increased 6% to MSEK 71 622 (67 874). Currency translation effects were negative, decreasing the value by about 4%. Excluding translation effects, cash, cash equivalents and other current financial assets, assets increased approximately 3% for comparable units, which primarily is a result of the revenue increase with the corresponding increase in working capital.

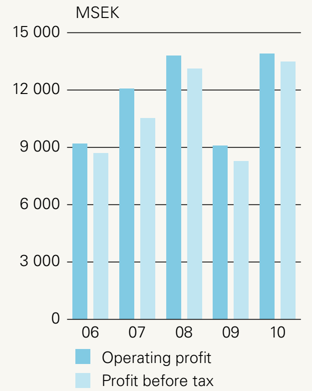
Balance sheet in summary

MSEK	December 31, 2010		December 31, 2009	
Intangible assets	13 464	19%	12 697	19%
Rental equipment	1 843	3%	2 056	3%
Other property, plant and equipment	5 702	8%	5 993	9%
Other fixed assets	4 123	6%	6 556	9%
Inventories	12 939	18%	11 377	17%
Receivables	17 474	24%	15 433	23%
Current financial assets	1 734	2%	1 530	2%
Cash and cash equivalents	14 264	20%	12 165	18%
Assets classified as held for sale	79	0%	67	0%
Total assets	**71 622**	**100%**	**67 874**	**100%**
Total equity	29 321	41%	25 671	38%
Interest-bearing liabilities	21 692	30%	25 735	38%
Non-interest-bearing liabilities	20 609	29%	16 468	24%
Total equity and liabilities	**71 622**	**100%**	**67 874**	**100%**

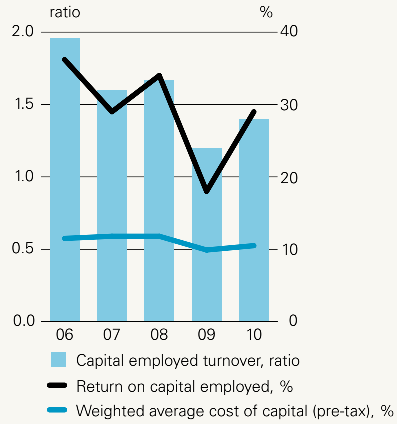
Revenues and margins



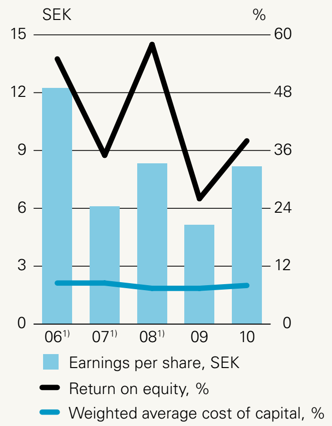
Operating profit and profit before tax



Capital employed turnover and return



Return on equity and earnings per share



1) Including discontinued operations.

Financial Summary and Analysis

(continued)

Non-current assets and investments

Non-current assets decreased, primarily as a result of currency translation, but partly offset by acquisitions.

Investments in other property, plant and equipment totaled MSEK 868 (954), 87% (93) of the annual depreciation. Large investments were made in Compressor Technique and Construction and Mining Technique manufacturing facilities in China and India. Construction and Mining Technique also made large investments in United States and in Australia.

Investments in intangible fixed assets, mainly related to capitalization of certain development expenditures, were MSEK 517 (657).

Rental equipment increased, with gross MSEK 825 (769), while sales of used rental equipment totaled MSEK 480 (557). Consequently, rental equipment increased with, net, MSEK 345 (212).

Shares in RSC Holdings Inc. amounting to MSEK 190 were divested. The minority ownership stake in this equipment rental business is recorded as a non-current financial asset held for sale. The book value of this asset at year end was MSEK 504 (549).

The volume of finance leases related to financing for customers decreased, but to a lesser extent than the previous year, when several large divestments were made of equipment under lease contracts.

Working capital

Inventories and trade receivables increased 14% and 13%, respectively, as revenues recorded strong growth. The ratio of inventories to revenues at year end increased to 18.5% (17.8), but trade receivables decreased to 19.1% (19.2). The corresponding average ratios decreased to 17.4% (22.9) and 18.4% (21.0), respectively.

Trade payables increased by 37%. Average trade payables in relation to revenues increased to 8.2% (8.0).

Cash and cash equivalents

Cash and cash equivalents increased to MSEK 14 264 (12 165). The increase is the result of improved profits, partly offset by increased investments and more capital tied up in working capital.

Interest-bearing debt

The borrowings, excluding post-employment benefits, were MSEK 20 114 (23 967). A loan of MSEK 2 000 was amortized during the year. Post-employment benefits decreased to MSEK 1 578 (1 768). See notes 21 and 23 for additional information.

Net indebtedness

The Group's net indebtedness, adjusted with –184 (–1 134) for the fair value of related interest rate swaps, amounted to MSEK 5 510 (10 906) at year end. The net debt/EBITDA ratio was 0.3 (0.9) and the debt/equity ratio was 19% (42).

Equity

MSEK	2010	2009
Opening balance	25 671	23 768
Profit for the year	9 944	6 276
Other comprehensive income for the year	–2 951	–710
Shareholders' transactions	–3 343	–3 663
Closing balance	29 321	25 671
Equity attributable to		
– owners of the parent	29 141	25 509
– non-controlling interests	180	162

At year end, Group equity including non-controlling interests was MSEK 29 321 (25 671). Translation differences recognized in other comprehensive income amounted to MSEK –4 536 (–1 585). There was a net effect after taxes of MSEK 1 585 (875) related to hedging and fair value reserves. MSEK 3 646 (3 648) was distributed to shareholders of the parent through the ordinary dividend. Sales and repurchases of own shares equaled net MSEK 384 (0).

Equity per share was SEK 24 (21). Equity accounted for 41% (38) of total assets. Atlas Copco's market capitalization, excluding shares held by the company, at year end was MSEK 199 921 (123 440) or 682% (481) of net book value.

The information related to public take-over bids given for the Parent Company, on page 23, is also valid for the Group.

Cash flow

Operating cash surplus reached MSEK 16 673 (11 434).

Working capital increased with MSEK 1 730 (decreased 6 715) as trade receivables and inventory increased in line with the increased business volume. Rental equipment increased, with net MSEK 345 (212). Net cash from operating activities amounted to MSEK 10 825 (14 604).

Net investments in property, plant and equipment were MSEK –815 (–875) and net cash flows from other investing activities, excluding acquisitions and divestments, were MSEK –312 (32). Operating cash flow was MSEK 9 698 (13 761), equal to 14% (22) of Group revenues.

The net cash flow from acquisitions and divestments increased, primarily due to the acquisition of Quincy Compressors, and amounted to MSEK –1 691 (–171).

Dividends paid amounted to MSEK –3 650 (–3 652) and sales and repurchases of own shares equaled net MSEK 384 (0). A bond loan of MSEK 2 000 was repaid while the closing of interest rate swap contracts related to other loans gave a positive cash flow of MSEK 1 161, both items included under change in interest-bearing liabilities, which amounted to MSEK –1 474 (–3 152) in total.

Capital turnover

The capital turnover ratio was 1.02 (0.89) and the capital employed turnover ratio was 1.40 (1.20).

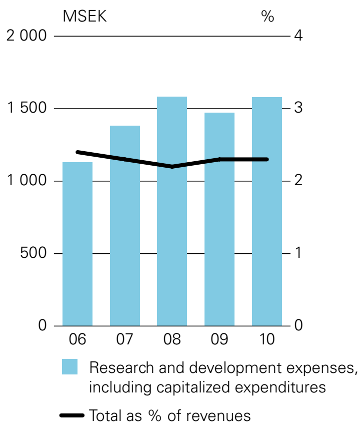
Return on capital employed and return on equity

Return on capital employed increased to 28.6% (17.7) and the return on equity to 37.6% (25.8). Excluding the customer financing business, the return on capital employed was 30.7% (19.6). The Group uses a weighted average cost of capital (WACC) of 8% as an investment and overall performance benchmark.

Product Development

The aim of the research and development activities is to support the Group's vision First in Mind—First in Choice®, through innovation and close interaction with customers. The wide span of technologies used by Atlas Copco – from advanced computer control systems, hydraulics and pneumatics to specialized technologies such as compression of air or rock drilling – creates an exciting and challenging environment for the Group's product developers. A winning approach to maintaining a leading market position has been to work closely with universities and in different cooperations and alliances with customers around the world. In 2010, the amount invested in product development, including capitalized expenditures, increased 7% to MSEK 1 579 (1 472), corresponding to 2.3% (2.3) of revenues and 2.8% (2.7) of operating expenses. The number of product development projects increased, including more projects where the focus is to develop differentiated solutions for customers in the emerging markets. Productivity, reliability, safety, energy efficiency and product cost are examples of key criteria in the projects. For example, in a project where energy efficiency is considered a key criteria, the project will not be approved if the goal for energy effiency is not met. For further information, see the description under each business area.

Research and development expenditures

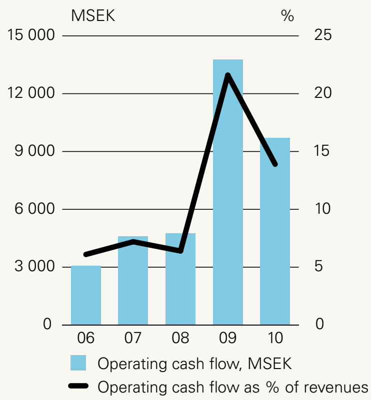


More financial information WWW

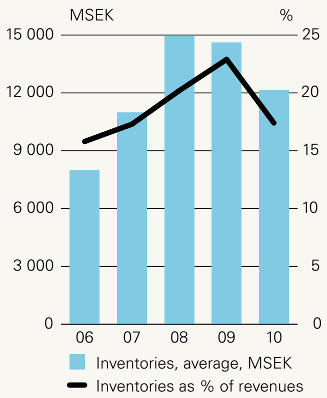
The following information is available at www.atlascopco.com/ir:

- Annual reports
- Quarterly reports
- Quarterly results presentations
- Presentation material from capital markets days
- Debt information
- Key figures
- Information about acquisitions and divestments
- Share information

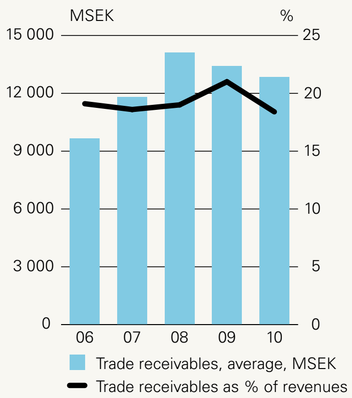
Operating cash flow



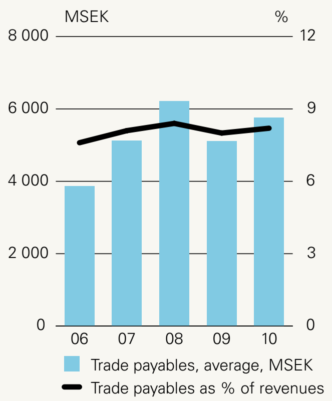
Inventories



Trade receivables



Trade payables



Personnel

MSEK	2010	2009
Average number of employees, total	31 214	31 085
– Sweden	3 890	3 863
– Outside Sweden	27 324	27 222
Business areas		
– Compressor Technique	14 338	14 277
– Construction and Mining Technique	12 733	12 564
– Industrial Technique	3 024	3 182
– Common Group Functions	1 119	1 062

In 2010, the average number of employees in the Atlas Copco Group increased by 129 to 31 214. At year end, the number of employees was 32 790 (29 802) and the number of full-time consultants/external workforce was 1 696 (1 042). For comparable units, the total workforce increased by 2 972. Acquisitions added 670 employees. See note 5.

Management resourcing and recruitment

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

Internal mobility is a way to increase efficiency and avoid stagnation in the organization. When a manager has fulfilled his/her mission, he/she will be given a new mission either in the existing position or in a new position. The target is to have 85% of the managers internally recruited, and the outcome in 2010 was 96% (91).

Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally through the Internal Job Market, which was created in 1992. In 2010, 3 330 (1 343) positions were advertised, of which 353 (190) were international.

The Group has managers on international assignments from 46 (46) countries working in 57 (56) countries. The share of Swedish managers on international assignments has decreased from 28% in 2000 to 11% in 2010. The role of the international managers is to develop local managers and get international professional experience for even more demanding positions within the Group.

Competence mapping is done extensively to establish resource needs, particularly in core areas. External recruitment of young high-potential employees is focused through active promotion of the Atlas Copco employer brand. The Group strives to increase the proportion of female leaders and has many initiatives to facilitate this. The proportion of women in management positions was 13.5% (13.6), and the female proportion of recent graduate recruitments remained on a high level. However, the share of female employees decreased to 16.3% (17.0).

Equal opportunities, fairness, and diversity are fundamental pillars of Atlas Copco's people management process. Atlas Copco's workforce reflects the local recruitment base and comprises all cultures, religions and nationalities.

Competence development

One of the Group targets for 2010 was to provide every employee with an average of 40 hours of training per year. This target was fulfilled in 2010 and the average number of hours was 40 (34).

To build and develop the leadership abilities of managers, there are many training programs available and the range of programs were further enhanced during 2010.

A significant part of the trainings that are conducted in the Group are related to products and applications. Newly appointed service technicians, product specialists and salespeople receive extensive training in this area, and trainings are then continuously held in order to keep the knowledge and competence on a high level. Product and application trainings are also offered to customers and consultants.

Another important area for competence development is value-based sales training, in which the understanding of the product and the customer's application is essential.

An important part of product and application trainings is safety issues and there have been several dedicated trainings on safety and health. This is in line with the Group's vision to eliminate work-related accidents. During the year the number of accidents decreased further compared to the previous year. This development has been supported by the implementation of the occupational health and safety standard OHSAS 18001 in more companies in the Group.

Language training, primarily English, is frequently held in order to facilitate easy communication throughout the organization. Leadership and people management trainings are continuously being conducted with the ambition to improve efficiency and processes, e.g. special trainings for aftermarket managers and team leaders. Specific courses in the areas of processes and efficiency is also part of the activities conducted, for example training in lean production and lean research and development.

All employees, both newly recruited and existing employees, receive training in *The Way We Do Things,* the Group's single most important management tool. All employees should also receive training in the Business Code of Practice.

The ambition is that all employees shall have annual competence reviews as well as a personal development plan.

For further information regarding the social performance in relation to the Group goals, see the Sustainability Report.

Diversity 2010

There are 40 nationalities among the 323 most senior managers in the Group. The table below shows the share of local general managers from the region.

North America	43%
South America	71%
Europe	93%
Africa/Middle East	41%
Asia	59%
Australia	29%

Safety, Health and Environmental Management

Atlas Copco strives to conduct its business to ensure reliable, lasting results with responsible use of resources – human, natural and capital.

The Group companies comply with environmental legislation in its operations and processes worldwide and reports incidents relating to non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, in accordance with these laws. In 2010, there were no major incidents reported concerning these aspects.

The Group conducts operations requiring permission based on Swedish environmental regulations in eight Swedish companies, which account for 20% of the Group's manufacturing. These operations mostly involve machining and assembly of components, and the permits relate to areas such as emissions to water and air, as well as noise pollution. During 2010, no permit has been renewed or revised and the Group has been granted all permits needed to conduct its business. No penalties relating to environmental permits have been imposed during 2010.

Atlas Copco has a global Safety, Health and Environmental (SHE) Policy to support its efforts in these areas. The Group also has established specified safety, health and environmental goals see pages 10–11. The related internal goals state that all product companies and major customer centers should be certified in accordance with the international standards ISO 14001 and OHSAS 18001. During the year, ten product companies achieved ISO 14001 certification and 20 achieved OSHAS 18001 certification. The product companies with ISO 14001 and OHSAS 18001 certification represented 97% (95) and 61% of cost of sales, respectively.

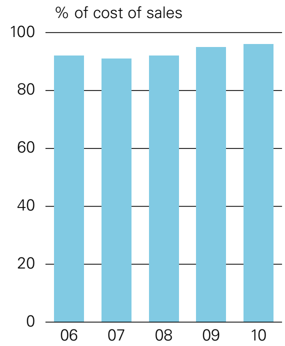
Atlas Copco aims to offer a safe and healthy working environment in all its operations, for all stakeholders. All employees shall work in a company with a SHE management system. By the end of 2010, 61% of Atlas Copco's employees worked in a company with a SHE management system.

Atlas Copco's main environmental impact is when the products are in use. The Group focuses on developing products and solutions to reduce energy consumption. Safety, health and environmental, as well as ergonomic aspects have been integrated into Atlas Copco's product development process for many years. Compressors, construction and mining equipment and industrial tools are designed and manufactured to be increasingly more energy efficient, safe and ergonomic.

Atlas Copco also strives to decrease its environmental impact in terms of energy and water consumption, waste and carbon dioxide emissions. In 2010, water consumption was stable in absolute numbers and decreased in relative numbers. Carbon dioxide emissions from product companies increased in absolute terms but decreased in relative terms.

For more information about Atlas Copco's safety, health and environmental performance, see the Sustainability Report.

ISO 14001 certification



Risk Factors and Risk Management

To be exposed to risks is part of doing business and is reflected in Atlas Copco's risk management. It aims at identifying, measuring, and preventing risks from becoming real as well as continuously making improvements and thereby limiting potential risks. Atlas Copco's risk management addresses business, financial and other potentially significant risks such as legal risks as well as those that can threaten the company's good standing and reputation.

The risk management system includes assessments which will be carried out in all business units. Established tools are used for evaluating and ranking existing risks based on their potential financial impact and likelihood of materializing.

The Atlas Copco Group's principles, guidelines and instructions provide management with tools to monitor and follow up business operations to quickly detect deviations that could develop into risks. Managers are in charge of developing the strategies and business of their respective units, of identifying opportunities and risks, and of monitoring and following up. This is done both formally by using available tools and informally through continuous communication with employees, customers, and other stakeholders.

One systematic way of following up the status in the units is the use of monthly reports in which managers describe the development of their respective unit. In these monthly reports, "red flags" are raised if negative deviations or risks are identified. Mitigative actions are then implemented. See also the Corporate Governance report.

Market risks

The demand for Atlas Copco's products and services is affected by changes in the customers' investment and production levels. A widespread financial crisis and economic downturn, such as the one experienced during 2008–2009, affects the Group negatively both in terms of revenues and profitability. Furthermore, the functionality of the financial markets also has an impact on the customers' ability to finance their investments.

However, the Group's sales are well diversified with customers in many industries and countries around the world, which limits the effect when the demand changes are concentrated in a single industry, country or region.

Changes in customers' production levels also have an effect on sales of spare parts, service and consumables. These changes have historically been relatively small in comparison to changes in investments, indicating that the risk of customer service-related sales deteriorating as a result of decreased production levels is limited.

The Group has leading positions in most market segments where it is active, with relatively few competitors of a comparable size. In developing markets, new smaller competitors continuously appear which may affect Atlas Copco negatively, mainly through competitive pricing.

Product development risks

Atlas Copco's long-term growth and profitability is dependent on its ability to develop and successfully launch and market new products. To ensure its leading position in the market, Atlas Copco continuously invests in research and development to develop products in line with customer demand and expectations. If Atlas Copco fails to successfully introduce new products of high quality in a timely fashion, it can affect revenues and profits negatively.

One of the challenges in this respect will be to continuously develop innovative, sustainable products that consume less resources (such as energy, water, steel, and human effort) over the entire life cycle. Each Atlas Copco division has established measurable efficiency targets for their main product categories. In every master specification of a new product development project, the issue of energy and other resources is addressed, as well as ergonomics and safety and health aspects.

Product development efforts also reflect national and regional legislation in the United States and European Union, on issues such as emissions, noise, vibrations, and recycling. This may increase the risk of competition in emerging markets where low-cost products are not affected by such rules.

The technologies for compressors, construction and mining equipment and assembly tools are considered relatively mature. The risk is deemed minor that a major technological advancement by a competitor could undermine the Group's position in any significant way.

Production risks

Atlas Copco has a global manufacturing strategy based on manufacturing of core components and assembly. Core component manufacturing is concentrated in few locations and if there are interruptions or if there is not enough capacity in these locations, this may have an effect on deliveries or on the quality of products. To minimize these risks and to maintain a high flexibility, the manufacturing units continuously monitor the production process, make risk assessments, and train employees. They also invest in modern equipment that can perform multiple operations and the production units are equipped with sprinkler systems for fire prevention.

Many components are sourced from sub-suppliers. The availability is dependent on the sub-suppliers and if they have interruptions or lack capacity, this may have an effect on deliveries. To minimize these risks, Atlas Copco has established a global network of sub-suppliers, which means that in most cases there is more than one sub-supplier that can supply a certain component.

Atlas Copco is also directly and indirectly exposed to raw material prices. Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be offset by increased sales to mining customers and partly compensated for by increased market prices.

Atlas Copco affects the environment in the production process through the use of natural resources and generation of emissions and waste. To limit the environmental risks in production, the Group has the goal that all manufacturing units shall be certified in accordance with the ISO 14001 standard.

Distribution risks

Atlas Copco primarily distributes products and services directly to the end customer, but also through distributors and rental companies. Physical distribution of products from the Group is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored in order to minimize interruptions and improve delivery efficiency.

The distribution of services depends on the efficiency of the aftermarket organization and the Group allocates significant resources for training of employees and development of this organization. The performance of distributors can have a negative effect on Atlas Copco's sales, but as all distributors are local/regional, the negative impact for the Group of poor performance of distributors is limited.

Risks with acquisitions and divestments

Atlas Copco has the ambition to grow all its business areas, primarily through organic growth, complemented by selected acquisitions. In order to ensure the success of acquisitions, the Group has established an Acquisitions Process Competence Group. It provides training in the Atlas Copco acquisition processes, which are based on the experience from a number of acquisitions. The competence group supports all business units prior to and during an acquisition, and initiates a follow-up after a year and a complete post-acquisition audit within 18 months. The integration of acquired businesses is a difficult process and it is not certain that every integration will be successful. Therefore, costs related to acquisitions can be higher and/or synergies can take longer to materialize than anticipated.

Annual impairment tests are made on acquired goodwill. If goodwill is not deemed justified in such impairment tests it can result in a write-down, which would affect the Atlas Copco Group's result.

Financial risks

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. In line with the overall objectives with respect to growth, operating margin, return on capital, and protecting creditors, Atlas Copco has adopted a policy to control the financial risks to which the Group is exposed. A financial risk management committee meets regularly to take decisions about how to manage financial risks.

The turbulence in the financial markets in 2008 and 2009 showed that it could become more expensive and difficult to obtain new funding for borrowers in general. Although Atlas Copco has already secured long-term loans and guaranteed long-term stand-by credit facilities, a renewed turbulence and deterioration of the functioning of the financial markets could lead to increased costs and difficulties to meet future funding needs.

Atlas Copco's net interest cost is affected by changes in market interest rates. Atlas Copco generally favors a short interest rate duration, which may result in more volatility in the net interest cost as compared to fixed rates (long duration). However, higher interest rates have historically tended to reflect a strong general economic environment in which the Group enjoys strong profits and thereby can absorb higher interest costs. The Group's earnings in periods of weaker economic conditions may not be as strong but general interest rates also tend to be lower and reduce the net interest expense.

Changes in exchange rates can adversely affect Group earnings when revenues from sales and costs for production and sourcing are denominated in different currencies (transaction risk). To limit this risk, the Group's operations are continuously monitoring and adjusting sales-price levels and cost structures. Group management complements these measures through financial hedging. An adverse effect on Group earnings can also occur when earnings of foreign subsidiaries are translated into SEK and on the value of the Group equity when the net assets of foreign subsidiaries are translated into SEK (translation risks). These risks are partially hedged by borrowings in foreign currency and financial derivatives.

Atlas Copco is exposed to the risk of non-payment by any of its extensive number of end customers to whom sales are made on credit. Over the past years Atlas Copco has built up an in-house customer finance operation, Atlas Copco Customer Finance, as a means of broadening the offering to customers. Stringent credit policies are applied, and in the case of Atlas Copco Customer Finance, the norm is to retain security in the equipment until full payment is received. No major concentration of credit risk exists in Atlas Copco and the provision for bad debt is deemed sufficient based upon known cases and general provisions for losses based on historical loss levels incurred. See note 27.

Risks to reputation

The Group's reputation is a valuable asset which can be affected in part through the operation or actions of the Group and in part through the actions of external stakeholders. The Atlas Copco Group avoids actions that could pose a risk to the Group's good reputation, and takes numerous measures to ensure its reputation is maintained.

To ensure good business practice in all markets, managers are repeatedly educated about Atlas Copco's Business Code of Practice and enhanced training programs for managers were introduced in 2010. From time to time, Atlas Copco encounters customers, for instance in the mining industry, who are exposed to problems concerning environmental and human rights issues. To manage such situations, the Group has developed a customer assessment checklist. The results can be used for evaluation of reputation and sustainability risks.

Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards. Supplier evaluations are regularly conducted in accordance with a checklist based on the United Nations Global Compact. Efforts may be made to assist suppliers who show a willingness to overcome a failure to meet Atlas Copco's expectations. However, if there is no demonstrated improvement, Atlas Copco will discontinue the business relationship.

Risk categories	Possible risks to Atlas Copco	Risk management
Market	Changes to customer investment levels, lack of funding for customers, competitor behavior	Monthly reports, diversified structure, leading market position
Product development	Lack of new products, legislation, increased energy costs	Continuous research and development
Production	Interruptions or lack of capacity at own facilities or at suppliers, quality, rising costs, pollution	Multi-purpose equipment, wide supplier network, environmental certifications
Distribution	Interruptions at delivery centers	Continuous monitoring of efficiency, training
Acquisitions and divestments	Integration problems, costs, goodwill impairments	Acquisitions Process Competence Group supports in all acquisitions
Financial	Currency and interest rate fluctuations, credit losses, difficulties to raise funding	Financial risk exposure policy, hedging, adjustments of prices and costs, long-term loans
Reputation	Ethical and other violations internally, at suppliers or customers	Education in Atlas Copco's Business Code of Practice, supplier and customer assessments
Corruption and fraud	Fraud by internal or external parties, corruption in some markets	Internal audit function, ethical helpline, employee training, legal function
Legal	Product and patent liability claims, commercial and financial agreements	Monthly, quarterly and yearly legal risk exposure reviews
Insurable	Physical damage to all insurable assets and interests	Customary insurance program, extensive risk management surveys
Financial reporting	Internal reports could fail to give fair view of true financial position and results	Internal audits and other control procedures, external audits
Safety and health	Accidents, illness, pandemics	Implementation of OHSAS 18001 standard for occupational safety and health. Awareness programs.
Environmental (covered in sections on production and product development)	Increased energy costs, pollution	Product development, environmental certifications

Risks of corruption and fraud

The Group is aware of the risk of being subject to fraud by external or internal parties and has internal control routines in place aimed at preventing and detecting deviations that may be the result of such activities, such as internal audits and an ethical helpline. The Internal Audit & Assurance function is established to ensure compliance with the Group's corporate governance, internal control and risk management policies, see further Internal Control section in the Corporate Governance Report.

It is clear that corruption and bribery exist in markets where Atlas Copco conducts business. In Transparency International's Corruption Perceptions Index for 2010, the vast majority of the 178 countries included scored below five on a scale from zero (perceived to be highly corrupt) to ten (perceived to have low levels of corruption). To avoid the risk of creating an unhealthy loyalty or breaking laws, employees must refrain from giving or receiving anything of more than a token value to or from any stakeholder. The Group has established training modules to increase awareness of such unacceptable behavior and thereby to help them avoid it. In 2010, approximately 3 000 employees signed a compliance certificate and committed themselves to act against corruption.

Legal risks

Responsibility for monitoring and steering the legal risk management within the Group rests with the legal function. In addition to a continuous follow-up of the legal risk exposure carried out within the operative and legal structures with focus on areas of special concern, an in depth review of all companies within the Group is performed yearly. With particular consideration to the trends within identified risk areas, the result is compiled, analyzed, and reported to both the Board and to the external auditor.

The conclusion for the business year 2010 was that the potential legal risk exposure to the Atlas Copco Group has been on the same level as in 2009, primarily reflecting the leveling out on a low level of the number of plaintiffs in respiratory cumulative trauma product liability cases in the United States. Considering the size of the business operations of the Group, the actual level of the overall risk exposure remains low.

Atlas Copco's business operations are affected by numerous commercial and financial agreements with customers, suppliers, and other counterparties, and by licenses, patents and other intangible property rights. This is normal for a business like Atlas Copco's and the company is not dependent upon any single agreement or intangible property right.

Insurable risks

Atlas Copco has a customary insurance program in place to protect all insurable assets and interests of the Group and its shareholders. Each company within the Group is responsible for managing and reporting its insurance-related matters in accordance with guidelines of the insurance program.

The Atlas Copco Group Insurance Program is provided by the Group in-house insurance companies Industria Insurance Company Ltd and Atlas Copco Reinsurance SA, which are retaining part of the risk exposure. In addition, reinsurance capacity is purchased from leading reinsurers in cooperation with international insurance brokers. The scope of insurable risks covered by the insurance program includes properties, various types of liabilities, goods in transit and financial lines.

In connection with the insurance program, loss prevention standards have been developed through a large number of risk management surveys. Focused on physical damage to the Group's facilities and the financial consequences thereof, these take place on a frequent basis. The findings of the surveys are summarized in a grading schedule, which gives management control over and an overview of the risk exposure throughout the different sites. By way of control and conformity in terms of level of risk management, the probability of events that can cause material damage and severely impact the business operation of the Atlas Copco Group is reduced. In addition, the in-house insurance function is providing guidance in contractual questions related to logistics, acquisitions and structural changes, and product and general liability. This in-house know-how contributes to reducing the exposure to insurable risks.

Financial reporting risks

Atlas Copco subsidiaries report their financial statements regularly in accordance with internal reporting rules and International Financial Reporting Standards (IFRS). The Group's consolidated financial statements, based on those reports, are prepared in accordance with IFRS and applicable parts of the Annual Accounts Act as stated in RFR 1 "Supplementary Rules for Groups". The risk related to the communication of financial information to the capital market is that the reports do not give a fair view of the Group's true financial position and results of operations. In order to minimize this risk, the Group has several internal procedures in place to ensure compliance with Group instructions, standards, laws and regulations. For further information, see the Internal Control section in the Corporate Governance Report.

Safety and health risks

The Group assesses and manages safety and health risks regularly with the aim of preventing and reducing work-related accidents and sickness rates, and creating a working environment that promotes the well-being of employees. Safety and health were focus areas in 2010 for all Atlas Copco companies. Training programs to increase awareness have been conducted and the Group will implement OHSAS 18001 in all major units.

Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees. Workplace programs to reduce the impact of pandemic HIV/AIDS are in place in southern Africa, where employees receive testing, awareness training, and consultation and treatment if necessary. Regarding the pandemic influenza (H1N1), all Atlas Copco companies followed medical directives and instructions to reduce the risk of personnel being infected.

Parent Company

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

Earnings

Profit after financial items totaled MSEK 6 767 (10 656). Previous year includes MSEK 2 500 profit from sale of Group companies. See note A4. Profit for the year after appropriations and taxes amounted to MSEK 5 988 (10 562).

Financing

The total assets of the Parent Company were MSEK 108 791 (108 537). At year end 2010, cash and cash equivalents amounted to MSEK 10 813 (9 264) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 59 696 (65 953), whereof the main part is Group internal loans. Equity represented 43% (38) of total assets and the undistributed earnings totaled MSEK 41 122 (35 483).

Personnel

The average number of employees in the Parent Company was 101 (96).

Fees and other remuneration paid to the Board of Directors, the President, and other members of Group Management, as well as other statistics and the guidelines regarding remuneration and benefits to the management of the Group as approved by the Annual General Meeting 2010 are specified in note 5.

The Board proposes to the Annual General Meeting 2011 that the guidelines shall be applied for another year.

Risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage financial risks. See also Risk Factors and Risk Management on pages 19–22.

Shares and share capital

At year end, Atlas Copco's share capital totaled MSEK 786 (786) and a total number of 1 229 613 104 shares divided into 839 394 096 class A shares and 390 219 008 class B shares were issued. Net of shares held by Atlas Copco, 1 218 376 231 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Investor AB is the single largest shareholder in Atlas Copco AB. At year end 2010 Investor held a total of 205 471 326 shares, representing 22.3% of the votes and 16.7% of the capital.

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

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

Share Repurchases

During 2010, 1 750 160 series A shares, net, and 716 367 series B shares were divested for MSEK 384. All transactions were in accordance with Annual General Meeting resolutions; all related to commitments and obligations under the performance stock option plans. No shares were repurchased or divested in 2009.

As per December 31, 2010, Atlas Copco held 9 524 840 series A shares and 1 712 033 series B shares, corresponding to 0.9% of both the share capital and the total number of shares. The series A shares are held to fulfil the obligation to provide shares under the performance stock option plans, and the series B shares are held for the purpose of being divested over time to cover costs related to the performance stock option plans. See note 20 and A13.

Appropriation of Profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 4.00 (3.00) per share, equal to MSEK 4 874 (3 646), be paid for the 2010 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described on page 97.

Mandatory Redemption of Shares

Atlas Copco has generated significant cash flows both during the financial crisis as well as during the fast growth of 2010. Consequently the financial position of the Group is strong.

In order to adjust the Group's balance sheet to a more efficient structure without jeopardizing the capacity to finance further growth, the Board of Directors proposes to the Annual General Meeting a share redemption procedure, whereby every share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 5.00 per share. This corresponds to a total of MSEK 6 092. The split and redemption are subject to approval at the Annual General Meeting 2011.

Personnel Stock Option Program

The Board of Directors will propose to the Annual General Meeting 2011 a performance-based long-term incentive program. For Group Executive Management, participation in the plan requires own investment in Atlas Copco shares.

It is proposed that the plan is covered as before through the repurchase of the company's own shares.

Compressor Technique

Demand for compressed air equipment and services increased in 2010. Many new products were introduced and complementary businesses were acquired to extend the offering and improve market presence. Profitability reached a record level, supported by higher revenue volume in combination with efficiency measures taken during the previous year.

- 21% organic order growth
- Record operating profit
- Strategic acquisitions

Significant events and structural changes

In December 2009, an agreement was reached to acquire Quincy Compressor, based in the United States. The main part of the acquisition was completed in March, and the acquisition of the company's Chinese operations was finalized in August. Quincy Compressor designs and manufactures reciprocating compressors, rotary screw compressors and vacuum pumps, which are sold through a network of independent distributors under the Quincy brand. The plan is to further develop the Quincy brand independently, in line with the Group's well established brand portfolio strategy.

Other structural changes in the United States include the acquisition of two compressor distributors and the opening of a new distribution center. The new distribution facility substantially improves the customer service in the North American market.

In October, Cirmac International B.V. was acquired. The company is based in the Netherlands and specializes in biogas upgrading systems for the renewable energy industry and in gas treatment systems for the oil, gas and chemical industries. This acquisition extends Atlas Copco's offering of sustainable solutions.

In January 2011, an agreement was signed to acquire the pump business from J.C. Carter LLC, based in the United States. J.C. Carter is a leading producer of cryogenic submerged motor pumps, which have many applications in the growing natural gas market. The deal is expected to be closed in the first quarter 2011.

The footprint in the Middle East improved with the inauguration of a customer center in Dubai, United Arab Emirates, in October. In addition to products and services offered by the Compressor Technique business area, the customer center also offers construction and mining equipment.

In November, a new production facility was inaugurated in China. The facility enables assembly and packaging of the entire range of turbo compressors and expansion turbines.

Business development

Demand for compressed air equipment from the manufacturing and process industries improved notably during the year and sales of both large stationary industrial compressors and small to medium-sized compressors were significantly above the low level of 2009. The strongest development for industrial compressors was recorded in North and South America and Asia. Demand for energy-efficient solutions continued to be strong. Sales of air treatment equipment, such as compressed air dryers, coolers and filters, grew in all regions, reflecting a continued focus on compressed air quality.

Orders received of gas and process compressors and expanders increased. A good development was seen in North America, Asia and Australia, while other regions noted a flat or slightly negative development.

Demand for portable compressors from the construction industry and rental companies increased significantly. An important contributor was the improved demand from rental companies after a period of low investments. The strongest development was seen in North and South America and Europe.

The specialty rental business, primarily rental of oil-free and high-pressure equipment, improved in many emerging markets, but was largely unchanged overall.

The aftermarket business – sales of service and spare parts – showed solid double-digit growth. Significant growth was recorded in Asia, Eastern Europe and South America, and increased activity in North America and Western Europe also contributed.

Revenues totaled MSEK 34 602 (32 524), up 7% in volume. Operating profit increased to a record MSEK 8 127 (5 752), corresponding to a margin of 23.5% (17.7). Previous year included restructuring costs of MSEK 234 and the adjusted operating margin was 18.4%. The operating margin was positively affected by higher volumes, a favorable sales mix, price increases, efficiency improvements, product cost reductions as well as favorable exchange rates. The return on capital employed was 69% (45).

Sustainable product development

The business area continuously develops equipment, aftermarket products and services to help improve customers' productivity in their compressed air and gas applications. In the product development process, a lot of attention is given to improving the reliability, air quality and energy efficiency of the new products, since these are important features for customers. Lower production costs and environmental impact are other important aspects and all components used are evaluated from a safety, environmental, quality, design and cost-efficiency perspective. In the product development process, the business area constantly works with adapting to different countries' legislation, which is often related to environmental and/or safety aspects.

Several new product launches were made in 2010. The low-pressure product offering was extended with a range of energy-efficient oil-free screw blowers as well as a range of centrifugal compressors, primarily for waste water treatment applications. The range of small oil-injected screw compressors with variable speed drive was redesigned with a new compression element and a new electronic control unit. The new range offers significant energy savings and lower noise than previous versions. New models of large oil-injected screw compressors were also introduced and the medical air vacuum system offering was enhanced with improved systems for control and remote monitoring.

A range of energy recovery kits for small to medium-sized

Key figures

	2010	2009
Orders received	35 420	29 680
Revenues	34 602	32 524
Operating profit	8 127	5 752
Operating margin, %	23.5	17.7
Items affecting comparability	–	–234
Adjusted operating profit	8 127	5 986
Adjusted operating margin, %	23.5	18.4
Return on capital employed, %	69	45
Investments	506	659
Average number of employees	14 338	14 277

Sales bridge

	Orders received	Revenues
2008	36 511	35 587
Structural change, %	0	0
Currency, %	+7	+8
Price, %	+1	+1
Volume, %	–27	–18
Total, %	–19	–9
2009	29 680	32 524
Structural change, %	+3	+3
Currency, %	–5	–5
Price, %	+1	+1
Volume, %	+20	+7
Total, %	+19	+6
2010	35 420	34 602

oil-injected screw compressors was introduced. The kits can be retrofitted and can recover up to 94 percent of the waste heat generated by the compressor.

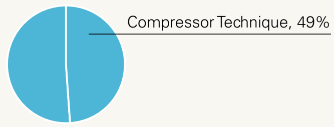
The range of quality air products was extended with a number of different dryers. A high-capacity filter was another quality air product introduced.

A range of integrated refrigerant dryers for small oil-injected compressors and a range of oil-injected screw compressors are examples of products developed specifically for the Asian market.

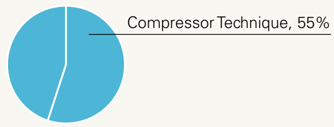
The portable compressor range was enhanced with a containerized portable compressor for the oil and gas industry. A one-tool portable compressor was launched. It is very compact and agile and meets the latest regulations on emissions. A range of basic portable generators was also brought to market.

Blower with screw technology, for low pressure air. Screw technology is on average 30 percent more energy-efficient compared to lobe technology.

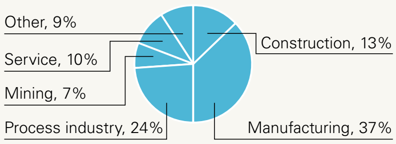
Share of Group revenues



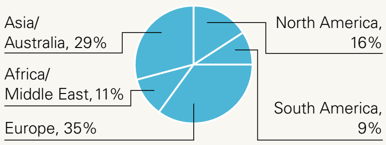
Share of Group operating profit



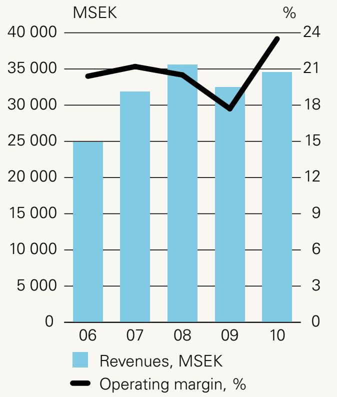
Orders received by customer category



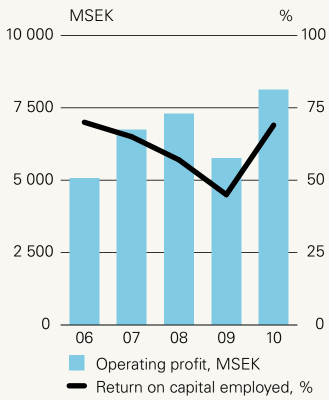
Revenues by geographic area



Revenues and operating margin



Earnings and return



The Compressor Technique business area consists of seven divisions in the following product areas: industrial compressors, compressed air treatment products, portable compressors, generators, gas and process compressors, service, and specialty rental.

Business area management

On February 2, 2011
Business Area President: Stephan Kuhn

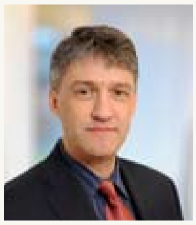
Compressor Technique's divisions are:

- Oil-free Air, President Chris Lybaert
- Industrial Air, President Ray Löfgren
- Specialty Rental, President Horst Wasel
- Portable Air, President Geert Follens
- Gas and Process, President Peter Wagner
- Airtec, President Paul Frigne
- Compressor Technique Service, President Nico Delvaux

Stephan Kuhn

Chris Lybaert

Ray Löfgren



Horst Wasel

Geert Follens

Peter Wagner

Paul Frigne

Nico Delvaux

The operations

The Compressor Technique business area develops, manufactures, markets and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electric power generators, air treatment and gas purification equipment and air management systems. It also offers specialty rental services. It innovates for superior productivity in applications such as manufacturing, construction and the process industry worldwide. Principal product development and main manufacturing units are in Belgium, with other units situated in Brazil, China, France, Germany, Great Britain, India, Italy, the Netherlands, New Zealand and the United States.

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of compressed air solutions, by being interactive, committed and innovative, and offering customers the best value. The strategy is to further develop Atlas Copco's leading position in the field of compressed air and gas and grow the business profitably by capitalizing on its strong market presence worldwide, improving market penetration in mature and developing markets, and continuously developing improved products and solutions to satisfy demands from customers. The local presence is further enhanced by establishing the multiple brand concept in more markets. The strategy encompasses giving a continuous focus to the aftermarket business as well as developing businesses within focused areas such as air treatment equipment, and compressor solutions for trains, ships, and hospitals. The ambition is to continue to grow the aftermarket business, to further strengthen the position in the specialty rental business and to develop new businesses – such as low-pressure blowers, high-pressure natural gas and air compressors, and nitrogen compressors. Growth should primarily be organic, supported by selective acquisitions.

Strategic activities

- Increase market coverage and establish presence in new markets
- Invest in employees and competence development
- Develop new sustainable products and solutions offering better value to customers
- Extend the product offering, including new compressors, air treatment equipment and services
- Extend the offering, development, and marketing of aftermarket products and services
- Focus through a specialist service organization, providing uniform service in all markets
- Increase operational efficiency

The market

The global market for compressed air equipment and related aftermarket products and services is characterized by a diversified customer base. The products are used in a wide spectrum of applications in which compressed air is either used as a source of power, mainly in the manufacturing and construction industries, or as an integrated part of the industrial processes – active air. An important customer segment is assembly operations, where compressed air is used to power assembly tools. In industrial processes, clean, dry and oil-free air is needed for applications where the compressed air comes into direct contact with the end product, such as in the food, pharmaceutical, electronics, and textile industries. Apart from the process and manufacturing industries, industrial compressors are used in applications as diversified as snow making, fish farming, on high-speed trains, and in hospitals. Diesel-driven portable compressors and generators are reliable power sources for machines and tools in the construction sector as well as in numerous industrial applications. Gas and process compressors and expanders are supplied to various process industries, such as air separation plants, power utilities, chemical and petrochemical plants, and liquefied natural gas applications. The most important customer segments are the manufacturing and process industries, which together represent close to two thirds of revenues. The construction industry is also an important segment, primarily for portable compressors and generators. Customers are also found among utility companies and in the service sector.

Stationary industrial air compressors and associated air-treatment products and aftermarket activities represent about 70% of sales. Large gas and process compressors represent approximately 10% and the balance is portable compressors, generators and specialty rental, some 20% of sales.

In 2010, the aftermarket business represented 33% (32) of total revenues.

Market trends

- Energy efficiency and energy recovery – focus on the life-cycle cost of compressed air equipment
- Increased environmental awareness – energy savings and reduction of CO^2 emissions
- Workplace compressors with low noise levels
- Quality Air – air treatment equipment
- Outsourcing of maintenance and monitoring of compressed air installations
- Energy auditing of installations
- New applications for compressed air
- Specialty rental

Demand drivers

- Investments in machinery
- Industrial production
- Construction activity
- Energy costs

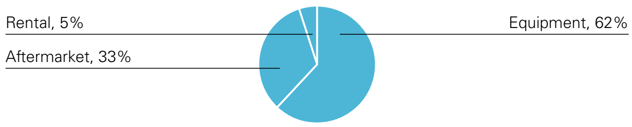
Market position

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

Competition

Compressor Technique's largest competitor in the market for compressors and air treatment is Ingersoll-Rand. Other competitors are Kaeser, Hitachi, Gardner-Denver, Cameron, Sullair, Parker Hannifin, Doosan Infracore, and regional and local competitors, such as Fusheng and Kaishan in China. In the market for gas and process compressors and expanders, the main competitors are Siemens and MAN Turbo.

Share of revenues



PRODUCTS AND APPLICATIONS

Atlas Copco offers all major air compression technologies and is able to offer customers the best solution for every application.

Stationary industrial compressors are available with engine sizes ranging from 1.5–15 000 kW.

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

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

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

Reliable and energy efficient compressed air dryer

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

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

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

Air treatment and gas purification equipment
Dryers, coolers, gas purifiers and filters are supplied to produce the right quality of compressed air or gas.

Containerized portable compressor for the oil and gas industry that is certified for hazardous area operations

Portable compressors provide compressed air for applications where flexibility on the location is needed. They are available with engines ranging from 18–429 kW.

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

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

Portable oil-free screw compressors
Portable oil-free screw compressors are used to meet a temporary need for oil-free air, primarily in industrial applications. The equipment is rented out through the Specialty Rental division.

Portable generators provide temporary electricity

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

Lighting towers
Lighting towers provide light at night for safe construction operations.

Construction and Mining Technique

Demand recovered strongly in 2010 with significant growth in orders received for mining and construction equipment, parts and service. A distribution center was established in China and three new customer centers were opened, in line with the strategy to give special attention to growth markets.

- 39% organic order growth
- Very strong demand from the mining sector and good growth also for construction equipment
- Record operating margin, supported by volume, efficiency and mix

Significant events and structural changes

The business area made two acquisitions during the year. Hartl Anlagenbau, an Austrian company manufacturing and selling mobile crushers and screeners was acquired in August. The acquisition is a step into a new product category, increasing Atlas Copco's scope of supply to construction customers. H&F Drilling Supplies in Great Britain was acquired in September. The company specializes in drilling products for casing and piling applications and manufactures drilling systems, and was previously also a distributor for Atlas Copco.

In August, the decision to consolidate the production of planers and small pavers was announced. The plan included the closure of a factory in Lingen, Germany and expansions of the factories in Wardenburg, Germany and Karlskrona, Sweden. The Lingen factory was closed at the end of 2010.

In January 2011, Atlas Copco initiated negotiations with unions regarding a plan to relocate production of light compaction equipment from Ljungby, Sweden to Rousse, Bulgaria. The plan is to extend the factory in order to house the new production line and to outsource current machining to sub-suppliers.

In December, Atlas Copco decided to invest approximately MSEK 450 to expand production capacity of rock drilling tools in Fagersta, Sweden to meet the demand from the mining and construction industries. The investment in modern machine technology will increase the capacity and create around 70 new job opportunities locally over the coming two to three years.

The global footprint was extended further with the opening of customer centers in Mali, the Democratic Republic of the Congo (DRC) and Panama, all offering both mining and construction equipment. In addition, the customer centers in Panama and the DRC will also market compressed air equipment.

The business area management relocated from Stockholm, Sweden to Shanghai, China in August, in order to be closer to the increasingly important Asian market. Also, to further strengthen customer support in the region, a new distribution center for parts and consumables was established and it was decided in February 2011 to build a new research and development center in Nanjing, China.

Business development

In line with the recovery of metal prices and increased confidence and activity in the mining industry, demand from mining companies and contractors increased significantly compared to 2009. The order intake for drilling equipment for underground and open pit mines as well as for exploration equipment increased worldwide. Strong growth was recorded in all regions and orders received reached historic highs in Australia and South America. One of the largest orders ever for the business area was won in Kazakhstan in September. The equipment, underground drill rigs, loaders and trucks, is to be used in three different mines in the country.

The demand from the construction industry also improved notably compared to the previous year, even if growth rates were slightly lower than for mining equipment. Order volumes of crawler rigs for surface applications, such as quarries and road construction, as well as for underground drilling rigs for infrastructure projects, such as tunneling and hydropower, increased in all regions. Sales of light construction equipment, such as breakers and crushers, as well as sales of road construction equipment also had a strong development in most regions. Geographically, the strongest development for construction equipment was seen in South America and Asia, including China and India where large orders for road construction equipment and rock drilling equipment, respectively, were won.

The aftermarket business for both mining and construction developed very favorably and recorded strong growth in all regions, with a particularly good development in South America. Also sales of consumables showed good growth in all regions, in line with the higher activity levels within both the mining and construction segment.

Revenues increased to MSEK 29 156 (25 909), up 13% in volume. Operating profit increased to MSEK 5 243 (3 470), corresponding to a record margin of 18.0% (13.4). The operating profit includes MSEK 100 (143) in restructuring costs and the adjusted operating margin was 18.3% (13.9). The margin was supported by the effects of higher production volumes, a favorable sales mix, efficiency improvements and price increases. Return on capital employed was 27% (17).

Sustainable product development

A number of new and improved machines and aftermarket products were launched in 2010, all with the aim of increasing customers' productivity and efficiency, while at the same time reducing environmental impact and increasing safety.

For mining customers, two new mine trucks were introduced, as well as a remote monitoring system for underground equipment.

Products developed for both mining and construction customers include a face drilling rig for narrow tunnels and mining and a surface drill rig for quarrying and mining. Also the range of consumables was extended with many new drill bits for applications such as exploration, blast hole drilling and piling. A system for percussion assisted rotary drilling, which drills up to 50% faster than conventional rotary drilling, giving straight holes and smooth walls, was also introduced. The offer of reliable standard machines was extended with a number of products, all designed and manufactured in Asia.

A direct-controlled drilling rig for large tunnels in civil

Key figures

	2010	2009
Orders received	33 436	23 500
Revenues	29 156	25 909
Operating profit	5 243	3 470
Operating margin, %	18.0	13.4
Items affecting comparability	–100	–143
Adjusted operating profit	5 343	3 613
Adjusted operating margin, %	18.3	13.9
Return on capital employed, %	27	17
Investments	1 029	854
Average number of employees	12 733	12 564

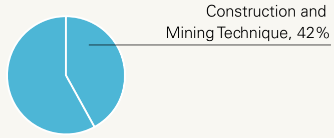
Sales bridge

	Orders received	Revenues
2008	30 129	31 660
Cancellations, %	+2	–
Structural change, %	0	0
Currency, %	+6	+7
Price, %	+1	+2
Volume, %	–31	–27
Total, %	–22	–18
2009	23 500	25 909
Cancellations, %	+4	–
Structural change, %	+1	+1
Currency, %	–2	–2
Price, %	+1	+1
Volume, %	+38	+13
Total, %	+42	+13
2010	33 436	29 156

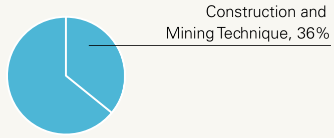
engineering projects was launched. Improvements compared with previous versions include reduced noise and more ergonomic control panels for the operator. Three heavy-duty rock drills for tunneling applications were also brought to market. A number of road development machines were introduced, including two planers, completing the range of compact planers. New hydraulic breakers were launched, both rig-mounted and handheld. The four models of handheld hydraulic breakers have reduced vibration levels compared with predecessors. Many new hydraulic attachments such as cutters and crushers were also introduced to the construction market. One of them is a box-shaped jaw cutter providing defined sizes of demolished material, ideal for the crushing.

New range of asphalt pavers with increased capacity and 15% reduced fuel consumption

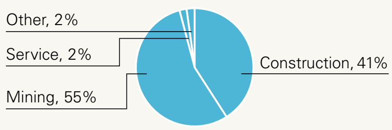
Share of Group revenues



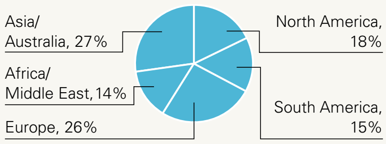
Share of Group operating profit



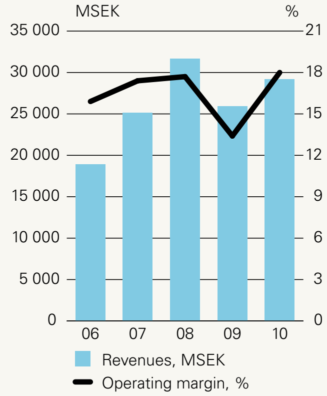
Orders received by customer category



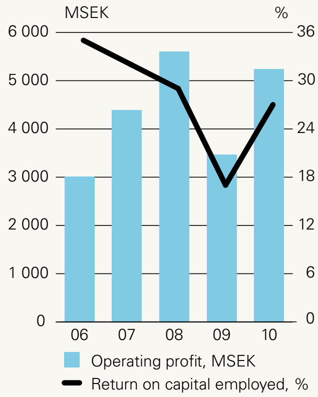
Revenues by geographic area



Revenues and operating margin



Earnings and return

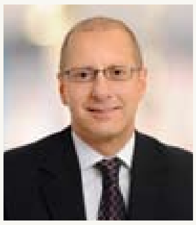


The Construction and Mining Technique business area consists of eight divisions in the following product areas: drilling rigs, rock drilling tools, mobile crushers, loading equipment, exploration equipment, construction tools, and road construction equipment.


Björn Rosengren


David Shellhammer


Andreas Malmberg


Robert Fassl

Business area management

On February 2, 2011
Business Area President:
Björn Rosengren

Björn Rosengren will as of September 1, 2011 leave Atlas Copco for a position as President and CEO of Wärtsilä Corporation, Finland.


Claes Ahrengart


Johan Halling


Henk Brouwer


Peter Salditt


Kobus Malan

Construction and Mining Technique's divisions are:

- Underground Rock Excavation, President David Shellhammer
- Surface Drilling Equipment, President Andreas Malmberg
- Drilling Solutions, President Robert Fassl
- Road Construction Equipment, President Claes Ahrengart
- Secoroc, President Johan Halling
- Construction Tools, President Henk Brouwer
- Geotechnical Drilling and Exploration, President Peter Salditt
- Rocktec, President Kobus Malan

The operations

The Construction and Mining Technique business area develops, manufactures, markets and services drilling rigs, rock drilling tools, mobile crushers, loading equipment, exploration equipment, construction tools and road construction equipment. It innovates for superior productivity in surface and underground rock excavation, exploration drilling, rock reinforcement, ground engineering, water well, oil and gas drilling, and compaction and paving equipment worldwide. The business area has its principal product development and main manufacturing units in Sweden and the United States, with other units in Australia, Austria, Brazil, Bulgaria, Canada, China, Finland, France, Germany, India, Japan, and South Africa.

Vision and strategy

The vision is to be First in Mind—First in Choice® as supplier of equipment and aftermarket services for rock excavation, road development, and demolition applications to the mining and construction industries.

The strategy is to grow by maintaining and reinforcing its leading market position as a global supplier for the mining and construction industries; by developing its positions in drilling and loading equipment, exploration drilling, light construction, and road construction equipment; and by increasing revenues by offering more aftermarket products and services to customers.

Strategic activities

- Increase market coverage
- Invest in people and competence development
- Invest in design, development and production capacity in growth markets such as China and India to meet local demand
- Develop new sustainable products and solutions offering enhanced productivity and safety, while reducing environmental impact
- Extend the product offering based on modular design and computerized control systems
- Develop the global service concept/competence and extend the offering of aftermarket products
- Provide increased support to key customers, take more responsibility for service and aftermarket, and offer global contracts
- Acquire complementary businesses
- Increase operational efficiency

The market

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

The mining sector is a key customer segment that represents more than half of annual business area revenues. The applications include production and development work for both underground and open pit mines as well as mineral exploration. These customers demand rock drilling equipment, rock drilling tools, loading and haulage equipment, and exploration drilling equipment.

The other key customer segment is construction, accounting for slightly less than half of annual revenues. General and civil engineering contractors, often involved in infrastructure projects like road building, tunneling or dam construction, demand rock drilling equipment, rock tools, mobile crushers, compaction and paving equipment. Special trade contractors and rental companies are important customers for light construction tools such as breakers, cutters, drills and handheld compaction equipment.

Mining companies and contractors are vital customer groups for aftermarket products such as maintenance contracts, service and parts, as well as consumables and rental. The aftermarket business, sales of consumables, and rental of equipment represented 53% (51) of revenues in 2010.

Market trends
- More productive equipment
- More intelligent products and remote control
- Increased focus on environment and safety
- Customer and supplier consolidation
- Supplier integration forward – aftermarket performance contracts

Demand drivers

Mining
- Machine investments
- Ore production

Construction
- Infrastructure and public investments
- Non-building construction activity

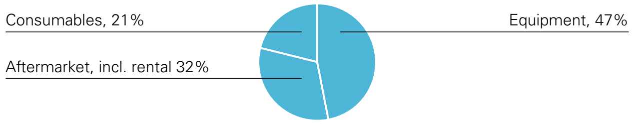
Market position

The Construction and Mining Technique business area has a leading market position globally in most of its operations.

Competition

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

Share of revenues



PRODUCTS AND APPLICATIONS

Atlas Copco offers a range of products and services that enhance its customers' productivity.

Underground rock drilling equipment

Underground drill rigs are used to drill blast holes in hard rock to excavate ore in mines or to excavate rock for road, railway or hydropower tunnels, or underground storage facilities. Holes are also drilled for rock reinforcement with rock bolts. The business area offers drill rigs with hydraulic and pneumatic rock drills. Raise boring machines are used to drill large diameter holes, 0.6–6.0 meters, which can be used for ventilation, ore and personnel transportation.

Underground loading and haulage equipment

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

Surface drilling equipment

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

Rock drilling tools

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

Exploration drilling and ground engineering equipment

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

Construction and demolition tools

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

Mobile crushers and screeners

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

Compaction and paving equipment

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

Drilling equipment increases drilling speed by up to 50%

Truck for reliable and high-speed underground haulage

Drill rig for large tunnels

Industrial Technique

Demand for industrial tools and assembly systems increased significantly compared to the low level of the previous year. The business area strengthened its position in important areas, introduced many new products and won a prestigious design award.

- 32% organic order growth
- Strong recovery of operating profit and margin
- Acquisition of distributors in the United States

Significant events and structural changes

In May, Atlas Copco acquired the sales and marketing operations of its distributor in the southern United States, Tooling Technologies Inc. The sales are in Texas and surrounding states, and northern Mexico and the customers are in the motor vehicle industries and general industries, as well as segments such as petrochemical/oilfield, power generation, government, electronics and aerospace. In September, a similar transaction took place with the acquisition of the sales and marketing operation of Kramer Air Tools Inc., a distributor in Michigan, United States. Both deals further strengthen Atlas Copco's presence, market coverage and support to customers in the important North American market.

Restructuring activities initiated during 2009 continued to some extent in the early part of the year. The aim of the activities is to improve manufacturing and logistics efficiency.

Business development

The capacity utilization and activity level in most of the business area's important customer segments improved significantly. Consequently, demand recovered rapidly and strong growth was recorded in all major regions.

Sales of industrial tools to the general manufacturing industry, such as electrical appliances, aerospace and shipyards, increased during the year and recorded solid growth compared to the previous year in all regions. The best development was seen in North America and Asia.

Demand from the motor vehicle industry for advanced industrial tools and assembly systems was also much stronger in 2010 compared with 2009 as vehicle manufacturers started to invest in new equipment, both for existing and new assembly lines. Strong growth was recorded in North America and Asia. Sales in Asia reached a historic high level, primarily because of good demand in China and South Korea, while Japan remained in line with the previous year.

The vehicle service business, providing large fleet operators and specialized repair shops with tools, increased sales from the previous year's low levels in all major regions.

The aftermarket business also grew solidly. The best development was recorded in North and South America and Asia.

Revenues totaled MSEK 6 472 (5 392), up 26% in volume. Operating profit increased sharply with 399% to MSEK 1 262 (253), corresponding to an operating profit margin of 19.5% (4.7). Previous year's operating profit included MSEK 187 in restructuring costs and the adjusted operating margin was 8.2%. The large increase in operating profit and margin was primarily caused by the significantly higher volumes in combination with efficiency improvements and reduced operating costs. Return on capital employed was 50% (9).

Sustainable product development

The Industrial Technique product development process focuses on offering customers increased quality and productivity as well as improved ergonomics. The business area introduces customers to tools that are often faster and more powerful than their predecessors, offering the same or improved accuracy and reliability and lower noise and vibration levels. Environmental aspects are also considered, resulting in increasingly energy efficient tools, for example. New products and services are continuously introduced to the market and 2010 was a year of many product launches.

A range of battery tools was launched to fit with specific requirements from customers in the automotive industry. Another product introduction primarily targeting this customer segment was a range of medium torque electric screwdrivers with improved ergonomic features, low weight and high performance. The range is a platform for future development. A tightening tool for high torque assembly lines was introduced. The tool is powerful, compact, light and it gives instant operator feedback on the result of each tightening and collects tightening data for process improvement and traceability. A new range of cost-effective controllers for electric assembly tools were launched. Several new models of grinding machines and a range of pneumatic screwdrivers for different industrial applications were introduced to the market. An advanced pneumatic drill that has been developed in close cooperation with the aerospace industry was presented at the end of the year. The drill is ergonomically designed and also has a modular design, making the tool more flexible and the maintenance easier.

A system for tool location was introduced. It can be compared to a small-scale GPS for the cordless tools on an assembly line and makes sure tightenings are being performed in the right station and on the right product. Virtual workstations are created in the system with specific tools linked to them and only the correct tool will work in a specific workstation.

At the end of November, the prestigious iF design award was won by one of the advanced electric tools offered by the business area. The tool is a powerful pistol grip nutrunner with ergonomic features. It is equipped with a new motor with improved cooling, which gives a tool that is up to 45% faster than its predecessors and 30% lighter. A built-in torque transducer allows high tightening accuracy and makes it possible to record and store all tightening data.

Key figures

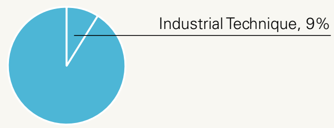
	2010	2009
Orders received	6 730	5 367
Revenues	6 472	5 392
Operating profit	1 262	253
Operating margin, %	19.5	4.7
Items affecting comparability	–	–187
Adjusted operating profit	1 262	440
Adjusted operating margin, %	19.5	8.2
Return on capital employed, %	50	9
Investments	60	94
Average number of employees	3 024	3 182

Sales bridge

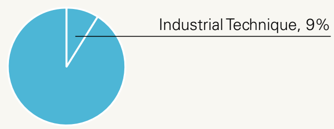
	Orders received	Revenues
2008	**7 407**	**7 450**
Structural change, %	0	0
Currency, %	+7	+7
Price, %	0	0
Volume, %	–35	–35
Total, %	**–28**	**–28**
2009	**5 367**	**5 392**
Structural change, %	+1	+1
Currency, %	–8	–8
Price, %	+1	+1
Volume, %	+31	+26
Total, %	**+25**	**+20**
2010	**6 730**	**6 472**

Pneumatic screwdriver

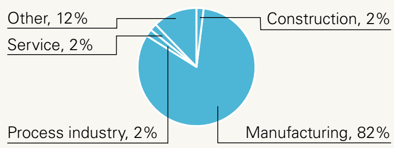
Share of Group revenues



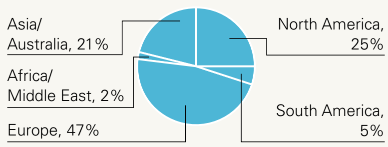
Share of Group operating profit



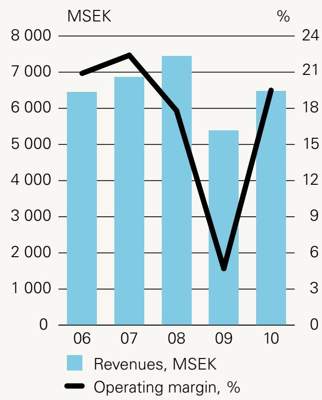
Orders received by customer category



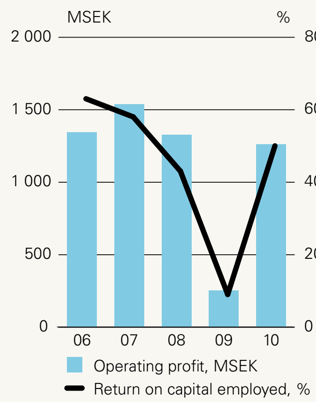
Revenues by geographic area



Revenues and operating margin



Earnings and return



The Industrial Technique business area consists of four divisions in the product areas industrial power tools and assembly systems

Business area management

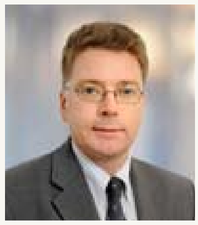
On February 2, 2011
Business Area President: Mats Rahmström

Industrial Technique's divisions are:

- Atlas Copco Tools and Assembly Systems Motor Vehicle Industry, President Anders Lindquist
- Atlas Copco Tools and Assembly Systems General Industry, President Tobias Hahn
- Chicago Pneumatic Tools, President Norbert Paprocki
- Tooltec, President Roger Sandström


Mats Rahmström


Anders Lindquist


Tobias Hahn


Norbert Paprocki


Roger Sandström

The operations

The Industrial Technique business area develops, manufactures and markets industrial power tools, assembly systems, aftermarket products, software and service. It innovates for sustainable productivity for applications in the automotive and aerospace industry, general industrial manufacturing and maintenance, and vehicle service worldwide. Principal product development and main manufacturing units are in Sweden and France, with other units in China, Hungary and Japan. There are also assembly system application centers in several markets.

The brands used for industrial power tools and assembly systems are Atlas Copco, Chicago Pneumatic, Desoutter, Fuji and Rodcraft.

Vision and strategy

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

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

Strategic activities

- Increase market coverage and invest in people in sales, service and support
- Improve presence in targeted markets
- Develop new sustainable products and solutions, offering better value to customers and reducing environmental impact
- Extend product offering

The market

The global market for industrial power tools in the product categories offered by Atlas Copco is estimated to be above BSEK 20.

The motor vehicle industry, including sub-suppliers, is a key customer segment, representing slightly less than half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production.

In general industry, industrial tools are used in a number of applications. Customers are found in light assembly, general engineering, shipyards, foundries and among machine tool builders. The equipment supplied includes assembly tools, drills, percussive tools, grinders, hoists and trolleys and accessories. Air motors are also supplied separately for different applications in production facilities.

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

There is a growing demand for aftermarket products and services, e.g. maintenance contracts and calibration services, that improve customers' productivity. The aftermarket business represented 26% (26) of total revenues in 2010.

Market trends

- More advanced tools and systems and increased importance of know-how and training, driven by higher requirements for quality and productivity
- More power tools with electric motors, partly replacing pneumatic tools
- Both general industrial and motor vehicle manufacturing moving east
- Increasing customer focus on productivity, ergonomics and environment

Demand drivers

- Assembly line investments
- Replacement and service of tools and systems
- Changes in manufacturing methods, e.g. a change from pneumatic to electric tools
- Industrial production

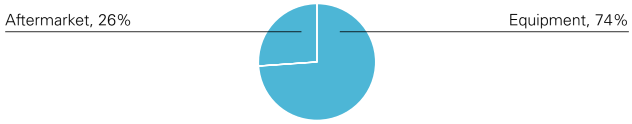
Market position

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

Competition

Industrial Technique's competitors in the industrial tools business include Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors.

Share of revenues



CUSTOMER GROUPS, PRODUCTS AND APPLICATIONS

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

Motor vehicle industry

The motor vehicle industry primarily demands advanced assembly tools and assembly systems and is offered a broad range of electric assembly tools, control systems and associated software packages for safety-critical tightening. Specialized application centers around the world configure suitable assembly systems. The systems make it possible to view, collect and record the assembly data. The motor vehicle industry, like any industrial manufacturing operation, also demands basic industrial power tools.

Vehicle service

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

General industrial manufacturing

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

Ergonomically designed pneumatic drill

Torque analyzer

System for impulse nutrunner with improved accuracy and monitoring

Consolidated Income Statement

For the year ended December 31, Amounts in MSEK	Note	2010	2009
Revenues	4	69 875	63 762
Cost of sales	7	–43 468	–42 631
Gross profit		**26 407**	**21 131**
Marketing expenses		–6 914	–6 806
Administrative expenses		–4 173	–3 845
Research and development expenses		–1 517	–1 410
Other operating income	8	192	260
Other operating expenses	8	–93	–240
Share of profit in associated companies	14	13	–
Operating profit	4, 5, 6, 7	**13 915**	**9 090**
Financial income	9	423	1 352
Financial expense	9	–843	–2 171
Net financial items		**–420**	**–819**
Profit before tax		**13 495**	**8 271**
Income tax expense	10	–3 551	–1 995
Profit for the year		**9 944**	**6 276**
Profit attributable to:			
– owners of the parent		9 921	6 244
– non-controlling interests		23	32
Basic earnings per share, SEK	11	8.16	5.14
Diluted earnings per share, SEK	11	8.15	5.13

Consolidated Statement of Comprehensive Income

For the year ended December 31, Amounts in MSEK	Note	2010	2009
Profit for the year		**9 944**	**6 276**
Other comprehensive income			
Translation differences on foreign operations		–3 419	–1 098
Hedge of net investments in foreign operations		2 032	951
Cash flow hedges		–49	410
Available-for-sale investments		217	–128
– realized and reclassified to income statement		–82	–
Income tax relating to components of other comprehensive income	10	–1 650	–845
Income tax relating to components of other comprehensive income, reclassified to income statement		–	–
Other comprehensive income for the year, net of tax	10	**–2 951**	**–710**
Total comprehensive income for the year		**6 993**	**5 566**
Total comprehensive income attributable to:			
– owners of the parent		6 971	5 540
– non-controlling interests		22	26

Consolidated Balance Sheet

As at December 31, Amounts in MSEK	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets	12	13 464	12 697
Rental equipment	13, 22	1 843	2 056
Other property, plant and equipment	13, 22	5 702	5 993
Investments in associated companies	14	108	101
Other financial assets	15	2 701	4 064
Other receivables		5	10
Deferred tax assets	10	1 309	2 381
Total non-current assets		**25 132**	**27 302**
Current assets			
Inventories	16	12 939	11 377
Trade receivables	17	13 318	12 212
Income tax receivables		407	395
Other receivables	18	3 749	2 826
Other financial assets	15	1 734	1 530
Cash and cash equivalents	19	14 264	12 165
Assets classified as held for sale	3	79	67
Total current assets		**46 490**	**40 572**
TOTAL ASSETS		**71 622**	**67 874**
EQUITY	Page 39		
Share capital		786	786
Other paid-in capital		5 312	5 129
Reserves		935	3 885
Retained earnings		22 108	15 709
Total equity attributable to owners of the parent		**29 141**	**25 509**
Non-controlling interests		180	162
TOTAL EQUITY		**29 321**	**25 671**
LIABILITIES			
Non-current liabilities			
Borrowings	21, 22	19 615	21 008
Post-employment benefits	23	1 578	1 768
Other liabilities		187	82
Provisions	25	855	576
Deferred tax liabilities	10	1 167	589
Total non-current liabilities		**23 402**	**24 023**
Current liabilities			
Borrowings	21, 22	499	2 959
Trade payables		6 398	4 678
Income tax liabilities		1 197	428
Other liabilities	24	9 530	8 830
Provisions	25	1 275	1 285
Total current liabilities		**18 899**	**18 180**
TOTAL EQUITY AND LIABILITIES		**71 622**	**67 874**

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

Consolidated Statement of Changes in Equity

2010 Amounts in MSEK	Equity attributable to owners of the parent								
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Trans-lation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	5 129	–50	105	3 830	15 709	25 509	162	25 671
Total comprehensive income for the year	–	–	–48	135	–3 037	9 921	6 971	22	6 993
Dividends						–3 646	–3 646	–4	–3 650
Change in non-controlling interests						1	1		1
Acquisition of series A shares						–88	–88		–88
Divestment of series A shares held by Atlas Copco AB		139				240	379		379
Divestment of series B shares held by Atlas Copco AB		44				49	93		93
Share-based payment, equity settled									
– expense during the year						24	24		24
– exercise option						–102	–102		–102
Closing balance, Dec. 31	**786**	**5 312**	**–98**	**240**	**793**	**22 108**	**29 141**	**180**	**29 321**

2009 Amounts in MSEK	Equity attributable to owners of the parent								
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Trans-lation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	5 129	–352	233	4 708	13 123	23 627	141	23 768
Total comprehensive income for the year	–	–	302	–128	–878	6 244	5 540	26	5 566
Dividends						–3 648	–3 648	–6	–3 654
Acquisition of non-controlling interests							–	1	1
Share-based payment, equity settled									
– expense during the year						16	16		16
– exercise option						–26	–26		–26
Closing balance, Dec. 31	**786**	**5 129**	**–50**	**105**	**3 830**	**15 709**	**25 509**	**162**	**25 671**

See notes 10 and 20 for additional information.

Consolidated Statement of Cash Flows

For the year ended December 31, Amounts in MSEK	Note	2010	2009
Cash flows from operating activities			
Operating profit		13 915	9 090
Adjustments for:			
Depreciation, amortization and impairment	7	2 498	2 470
Capital gain/loss and other non-cash items		260	–126
Operating cash surplus		16 673	11 434
Net financial items received/paid		–960	–1 574
Taxes paid		–2 813	–1 759
Cash flow before change in working capital		**12 900**	**8 101**
Change in:			
Inventories		–1 978	5 568
Operating receivables		–2 535	3 324
Operating liabilities		2 783	–2 177
Change in working capital		**–1 730**	**6 715**
Increase in rental equipment*		–825	–769
Sale of rental equipment*		480	557
Net cash from operating activities		**10 825**	**14 604**
Cash flows from investing activities			
Investments in other property, plant and equipment		–868	–954
Sale of other property, plant and equipment		53	79
Investments in intangible assets		–517	–657
Sale of intangible assets		10	6
Sale of investments		197	13
Acquisition of subsidiaries	2	–1 710	–196
Divestment of subsidiaries	3	19	25
Divestment/acquisition of associated companies	14	–	4
Investment in other financial assets, net		–2	666
Net cash from investing activities		**–2 818**	**–1 014**
Cash flows from financing activities			
Dividends paid		–3 650	–3 652
Repurchase and divestment of own shares		384	–
Borrowings		270	74
Repayment of borrowings		–1 695	–3 125
Payment of finance lease liabilities		–49	–101
Net cash from financing activities		**–4 740**	**–6 804**
Net cash flow for the year		**3 267**	**6 786**
Cash and cash equivalents, Jan. 1		12 165	5 455
Net cash flow for the year		3 267	6 786
Exchange-rate difference in cash and cash equivalents		–1 168	–76
Cash and cash equivalents, Dec. 31	19	**14 264**	**12 165**

* Cash flow from increase and sale of rental equipment has been reclassified from investing to operating activities

Notes to the Consolidated Financial Statements

MSEK unless otherwise stated

1. Significant accounting principles

Atlas Copco AB (also referred to as the "Company") is a company headquartered in Stockholm, Sweden. The consolidated financial statements comprise Atlas Copco AB and its subsidiaries (together referred to as the "Group" or Atlas Copco) and the Group's interest in associates. Atlas Copco is an industrial group with world-leading positions in compressors, construction and mining equipment, power tools and assembly systems.

Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU. The statements are also prepared in accordance with the Swedish recommendation RFR 1 December 2010 "Supplementary Accounting Rules for Groups" and applicable statements issued by the Swedish Financial Reporting Board. These detail certain additional disclosure requirements for Swedish consolidated financial statements, prepared in accordance with IFRS.

The accounting principles set out in the following paragraphs, have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise stated, and have been consistently applied for all entities included in the consolidated statements. The Annual report for the Group and the Company, including financial statements, was approved for issuance on February 11, 2011 and balance sheet and income statement are subject to the approval of the Annual General Meeting of the shareholders to be held on April 20, 2011.

Functional currency and presentation currency

These financial statements are presented in Swedish krona which is the functional currency for Atlas Copco AB and is also the presentation currency for the Group's financial reporting. Unless otherwise indicated, the amounts are presented in millions of Swedish kronor.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for certain financial assets and liabilities that are measured at their fair value; financial instruments at fair value through profit or loss, derivative financial instruments and financial assets classified as available-for-sale.

Non-current assets and disposal groups held for sale are carried at the lower of carrying amount and fair value less costs to sell, as of the date of the initial classification as held for sale.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting principles and the carrying amounts of assets and liabilities. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may vary from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting principles, which can have significant effects on the financial statements, is found in note 30.

Classification

Non-current assets and non-current liabilities are comprised primarily of amounts that are expected to be realized or paid more than 12 months after the balance sheet date. Current assets and current liabilities are comprised primarily of amounts expected to be settled within 12 months of the balance sheet date.

Changes in accounting principles

These revised and amended standards have been applied from 2010:

Revised IFRS 3 Business Combinations and amended IAS 27 Consolidated and Separate Financial Statements

The revised IFRS 3 is applied prospectively and have had no material effect on the consolidated financial statements. The revised IFRS 3 continues to require the acquisition method for business combinations but now transaction costs incurred in connection with a business combination are expensed.

Contingent consideration is measured at fair value at the acquisition date and subsequent adjustments to the consideration are recognized in profit or loss. Contingent consideration related to business combinations which occurred prior to January 1, 2010, will continue to be accounted for under the previous IFRS 3 where subsequent changes resulted in adjustments to goodwill.

There is a choice on a transaction-by-transaction basis for the measurement of non-controlling interest either at fair value or at the non-controlling interest's share of the fair value of the identifiable net assets of the acquiree. This also means that goodwill is either recorded in "full" (on the total acquired net assets) or in "part" (only on the Parent Company's share of net assets). During 2010, no acquisitions were made that included non-controlling interests.

Under the amended IAS 27 changes in non-controlling interest that do not result in gain or loss of control are accounted for as equity transactions. Previously, goodwill or a bargain purchase gain was recorded when non-controlling interest was purchased and for decreases in non-controlling interest, the difference between the consideration received and the carrying value of the share of the net assets disposed of was recognized in profit or loss. The amended IAS 27 has had no retrospective effect on the consolidated financial statements.

Other new and amended IFRS standards and IFRIC interpretations

The other new or amended IFRS standards and IFRIC interpretations, which became effective January 1, 2010, have had no material effect on the consolidated financial statements.

Business combinations and consolidation

The consolidated income statement and balance sheet of the Group include all companies in which the Company, directly or indirectly, has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The consolidated financial statements have been prepared in accordance with the acquisition method. According to this method, business combinations are seen as the Group directly acquires the assets and assumes the liabilities of the entity acquired. As of the acquisition date, i.e. the date on which control is obtained, each identifiable asset acquired and liability assumed is recognized at its acquisition-date fair value. Exceptions to this measurement principle are made for income taxes, employee benefits, share-based payment awards and assets held for sale, which are measured in accordance with the principles described for each item separately below. Additional exceptions are made for acquired indemnification assets and reacquired rights. Indemnification assets are measured on the same basis as the indemnified item. Reacquired rights are measured on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Consideration transferred is measured at its fair value. It includes the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the previous owners of the acquiree and equity interests issued by the Group. Contingent consideration is initially measured at its acquisition-date fair value. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. In this case there is no remeasurement and the subsequent settlement is accounted for within equity. Transaction costs that the Group incurs in connection with a business combination, such as finder's fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

1. Continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest 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 amounts of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but tested for impairment at least annually. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds 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 interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent profit or loss and other components of comprehensive income attributable to the non-controlling interest are allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position.

Changes in the Group's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent.

Earnings of entities acquired during the year are reported in the consolidated income statement from the acquisition date. The gain or loss from subsidiaries of which the Group lost control during the year is calculated on the basis of the Group's reported net assets in such entities, including earnings to the date when control ceased to exist. Any investment retained in the former subsidiary is recognized at its fair value at the date when control was lost, and any resulting gain or loss is recognized in the consolidated income statement.

Intra-group balances and transactions, including income, expenses and dividends, are eliminated in preparing the consolidated financial statements. Profits and losses resulting 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.

Associated companies

An associate is an entity in which the Group has significant influence, but not control, over financial and operating policies. When the Group holds 20 to 50% of the voting power, it is presumed that significant influence exists unless it can be clearly demonstrated that this is not the case.

Holdings in associated companies are reported in the consolidated financial statements in accordance with the equity method from when significant influence has been established and until significant influence ceases. Under the equity method, the carrying values of interests in associates correspond to the Group's share of reported equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The Group's profit or loss includes "Share of results of associated companies", which comprises of the Group's share of the associate's income adjusted for any amortization and depreciation, impairment losses and other adjustments arising from the purchase price allocation. Dividends received from an associated company reduce the carrying value of the investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill amount is included in the carrying amount of the associate and is assessed for impairment as part of that investment.

Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest, but losses only to the extent that there is no evidence of impairment.

Segment reporting

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

Foreign currency

Foreign currency transactions

Functional currency is the currency of the primary economic environment in which an entity operates. Transactions in foreign currencies (those which are denominated in other than the functional currency) are translated at the foreign exchange rate ruling at the date of the transaction. Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and expenses.

Exchange rate differences on translation to functional currency are reported in profit or loss, except when reported in other comprehensive income in the following cases:

- differences arising on the translation of *available-for-sale* equity instruments,
- a financial liability designated as a *hedge of the net investment* in a foreign operation,
- on intra-group receivables from or liabilities to a foreign operation that in substance is part of the *net investment* in the foreign operation, or
- qualifying hedging instruments in *cash flow hedges* hedging currency risk to the extent that the hedges are effective.

Exchange rates for major currencies used in the year-end accounts are shown in note 27.

Translation of accounts of foreign entities

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on consolidation, are translated to Swedish kronor at the exchange rates ruling at the balance sheet date. The revenues and expenses are translated at average exchange rates, which approximate the exchange rate for the respective transactions. Foreign exchange differences arising on translation are recognized in other comprehensive income and are accumulated in a separate component of equity as a translation reserve. On divestment of foreign entities or when the equity or portion of the equity is repatriated, the accumulated exchange differences, net after impact of currency hedges of net investments, are recycled through profit or loss, increasing or decreasing the profit or loss on divestments.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes, goods returned, discounts and other similar deductions. Revenue is recognized when recovery of the consideration is considered probable and the revenue and associated costs can be measured reliably.

Goods sold

Revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, which in most cases occurs in connection with delivery. When the product requires installation and installation is a significant part of the contract, revenue is recognized when the installation is completed. Revenue is not recorded for buy-back commitments if the substance of the agreement is that the risks and awards of ownership have not been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding the possible return of goods.

1. Continued

Services rendered
Revenue from services is recognized in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction. 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. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When services are performed by an indeterminate number of acts over the service contract period, revenues are recognized on a straight-line basis.

Rental operations
Revenue is derived and recognized from the rental of equipment on a daily, weekly or monthly basis. Rental income is recognized on a straight-line basis. Revenue from delivery services, fuel sales, and sales of parts, supplies and new and used equipment are recognized when the product or service is delivered to the customer. The proceeds from the sale of rental equipment are 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 and sales of rental equipment are included in the cash flows from operating activities.

Other operating income and expense
Commissions and royalties are recognized on an accrual basis in accordance with the financial substance of the agreement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other operating income" or "other operating expenses".

Government grants
A government grant is recognized when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Government grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which expenses are incurred and are presented net of the related expense. Grants related to assets are presented by deducting the grant from the carrying value of the asset and is recognized in profit or loss over the life of the asset as a reduced depreciation expense.

Finance income and expenses
Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss for hedging items recognized as financial income. Interest income is recognized as it accrues 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.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and gains on hedging instruments that are recognized in profit or loss for hedging items recognized as financial expense.

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Parent Company by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of shares outstanding for the effects of all dilutive potential shares – which comprise employee stock options that are settled in shares or that at the employees' choice can be settled in shares or cash – and in such case by adjusting the profit or loss for the difference between cash-settled and equity-settled treatment of options for which employees can choose settlement in shares or cash. The options are dilutive if the exercise price is less than the quoted stock price and the effect on the number of potential shares increases with the size of the difference.

Intangible assets
Goodwill
Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired in the business combination.

Goodwill is allocated to the cash-generating unit that is expected to benefit from the synergies of the combination and is tested at least annually for impairment. In the case of reorganization or divestment of a cash generating unit to which goodwill has been allocated, goodwill is reallocated to the units affected based on their relative values.

Technology-based intangible assets
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is expensed in profit or loss as incurred. Research projects acquired as part of business combinations are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, research projects acquired as part of business combinations are carried at cost less amortization and impairment losses.

Expenditure on development activities are expensed as incurred unless the activities are applied to a plan or design for the production of new or substantially improved products or processes. In such instances development activities are capitalized if the product or process is technically and commercially feasible and the Group has the intent and ability to complete, sell or use the intangible. The expenditure capitalized includes the cost of materials, direct labor and other costs directly attributable to the development project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses.

Computer software is capitalized and is carried at cost less accumulated amortization and impairment losses.

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

Marketing and customer related intangible assets
Acquired marketing and customer related intangibles such as customer relations and other similar items are capitalized based on their fair value at the time of acquisition (which is regarded as their cost) and 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 (which is regarded as their cost) and carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over useful lives or contract periods whichever is shorter.

Expenditure on internally generated goodwill, trademarks and similar items is expensed as incurred.

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 location and condition for use. The Group capitalizes costs on initial recognition

and on replacing significant parts of property, plant and equipment, when the cost is incurred, if it is probable that the future economic benefits embodied will flow to the Group and the cost can be measured reliably. All other costs are recognized as an expense in profit or loss when incurred.

Rental equipment
The rental fleet is comprised of diesel and electric powered air compressors, generators, air dryers and to a lesser extent general construction equipment. Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a residual value of 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, unless the useful life is indefinite. Parts of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately when the useful lives of the parts do not coincide with the useful lives of other parts of the item.

The following useful lives are used for depreciation and amortization:

	Years
Technology-based intangible assets	3–15
Trademarks with definite lives	5–10
Marketing and customer related intangible assets	5–10
Buildings	25–50
Machinery and equipment	3–10
Vehicles	4–5
Computer hardware and software	3–8
Rental equipment	3–12

The useful lives and residual values are reassessed annually. Land, goodwill and trademarks with indefinite lives are not depreciated or amortized.

Leased assets
In the course of business, the Group acts both as lessor and lessee. Leases are classified in the consolidated financial statement 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.

Accounting for finance leases implies for the lessee that the fixed asset in question is recognized as an asset in the balance sheet and 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 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. In profit or loss, the costs of operating leases are recorded on a straight-line basis over the term of the lease.

In cases where the Group acts as the lessor under an operating lease, the asset is classified as rental equipment. The asset 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 with a lease receivable being recorded comprising the future minimum lease payments and any residual value guaranteed to the lessor. Lease payments are recognized as interest income and repayment of the lease receivable.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed when incurred.

Impairment of non-financial assets
The carrying amount of the Group's assets, excluding financial assets within the scope of IAS 39, Financial Instruments: Recognition and Measurement, inventories, non-current assets and disposal groups held for sale, plan assets for employee benefit plans and deferred tax assets, are reviewed at least at each reporting date to determine whether there is any indication of impairment in accordance with IAS 36, Impairment of Assets. Excluded assets are accounted for in accordance with the standard applicable for each type of such asset.

If any indication exists of impairment in accordance with IAS 36, the asset's recoverable amount is estimated. For goodwill and other assets that have an indefinite useful life, impairment tests are performed at a minimum on an annual basis. Annual impairment tests are also carried out for intangible assets not yet ready for use.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. If largely independent cash inflow cannot be linked to an individual asset, the recoverable amount is estimated for the smallest group of assets that includes the asset and generates cash inflows that are largely independent, a cash-generating unit. Goodwill is always allocated to a cash-generating unit or groups of cash-generating units and tested at the lowest level within the Group at which the goodwill is monitored for internal management purpose. This is normally at division level.

The recoverable amount is the greater of the 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 cash-generating unit. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) pro rata. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Inventories
Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in, first-out principle and includes the costs 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.

Provisions
A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that it can be estimated reliably. The amount recognized as a provision is the best estimate of the expenditure 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 at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1. Continued

A provision for warranties is charged 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 provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with the contract.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when employees provide services entitling them to the contributions.

Defined benefit plans

The Group has a number of defined benefit plans related to pensions and post-retirement health care benefits in the various countries where operations are located. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets is deducted.

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. The obligations are valued at the present value of the expected future disbursements, taking into consideration assumptions such as expected future pay increases, rate of inflation, increases in medical cost and in mortality rates. The discount rate used is the equivalent of the interest rate for high-quality corporate or government bonds with a remaining term approximating that of the actual commitments.

Changes in actuarial assumptions and experience adjustments of obligations and the fair value of plan assets result in actuarial gains or losses. Such gains or losses, within 10% of the obligation or asset value that is within the 'corridor', are not immediately recognized. Gains or losses exceeding the 10% corridor are amortized over the remaining estimated service period of the employees.

Plan assets are measured at fair value. Funded plans with net assets, plans with assets exceeding the commitments, are reported as financial non-current assets, limited to the amount of accumulated actuarial losses and the present value of economic benefits available to the Group from the plan assets.

The interest portion of pension and other post retirement benefit costs and return on plan assets is not classified as an operating expense but is shown as interest expense. See notes 9 and 23 for additional information.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate used is the same as for the defined benefit plans. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains or losses are recognized in the period in which they arise.

Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. When termination benefits are provided as a result of an offer to encourage voluntary redundancy, an expense is recognized if it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

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

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

The fair value of the share appreciation rights, synthetic shares and options with a choice for employees to settle in shares or cash is recognized in accordance with principles for cash-settled share-based payments, which is to recognize the value 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 (or liability amount transferred to equity when employees have a choice and choose to settle in shares) at settlement.

Social security charges are paid in cash. Social security charges are accounted for consistent with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments. Agreements with banks related to the share options and rights are accounted for as separate financial instruments according to IAS 39. Profits and losses on these agreements are reported as financial items.

Financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Purchases and sales 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 to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been removed from the Group. The Group derecognizes (fully or partially) a financial liability when the obligation specified in the contract is discharged or otherwise expires.

A financial asset and a financial liability is offset and the net amount presented in the balance sheet when, and only when, there is a legally enforceable right to set off 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.

1. Continued

Measurement and classification
Financial instruments are, at initial recognition, measured at fair value with addition or deduction of transaction costs in the case of a financial asset or a financial liability not measured at fair value through profit or loss.

Financial instruments are upon initial recognition classified in accordance with the categories in IAS 39 based on the purpose of the acquisition of the instrument. This determines the subsequent measurement. The financial instruments are reported as follows:

- *Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Trade receivables are included in this category. In most cases, the trade receivables are not carried at amortized cost due to short expected time to payment.
- *Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the positive intention and ability to hold to maturity. Fixed or determinable payments and fixed maturity mean that a contractual arrangement defines the amounts and dates of payments to the holder, such as interest and principal payments. Held to maturity investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.
- An instrument is classified as *fair value through profit or loss* if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Financial instruments at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.
- *Available-for-sale financial assets* are those non-derivative financial assets that are designated as available for sale. Subsequent to initial recognition, they are measured at fair value and 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. For available-for-sale financial assets that are not monetary items (for example equity instruments), the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.
- *Financial liabilities* are initially measured at fair value less attributable transaction cost and subsequently at amortized cost, using the effective interest rate method. Borrowing costs are recognized as an expense in the period in which they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.
- *Derivative instruments* are measured at fair value. For derivatives which are not part of hedge accounting (classified as financial assets or liabilities held for trading), changes in fair value are reported as operating or financial income or expense based on the purpose of the use of the derivatives and whether the instruments relate to operational or financial items. Fair value changes on derivatives are recognized in profit or loss unless the derivatives are designated as hedging instruments in cash flow or net investment hedges (see section below about hedge accounting). Changes in fair values of cross currency swaps are divided into three components; interest is recognized as interest income/expense, foreign exchange effect as foreign exchange difference and other changes in fair values are recognized in profit or loss as gains and losses from financial instruments. Interest payments for interest swaps are recognized in profit or loss as interest income/expense, whereas changes in fair value of future payments are presented as gains and losses from financial instruments. Effects from interest swaps used for hedge accounting are recognized as interest income/expense. Changes in fair values of foreign exchange contracts are recognized as foreign exchange income/expense and the interest component is recognized in the profit or loss as interest expense.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Cash and cash equivalents
Cash and cash equivalents include cash balances and short term highly liquid investments that are readily convertible to known amounts of cash which are not subject to a significant risk of changes in value. An investment normally only qualifies as cash equivalent if it upon acquisition only has three months or less to maturity.

Hedge accounting
In order to qualify for hedge accounting according to IAS 39, the hedging relationship must be designated, the hedge expected to be highly effective and the hedge relationship documented. The Group assesses, evaluates and documents effectiveness both at hedge inception and on an ongoing basis. The method of recognizing a gain or loss resulting from hedging instruments is dependent on the type of hedge relationship, i.e. which type of risk exposure that is reduced by the hedging instrument.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. These changes in the fair value of the hedged asset or liability are recognized in profit or loss to offset the effect of gain or loss on the hedging instrument.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge 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. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

The cumulative gain or loss previously recognized in equity via other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity via other comprehensive income is transferred to the carrying amount of the asset when it is recognized. In other cases, the amount recognized in equity via other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

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. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time 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.

Hedges of net investments in foreign operations
The Group hedges a substantial part of net investments in foreign operations. Gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. Gain or loss relating to the ineffective portion is recognized

1. Continued

immediately in profit or loss. On divestment of foreign operations or when the equity or portion of the equity of the foreign operation is repatriated, the gain or loss accumulated in other comprehensive income are recycled through profit or loss, increasing or decreasing the profit or loss on divestments.

Impairment of financial assets
Financial assets, except for such assets classified as fair value through profit or loss, are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are regularly tested for impairment on an individual basis or in some cases are assessed collectively in groups with similar credit risks. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. In respect of an available-for-sale financial asset, any cumulative loss previously recognized in other comprehensive income is recognized in profit or loss. Impairment losses on financial assets of all other categories are recognized directly in profit or loss.

An impairment loss is reversed if the reversal can be related objectively 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.

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

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. 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.

Income taxes
Income taxes include both current and deferred taxes in the consolidated accounts. Income taxes are reported in profit or loss unless the underlying transaction is reported in other comprehensive income or in equity. In those cases, the related income tax is also reported in other comprehensive income or in equity.

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In the calculation of deferred taxes, enacted or substantively enacted tax rates are used for the individual tax jurisdictions.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Assets held for sale and discontinued operations
The Group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale. For classification as held for sale, the asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable. Management must be committed to a plan to sell and the sale should be expected to be completed within one year.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify as a discontinued operation at the date on which it ceases to be used.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is remeasured in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognized at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Non-current assets and disposal group assets and liabilities are reported separately in the balance sheet. Post-tax profits or losses as well as gains and losses recognized on measurement to fair value less cost to sell or on disposal are reported separately in profit or loss for discontinued operations. When an operation is classified as a discontinued operation, the comparative profit or loss is restated as if the operation had been discontinued from the start of the comparative period.

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 it being unlikely that an outflow of resources will be required to settle the obligation or that a sufficiently reliable calculation of the amount cannot be made.

1. Continued

New and amended IFRS standards and IFRIC interpretations
The following standards, interpretations and amendments to standards have been issued but have not become effective as of December 31, 2010 and have not been applied by the Group. The assessment of the effect of the implementation of these standards and interpretations could have on the consolidated financial statements is preliminary.

- IFRS 9 Financial Instruments (not yet adopted by the EU) deals with classification and measurement of financial assets and financial liabilities and with derecognition. The standard requires financial assets to be classified on initial recognition as measured at amortized cost or fair value. Regarding financial liabilities most of the added requirements were carried forward unchanged from IAS 39. However, for financial liabilities designated as at fair value through profit or loss, the amount of change in the fair value attributable to effects of changes in credit risk of the liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk on other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after January 1, 2013 but may be applied earlier. The standard generally requires retrospective application in accordance with IAS 8 but there are several exceptions to this principle and the transitional requirements are extensive. If an entity adopts IFRS 9 for reporting periods beginning before January 1, 2012 it is not required to restate prior periods. The effects of the implementation of IFRS 9 are not yet determined.

- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (not yet adopted by the EU) removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement. The amendment results in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. It shall be applied from the beginning of the earliest periods beginning on or after January 1, 2011, but may be applied earlier. It will only have a limited impact on the consolidated financial statements.

The following amended IFRS standards and new IFRIC interpretations are not expected to have any impact on the consolidated financial statements:
- Amendments to IFRS 7 Financial Instruments: Disclosures (not yet adopted by the EU)
- Revised IAS 24 Related Party Disclosures (2009)
- Amendments to IAS 32 Classification of Rights Issues
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010) (not yet adopted by the EU).
- Amendments to IAS 12 Income taxes (not yet adopted by the EU).

2. Acquisitions

The following summarizes the significant acquisitions during 2010 and 2009:

Closing date		Country	Business area	Revenues[1]	Number of employees[1]
2010 Oct. 1	Cirmac International	Netherlands	Compressor Technique	127	42
2010 Sep. 8	Kramer Air Tool – US distributor	U.S.A.	Industrial Technique	125	50
2010 Sep. 1	H & F Drilling Supplies	Great Britain	Construction & Mining	59	20
2010 Aug. 31	Hartl Anlagenbau	Austria	Construction & Mining	197	110
2010 Jun. 2	Tooling Technologies – US distributor	U.S.A.	Industrial Technique	[2]	22
2010 May 28	American Air Products – US distributor	U.S.A.	Compressor Technique	[2]	18
2010 Mar. 1 [3]	Quincy Compressor	U.S.A. and China	Compressor Technique	900	400
2010 Jan. 18	Premier Equipment – US distributor	U.S.A.	Compressor Technique	[2]	12
2009 Sep. 8	Servis. A.C. s.r.o.	Czech Republic	Compressor Technique	10	10
2009 April 1	Focus and Prisma	India	Construction & Mining	93	104
2009 Jan. 12	Compressor Engineering	Great Britain	Compressor Technique	40	39

1) Annual revenues and number of employees at time of acquisition.
2) Distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.
3) The acquisiton of the Chinese part of Quincy Compressor was finalized in August after regulatory approvals from Chinese authorities.

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

The amounts presented in the following tables detail the recognized amounts aggregated by business areas, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value has been calculated based on an assumed discount rate of 10.5%. The Group is in the process of reviewing the final values for the acquired businesses but any adjustments are not expected to be material.

Compressor Technique	Recognized values	
	2010	**2009**
Intangible assets	554	48
Property, plant and equipment	172	48
Other assets	275	10
Cash and cash equivalents	25	–
Interest-bearing loans and borrowings	–	–1
Other liabilities and provisions	–213	–3
Net identifiable assets	**813**	**102**
Goodwill	657	55
Total consideration	**1 470**	**157**
– of which deferred consideration	–2	–3
Cash and cash equivalents acquired	–25	–
Net cash outflow	**1 443**	**154**

The Compressor Technique business area made four acquisitions in 2010. In March, the business area completed the acquisition of Quincy Compressor in the United States and the acquisition of Quincy's Chinese operations was finalized in August. Quincy Compressor designs and manufactures reciprocating compressors, rotary screw compressors and vacuum pumps, primarily under the Quincy brand. The company is headquartered in Bay Minette, Alabama and has manufacturing facilities in Bay Minette, Quincy, Illinois and Kunshan, China. Atlas Copco plans to further develop the Quincy brand independently, in line with the Group's well established brand portfolio strategy. Consideration paid was 1 367 and intangible assets of 497 and goodwill of 635 were recorded on the purchase. The goodwill is deductible for tax purposes.

The Dutch gas treatment company Cirmac International B.V was acquired in October. The company is specialized in biogas upgrading systems for the renewable energy industry and in gas treatment systems for the oil, gas and chemical industries. The acquisition enables Atlas Copco to extend its offering of sustainable solutions. Consideration paid was 49 and intangible assets of 27 and goodwill of 7 were recorded. The goodwill is not expected to be tax deductible.

Two acquisitions of compressor distributors in the United States were also made during the year. The compressor division of Premier Equipment Corporation, Inc. in Louisiana was acquired in January and certain assets of American Air Products, Inc with operations in four states in northern United States were acquired in May. The acquisitions bring Atlas Copco closer to the customers in the respective regions and offer an opportunity to grow customer relationships going forward. Total consideration was 48 and intangible assets of 26 and goodwill of 15 were recorded on the purchases. The goodwill will be tax deductible.

Construction and Mining Technique	Recognized values	
	2010	**2009**
Intangible assets	93	20
Property, plant and equipment	46	18
Other assets	125	30
Cash and cash equivalents	32	2
Interest-bearing loans and borrowings	–131	–9
Other liabilities and provisions	–75	–24
Net identifiable assets	**90**	**37**
Non-controlling interests	–1	–
Goodwill	167	21
Total consideration	**256**	**58**
– of which deferred consideration	–90	–16
Cash and cash equivalents acquired	–32	–2
Net cash outflow	**134**	**40**

The Construction and Mining Technique business area made two acquisitions in 2010. Hartl Anlagenbau GmbH based in St. Valentin, Austria, was acquired in August. The company manufactures and sells mobile crushers and screeners and with this acquisition Atlas Copco enters the growing mobile crushing and screening market, thereby strengthening the Group's offering in the areas of quarrying and recycling.

In September, the UK drilling company H & F Drilling Supplies Ltd was acquired. The company manufactures and distributes drilling equipment. They specialize in casing and piling applications and supply all components in the drill string. The acquisition offers the potential to create a competence centre in order to develop sales in large diameter drilling and piling across the UK and Europe.

Total consideration for the two acquisitions was 242. This includes contingent consideration with a fair value of 98. The agreement for the Hartl acquisition includes a contingent consideration arrangement that requires a share of the acquired entity's revenues in the years 2011–2015 to be paid to the seller. The fair value of the contingent consideration has been calculated based on projected revenues for the coming five years. In the case of H & F Drilling Supplies, it is required that certain revenue targets are met the first three years after the acquisition for the maximum contingent consideration to be paid. The fair value of the contingent consideration has been calculated based on the assumption that the maximum amount of contingent consideration will be paid.

For Hartl, intangible assets of 70 and goodwill of 141 were recorded. 80 of the goodwill is expected to be tax deductible. Intangible assets of 11 and goodwill of 25 were recorded on the acquisition of H & F Drilling Supplies. The goodwill will not be tax deductible.

2. Continued

Industrial Technique	Recognized values	
	2010	2009
Intangible assets	141	–
Property, plant and equipment	1	–
Other assets	14	–
Net identifiable assets	**156**	**–**
Goodwill	28	2
Total consideration	**184**	**2**
– of which deferred consideration	–51	–
Net cash outflow	**133**	**2**

The Industrial Technique business area made two acquisitions of tool distributors in the United States during 2010. The sales and marketing operations in southern United States and northern Mexico of Tooling Technologies Inc were acquired in June and in September, the operations of Michigan based Kramer Air Tool Inc. were acquired. The agreements further strengthen Atlas Copco's presence, market coverage and support to customers in the respective regions.

Total consideration for the two acquisition amounts to 188. This includes fair value of contingent consideration of 43. For the Tooling Technologies acquisition, the consideration consists mainly of a contingent consideration arrangement. This requires a share of the acquired entity's revenues for five years after the acquisition to be paid to the seller. The agreement includes a maximum and a minimum amount for the contingent consideration. Also the agreement for the Kramer acquisition includes a contingent consideration clause, according to which Atlas Copco has to pay a certain amount per year in the years 2011–2014. The size of the amount is dependant on if revenues of the acquired operations reach different levels of the target set for each year. The fair value of the contingent consideration for the two acquisitions has been calculated based on the assumption that the maximum amount of contingent consideration will be paid. Intangible assets of 27 and 114 respectively and goodwill of 31 were recorded on the acquisitions. The goodwill is tax deductible.

Total fair value of acquired assets and liabilities	Group recognized values	
	2010	2009
Intangible assets	788	68
Property, plant and equipment	219	66
Other non-current assets	–	–16
Inventories	176	17
Receivables*	238	39
Cash and cash equivalents	57	2
Interest-bearing loans and borrowings	–131	–10
Other liabilities and provisions	–278	–5
Deferred tax liabilities, net	–10	–22
Net identifiable assets	**1 059**	**139**
Non-controlling interests	–1	–
Goodwill	852	78
Total consideration	**1 910**	**217**
– of which deferred consideration	–143	–19
Cash and cash equivalents acquired	–57	–2
Net cash outflow	**1 710**	**196**

* The gross amount is 255 (42) of which 17 (3) is expected to be uncollectible.

The goodwill recognized on acquisitions is primarily related to the synergies expected to be achieved from integrating these companies into the Group's existing structure. The total consideration for all acquisitions was 1 910. Total consideration includes deferred consideration not yet paid for acquisitions made in 2010 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the outflow totaled 1 710 after deducting cash and cash equivalents acquired of 57.

Acquisition-related costs were included in administrative expenses in the income statement for 2010 and amounted to 8. In 2009, transaction costs related to in-process acquisitions (i.e. closing in 2010) amounted to 9 and were expensed as incurred.

Contribution from businesses acquired in 2010 and 2009 by business area	Compressor Technique		Construction and Mining Technique		Industrial Technique		Group	
	2010	2009	2010	2009	2010	2009	2010	2009
Contribution from date of control								
Revenues	941	81	115	66	48	–	1 104	147
Operating profit	112	–	–13	6	25	–	124	6
Profit for the year							74	5
Contribution if the acquisition had occurred on Jan. 1								
Revenues	1 281	95	418	85	132	–	1 831	180
Operating profit	144	2	–9	9	53	–	188	11
Profit for the year							120	8

In January 2011, an agreement was signed to acquire the pump business from J.C. Carter LCC, based in the United States. J.C. Carter is a leading producer of cryogenic submerged motor pumps, which have many applications in the growing natural gas market. The deal is expected to be closed in the first quarter of 2011. Since Atlas Copco has not yet gained control of the business it has not been accounted for in 2010.

3. Assets held for sale and divestments

Divestments
There were no significant divestments during 2010 and 2009. The gains on divestments are reported under other operating income. See note 8.

The following table presents the carrying value of the divested operations on the date of divestment.

Carrying value of assets and liabilities for divestments	2010	2009
Inventories	–	2
Receivables	19	21
Net identifiable assets	**19**	**23**
Capital gain	–	2
Consideration and cash received	**19**	**25**

As part of the Specialty Rental business strategy to focus on its core business, the Compressor Technique business area divested Guimerá S.A. in February 2008. The consideration received in 2010 and 2009 was primarily for this divestment.

Assets held for sale
The Construction and Mining Technique business area restructured certain operations in Germany and accordingly reclassified certain properties as assets held for sale during 2010, which amounted to 18 at year end.

In the Industrial Technique business area assets in Japan were classified as assets held for sale during 2009 of which sales of machinery and equipment were finalized during 2010, while the remaining assets, buildings, amounted to 28 (31) at year end. The buildings and equipment in Great Britain which were classified as assets held for sale in 2008 were partially divested during 2009, while the remaining assets were unchanged during 2010 totaling 33 (36) at year end. The assets are still classified as held for sale due to the difficult market conditions during the year. The total assets held for sale are measured at their carrying value amounting to 79 (67) and the assets are expected to be sold during 2011. The estimated net realizable value is reviewed on a regular basis.

4. Segment information

2010	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common group functions	Eliminations	Group
Revenues from external customers	34 246	29 047	6 446	136		69 875
Inter-segment revenues	356	109	26	52	–543	–
Total revenues	**34 602**	**29 156**	**6 472**	**188**	**–543**	**69 875**
Operating profit	**8 127**	**5 243**	**1 262**	**–656**	**–61**	**13 915**
– of which share of profit in associated companies		*5*	*8*			*13*
Net financial items						–420
Income tax expense						–3 551
Profit for the year						**9 944**
Non-cash expenses						
Depreciation/amortization	1 038	948	217	267	–46	2 424
Impairment	67	6	1			74
Other non-cash expenses	67	70	–15	227		349
Segment assets	**20 450**	**25 538**	**3 881**	**3 284**	**–1 869**	**51 284**
– of which goodwill	*2 420*	*5 838*	*511*			*8 769*
Investments in associated companies		4	104			108
Unallocated assets						20 230
Total assets						**71 622**
Segment liabilities	**8 630**	**6 248**	**1 369**	**3 211**	**–1 512**	**17 946**
Unallocated liabilities						24 355
Total liabilities						**42 301**
Capital expenditures						
Property, plant and equipment	517	1 052	64	222	–123	1 732
– of which assets leased	*11*	*23*	*4*	*1*		*39*
Intangible assets	158	269	84	6		517
Total capital expenditures	**675**	**1 321**	**148**	**228**	**–123**	**2 249**
Goodwill acquired	657	167	28			852

2009	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common group functions	Eliminations	Group
Revenues from external customers	32 312	25 840	5 376	234		63 762
Inter-segment revenues	212	69	16	52	–349	–
Total revenues	**32 524**	**25 909**	**5 392**	**286**	**–349**	**63 762**
Operating profit	**5 752**	**3 470**	**253**	**–441**	**56**	**9 090**
– of which share of profit in associated companies		*1*	*–1*			–
Net financial items						–819
Income tax expense						–1 995
Profit for the year						**6 276**
Non-cash expenses						
Depreciation/amortization	1 074	944	191	257	–56	2 410
Impairment	43	1	16			60
Other non-cash expenses	–2	–64	–23	93		4
Segment assets	**19 450**	**23 081**	**3 650**	**3 773**	**–1 528**	**48 426**
– of which goodwill	*1 938*	*5 783*	*533*			*8 254*
Investments in associated companies			101			101
Unallocated assets						19 347
Total assets						**67 874**
Segment liabilities	**8 337**	**4 459**	**1 110**	**2 380**	**–1 177**	**15 109**
Unallocated liabilities						27 094
Total liabilities						**42 203**
Capital expenditures						
Property, plant and equipment	673	887	95	169	–53	1 771
– of which assets leased	*14*	*33*	*1*			*48*
Intangible assets	216	342	74	25		657
Total capital expenditures	**889**	**1 229**	**169**	**194**	**–53**	**2 428**
Goodwill acquired	55	21	2			78

4. Continued

The Group is organized in three separate, focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's Chief Operating Decision Maker, which has been identified as the Group President.

All business areas are managed on a worldwide basis and their role is to develop, implement, and follow up the objectives and strategy within their business. The following describes the business areas:

- The Compressor Technique business area develops, manufactures, markets, and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electric power generators, air treatment and gas purification equipment and air management systems. It also offers specialty rental services.
- The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, construction and demolition tools, mobile crushers and screeners, drill rigs and equipment.
- The Industrial Technique business area develops, manufactures and markets industrial power tools, assembly systems, aftermarket products, software and service. It innovates for sustainable productivity for applications in the automotive and aerospace industry, general industrial manufacturing and maintenance, and vehicle service worldwide.

Common group functions includes those operations which serve all business areas or the Group as a whole and is not considered a segment. The accounting principles of the segments are the same as those described in note 1. Atlas Copco's inter-segment pricing is determined on a commercial basis.

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

Revenues from external customers are comprised of the following categories:	**2010**	**2009**
Sale of equipment	39 844	36 996
Service (incl. spare parts, consumables and accessories)	27 769	24 503
Rental	2 262	2 263
	69 875	**63 762**

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, deferred tax assets and post-employment benefit assets.

By geographic area/country	**Revenues**		**Non-current assets**	
	2010	**2009**	**2010**	**2009**
North America				
Canada	2 638	2 207	194	229
U.S.A.	8 137	6 647	3 672	2 654
Other countries in North America	1 575	1 510	70	82
	12 350	**10 364**	**3 936**	**2 965**
South America				
Brazil	4 035	2 826	347	389
Other countries in South America	3 693	2 894	145	143
	7 728	**5 720**	**492**	**532**
Europe				
Belgium	689	720	1 260	1 579
Germany	2 985	3 360	1 296	1 646
Italy	1 865	1 913	998	1 219
Sweden	1 573	1 579	8 457	8 436
Other countries in Europe	15 290	15 715	1 669	1 604
	22 402	**23 287**	**13 680**	**14 484**
Africa/Middle East				
South Africa	2 321	2 268	177	190
Other countries in Africa/Middle East	5 629	5 511	155	184
	7 950	**7 779**	**332**	**374**
Asia/Australia				
Australia	3 896	3 020	301	213
China	7 830	6 796	1 125	1 048
India	2 886	2 478	480	475
Other countries in Asia/Australia	4 833	4 318	663	655
	19 445	**16 612**	**2 569**	**2 391**
	69 875	**63 762**	**21 009**	**20 746**

5. Employees and personnel expenses

Average number of employees	2010			2009		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	56	45	101	50	46	96
Subsidiaries						
North America	654	3 456	4 110	643	3 361	4 004
South America	353	2 193	2 546	331	1 948	2 279
Europe	2 329	12 041	14 370	2 489	12 068	14 557
– of which Sweden	*616*	*3 173*	*3 789*	*691*	*3 076*	*3 767*
Africa/Middle East	324	1 807	2 131	403	1 953	2 356
Asia/Australia	1 381	6 575	7 956	1 356	6 437	7 793
Total in subsidiaries	**5 041**	**26 072**	**31 113**	**5 222**	**25 767**	**30 989**
	5 097	**26 117**	**31 214**	**5 272**	**25 813**	**31 085**

Women in Atlas Copco Board and Management, %	2010	2009
Parent Company		
Board of Directors excl. union representatives	40[1]	33
Group Management	25	25

[1] At year end, 33%

Absence due to illness, %	2010	2009
Parent Company	**0.9**	**1.0**
Swedish companies	**3.1**	**3.4**
Long-term absence due to illness, in % of total absence	*31.0*	*32.6*
Group	**2.1**	**2.1**

Remuneration and other benefits	Group		Parent Company	
	2010	2009	2010	2009
Salaries and other remuneration	11 759	10 281	150	129
Contractual pension benefits	697	728	18	19
Other social costs	2 243	2 330	58	51
	14 699	**13 339**	**226**	**199**
Pension obligations to Board members and Group Management[1]	22	24	22	24

[1] Refers to former members of Group Management.

Remuneration and other benefits to the Board

KSEK	Fee	Value of synthetic shares at grant date	Number of shares at grant date	Other fees[1]	Total fees incl. value of synthetic shares at grant date 2010	Adj. due to change in stock price and accrual period[2]	Total expense recognized 2010[3]	Total expense recognized 2009[3]
Chair of the Board:								
Sune Carlsson	750	750	6 645	181	1 681	1 622	3 303	2 166
Vice Chair:								
Jacob Wallenberg	275	275	2 436	60	610	593	1 203	790
Other members of the Board:								
Staffan Bohman	225	225	1 993	121	571	488	1 059	710
Christel Bories	225	225	1 993	–	450	488	938	600
Margareth Øvrum	225	225	1 993	–	450	488	938	600
Johan Forssell	225	225	1 993	121	571	488	1 059	710
Ulla Litzén	225	225	1 993	253	703	488	1 191	830
Anders Ullberg	225	225	1 993	120	570	488	1 058	720
Gunilla Nordström	168	225	1 993	–	393	30	423	
Union representatives (4 positions)	47				47		47	36
Total	**2 590**	**2 600**	**23 032**	**856**	**6 046**	**5 173**	**11 219**	**7 162**
Total 2009	2 349	2 375	31 299	800	5 524	1 638		7 162

[1] Refers to fees for membership in board committees. [2] Refers to synthetic shares received in 2008, 2009 and 2010.
[3] Provision for synthetic shares as at December 31, amounted to MSEK 13 (5).

Remuneration and other benefits to Group Management

KSEK	Base salary	Variable compensation[1]	Recognized costs for stock options, SARS[3]	Other benefits[4]	Pension fees	Total expense recognized 2010	Total expense recognized 2009
President and CEO							
Ronnie Leten	8 500	5 950[2]	2 687	607	2 975	20 719	20 648[5]
Other members of Group Management (7 positions)	18 446	6 955	18 203	1 765	6 035	51 404	42 905
Total	**26 946**	**12 905**	**20 890**	**2 372**	**9 010**	**72 123**	**63 553**
Total 2009	27 860	11 883	12 318	2 375	9 117		63 553
Total remuneration and other benefits to the Board and Group Management						**83 342**	**77 715**

[1] Refers to variable compensation earned in 2010 to be paid in 2011.
[2] The CEO has exercised the option to have his compensation for 2010 as an additional pension contribution.
[3] For information on share payments, see note 23.
[4] Refers to vacation pay, company car, medical insurance, house allowance (and transfer allowance 2009).
[5] Refers to compensation for Ronnie Leten and Gunnar Brock 2009.

5. Continued

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

Principles for remuneration to the Board and Group Management
The principles for remuneration of the Board and Group Management are approved at the Annual General Meeting of the shareholders. The decisions approved by the 2010 meeting are described in the following paragraphs.

Board members
Remuneration and fees are based on the work performed by the Board. The remuneration and fees approved for 2010 are detailed in the table on the previous page. The remuneration to the President and CEO, who is a member of Group Management, is described in the following sections.

The Annual General Meeting decided that each Board member can elect to receive 50% of the 2010 gross fee before tax, excluding other committee fees, in the form of synthetic shares and the remaining part in cash. The number of shares is based upon an average end price of series A shares during ten trading days following the release of the first quarterly interim report for 2010. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The Board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a Board member resigns their position before the stipulated payment date as stated above, the Board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the Board member resigned or otherwise the original payment date is valid.

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

Group Management
The Group Management consists of the President and the other seven members of the Management Committee. The compensation to the Group Management shall consist of base salary, variable compensation, possible long term incentive (personnel options), pension premium and other benefits. The following describes the various guidelines in determining the amount of remuneration:

- Base salary is determined by position, qualification and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 70% of the base salary for the Group President, 50% for Business Area Presidents and 40% for other members of the Management Committee.
- Performance related personnel option program for 2010 as approved by the Board. See note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums ranging between 25–35% of base salary depending on age.
- Other benefits consist of company car and private health insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco expatriate employment policy.

A mutual notice of termination of employment of six months shall apply. Compensation for termination is maximized to an amount corresponding to 24 months base salary.

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

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

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

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

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

Stock options/share appreciation rights holdings as at Dec. 31, 2010

Grant year	2006	2007	2008	2009	2010[1]	Total
CEO	–	58 750[2]	58 750[2]	52 875	123 166	293 541
Other members of Group Management[2]	88 125	151 768	195 832	132 190	306 336	874 251

[1] Estimated grants for the 2010 stock option program including matching shares.
[2] Includes options/share appreciation rights from previous positions.
See note 23 for additional information.

Termination of employment
The CEO is entitled to a severance pay of 12 months if the Company terminates the employment and a further 12 months if other employment is not available.

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

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

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

Remuneration and other committees
In 2010, the Chair of the Board, Sune Carlsson, Vice Chair, Jacob Wallenberg, and Board Member Anders Ullberg were members of the remuneration committee. The committee proposed compensation to the President and CEO for approval by the Board. The committee also supported the President and CEO in determining the compensation for the other members of Group Management.

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

6. Remuneration to auditors

Audit fees and consultancy fees for advice or assistance other than audit were as follows:

	2010	2009
Deloitte / KPMG		
– Audit fee	44	58
– Tax services	2	12
– Other services	8	3
Other audit firms		
– Audit fee	5	5
	59	**78**

At the Annual General Meeting 2010, Deloitte was elected as auditor for the Group for a four year period. The fee for 2009 relates to KPMG and the fee for 2010 relates to Deloitte, as elected auditors for the Group.

7. Operating expenses

Amortization, depreciation and impairment	2010	2009
Product development	408	379
Trademark	59	40
Marketing and customer related assets	156	142
Other technology and contract based assets	200	147
Goodwill	–	16
Buildings	158	161
Machinery and equipment	837	865
Rental equipment	680	720
	2 498	**2 470**

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

	2010		2009	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	27	13	27	20
Marketing expenses	6	188	5	205
Administrative expenses	54	72	34	16
Research and development expenses	389	74	359	58
	476	**347**	**425**	**299**

Impairment charges for 2010 totaled 72 (39) of which 57 (23) were classified as development expenses, 15 (10) as marketing expenses and – (6) as cost of sales. Impairment charges were recorded for capitalized development costs amounting to 40 (23) relating to projects discontinued. The impairment of trade mark of 5 and other technology and contract based assets of 18 relates primarily to the relocation of business operations from New Zealand to India in the Compressor Technique business area. Impairment of marketing and customer related assets of 9 was due to changes in the customer base in Latvia, Lithuania and Slovenia. The goodwill impairment charge of 16 in 2009 was related to two small acquisitions where the activities were discontinued.

Cost of sales
The amount of inventories recognized as expense amounted to 32 202 (32 688).

Personnel expenses
Total personnel expenses amounted to 14 699 (13 339), see note 5.

8. Other operating income and expenses

	2010	2009
Other operating income		
Commissions received	18	26
Income from insurance operations	106	122
Capital gain on sale of fixed assets	21	31
Capital gain on divestment of business	–	2
Other operating income	47	79
	192	**260**

	2010	2009
Other operating expenses		
Capital loss on sale of fixed assets	–21	–27
Exchange-rate differences	–19	–158
Other operating expenses	–53	–55
	–93	**–240**

Other operating income consists mainly of government grants received in China.

The operating profit includes 22 (–106) of realized and 2 (–2) of unrealized foreign exchange hedging result which were previously recognized in equity.

Information related to the changes in fair value of financial instruments using a valuation technique is included in note 27.

9. Financial income and expense

	2010	2009
Interest income		
– held-to-maturity investments	4	6
– assets held for trading	1	13
– bank deposits	76	95
– loans and receivables	260	240
Dividend income		
– other financial assets	1	1
Net foreign exchange gain	–	19
Change in fair value		
– financial assets to fair value through profit or loss	–	930
– ineffective part of fair value hedge	–	47
Capital gain		
– disposal of available-for-sale financial assets	81	–
– other financial assets	–	1
Financial income	**423**	**1 352**
Interest expense		
– financial liabilities measured at amortized cost	–826	–1 240
– liabilities held for trading	–99	–
– derivatives for fair value hedge	287	198
– pension provision, net	–126	–120
Net foreign exchange loss	–25	–
Change in fair value		
– financial assets to fair value through profit or loss	–	–53
– ineffective part of fair value hedge	–2	–
– related to other liabilities	–37	–862
Impairment loss		
– loans and receivables	–15	–94
Financial expense	**–843**	**–2 171**
Net finance costs	**–420**	**–819**

During 2010, Atlas Copco sold available for sale assets representing 3.2 million shares of its holdings in RSC Holdings Inc which resulted in a capital gain of 81, including 82 previously recognized in equity and net of sales expenses. See note 27, Other financial market/price risk for additional information.

The low interest rates in the year had a continued positive impact on the interest expense which decreased from 1 042 to 638 excluding interest for pension provision.

The significant decrease in value of assets to fair value through profit and loss and fair value of other liabilities is the result of the closure of interest rate swaps during 2010. This will lead to less sensitivity to movements in short-term interest rates, see further note 27, Interest risk.

The financial income and expenses above include the following in respect of assets (liabilities) not at fair value through profit or loss:

	2010	2009
Total interest income on financial assets	340	341
Total interest expense on financial liabilities	–826	–1 240

The following table presents the net gain or loss by financial instrument category:

	2010	2009
Net gain/loss on		
– financial assets to fair value through profit or loss	1	890
– loans and receivables, incl. bank deposits	322	241
– available-for-sale financial assets	81	–
– held-to-maturity investments	4	6
– other liabilities	–987	–2 081
– fair value hedge	285	245
	–294	**–699**
Other financial expense		
– interest expense on pension provisions, net	–126	–120
Net finance costs	**–420**	**–819**

The gain on financial assets to fair value through profit or loss include foreign exchange gains of 1 081 (960) while foreign exchange losses of 1 106 (941) are included in loss on other liabilities.

10. Taxes

Income tax expense	2010	2009
Current taxes	–3 619	–2 095
Deferred taxes	68	100
	–3 551	**–1 995**

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

	2010	2009
Profit before tax	13 495	8 271
Weighted average tax based on national rates	–3 900	–2 512
– in %	28.9	30.4
Tax effect of:		
Non-deductible expenses	–231	–167
Withholding tax on dividends	–271	–133
Tax-exempt income	891	838
Adjustments from prior years:		
– current taxes	64	–28
– deferred taxes	–24	–72
Effects of tax losses/credits utilized	2	120
Change in tax rate, deferred tax	–5	15
Tax losses not valued	–80	–86
Other items	3	30
Income tax expense	**–3 551**	**–1 995**
Effective tax in %	26.3	24.1

The effective tax rate amounted to 26.3% (24.1). A stronger increase of profit before tax than of tax benefits resulted in a higher effective tax rate.

Previously unrecognized tax losses/credits and deductible temporary differences which have been recognized against current tax expense amounted to 2 (120). No material unrecognized tax losses/credits or temporary differences have been used to reduce deferred tax expense. There is no significant deferred tax expense arising from a write-down of a previously recognized deferred tax asset.

Deferred taxes relating to temporary differences between carrying value and tax base of directly held shares in subsidiaries have not been recognized. For group companies, the Parent Company controls the realization of the deferred tax liability/asset and realization is not planned in the foreseeable future.

10. Continued

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

Change in deferred taxes	2010	2009
Net balance, Jan. 1	1 792	2 535
Business acquisitions	–10	–22
Charges to profit for the year	68	100
Tax on amounts recorded to equity	–1 650	–842
Translation differences	–58	21
Net balance, Dec. 31	**142**	**1 792**

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

Deferred tax assets and liabilities	2010			2009		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	30	766	–736	36	870	–834
Property, plant and equipment	237	429	–192	248	449	–201
Other financial assets	1	220	–219	2	226	–224
Inventories	1 147	4	1 143	751	4	747
Current receivables	155	14	141	119	25	94
Operating liabilities	411	6	405	382	8	374
Provisions	292	4	288	226	5	221
Post-employment benefits	175	7	168	181	8	173
Borrowings	12	855	–843	998	2	996
Loss/credit carry forwards	444	–	444	759	–	759
Other items	80	537	–457	111	424	–313
Deferred tax assets/liabilities	**2 984**	**2 842**	**142**	**3 813**	**2 021**	**1 792**
Netting of assets/liabilities	–1 675	–1 675	–	–1 432	–1 432	–
Net deferred tax balances	**1 309**	**1 167**	**142**	**2 381**	**589**	**1 792**

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

At December 31, 2010, the Group had total tax loss carry-forwards of 2 793 (4 023) of which no deferred tax assets had been recognized of 1 366 (1 234) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiration date for utilization for the major part of the tax losses for which no deferred tax assets have been recorded.

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

	2010	2009
Intangible assets	107	85
Property, plant and equipment	–14	–83
Other financial assets	–1	–11
Inventories	442	–107
Current receivables	52	37
Operating liabilities	43	5
Provisions	81	–22
Post-employment benefits	16	–35
Borrowings	–189	130
Other items	–165	–155
Changes due to temporary differences	**372**	**–156**
Loss/credit carry-forwards	–304	256
	68	**100**

10. Continued

Consolidated Statement of Comprehensive Income

	2010			2009		
Other comprehensive income for the year	Before tax	Tax	After Tax	Before tax	Tax	After Tax
Attributable to owners of the parent						
Translation differences on foreign operations	–3 418	–1 117	–4 535	–1 092	–487	–1 579
Hedge of net investments in foreign operations	2 032	–534	1 498	951	–250	701
Cash flow hedges	–49	1	–48	410	–108	302
Available-for-sale investments	217	–	217	–128	–	–128
– realized and reclassified to income statement	–82	–	–82	–	–	–
	–1 300	**–1 650**	**–2 950**	**141**	**–845**	**–704**
Attributable to non-controlling interests						
Translation differences on foreign operations	–1		–1	–6		–6
	–1 301	**–1 650**	**–2 951**	**135**	**–845**	**–710**

11. Earnings per share

	Basic earnings per share		Diluted earnings per share	
Amounts in SEK	2010	2009	2010	2009
Earnings per share	8.16	5.14	8.15	5.13

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	2010	2009
Profit for the year	9 921	6 244

Basic earnings per share
Basic earnings per share are calculated based on the profit for the year attributable to owners of the parent and the basic weighted average number of shares outstanding.

Diluted earnings per share
Diluted earnings per share are calculated based on the profit for the year attributable to owners of the parent and the diluted weighted average number of shares outstanding and, if dilutive, by adjusting the profit for the year for the difference between cash-settled and equity-settled treatment of options for which employees can choose settlement in shares or cash.

The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs.

The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options. The dilutive effect increases in proportion to the increase in the difference between the average share price during the period and the exercise price of the options. The exercise price is adjusted by the value of future services related to the options when calculating the dilutive effect.

Average number of shares outstanding	2010	2009
Basic weighted average number of shares outstanding	1 215 882 771	1 215 909 704
Effect of employee stock options	1 395 798	434 544
Diluted weighted average number of shares outstanding	**1 217 278 569**	**1 216 344 248**

Potentially dilutive instruments
As of December 31, 2010 Atlas Copco has five outstanding employee stock option programs, of which the exercise price for the 2010 program exceeded the average share price for series A shares, SEK 123 (81) per share. This program is, therefore, considered anti-dilutive and is not included in the calculation of diluted earnings per share. If the average share price exceeds the strike price in the future, these options will be dilutive.

12. Intangible assets

2010	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	2 826	498	64	1 820	1 282	836	8 284	15 610
Investments	414	36				67		517
Business acquisitions				328	396	68	852	1 644
Disposals	–120	–1		–2		–13		–136
Reclassifications	–4	4	4			10		14
Translation differences	–203	–28	–2	–60	–124	–52	–340	–809
Closing balance, Dec. 31	**2 913**	**509**	**66**	**2 086**	**1 554**	**916**	**8 796**	**16 840**
Amortization and impairment losses								
Opening balance, Jan. 1	1 536	215	38	173	497	424	30	2 913
Amortization for the period	358	78	10	54	147	104		751
Impairment charge for the period	40			5	9	18		72
Business acquisitions						4		4
Disposals	–113	–1	–1			–10		–125
Reclassifications	–3		4			–1		–
Translation differences	–130	–15	–1	–16	–43	–31	–3	–239
Closing balance, Dec. 31	**1 688**	**277**	**50**	**216**	**610**	**508**	**27**	**3 376**
Carrying amounts								
At Jan. 1	1 290	283	26	1 647	785	412	8 254	12 697
At Dec. 31	1 225	232	16	1 870	944	408	8 769	13 464

2009	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	2 444	450	64	1 847	1 301	781	8 414	15 301
Investments	539	66				52		657
Business acquisitions					48	20	78	146
Disposals	–89	–2			–3	–6		–100
Reclassifications	22	–5				24		41
Translation differences	–90	–11		–27	–64	–35	–208	–435
Closing balance, Dec. 31	**2 826**	**498**	**64**	**1 820**	**1 282**	**836**	**8 284**	**15 610**
Amortization and impairment losses								
Opening balance, Jan. 1	1 314	159	25	140	377	355	15	2 385
Amortization for the period	343	59	13	40	142	88		685
Impairment charge for the period	23						16	39
Disposals	–89	–1			–3	–3		–96
Reclassifications	–1	3						2
Translation differences	–54	–5		–7	–19	–16	–1	–102
Closing balance, Dec. 31	**1 536**	**215**	**38**	**173**	**497**	**424**	**30**	**2 913**
Carrying amounts								
At Jan. 1	1 130	291	39	1 707	924	426	8 399	12 916
At Dec. 31	1 290	283	26	1 647	785	412	8 254	12 697

Other technology and contract-based intangible assets include computer software, patents and contract-based rights such as licenses and franchise agreements. All intangible assets other than goodwill and trademark with indefinite useful lives are amortized. For information regarding amortization and impairment, see notes 1 and 7. See note 2 for information on business acquisitions.

12. Continued

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

Atlas Copco reviews the carrying value of goodwill and intangible assets with an indefinite useful life, certain trademarks, for impairment on at least an annual basis. The impairment tests (including sensitivity analyses) are performed as per September 30 each year. In addition to the annual review, an assessment is made to determine whether there is any indication of impairment at each reporting date.

The accompanying table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by division.

Acquired businesses and the related cash flows are historically integrated with other Atlas Copco operations soon after the acquisition. Therefore, the Group prepares impairment tests at the divisional level which has also been identified as the cash-generating units (CGU). The recoverable amounts of the CGUs 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 and discount rates.

All assumptions for the five-year forecast are estimated individually for each of the divisions based on their particular market position and the characteristics and development of their end markets. The forecasts assigned represent management's assessment and are based on both external and internal sources. The perpetual percentage for the period after five years is estimated at three percent. The Group's average weighted cost of capital in 2010 was 8% (7.4%) after tax (approximately 10.5% (9.9%) before tax) and has been used in discounting the cash flows to determine the recoverable amounts.

Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit

	2010		2009	
	Trademarks	**Goodwill**	**Trademarks**	**Goodwill**
Compressor Technique				
Oil-free Air		252		264
Industrial Air		1 289		1 036
Specialty Rental		85		92
Portable Air		52		30
Gas and Process		144		152
Compressor Technique Service		567		332
Business area level		31		32
	–	**2 420**	**–**	**1 938**
Construction and Mining Technique				
Underground Rock Excavation		45		45
Surface Drilling Equipment		279		134
Drilling Solutions		242		248
Road Construction Equipment	1 225	3 118	1 225	4 448
Secoroc		151		132
Construction Tools		1 820		575
Geotechnical Drilling and Exploration		171		188
Business area level		12		13
	1 225	**5 838**	**1 225**	**5 783**
Industrial Technique				
Tools and Assembly Systems Motor Vehicle Industry		143		134
Tools and Assembly Systems General Industry		52		56
Chicago Pneumatic Tools	103	312	114	338
Business area level		4		5
	103	**511**	**114**	**533**
	1 328	**8 769**	**1 339**	**8 254**

Intangible assets of 1 306 were transferred to the Construction Tools division and 24 to the Portable Air division from the Road Construction Equipment division following a transfer of responsibility for light compaction equipment and pumps respectively.

13. Property, plant and equipment

2010	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	3 950	9 773	302	14 025	4 023
Investments	151	811	–58	904	828
Business acquisitions	71	149	8	228	
Disposals	–26	–486		–512	–712
Reclassifications [1)]	–44	–4	–2	–50	–1
Translation differences	–263	–643	–6	–912	–145
Closing balance, Dec. 31	**3 839**	**9 600**	**244**	**13 683**	**3 993**
Depreciation and impairment losses					
Opening balance, Jan. 1	1 564	6 468		8 032	1 967
Depreciation for the period	156	837		993	680
Impairment charge for the period	2			2	
Business acquisitions	2	7		9	
Disposals	–23	–437		–460	–407
Reclassifications [1)]	–11	–7		–18	
Translation differences	–124	–453		–577	–90
Closing balance, Dec. 31	**1 566**	**6 415**		**7 981**	**2 150**
Carrying amounts					
At Jan. 1	2 386	3 305	302	5 993	2 056
At Dec. 31	2 273	3 185	244	5 702	1 843

1) In accordance with IFRS 5, fixed assets related to operations in Germany were reclassified as assets held for sale during the fourth quarter. See note 3 for additional information.

2009	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	3 685	9 676	698	14 059	4 111
Investments	494	871	–379	986	785
Business acquisitions	9	25		34	41
Disposals	–39	–463		–502	–921
Reclassifications [2)]	–34	–52	–16	–102	13
Translation differences	–165	–284	–1	–450	–6
Closing balance, Dec. 31	**3 950**	**9 773**	**302**	**14 025**	**4 023**
Depreciation and impairment losses					
Opening balance, Jan. 1	1 496	6 210		7 706	1 829
Depreciation for the period	145	860		1 005	720
Impairment charge for the period	16	5		21	
Business acquisitions		9		9	
Disposals	–19	–407		–426	–579
Reclassifications [2)]	–9	–19		–28	11
Translation differences	–65	–190		–255	–14
Closing balance, Dec. 31	**1 564**	**6 468**		**8 032**	**1 967**
Carrying amounts					
At Jan. 1	2 189	3 466	698	6 353	2 282
At Dec. 31	2 386	3 305	302	5 993	2 056

2) In accordance with IFRS 5, fixed assets related to operations in Japan were reclassified as assets held for sale during the fourth quarter. See note 3 for additional information.

The tax assessment values for Group properties in Sweden amount to 276 (273) and pertain exclusively to buildings and land. The corresponding net book value of these is 336 (332). For information regarding depreciation, see notes 1 and 7. See note 22 for information on finance leases.

14. Investments in associated companies

Accumulated capital participation	2010	2009
Opening balance, Jan. 1	101	121
Acquisition of subsidiary	–	–16
Divestment of associated company	–	–4
Dividends	–2	–2
Profit for the year after income tax	13	–
Translation differences	–4	2
Closing balance, Dec. 31	**108**	**101**

Summary of financial information for associated companies

	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Percentage of capital
2010							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	49	5	44	41	2	25
Shanghai Toku International Co. Ltd.	China	43	25	18	202	7	50
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	63	38	25	86	9	25
Toku-Hanbai KK	Japan	281	113	168	644	8	50
2009							
Focus Rocbit Pvt. Ltd.	India	–	–	–	13	2	25
Prisma Roctools Pvt. Ltd.	India	–	–	–	7	–	25
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	48	4	44	32	–2	25
Shanghai Toku International Co. Ltd.	China	31	19	12	94	–	50
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	77	58	19	108	4	25
Toku-Hanbai KK	Japan	265	97	168	523	–	50

The above table is based on the most recent financial reporting available from associated companies. The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

In 2008, Atlas Copco (India) Ltd. acquired 25% interest in Focus Rocbit Pvt. Ltd. and Prisma Roctools Pvt. Ltd. in India, in order to strengthen the Group's position in the market for drill bits and hammers. Atlas Copco exercised its option to acquire the remaining shares in both companies in 2009.

15. Other financial assets

	2010	2009
Non-current		
Pension and other similar benefit assets (note 23)	590	562
Derivatives		
– not designated for hedge accounting	6	10
– designated for hedge accounting	206	1 298
Available-for-sale investments	504	549
Held-to-maturity securities	159	185
Other shares and investments	5	6
Finance lease receivables	480	700
Other financial receivables	751	754
	2 701	**4 064**
Current		
Held-to-maturity investments		
– government bonds	254	219
Finance lease receivables	430	585
Other financial receivables	1 050	726
	1 734	**1 530**

The available-for-sale investments consist of shares in RSC Holdings Incorporated which derive from the divestment of the rental operations in 2006. The Group held 10.5% as of December 31, 2009 which was reduced to 7.4% in 2010 through sales of shares. The shares have a value of 504 (549) as of December 31. See note 9 and note 27, Other financial market/price risk for further details.

The significant decrease in fair value of derivatives is primarily due to the closure of interest rate swaps during 2010, see further note 27 Group interest rate risk policy.

See note 22 for information on finance leases and note 27 for additional information on fair value derivatives.

16. Inventories

	2010	2009
Raw materials	513	503
Work in progress	2 390	2 353
Semi-finished goods	3 406	2 891
Finished goods	6 630	5 630
	12 939	**11 377**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 350 (508). Reversals of write-downs which were recognized in earnings totaled 185 (108). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

No part of total carrying amount of inventories was pledged as security for liabilities.

17. Trade receivables

Trade receivables are reported net of provisions for doubtful accounts and other impairments totaling 659 (621). Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 401 (339). For credit risk information see note 27.

18. Other receivables

	2010	2009
Derivatives		
– not designated for hedge accounting	27	46
– designated for hedge accounting	321	109
Financial assets classified as loans and receivables		
– other receivables	2 464	2 016
– accrued income	406	184
Prepaid expenses	531	471
	3 749	**2 826**

The increase in value of derivatives designated for hedge accounting is primarily an effect of the strengthening of the SEK to the EUR.

Other receivables consist primarily of VAT claims and advances to suppliers. Prepaid expenses and accrued income include items such as rent, insurance, interest, premiums and commissions.

See note 27 for additional information on fair value derivatives.

19. Cash and cash equivalents

	2010	2009
Cash	3 105	2 959
Cash equivalents	11 159	9 206
	14 264	**12 165**

Cash and cash equivalents totaled 14 264 (12 165) at December 31. During 2010, cash equivalents had an average effective interest rate of 0.67 % (1.26).

The management of MEUR 500 has been outsourced to two banks. The banks may invest the funds under the same Investment Policy which regulates the management of the funds under Atlas Copco's own management.

Committed, but unutilized, credit lines equaled 13 188 (7 207).

See note 27 for additional information.

20. Equity

Shares outstanding, 2010	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–9 524 840	–1 712 033	–11 236 873
Total shares outstanding, Dec. 31	**829 869 256**	**388 506 975**	**1 218 376 231**

Shares outstanding, 2009	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–11 275 000	–2 428 400	–13 703 400
Total shares outstanding, Dec. 31	**828 119 096**	**387 790 608**	**1 215 909 704**

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

Repurchases of shares	Number of shares		Amounts affecting equity	
	2010	2009	2010	2009
Opening balance, Jan. 1	13 703 400	13 703 400	1 212	1 212
Repurchase of A shares	813 000	–	88	–
Divestment of A shares	–2 563 160	–	–240	–
Divestment of B shares	–716 367	–	–49	–
Closing balance, Dec. 31	**11 236 873**	**13 703 400**	**1 011**	**1 212**
Percentage of total number of shares	0.9%	1.1%		

The 2010 Annual General Meeting (AGM) approved a mandate for the Board of Directors until the next AGM to repurchase and to sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adopt the capital structure of the Company as follows:

- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to Board members who have opted to receive synthetic shares as part of their board fee.
- The purchase of not more than 5 730 000 series A shares, whereof maximum 4 765 874 will be used for the transfer to performance stock option holders under the Performance Stock Option Plan 2010.
- The purchase of maximum 5% of all issued shares, excluding those shares held by the company at the time of the AGM on April 28, 2010, but including shares that the company will purchase based on mandates granted at that AGM.
- The sale of maximum 2 525 000 series A shares and maximum 2 400 000 series B shares held by the company at the time of the AGM 2010, for the purpose of covering costs of fulfilling obligations related to the performance stock option plans 2006–2008.

The shares may only be acquired at a price per share within the registered trading interval at any given point in time.

In the period April–December 2010, 2 543 576 series A shares and 651 106 series B shares were sold in accordance with the mandate granted at the 2010 AGM. Combined with the transactions made in the first quarter 2010 in accordance with the mandate granted at the 2009 AGM, as detailed on the next page, 1 750 160 series A shares, net, and 716 367 series B shares were sold during 2010.

20. Continued

The 2009 AGM approved a mandate to repurchase on one or more occasions a maximum of 5 570 000 series A shares on the NASDAQ OMX Stockholm to be able to fulfill the obligations under the performance stock option plan 2009 and in relation to the synthetic shares offered as part of the Board remuneration.

The 2009 AGM also approved a mandate to sell a maximum of 1 445 000 series B shares held by Atlas Copco on NASDAQ OMX Stockholm on one or more occasions to cover costs, including social insurance charges, cash settlements, or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable, in accordance with the obligations in the 2006 and 2007 performance-based employee stock option plans. The mandates were valid until the 2010 AGM. No shares were repurchased or divested in 2009, whereas in the first quarter of 2010, 813 000 series A shares were repurchased while 19 584 series A shares and 65 261 series B shares respectively were sold under this resolution.

The 2008 AGM approved a resolution to repurchase a maximum of 10% of the total number of shares issued by Atlas Copco on the NASDAQ OMX Stockholm. This mandate was valid until the 2009 AGM. No shares were repurchased under this resolution.

The series A shares are held for possible delivery under the 2006, 2007, 2008 and 2009 personnel stock option programs.

The total number of shares of series A and series B held by Atlas Copco are presented in the table on the previous page. The series B shares held can be divested over time to cover costs related to the personnel stock option programs.

Reserves
Consolidated equity includes certain reserves which are described as follows:

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

Translation reserve
The translation reserve comprises all exchange differences arising from the translation of the financial statements of foreign operations, 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.

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

See note 27 for information on capital management.

Appropriation of profit
The Board of Directors proposes a dividend of SEK 4.00 (3.00) totaling SEK 4 873 504 924 (3 645 587 402), if shares held by the company on December 31, 2010 are excluded. The Board of Directors also proposes a share redemption procedure, whereby every share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 5.00 per share totaling SEK 6 091 881 155 if the shares held by the company on December 31, 2010 are excluded. Combined with the proposed ordinary dividend, shareholders will receive SEK 10 965 386 079.

For further information see appropriation of profit on page 97.

The proposed dividend for 2009 of SEK 3.00 as approved by the AGM on April 28, 2010 was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 3 645 587 402.

21. Borrowings

	2010		2009	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Non-current				
Medium Term Note Program	8 499	7 915	11 456	10 841
Other bond loans	7 169	6 407	7 219	6 792
Other bank loans	3 922	3 922	4 357	4 265
Less: current portion of bank loans	–37	–37	–2 095	–2 095
Total non-current loans	19 553	18 207	20 937	19 803
Finance lease liabilities	62	62	71	71
	19 615	**18 269**	**21 008**	**19 874**
Current				
Current portion of bank loans	37	37	2 095	2 095
Short-term loans	417	417	815	815
Finance lease liabilities	45	45	49	49
	499	**499**	**2 959**	**2 959**
	20 114	**18 768**	**23 967**	**22 833**

See note 22 for information on finance leases.

The Company has outstanding loans consisting of a MSEK 3 000 5-year bond issue, a MEUR 600 7-year bond issue, and a MUSD 800 10-year bond issue. This is complemented by loans from the European Investment Bank and the Nordic Investment Bank.

Atlas Copco has a long-term debt rating of A-/A3. During the year, bonds of MSEK 2 000 matured.

The company has one committed back-up credit line of MSEK 6 390 maturing 2017, and one of MUSD 1 000 maturing 2012. These lines have never been utilized.

The company has commercial paper programs for short-term borrowings in the United States, Sweden, and certain European countries. The maximum amounts available under these programs total MUSD 1 500 and MSEK 6 000 corresponding to a total of MSEK 16 196 (16 810). As of December 31, 2010 and 2009 there were no outstanding balances under these programs. These programs have a K1 rating in Sweden and an A2/P2 rating internationally.

Other than standard undertakings such as negative pledge and pari passu, the various interest-bearing loans and borrowings do not contain any financial covenants.

The difference between carrying amount and nominal amount on the borrowings is due to the fair value adjustment resulting from the decrease in market interest rates as compared to the nominal interest rates for the loans which are designated as hedged items in fair value hedges.

Additional information about the Group's future maturities of loan liabilities, exposure to interest rate and foreign currency risk is detailed in note 27.

The Atlas Copco Group's short-term and long-term loans are distributed among the following currencies:

Distribution of current and non-current borrowings

	2010			2009		
Currency	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	969	8 725	43	969	10 013	42
SEK	3 347	3 347	17	6 044	6 044	25
USD	1 079	7 333	36	1 016	7 319	31
Other		709	4		591	2
		20 114	**100**		**23 967**	**100**

22. Leases

Operating leases – lessee

The leasing costs of assets under operating leases amounted to 688 (717) and are derived primarily from rented premises, machinery, computer and office equipment. The office and factory facilities under operating leases typically run for a period of 10 to 15 years. The total leasing cost includes minimum lease payments of 649 (685), contingent rent 45 (39), and sublease payments received of 6 (7). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2010	2009
Less than one year	520	502
Between one and five years	979	875
More than five years	438	407
	1 937	**1 784**

The total of future minimum sublease payments expected to be received was 46 (40).

Operating leases – lessor

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

	2010	2009
Less than one year	336	232
Between one and five years	312	257
More than five years	15	32
	663	**521**

Contingent rent recognized as income was 3 (7).

Finance leases – lessee

Assets used under finance lease are comprised primarily of vehicles.

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2010	125	17
Carrying amounts, Dec. 31, 2010	106	13
Carrying amounts, Jan. 1, 2009	163	6
Carrying amounts, Dec. 31, 2009	125	17

Future payments will fall due as follows:

	2010			2009		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	51	6	45	57	8	49
Between one and five years	68	8	60	76	9	67
More than five years	2	–	2	4	–	4
	121	**14**	**107**	**137**	**17**	**120**

Finance leases – lessor

The Group offers lease financing to customers via Atlas Copco Customer Finance and certain other subsidiaries. Future lease payments to be received fall due as follows:

	2010		2009	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	478	430	664	585
Between one and five years	500	455	754	680
More than five years	28	25	18	15
	1 006	**910**	**1 436**	**1 280**
Unearned finance income		96		151
Unguaranteed residual value		–		5
	1 006	**1 006**	**1 436**	**1 436**

23. Employee benefits

The net pension obligations have been recorded in the balance sheets as follows:

	2010	2009
Financial assets (note 15)	–590	–562
Post-employment benefits	1 578	1 768
Other provisions (note 25)	63	66
Total, net	**1 051**	**1 272**

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

Asset returns improved in 2010, with a significant number of plans exceeding the expected return on assets assumption set at the beginning of the year. This strong return was most evident in countries where the asset portfolio contained a high proportion of bonds, as the general decrease in bond yields during 2010 served to increase the values of these portfolios.

In 2010, two new countries were included which has resulted in an increase of the net present value of the net obligations by 68, whereof 61 for India and 7 for Thailand, as well as an increase of the fair value of plan assets by 19 as one of the plans in India is funded.

In Great Britain, the pension plan was converted from a defined benefit plan to a defined contribution plan for future services. This transition was accounted for as a curtailment reported as a one off income item in the 2010 pension expense of 35.

In Canada, the adjustments in minimum funding for 2009 of 56 were reversed in 2010 due to the deficit position at the end of the year. The effects of this income were offset by the recognition of the actuarial loss in the pension expense.

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

In Canada, Atlas Copco provides a pension plan, a supplemental retirement pension benefit plan for executives, both funded and two unfunded plans, a post retirement benefit plan and a post employment plan.

The German plans include those for pensions, early retirements, jubilee and death benefits. All plans are unfunded.

There is a final salary pension plan in Great Britain and the plan is funded. As stated above, the plan has in 2010 been converted to a defined contribution plan for future services. The plan has the largest defined benefit obligation of all plans and represents 26% of the total defined benefit obligation of the Group.

In Sweden, there are three defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Sweden. Atlas Copco finances the benefits through a pension foundation. Atlas Copco has also obligations for family pensions for salaried employees, which are funded through a third party insurer. This plan is accounted for as a defined contribution plan as insufficient information is available for calculating the net pension obligation. The second plan relates to a group of employees earning more than 10 income base amounts who has opted out from the ITP plan. The plan is insured. The third plan subject to IAS 19 relates to former senior employees now retired. The latter two pension arrangements are provided for in the balance sheet.

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

The actual return on plan assets totaled 501 (81). Of the total benefit expense of 295 (346), 169 (226) has been charged to operating expense and 126 (120) to financial expense.

Post-employment benefits

2010	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	5 039	1 464	222	6 725
Fair value of plan assets	–5 064	–	–	–5 064
Present value of net obligations	**–25**	**1 464**	**222**	**1 661**
Unrecognized past service cost	–1	–7	–	–8
Unrecognized actuarial gains (+) / losses (–)	–577	–80	41	–616
Recognized liability for defined benefit obligations	**–603**	**1 377**	**263**	**1 037**
Other long-term service liabilities	–	–	14	14
Net amount recognized in balance sheet	**–603**	**1 377**	**277**	**1 051**
2009				
Defined benefit obligations	4 893	1 536	266	6 695
Fair value of plan assets	–4 852	–	–	–4 852
Present value of net obligations	**41**	**1 536**	**266**	**1 843**
Adjustment in respect of minimum funding requirement	55	–	–	55
Unrecognized actuarial gains (+) / losses (–)	–706	57	6	–643
Recognized liability for defined benefit obligations	**–610**	**1 593**	**272**	**1 255**
Other long-term service liabilities	–	–	17	17
Net amount recognized in balance sheet	**–610**	**1 593**	**289**	**1 272**

23. Continued

Movement in plan assets	2010	2009
Fair value of plan assets at Jan. 1	4 852	4 863
Expected return on plan assets	212	233
Difference between expected and actual return on plan assets	289	–152
Settlements	–34	–124
Employer contributions	140	238
Plan members contributions	17	20
Benefits paid by the plan	–205	–233
Translation differences	–207	7
Fair value of plan assets at Dec. 31	**5 064**	**4 852**

Plan assets consist of the following:	2010	2009
Equity securities	650	634
Bonds	3 675	3 606
Other	624	485
Cash	115	127
	5 064	**4 852**

The plan assets are allocated among the following geographic areas:	2010	2009
Europe	3 676	3 520
North America	1 358	1 321
Rest of the world	30	11
	5 064	**4 852**

Plan assets include 18 (19) of Atlas Copco AB series B shares. Plan assets do not include any property which is occupied by members of the Group.

Movement in the obligations for defined benefits	2010	2009
Defined benefit obligations at Jan. 1	6 695	6 741
Service cost	168	176
Interest expense	338	353
Actuarial experience gains (–) / losses (+)	125	56
Actuarial assumptions gains (–) / losses (+)	256	93
Settlements	–68	–135
Benefits paid from plan or company assets	–420	–489
Other	67	20
Translation differences	–436	–120
Defined benefit obligations at Dec. 31	**6 725**	**6 695**

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:	2010	2009
Europe	5 004	5 110
North America	1 607	1 546
Rest of the world	114	39
	6 725	**6 695**

Expenses recognized in the income statement	2010	2009
Service cost	168	176
Interest expense	338	353
Expected return on plan assets	–212	–233
Employee contribution	–17	–20
Past service cost	11	22
Amortization of unrecognized actuarial loss	91	–1
Settlement/curtailment	–28	2
Adjustment in respect of minimum funding requirement	–56	47
	295	**346**

The expenses are recognized in the following line items in the income statement:	2010	2009
Cost of sales	56	80
Marketing expenses	48	58
Administrative expenses	53	74
Research and development expenses	12	14
Financial expense (note 9)	126	120
	295	**346**

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	2010	2009
Discount rate		
Europe	4.76	5.00
North America	5.44	5.94
Expected return on plan assets		
Europe	4.31	4.43
North America	5.15	6.24
Future salary increases		
Europe	3.05	3.33
North America	3.18	3.51
Medical cost trend rate		
North America	9.0	9.4
Future pension increases		
Europe	2.28	2.15
North America	0.34	0.35

The discount rate is determined by reference to market yields at the balance sheet date using high quality corporate bonds (AAA or AA), if available, matching the duration of the pension obligations. In other countries where corporate bonds are not available, government bonds are used to determine the discount rate.

In 2010, the Group has used the Swedish covered bonds to determine the Swedish discount rate. The Swedish covered bonds market is considered to be of high quality (AAA or AA) and liquid, and thereby meets the requirements in IAS 19.

The expected return on plan assets is based on yields for government bonds with the addition of an equity risk premium in respect of equity related instruments. The assumption also reflects the allocation of assets for the respective plans as well as the particular yields for the respective country or region.

Expected salary increase is in most countries based on a real salary increase of 1% plus inflation. Although the absolute rate of earnings increase granted from year to year may appear volatile, over the longer term a higher degree of stability is seen when increases are expressed in real terms.

23. Continued

Assumed healthcare cost trend rates have a significant effect on the amounts recognized in profit and loss for post retirement medical plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Medical cost trend rate	One percentage point increase	One percentage point decrease
Effect on aggregate service cost	7.7%	–5.4%
Effect on defined benefit obligation	8.2%	–7.1%

Historical information	2010	2009	2008	2007	2006
Present value of defined benefit obligations	6 725	6 695	6 741	6 288	6 416
Fair value of plan assets	5 064	4 852	4 863	4 936	4 739
Present value of net obligations	**1 661**	**1 843**	**1 878**	**1 352**	**1 677**

Experience adjustments relating to:	2010	2009	2008	2007	2006
Plan assets	289	–152	–293	–66	11
Plan liabilities	125	–56	–33	16	–51

The Group expects to pay 309 (287) in contributions to defined benefit plans in 2011.

Share value based incentive programs

In 2000, the Board of Directors resolved to implement a worldwide personnel stock option program for the years 2000–2003 for key employees in the Group. The implementation of this program was to be decided upon by the Board on a yearly basis. No personnel stock option programs were decided upon in 2004 and 2005. In 2006, 2007, 2008 and 2009, the Annual General Meeting decided on performance based personnel stock option programs based on a proposal from the Board reflecting an option program for the respective years. In 2010, the Annual General Meeting decided on a performance based personnel stock option program for 2010 similar to the 2006, 2007, 2008 and 2009 programs.

Option program 2000–2003

The 2000–2003 program provided for the grant of stock options, which entitled the holders to acquire Atlas Copco AB series A shares at an exercise price which was calculated as 110% of the average trading price during a ten-day period before the grant.

In some countries, Share Appreciation Rights (SARs) were granted instead of options due to legal and tax reasons. A SAR does not entitle the holder to acquire shares, but only to receive the difference between the price of the series A share at exercise and a fixed price, corresponding to the exercise price of the stock options.

The main terms of the personnel stock options/SARs program 2000–2003 were as followed: they were issued by Atlas Copco AB; had a term of six years from grant date and vested at a rate of one third per year as from the date of grant. They were not transferable. The personnel options were granted free of charge and had no performance conditions. This program has expired at year end 2009.

Option programs 2006–2010

At the Annual General Meeting 2006, 2007, 2008, 2009 and 2010 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in May/June each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2010 option program, the interval for EVA was set to SEK 900 000 000, and the issue varies on a linear basis within the interval from zero to 100% of the maximum number. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options issued 2006–2008 remain the property of the employee also if the employment is terminated. For the 2009 and 2010 programs the options remain the property of the employee only to the extent they are exercisable at the time employment is terminated. The 2009 program has a term of five years from the issue date and is not transferable. The 2010 program has a term of five years from the grant date and is not transferable. The options in the programs 2006–2009 become exercisable at a rate of one third per year, starting one year after the issue date. The options in the 2010 program become exercisable at 100% three years after grant.

The 2010 program includes a requirement for senior executives (27 in total) to purchase Atlas Copco A shares for 10% of their gross base salary in order to be granted options. A lower amount of investment will reduce the number of options proportionately. Further, senior executives that have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75% of the average trading price for series A shares during a ten day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

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

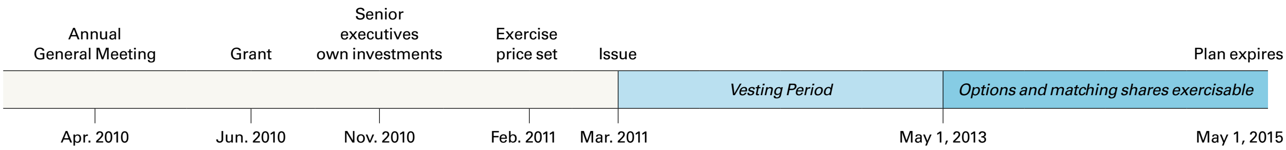
In the 2008, 2009 and 2010 programs the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

The Black-Scholes model was used to calculate the fair value of the options/SARs in the programs at Issue date. Since the issue date for the 2010 program will be in March 2011 the fair value has been simulated through a Monte Carlo model of what it may be established at in March 2011. For the programs in 2010 and 2009, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2010 Program (at Dec.31, 2010)	2009 Program (at issue date)
Expected exercise price	SEK 187/127.5 [1)]	SEK 108 [2)]
Expected volatility	30%	35%
Expected option life (years)	3.11–4.11	2.89–4.89 years
Expected share price	SEK 170.20	SEK 117.80
Expected dividend (growth)	SEK 3.30 (10%)	SEK 3.00 (10%)
Risk free interest rate	2.41–2.59	1.52–2.15%
Expected average grant value	SEK 30.13/54.78 [1)]	SEK 29.65 [2)]
Maximum number of options	4 699 874	4 699 874
– of which forfeited	249 686	2 723 752
Number of matching shares	37 218	

1) Matching shares for senior executives 2) Actual

Timeline 2010 option plan



23. Continued

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

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

For stock options, in the 2006–2008 programs, the fair value is recognized as an expense over the period May through March the following year, while, for the stock options in the 2009 program, the fair value is recognized as an expense over the period June 2009 through March 2013. For the stock options in the 2010 program the fair value is recognized as an expense over the period June 2010 through April 2013. A new valuation of the fair value has been and will be made at each reporting date until the issue of the 2010 program (March 2011). 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 2010 for all share-based incentive programs amounted to 209 (90) excluding social costs of which 24 (16) refers to equity-settled options. The related costs for social security contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses.

In the balance sheet, the provision for share appreciation rights and stock options classified as cash-settled as of December 31 amounted to 246 (90). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2006–2009. See also note 20.

Summary of share value based incentive programs[1)]

	Stock options					Share appreciation rights				
Program	**2003**	**2006**	**2007**	**2008**[2)]	**2009**[2)]	**2003**	**2006**	**2007**	**2008**	**2009**
Initial number of employees	138	183	177	198	222	127	36	38	41	47
Initial number of options	3 337 019	3 201 795	3 128 361	3 466 164	3 789 276	2 901 754	543 320	572 794	616 855	719 665
Expiration date	May 11, 2009	March 30, 2012	March 30, 2013	March 20, 2014	March 20, 2015	May 11, 2009	March 30, 2012	March 30, 2013	March 20, 2014	March 20, 2015
Exercise price, SEK	28.81	111.06	105	71	108	28.81	111.06	105	71	108
Type of share	A	A	A	A	A	A	A	A	A	A
Fair value on grant date		32.78	132.50	22.32	28.59					
Intrinsic value for vested SARs							58.64	64.70	98.70	

Number of options/rights 2010

Outstanding Jan. 1	–	3 201 795	3 040 239	3 245 857	3 789 276	–	499 360	528 733	572 794	719 665
Granted	–	–	–	–	–	–	–	–	–	–
Exercised	–	–1 483 145	–713 806	–347 520	–	–	–333 116	–167 868	–87 232	–
Expired/forfeited	–	–	–	–	–2 123 779	–	–	–	–	–409 040
Outstanding Dec. 31		**1 718 650**	**2 326 433**	**2 898 337**	**1 665 497**	**–**	**166 244**	**360 865**	**485 562**	**310 625**
– of which vested	–	1 718 650	2 326 433	2 898 337	1 665 497	–	166 244	360 865	485 562	310 625
– of which exercisable	–	1 718 650	1 310 133	734 495	–	–	166 244	184 644	103 712	–
Remaining exercise period, months	–	15	27	39	51	–	15	27	39	51
Average stock price for exercised options, SEK	–	145	149	137	–	–	143	147	132	–

Number of options/rights 2009

Outstanding Jan. 1	674 175	3 201 795	3 040 239	3 363 353	–	266 522	499 360	528 733	587 481	–
Granted	–	–	–	–	3 789 276	–	–	–	–	719 665
Exercised	–674 175	–	–	–	–	–266 522	–	–	–	–
Expired/forfeited	–	–	–	–117 496	–	–	–	–	–14 687	–
Outstanding Dec. 31	**–**	**3 201 795**	**3 040 239**	**3 245 857**	**3 789 276**	**–**	**499 360**	**528 733**	**572 794**	**719 665**
– of which vested	–	3 201 795	3 040 239	3 245 857	–	–	499 360	528 733	572 794	–
– of which exercisable	–	2 134 530	1 013 413	–	–	–	332 907	176 244	–	–
Remaining exercise period, months	–	27	39	51	63	–	27	39	51	63
Average stock price for exercised options, SEK	70	–	–	–	–	74	–	–	–	–

1) All numbers have been adjusted for the effect of the share split in June 2005 and May 2007.

2) Includes the stock options issued for which the optionees in Sweden have a choice to settle in shares or cash.

24. Other liabilities

	2010	2009
Derivatives		
– not designated for hedge accounting	169	170
– designated for hedge accounting	371	6
Financial liabilities classified as other liabilities		
– other operating liabilities	2 340	2 447
– accrued expenses	4 067	3 695
Advances from customers	2 166	2 072
Prepaid income	59	78
Deferred revenues service contracts	358	362
	9 530	**8 830**

The increase in value of derivatives designated for hedge accounting is an effect of the strengthening of the USD to the EUR.

Accrued expenses and prepaid income include items such as social costs, vacation pay liability and accrued interest. See note 27 for additional information on valuation of derivatives.

25. Provisions

2010	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	845	152	864	1 861
During the year				
– provisions made	893	53	607	1 553
– provisions used	–705	–93	–229	–1 027
– provisions reversed	–103	–20	–54	–177
Business acquisitions	42	1	–	43
Translation differences	–66	–9	–48	–123
Closing balance, Dec. 31	**906**	**84**	**1 140**	**2 130**
Non-current	122	45	688	855
Current	784	39	452	1 275
	906	**84**	**1 140**	**2 130**

2009	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	914	147	849	1 910
During the year				
– provisions made	911	176	674	1 761
– provisions used	–866	–154	–565	–1 585
– provisions reversed	–83	–15	–74	–172
Business acquisitions	1	–	1	2
Translation differences	–32	–2	–21	–55
Closing balance, Dec. 31	**845**	**152**	**864**	**1 861**
Non-current	101	32	443	576
Current	744	120	421	1 285
	845	**152**	**864**	**1 861**

Provisions for product warranty are recorded at the time of sale of a product and represent the estimated costs to repair or replace defect products. The amounts are estimated primarily using historical data for the level of repairs and replacements. As warranty periods are limited, the majority of the provision is classified as a current liability. Restructuring provisions consist primarily of severance pay to employees and costs for closure of facilities. Other provisions consist primarily of amounts related to share-based payments including social fees, jubilee benefits (see note 23), environmental remediation obligations and provision for service operations.

26. Assets pledged and contingent liabilities

	2010	2009
Assets pledged for debts to credit institutions		
Real estate mortgages	11	33
Assets pledged for pension commitments		
Endowment insurances	52	47
	63	**80**

	2010	2009
Contingent liabilities		
Notes discounted	20	23
Sureties and other contingent liabilities	93	103
	113	**126**

Sureties and other contingent liabilities relate primarily to guarantees to suppliers in the ordinary course of business and often in the form of letters of credit or bank guarantees.

27. Financial exposure and principles for control of financial risks

Overview

Atlas Copco Group Treasury has the operational responsibility for financial risk management in the Group. The establishment of the overall policies and systems to ensure the monitoring and management of the Group's financial risk is the responsibility of the Financial Risk Management Committee (FRMC). These risks include:

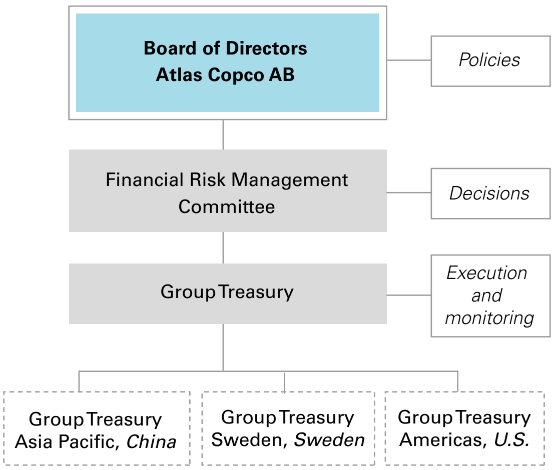
- Funding and liquidity risk
- Interest rate risk
- Currency risk
- Credit risk

In addition to Group level policies, there are similar policies for currency and credit risks at the business area, division and operating business unit level. Compliance with the policies are followed up by Group Treasury and reported to the FRMC on a quarterly basis. Deviations are reported immediately.

In its management of financial risks, the Group uses derivatives, and also incurs financial liabilities. All such transactions are carried out within the guidelines set by the FRMC. Generally, the Group seeks to apply hedge accounting in order to reduce volatility in the profit or loss that can result from fair-value adjustments. In those cases where hedge accounting is not applicable, the Group receives the benefits of an economic hedge but earnings may be affected by fair value adjustments during the term of the financial instruments.

The members of the FRMC are the CEO, CFO, Group Treasurer and Group Treasury Controller. Representatives from other functions are normally invited to discuss specific risks. The FRMC meets on a quarterly basis or more often if circumstances require.

The large cash holdings during the year led to a more focused management, see further financial credit risks.



Funding risk

Funding risk is the risk that the Group and its subsidiaries do not have access to adequate financing on acceptable terms at any given point in time. As per December 31, cash and cash equivalents totaled 14 264 (12 165). The overall liquidity of the Group is strong considering the maturity profile of the external borrowings and the balance of cash and cash equivalents as of year end.

Group funding risk policy

- The Group should maintain a minimum of MSEK 6 000 committed and sufficient uncommitted stand-by credit facilities to meet operational and strategic objectives (actual: 13 188).
- The average tenor (i.e. time until maturity) of Atlas Copco AB's external debt should be at least 3 years (actual: 4.4 years).
- No more than MSEK 5 000 of Atlas Copco AB's external debt may mature within the next 12 months (actual: 0). The next maturity is in 2012.

At year end 2010, the main credit facilities available to the Group were:

- MUSD 1 000 committed revolving credit facility with maturity in 2012. The interest expense for utilizing the facility is LIBOR plus 0.14% per annum. If the average utilization is more than 50%, the applicable rate is LIBOR plus 0.165% per annum. The facility has never been utilized.
- 6 390 committed facility with maturity in 2017. The interest expense for using the facility is the applicable IBOR plus 1.22 %. The facility has never been utilized.
- Uncommitted 1-year commercial paper facilities in EUR, SEK and USD totaling 16 196 (16 810) (MSEK equivalent). No amounts were utilized at year end 2010. The costs for utilizing these facilities depend on the market at the time of utilization.

The following table shows the maturity structure of the Group's borrowings and excludes finance lease liabilities but includes the effect of interest rate swaps:

2010 Maturity	Fixed	Floating	Carrying value	Notional amount
2011		454	454	454
2012	2 605	72	2 677	2 584
2013		288	288	288
2014	5 894	1 918	7 812	7 321
2015		901	901	901
2016		705	705	705
2017	4 650	1 550	6 200	5 438
2018			–	–
2019	969	1	970	970
	14 118	**5 889**	**20 007**	**18 661**

Interest rate risk

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

Group interest rate risk policy

The interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 36 months, with a benchmark of 12 months. Atlas Copco generally favors a short interest rate duration (variable rate) which results in more volatility in net interest expense as compared to long duration (fixed rate). Debt which carries fixed rates is usually converted to shorter duration by the use of interest rate swaps. Higher interest rates have historically tended to reflect a strong general economic environment in which the Group enjoys strong profits and thereby can absorb higher interest costs. The Group's earnings in periods of weaker economic conditions may not be as strong but general interest rates also tend to be lower and reduce the net interest expense.

27. Continued

During 2010 the Group found that interest rates were low in a historical perspective and therefore increased the allowed maximum average interest duration to 36 months. Following this, the interest duration was brought close to 36 months by closing most of the interest rate swaps entered into in 2007.

To convert fixed to variable interest rates, Atlas Copco AB has entered into interest rate swaps designated as hedging instruments, with notional amount of MUSD 200 (previous year: MEUR 600, MSEK 2 640 and MUSD 600). Including the effect of the derivatives, the effective interest rate and interest duration of the Group's borrowings at year end 2010 was 2.7% (1.8) and 2.9 (1.0) years respectively.

Excluding any derivatives, the Group's effective interest rate was 4.6% (4.2) and the average interest duration was 3.3 (3.5) years. It is estimated that a parallel upward shift of one percentage point (100 basis points) in all interest rates would have reduced the fair value of Atlas Copco's loan portfolio (net of investments and including derivatives) by approximately 558 (234) as at December 31 and increased the interest costs with 46 (191).

Following the closing of most of the interest rate swaps the outstanding fair value decreased to 206 (1 284). The calculation of the effective interest rate takes into account the effects of the outstanding and closed interest rate swaps. The following table shows the amounts of the fair value adjustments related to the hedging of interest rate risks included in net income before tax during the year:

	Net result	
Fair value hedge	**2010**	**2009**
Financial liabilities	–318	457
Interest rate-related derivatives	316	–410
	–2	**47**

Currency risk

Currency risk is the risk that the Group's profitability is affected negatively by changes in exchange rates. This affects both transaction (flow) exposure and translation (balance sheet) exposure.

Group currency risk policy

a) Transaction exposure

Due to Atlas Copco's presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies are created. The value of these net positions fluctuates with the changes in currency rates and, thus, a transaction exposure is created. The largest operational surplus and deficit currencies are shown in Graph 1.

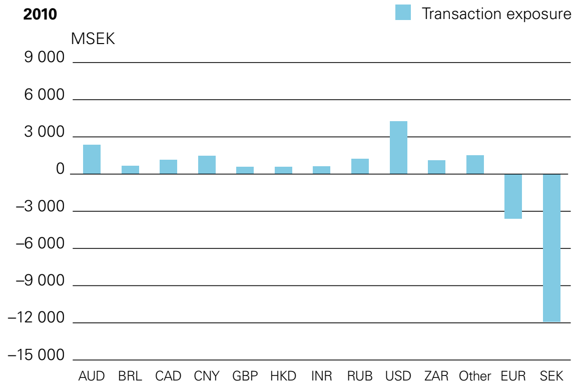
The amounts presented in Graph 1 are based on the Group's intercompany payments, as these for most currencies are a good estimate of the external flows, and on the external payment flows from customers and to suppliers in the most important currencies. The total transaction exposure, measured in SEK is 11 907 (10 263), calculated as the net exposed flows per currency translated to SEK.

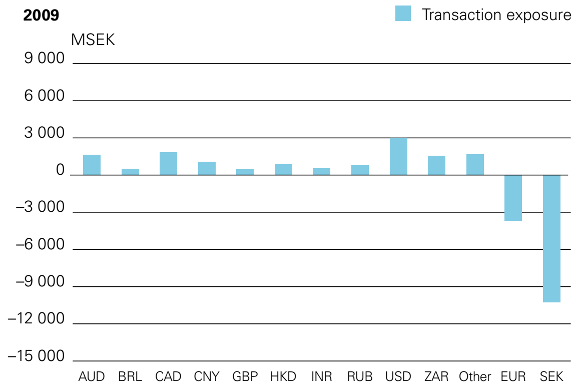
The following describes the Group's general policies for managing transaction exposure:

- Exposures should be reduced by matching the in- and outflows of the same currencies.
- Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements. Business areas and divisions should normally not hedge currency risks. Hedging can, however, be motivated in case of long-term contracts where there is no possibility to adjust the contract price or the associated costs.
- Based on the assumption that hedging does not have any significant positive or negative effect on the Group's results over the long term, the policy does not require transaction exposure to be hedged on an ongoing basis. The FRMC decides from time to time if parts of the transaction exposure should be hedged.

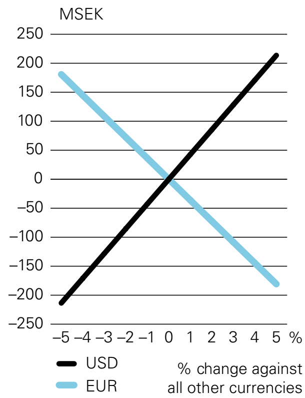
In accordance with the above, Atlas Copco has entered into foreign currency forwards which are designated as hedging instruments in an operational cash flow hedge. As a part of the normal business operations, the hedged cash flows are received or paid and the currency effects recorded in earnings. The related hedging instruments mature on a monthly basis and are recorded in earnings thus offsetting the effects of the hedged cash flows for the respective period. The hedge ratio at December 31 was 6% (1).

Graph 1
Estimated transaction exposure in the Group's most important currencies 2010 and 2009





Graph 2
Transaction exposure – effect of USD and EUR fluctuations before hedging



Maturity table of foreign currency forwards	
Q1 2011	6
Q2 2011	–1
Q3 2011	–6
Q4 2011	–
	–1

The fair value of the outstanding foreign currency forwards at December 31 was –1 (– 6) and the maturities are set out in the table to the right. A net realized result for currency hedging of 22 (–106) was included in earnings during 2010.

Graph 2 indicates the effect on Group pre-tax earnings of one-sided fluctuation in USD and EUR exchange rates if no hedging transactions have been undertaken and before any impact of offsetting price adjustments or similar measures.

A one percentage point weakening of the SEK against all other currencies would have increased the fair value of the loan portfolio by 144 (162). The impact on the net income would be very limited as substantially all of the Group's loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income (see also note 1, Accounting principles, Financial instruments). The same change would have an impact of 138 on other comprehensive income. Atlas Copco also has a MUSD 700 forward contract which is designated as a hedge of the cash flow risk arising from a certain intercompany loan and classified as financial items. At December 31, the fair value of the forward contract was negative –346 (100), with a corresponding gain on the loan, both accounted for through the profit and loss. The cash flows related to the repayment of the loan and the maturity of the forward contract will occur in 2013.

b) Translation exposure

Atlas Copco's worldwide presence creates a currency effect when all entities with functional currencies other than the Swedish krona are translated to the Swedish krona when preparing the consolidated financial statements. The exposure is the net of assets and liabilities denominated in the specific currency. The effect of currency rate fluctuation on these net positions is the translation effect. The following describes the Group's general policies for managing translation exposure:

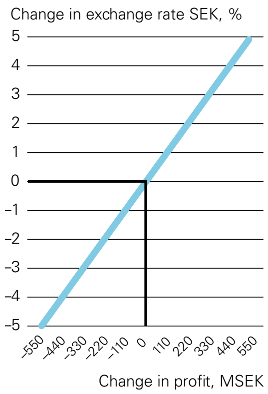
- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge the remaining translation exposure.

To reduce the translation exposure on net investments in USD and EUR in the consolidated financial statements and the exchange rate risk related to net assets in subsidiaries, Atlas Copco uses loans and forward contracts which are designated as net investment hedges in the consolidated financial statements. External loans totaling MEUR 1 483 (1 470) are used to hedge the corresponding EUR-denominated net assets in subsidiaries. As of December 31, the change in fair value of the hedging instruments was –234 (–1 560), of which currency effect was 359 (–907). Atlas Copco also uses loans totaling MUSD 58 (58) to hedge the corresponding equity positions in USD. The fair value of the hedging instruments as of December 31, 2010 was –82 (–102). The following table shows the amounts of the fair value adjustments included in net income during the year, excluding amounts reclassified to profit or loss:

	Other comprehensive income	
Net investment hedge	**2010**	**2009**
Equity	2 032	–952
Loans and forward contracts realized and unrealized	–2 032	952
	–	–

Graph 3 indicates the sensitivity to currency translation effects when earnings of foreign subsidiaries are translated.

Graph 3



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 actual exposure of financial instruments as at December 31:

Credit risk	2010	2009
Trade receivables	13 323	12 222
Held to maturity investments	413	404
Available-for-sale investments	504	549
Financial receivables	2 716	2 771
Derivatives	560	1 463
Other	2 473	1 977
Cash and cash equivalents	14 264	12 165
	34 253	**31 551**

Group operational credit risk policy

Operational credit risk can be divided into commercial and political credit risk.

a) Group commercial risk policy

Commercial risk is the risk that the Group's customers will not meet their payment obligations. The Group's commercial risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. Since the Group's sales are dispersed among thousands of customers, of which no single customer represents a significant share of the Group's commercial risk, the monitoring of commercial credit risks is primarily done at the business area, divisional or business unit level. Each business unit is required to have an approved commercial risk policy.

The Group has during the past years established an in-house customer finance operation (Atlas Copco Customer Finance) as a means of broadening its offering to customers. At December 31, the credit portfolio of their customer finance operations totaled approximately 3 184 (3 189). There were no concentrations of customer risks in these operations.

The Group maintains collateral for its credit portfolio primarily through repossession rights in equipment when mid- or long-term financing is extended to the customer (normally through Atlas Copco Customer Finance). Business units may also, to a limited extent, transfer the commercial risk insurance to external entities (normally to an export credit agency).

b) Group political risk policy

Political risk is the risk that the central bank or other authority of a certain country does not allow transfers of funds to a foreign Atlas Copco company (despite the fact that the customer or an Atlas Copco entity in the country wants and has sufficient funds to pay). The Group's political risk policy is that political risks should be monitored and managed on a group level, based on country risk ratings. The Group generally retains most political risks since the Group's sales are dispersed around the world and the Group has historically only experienced insignificant losses due to political risk. However, for certain countries the policy is to purchase political risk insurance.

Provision for impairment of credit risks

The business units establish provisions for impairment that represent their estimate of incurred losses in respect of trade and other receivables. The main components of this provision are specific loss provisions corresponding to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have not yet been identified. The collective loss provision is determined based on historical data of default statistics for similar financial assets. At year end 2010, the provision for bad debt amounted to 4.7 % (4.8) of gross total customer receivables.

The following tables present the gross value of trade, finance lease and other receivables by ageing category together with the related impairment provisions:

27. Continued

Trade receivables	2010 Gross	2010 Impairment	2009 Gross	2009 Impairment
Not past due	9 728	7	8 721	3
Past due but not impaired				
0–30 days	2 004		1 881	
31–60 days	717		725	
61–90 days	321		307	
More than 90 days	869		820	
Past due and individually impaired				
0–30 days	26	3	18	3
31–60 days	35	7	14	3
61–90 days	17	9	12	5
More than 90 days	265	223	345	246
Collective impairment		410		361
	13 982	**659**	**12 843**	**621**

The total estimated fair value of collateral for trade receivables was 756 (809). Approximately 50% of collateral consisted of repossession rights and 50% of export credit insurance.

Finance lease receivables	2010 Gross	2010 Impairment	2009 Gross	2009 Impairment
Not past due	909	6	1 295	18
Past due but not impaired				
0–30 days	2		2	
Past due and individually impaired				
0–30 days	1	1	2	1
31–60 days	1		2	1
61–90 days	1		1	
More than 90 days	8	4	7	4
Collective impairment		1		
	922	**12**	**1 309**	**24**

Other financial receivables	2010 Gross	2010 Impairment	2009 Gross	2009 Impairment
Not past due	1 763	10	1 447	32
Past due but not impaired				
0–30 days	6		9	
31–60 days	1		1	
More than 90 days			3	
Past due and individually impaired				
0–30 days	8	2	13	4
31–60 days	4	1	8	2
61–90 days	5	1	7	4
More than 90 days	67	39	74	40
	1 854	**53**	**1 562**	**82**

The total estimated fair value of collateral to financial lease receivables and other financial receivables was 627 (909) and 1 170 (1 089), respectively, consisting primarily of repossession rights.

Provisions for bad debts, trade	2010	2009
Provisions at Jan. 1	621	548
Business acquisitions	17	3
Provisions recognized for potential losses	401	339
Amounts used for established losses	–158	–172
Release of unnecessary provisions	–177	–82
Change in discounted amounts	–3	–
Translation differences	–42	–15
Provisions at Dec. 31	**659**	**621**

Impairment of finance lease receivables	2010	2009
Provisions at Jan. 1	24	13
Provisions recognized for potential losses	9	30
Amounts used for established losses	–18	–9
Release of unnecessary provisions	–3	–10
Provisions at Dec. 31	**12**	**24**

Impairment of other financial receivables	2010	2009
Provisions at Jan. 1	82	13
Provisions recognized for potential losses	17	100
Amounts used for established losses	–31	–6
Release of unnecessary provisions	–15	–25
Provisions at Dec. 31	**53**	**82**

Group financial credit risk policy

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

a) Investment transactions

Efficient cash management systems should be maintained in order to minimize excess cash in the operations that cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if the credit rating (as rated by Standard & Poor's or Moody's) of the counterpart or underlying investment is at least A-/A3 in case of financial counterparties, funds or sovereigns and BBB-/Baa3 in case of non-financial counterparties. Investments in complex financial products are not allowed even if they meet the rating criteria unless approved by the FRMC. Other criteria which are considered when investing include limiting the exposure with any single counterparty, the tenor and liquidity of the investment. The Group's continued strong cash flow resulted in liquid funds of 14 264 (12 165) by year end. In December management of MEUR 500 was outsourced to two banks with mandates in line with the Investment Policy which governs how the Group's excess cash should be managed.

b) Derivative transactions

As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparts. Such transactions may only be undertaken with approved counterparts for which credit limits have been established and with which ISDA (International Swaps and Derivatives Association) master agreements are in force. At year end 2010, the measured credit risk on financial transactions, taking into account the nominal value of the transaction, a time add-on, and the market value (if positive for Atlas Copco), amounted to 490 (3 234). The significant decrease in value is primarily a result of the interest rate swaps closure.

Derivative transactions may only be entered into by Group Treasury or, in rare cases by another entity, but only after the approval of Group Treasury. Atlas Copco uses derivatives only as hedging instruments and the policy allows only standardized instruments.

27. Continued

Outstanding derivative instruments related to financial exposures	2010	2009
Interest rate swaps		
Receivable	510	1 307
Payable	–20	–66
Foreign exchange forwards		
Receivable	26	156
Payable	–507	–137

Outstanding derivative instruments related to operational exposures	2010	2009
Foreign exchange forwards		
Receivable	24	–
Payable	–25	–6

Other financial market/price risk

In addition to the above mentioned risks, the Group's main financial market/price risks included the following as of December 31:

- The Group held 7 607 759 (10 816 575) shares in RSC Holdings Inc. representing approximately 7.4 % (10.5) of total shares. The shares are listed on the New York Stock Exchange (ref RRR). The market value of the shares, as of year end 2010, was 504 (549), which exceeds the historic cost value by 263 (116). These shares are classified as available-for-sale.
- Pension fund investments. The Group had funded defined pension benefit plan assets totaling 5 064 (4 852) at year end 2010. The pension investment policy gives guidelines regarding the investment of these funds and is as follows:
  – The assets should be invested with low risk.
  – The investment portfolio should be diversified; that is, multiple products and issuers should be utilized. A maximum of 10% of the assets can be invested with one issuer. There are generally no limitations on government bonds.

Guarantees

At December 31, the Group had approximately 267 (264) of guarantees issued for the benefit of third parties, which is generally done to facilitate customer financing of sales of Group products. In connection with some commercial transactions, e.g. public bidding processes, the Group also provides performance and/or financial guarantees for its own account.

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled 49 435 (49 638). There are no external capital requirements imposed on the Atlas Copco Group.

The Board's policy is to maintain an adequate capital structure so as to maintain investor, creditor and market confidence and to support future development of the business. The Board's opinion is that the dividend over a business cycle should correspond to about 50% of earnings per share. The board has also in the recent years proposed, and the Annual General Meeting of the shareholders (AGM) has approved, distributions of "excess" (in relation to e.g. rating and strategic objectives) equity to the shareholders through share redemptions, and share repurchases.

The Group's long-term interest-bearing debt has had the same A-/A3 ratings from Standard & Poor's and Moody's respectively since 1999. The short-term debt is rated A2/P2. The outstanding loans of the Group at December 31 are shown in note 21.

Fair value of assets and liabilities

Fair values are based on market prices – or in the case that such prices are not available – derived from an assumed yield curve. Amounts shown are unrealized and will not necessarily be realized.

Due to the short time to maturity for trade receivables and trade liabilities, the carrying amount is considered to be the best approximation of fair value.

Level 1 includes all assets and liabilities to fair value where the instrument itself is quoted on an active market. As Atlas Copco only uses so called "plain vanilla" instruments (i.e. straight-forward, basic derivatives) in its hedging activities, all interest and currency rates used for valuation are directly observable in active markets. See also table below.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

Interest-bearing liabilities

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

Finance leases

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

Equity holdings

Fair values are based on share price and exchange rates at year end, see table below.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010	Level 1	Level 2	Total
Available for sale assets	504		504
Derivatives		560	560
Financial assets	**504**	**560**	**1 064**
Derivatives		552	552
Financial liabilities	**–**	**552**	**552**

2009	Level 1	Level 2	Total
Available for sale assets	549		549
Derivatives		1 463	1 463
Financial assets	**549**	**1 463**	**2 012**
Derivatives		209	209
Financial liabilities	**–**	**209**	**209**

Currency rates used in the financial statements

			Year-end rate		Average rate	
	Value	Code	2010	2009	2010	2009
Australia	1	AUD	6.92	6.43	6.61	5.98
Canada	1	CAD	6.80	6.87	6.96	6.68
EU	1	EUR	9.00	10.34	9.57	10.63
Great Britain	1	GBP	10.53	11.43	11.15	11.86
Hong Kong	100	HKD	87.33	92.92	92.79	98.55
U.S.A.	1	USD	6.80	7.21	7.21	7.64

27. Continued

The Group's financial instruments per category

The following tables show the Group's financial instruments per category at December 31, 2010 and 2009:

2010 Financial Instruments – Assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Held-to-maturity investments	Assets available for sale	Total carrying value	Fair value
Financial assets			1 236	159	504	1 899	1 899
Other receivables			5			5	5
Derivatives	206	6				212	212
Non-current financial assets	**206**	**6**	**1 241**	**159**	**504**	**2 116**	**2 116**
Trade receivables			13 318			13 318	13 318
Financial assets			1 480	254		1 734	1 734
Other receivables			2 068			2 068	2 068
Derivatives	321	27				348	348
Other accrued income			405			405	405
Cash and cash equivalents			14 264			14 264	14 264
Current financial receivables	**321**	**27**	**31 535**	**254**	**–**	**32 137**	**32 137**
Financial assets	**527**	**33**	**32 776**	**413**	**504**	**34 253**	**34 253**

2009 Financial Instruments – Assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Held-to-maturity investments	Assets available for sale	Total carrying value	Fair value
Financial assets			1 460	185	549	2 194	2 194
Other receivables			10			10	10
Derivatives	1 298	10				1 308	1 308
Non-current financial assets	**1 298**	**10**	**1 470**	**185**	**549**	**3 512**	**3 512**
Trade receivables			12 212			12 212	12 212
Financial assets			1 311	219		1 530	1 530
Other receivables			1 793			1 793	1 793
Derivatives	109	46				155	155
Other accrued income			184			184	184
Cash and cash equivalents			12 165			12 165	12 165
Current financial assets	**109**	**46**	**27 665**	**219**	**–**	**28 039**	**28 039**
Financial assets	**1 407**	**56**	**29 135**	**404**	**549**	**31 551**	**31 551**

27. Continued

2010 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 615	19 615	21 125
Derivatives		12		12	12
Other liabilities			171	171	171
Non-current financial liabilities	**–**	**12**	**19 786**	**19 798**	**21 308**
Liabilities to credit institutions			417	417	417
Current portion of interest-bearing liabilities			82	82	82
Current financial interest-bearing liabilities	**–**	**–**	**499**	**499**	**499**
Derivatives	371	169		540	540
Other accrued expenses			4 067	4 067	4 067
Trade payables			6 398	6 398	6 398
Other liabilities			2 340	2 340	2 340
Current financial operating liabilities	**371**	**169**	**12 805**	**13 345**	**13 345**
Financial liabilities	**371**	**181**	**33 090**	**33 642**	**35 152**

2009 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			21 008	21 008	21 933
Derivatives		33		33	33
Other liabilities			45	45	45
Non-current financial liabilities	**–**	**33**	**21 053**	**21 086**	**22 011**
Liabilities to credit institutions			815	815	815
Current portion of interest-bearing liabilities			2 144	2 144	2 605
Current financial interest-bearing liabilities	**–**	**–**	**2 959**	**2 959**	**3 420**
Derivatives	6	170		176	176
Other accrued expenses			3 695	3 695	3 695
Trade payables			4 678	4 678	4 678
Other liabilities			2 447	2 447	2 447
Current financial operating liabilities	**6**	**170**	**10 820**	**10 996**	**10 996**
Financial liabilities	**6**	**203**	**34 832**	**35 041**	**36 427**

28. Related parties

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

The subsidiaries that are directly owned by the Parent Company are presented in note A20 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A21. Information about associated companies is found in note 14. Information about Board members and Group Management is presented on pages 124–126 and pages 128–130.

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

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

Transactions with associated companies
The Group sold various products and purchased goods through certain associated companies on terms generally similar to those prevailing with unrelated parties. The following table summarizes the Group's related party transactions with its associates:

	2010	2009
Revenues	19	7
Goods purchased	51	43
Service purchased	32	31
At Dec. 31:		
Trade receivables	10	4
Trade payables	11	6
Guarantees	10	11

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

29. Subsequent events

There have been no events subsequent to the balance sheet date which require adjustment of, or disclosure in, the financial statements or notes.

30. Accounting estimates and judgments

The preparation of financial reports requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates and judgments which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which there is a significant risk that future events or information could change those estimates or judgments include:

Key sources of estimation uncertainty
Impairment of goodwill, other intangible assets and other long-lived assets
In accordance with IFRS, goodwill and certain trademarks are not amortized but are subject to annual tests for impairment. Other intangible assets and other long-lived assets are amortized or depreciated based on management's estimates of the period that the assets will generate revenue but are also reviewed regularly for indications of impairment. These tests are based on a review of the recoverable amount which is estimated based on management's projections of future cash flows which are made using internal business plans and forecasts. Additional information on the estimates used in this review is included in note 12.

Management judgment is required in the area of asset impairment, particularly in assessing
- whether an event has occurred that may affect asset values,
- whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset in the business, and
- the appropriate assumptions to be applied in preparing cash flow projections.

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

Pension and post-employment benefit valuation assumptions
The pension and post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The assumptions include discount rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates, health care cost trend rates and other factors. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate. Actual results which differ from management's assumptions are accumulated and amortized over future periods and, therefore, affect the recognized expense and recorded obligations in future periods. See note 23 for additional information regarding assumptions used in the calculation of pension and post-retirement obligations.

Provisions for doubtful accounts
The Group provides for doubtful accounts based on specific provisions for known cases and collective provisions for losses based on historical loss levels. Management's judgment also considers rapidly changing market conditions which may be particularly sensitive in customer financing operations. Additional information is included in section Credit Risk in note 27.

Inventory obsolescence
The Group values inventory at the lower of historical cost, based on the first-in, first-out basis, and net realizable value. The calculation of net realizable value involves management's judgment as to over-stock articles, out-dated articles, damaged goods, handling and other selling costs. See note 16.

Legal proceedings
In accordance with IFRS, the Group recognizes a liability when Atlas Copco 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. To the extent that management's assessment of the factors considered are not reflected in subsequent developments, the financial statements could be affected.

Critical accounting judgments
There have been no critical accounting judgments in applying the Group's accounting principles.

Financial Statements, Parent Company

Income Statement

For the year ended December 31, Amounts in MSEK	Note	2010	2009
Administrative expenses	A2	–397	–330
Other operating income	A3	147	146
Other operating expenses	A3	–6	0
Operating loss		**–256**	**–184**
Financial income	A4	8 394	14 135
Financial expense	A4	–1 371	–3 295
Profit before tax		**6 767**	**10 656**
Income tax	A5	–779	–94
Profit for the year		**5 988**	**10 562**

Statement of Comprehensive Income

For the year ended December 31, Amounts in MSEK	Note	2010	2009
Profit for the year		**5 988**	**10 562**
Other comprehensive income			
Group contributions paid		–221	–336
Tax effect of Group contribution		58	88
Translation of net investment		3 154	1 352
Other comprehensive income of the year, net of tax		**2 991**	**1 104**
Total comprehensive income for the year	Page 82	**8 979**	**11 666**

Balance Sheet

As at December 31, Amounts in MSEK	Note	2010	2009
ASSETS			
Non-current assets			
Intangible assets	A6	29	39
Tangible assets	A7	31	19
Financial assets			
Deferred tax assets	A8	–	1 230
Shares in Group companies	A9, A20	90 110	90 542
Other financial assets	A10	986	2 050
Total non-current assets		**91 156**	**93 880**
Current assets			
Income tax receivables		62	66
Other receivables	A11	6 760	5 327
Cash and cash equivalents	A12	10 813	9 264
Total current assets		**17 635**	**14 657**
TOTAL ASSETS		**108 791**	**108 537**
EQUITY	Page 82		
Restricted equity			
Share capital		786	786
Legal reserve		4 999	4 999
Total restricted equity		**5 785**	**5 785**
Non-restricted equity			
Reserve for fair value		1 664	–1 490
Retained earnings		33 470	26 411
Profit for the year		5 988	10 562
Total non-restricted equity		**41 122**	**35 483**
TOTAL EQUITY		**46 907**	**41 268**
PROVISIONS			
Post-employment benefits	A14	76	72
Other provisions	A15	358	130
Deferred tax liabilities	A8	600	–
Total provisions		**1 034**	**202**
LIABILITIES			
Non-current liabilities			
Borrowings	A16	48 377	53 026
Other liabilities		12	33
Total non-current liabilities		**48 389**	**53 059**
Current liabilities			
Borrowings	A16	11 319	12 927
Other liabilities	A17	1 142	1 081
Total current liabilities		**12 461**	**14 008**
TOTAL EQUITY AND LIABILITIES		**108 791**	**108 537**
Assets pledged	A19	**52**	**47**
Contingent liabilities	A19	**525**	**248**

Statement of Changes in Equity

MSEK unless otherwise stated	Number of shares outstanding	Share capital	Legal reserve	Reserve for fair value –Translation reserve	Retained earnings	Total
Opening balance, Jan. 1, 2010	1 215 909 704	786	4 999	–1 490	36 973	41 268
Total comprehensive income for the year				3 154	5 825	8 979
Dividends					–3 646	–3 646
Acquisition series A shares	–813 000				–88	–88
Divestment series A shares	2 563 160				379	379
Divestment series B shares	716 367				93	93
Share–based payment, equity settled						
– expense during the year					24	24
– exercise of options					–102	–102
Closing balance, Dec. 31, 2010	**1 218 376 231**	**786**	**4 999**	**1 664**	**39 458**	**46 907**
Opening balance, Jan. 1, 2009	1 215 909 704	786	4 999	–2 842	30 317	33 260
Total comprehensive income for the year				1 352	10 314	11 666
Dividends					–3 648	–3 648
Share–based payment, equity settled						
– expense during the year					16	16
– exercise of options					–26	–26
Closing balance, Dec. 31, 2009	**1 215 909 704**	**786**	**4 999**	**–1 490**	**36 973**	**41 268**

See note A13 for additional information.

Statement of Cash Flows

For the year ended December 31, Amounts in MSEK	2010	2009
Cash flows from operating activities		
Operating loss	–256	–184
Adjustments for:		
Depreciation	8	7
Capital gain/loss and other non-cash items	–58	0
Operating cash surplus	–306	–177
Net financial items received/paid	4 489	6 029
Taxes paid	–8	372
Cash flow before change in working capital	**4 175**	**6 224**
Change in		
Operating receivables	822	1 369
Operating liabilities	–183	155
Change in working capital	**639**	**1 524**
Net cash from operating activities	**4 814**	**7 748**
Cash flow from investing activities		
Investments in intangible assets	–	–14
Investments in tangible assets	–16	–16
Investments in subsidiaries	–118	–652
Divestment of subsidiaries/repatriation of equity	2	1
Investments in financial assets	–33	696
Net cash from investing activities	**–165**	**15**
Cash flow from financing activities		
Dividends paid	–3 646	–3 648
Repurchase and divestment of own shares	384	–
Change in interest-bearing liabilities	162	1 562
Net cash from financing activities	**–3 100**	**–2 086**
Net cash flow for the year	**1 549**	**5 677**
Cash and cash equivalents, Jan. 1	9 264	3 587
Net cash flow for the year	1 549	5 677
Cash and cash equivalents, Dec. 31	**10 813**	**9 264**

Notes to the Parent Company Financial Statements

MSEK unless otherwise stated

A1. Significant Accounting Principles

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

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities" (December 2010), 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 IFRS, shall present their financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union, to the extent these accounting principles and interpretations comply with the Swedish Annual Accounts Act and may use exemptions from IFRS provided by RFR 2 due to Swedish tax legislation.

The financial statements are presented in Swedish kronor (SEK), rounded to the nearest million. The parent company´s accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 to the Group's consolidated financial statements, except for those disclosed in the following sections.

For discussion regarding accounting estimates and judgments, see note 30 in the consolidated financial statements.

Changes in accounting principles
According to RFR 2, transaction costs incurred in connection with a business combination are by the Parent Company accounted for as part of the acquisition costs and are not expensed.

Foreign currency
Foreign currency transactions
Functional currency is the currency of the primary economic environment in which an entity operates. Transactions in foreign currencies (those which are denominated in other than the functional currency) are translated at the foreign exchange rate ruling at the date of the transaction. Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and expenses, except for exchange rate differences on intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation which are reported in other comprehensive income.

Exchange rates for major currencies used in the year-end accounts are shown in note 27 to the Consolidated Financial Statements.

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, for further details.

Lease contracts
All lease contracts entered into by the Parent Company are accounted for as operating leases.

Employee benefits
Defined benefit plans
Defined benefit plans are not accounted for in accordance with IAS 19, but are accounted for according to Swedish GAAP which are based on the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Authority. The primary differences as compared to IAS 19 is the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

Share-based payments
The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but as an increase of Shares in Group companies. This increase is accrued over the same period as in the Group and with a corresponding increase in Equity for equity-settled programs and as an increase in liabilities for cash-settled programs.

Financial guarantees
Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting
External interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares, issued by foreign subsidiaries are not remeasured according to exchange rates prevailing on the date of the balance sheet but measured based on the exchange rate the day that the hedging relation was established.

Deratives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss.

Income taxes
Allocations to untaxed reserves are reported on a gross basis in the Parent Company accounts. In the consolidated financial statements, these reserves are allocated to deferred taxes and equity with changes in the reserves being recorded as deferred taxes in current earnings.

Group and shareholder's contributions
In Sweden, Group contributions are deductible for tax purposes but shareholders contributions are not. Group contributions are accounted for to reflect the substance of the transactions.

Shareholder's contributions and Group contributions with the same objective as shareholder's contributions are capitalized as investments in subsidiaries, in the Parent Company's balance sheet, subject to impairment tests.

Group contributions received are classified as dividends and included in profit or loss together with the related tax. Group contributions paid by the Parent Company are recognized in other comprehensive income, net of tax.

Assets held for sale and discontinued operations, IFRS 5
The Parent Company applies IFRS 5, but do not separately present the assets held for sale (disposal groups) on a separate line in the balance sheet and not discontinued operations separately in the income statement.

A2. Employees and personnel expenses and remunerations to auditors

Average number of employees	2010			2009		
	Women	Men	Total	Women	Men	Total
Sweden	56	45	101	50	46	96

Women in Atlas Copco Board and Management, %	2010	2009
Board of Directors excl. union representatives	40[1)]	33
Group Management	25	25

1) At year end, 33%

Salaries and other remuneration	2010		2009	
	Board members & Group Management[1)]	Other employees	Board members & Group Management[1)]	Other employees
Sweden	69	79	53	73
of which variable compensation	32		21	

1) Includes 9 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (6) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of the Group Management, see note 5 to the consolidated financial statements.

Pension benefits and other social costs	2010	2009
Contractual pension benefits for Board Members and Group Management	8	8
Contractual pension benefits for other employees	24	21
Other social costs	58	51
	90	**80**
Capitalized pension obligations to Board Members and Group Management	23	22

Absence due to illness, %	2010	2009
Total	**0.9**	**1.0**
for men	0.7	0.7
for women	1.0	1.2
long-term absence due to illness, in percent of total absence	28.2	–
Absence due to illness, men		
employees under 30 years old	1.3	3.6
employees 30–49 years old	0.9	0.5
employees 50 years and older	0.4	0.4
Absence due to illness, women		
employees under 30 years old	0.4	0.5
employees 30–49 years old	1.2	1.2
employees 50 years and older	1.1	1.9

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2010	2009
Deloitte AB		
– Audit fee	6	–
– Other	1	–
KPMG AB		
– Audit fee	–	6
– Other	0	1
	7	**7**

At the Annual General Meeting in 2010, Deloitte was elected as auditor for the Parent Company for a four year period.

Other fees are primarily consultancy for tax and accounting matters.

A3. Other operating income and expenses

	2010	2009
Commissions received	147	139
Exchange-rate differences, net	–	7
Total other operating income	**147**	**146**
Exchange-rate differences, net	–6	–
Total other operating expenses	**–6**	**0**

A4. Financial income and expense

	2010	2009
Financial income		
Interest income		
– bank deposits	73	148
– Group companies	153	673
Dividend income from Group companies	4 099	8 241
Group contribution	4 028	1 976
Foreign exchange gain, net	39	–
Change in fair value		
– financial assets to fair value through profit or loss	–	550
– ineffective part of fair value hedge	–	47
Capital gain		
– gain on divestment of shares in Group companies	2	2 500
Financial income	**8 394**	**14 135**
Financial expense		
Interest expense		
– financial liabilities measured at amortised cost	–711	–1 019
– liabilities held for trading	–94	–
– derivatives for fair value hedge	287	198
– Group companies	–808	–1 849
– pension provision, net	–1	–1
Foreign exchange loss, net	–	–19
Change in fair value		
– financial assets to fair value through profit or loss	–	–8
– ineffective part of fair value hedge	–2	–
– related to other liabilities	–41	–487
Impairment loss		
– writedown of shares in Group companies	–1	–109
– financial assets	–	–1
Financial expense	**–1 371**	**–3 295**
Net finance income	**7 023**	**10 840**

The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:

	2010	2009
Total interest income on financial assets	226	821
Total interest expense on financial liabilities	–1 519	–2 868

The following table presents the net gain or loss by financial instrument category:

	2010	2009
Net gain/loss on		
– financial assets to fair value through profit or loss	–	542
– loans and receivables, incl bank deposits	264	801
– other liabilities	–1 654	–3 355
– fair value hedge	285	245
Profit from shares in Group companies	8 128	12 607
	7 023	**10 840**

The significant decrease in value of assets to fair value through profit and loss and fair value of other liabilities is the result of the closure of interest rate swaps during 2010.

For further information on the hedges, see note 27 of the consolidated statements, section Hedge Accounting.

A5. Income tax

	2010	2009
Current tax	–74	–12
Deferred tax	–705	–82
	–779	**–94**
The Swedish corporate tax rate, %	26.3	26.3
Profit before taxes	6 767	10 656
National tax based on profit before taxes	–1 780	–2 803
Tax effects of:		
Non-deductible expenses	–34	–55
Tax exempt income	1 079	2 824
Prior year adjustment, deferred tax	–3	2
Controlled Foreign Company taxation	–41	–50
Adjustments from prior years	–	–12
	–779	**–94**
Effective tax in %	**11.5**	**0.9**

The Parent Company's effective tax rate of 11.5% is primarily affected by non-taxable dividends. The corresponding figure for 2009, 0.9%, was primarily affected by non-taxable dividends and a non-taxable capital gain on intra-group sale of shares.

A6. Intangible assets

	Capitalized expenditures for computer programs	
	2010	2009
Accumulated cost		
Opening balance, Jan. 1	42	28
Investments	–	14
Disposals	–6	–
Closing balance, Dec. 31	**36**	**42**
Accumulated depreciation		
Opening balance, Jan. 1	3	0
Depreciation for the year	4	3
Closing balance, Dec. 31	**7**	**3**
Carrying amount		
Closing balance, Dec. 31	29	39
Opening balance, Jan 1	39	28

A7. Tangible assets

	2010				2009			
	Land improve-ments	Equipment, etc.	Construction in progress	Total	Land improve-ments	Equipment, etc.	Construction in progress	Total
Accumulated cost								
Opening balance, Jan. 1	4	37	9	50	4	30	–	34
Investments	–	1	15	16	–	7	9	16
Disposals	–	–16	–	–16	–	0	–	0
Closing balance, Dec. 31	**4**	**22**	**24**	**50**	**4**	**37**	**9**	**50**
Accumulated depreciation								
Opening balance, Jan. 1	3	28	–	31	1	26	–	27
Depreciation for the year	1	3	–	4	2	2	–	4
Disposals	–	–16	–	–16	–	0	–	0
Closing balance, Dec. 31	**4**	**15**	**–**	**19**	**3**	**28**	**–**	**31**
Carrying amount								
Closing balance, Dec. 31	–	7	24	31	1	9	9	19
Opening balance, Jan. 1	1	9	9	19	3	4	–	7

Depreciation of equipment is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, cars and office equipment are reported among operating expenses and amounted to 15 (16). Future payments for non-cancelable leasing contracts amounted to 250 (191) and fall due as follows:

	2010	2009
Less than one year	22	15
Between one and five years	120	64
More than five years	108	112
	250	**191**

A8. Deferred tax assets and liabilities

	2010			2009		
	Assets	Liabi-lities	Net balance	Assets	Liabi-lities	Net balance
Fixed assets	1	–	1	0	–	0
Tax loss carryforwards	–	–	–	488	–	488
Post-employment benefits	19	–	19	18	–	18
Other provisions	9	–	9	6	–	6
Non-current liabilities	–	–629	–629	718	–	718
	29	**–629**	**–600**	**1 230**	**–**	**1 230**

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

	2010	2009
Net balance, Jan. 1	1 230	1 704
Charges to equity	–1 125	–392
Charges to profit for the year	–705	–82
Net balance, Dec. 31	**–600**	**1 230**

A9. Shares in Group companies

	2010	2009
Accumulated cost		
Opening balance, Jan. 1	91 065	88 199
Investments	51	–
Net investment hedge	–761	–375
Shareholders' contribution	281	15 917
Disposals	–2	–12 676
Closing balance, Dec. 31	**90 634**	**91 065**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–1 123	–1 014
Write-down	–1	–109
Closing balance, Dec. 31	**–1 124**	**–1 123**
	90 110	**90 542**

For further information about Group companies, see note A20.

A10. Other financial assets

	2010	2009
Receivables from Group companies	697	687
Other long-term securities	–	1
Derivatives		
– not designated for hedge accounting	6	10
– designated for hedge accounting	206	1 298
Endowment insurances	52	47
Other long-term receivables	25	7
	986	**2 050**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A14 and A19).

A11. Other receivables

	2010	2009
Receivables from Group companies	6 117	5 120
Derivatives		
– not designated for hedge accounting	24	33
– designated for hedge accounting	321	109
Other receivables	227	16
Prepaid expenses and accrued income	71	49
	6 760	**5 327**

A12. Cash and cash equivalents

	2010	2009
Cash	84	272
Cash equivalents	10 729	8 992
	10 813	**9 264**

The Parent Company's guaranteed, but unutilized, credit lines equalled 13 188 (7 206).

A13. Equity

Shares outstanding 2010	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco AB	–9 524 840	–1 712 033	–11 236 873
Total shares outstanding, Dec. 31	**829 869 256**	**388 506 975**	**1 218 376 231**

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

Repurchases of own shares	Number of shares		Amount affecting equity	
	2010	2009	2010	2009
Opening balance, Jan. 1	13 703 400	13 703 400	1 212	1 212
Repurchase series A shares	813 000		88	
Divestment series A shares	–2 563 160		–240	
Divestment series B shares	–716 367		–49	
Closing balance, Dec. 31	**11 236 873**	**13 703 400**	**1 011**	**1 212**
Percentage of total number of shares	0.9%	1.1%		

The 2010 Annual General Meeting (AGM) approved a mandate for the Board of Directors until the next AGM to repurchase and to sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adopt the capital structure of the Company as follows:

- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to Board members who have opted to receive synthetic shares as part of their board fee.
- The purchase of not more than 5 730 000 series A shares, whereof maximum 4 765 874 will be used for the transfer to performance stock option holders under the Performance Stock Option Plan 2010.
- The purchase of maximum 5% of all issued shares, excluding those shares held by the company at the time of the AGM on April 28, 2010, but including shares that the company will purchase based on mandates granted at that AGM.
- The sale of maximum 2 525 000 series A shares and maximum 2 400 000 series B shares held by the company at the time of the AGM 2010, for the purpose of covering costs of fulfilling obligations related to the performance stock option plans 2006–2008.

The shares may only be acquired at a price per share within the registered trading interval at any given point in time.

In the period April–December 2010, 2 543 576 series A shares and 651 106 series B shares were sold in accordance with the mandate granted at the 2010 AGM. Combined with the transactions made in the first quarter 2010 in accordance with the mandate granted at the 2009 AGM as detailed below, 1 750 160 series A shares, net, and 716 367 series B shares were sold during 2010.

The 2009 AGM approved a mandate to repurchase on one or more occasions a maximum of 5 570 000 series A shares on the NASDAQ OMX Stockholm to be able to fulfill the obligations under the performance stock option plan 2009 and in relation to the synthetic shares offered as part of the Board remuneration.

A13. Continued

The 2009 AGM also approved a mandate to sell a maximum of 1 445 000 series B shares held by Atlas Copco on NASDAQ OMX Stockholm on one or more occasions to cover costs, including social insurance charges, cash settlements, or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable, in accordance with the obligations in the 2006 and 2007 performance-based employee stock option plans. The mandates were valid until the 2010 AGM. No shares were repurchased or divested in 2009, whereas in the first quarter of 2010, 813 000 series A shares were repurchased while 19 584 series A shares and 65 261 series B shares respectively were sold under this resolution.

The 2008 AGM approved a resolution to repurchase a maximum of 10% of the total number of shares issued by Atlas Copco on the NASDAQ OMX Stockholm. This mandate was valid until the 2009 AGM. No shares were repurchased under this resolution.

The series A shares are held for possible delivery under the 2006, 2007, 2008 and 2009 personnel stock option programs.

The total number of shares of series A and series B held by Atlas Copco are presented in the table on the previous page. The series B shares held can be divested over time to cover costs related to the personnel stock option programs.

Reserves
The Parent Company's equity includes certain reserves which are described as follows:

Legal reserve
The legal reserve is a part of the restricted equity and is not available for distribution.

Reserve for fair value – Translation reserve
The reserve comprises translation of intragroup receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations.

Appropriation of profit
The Board of Directors proposes a dividend of SEK 4.00 (3.00) totaling SEK 4 873 504 924 (3 645 587 402), if shares held by the company on December 31, 2010 are excluded. The Board of Directors also proposes a share redemption procedure, whereby every share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 5.00 per share totaling SEK 6 091 881 155 if the shares held by the company on December 31, 2010, are excluded. Combined with the proposed ordinary dividend, shareholders will receive SEK 10 965 386 079.

For further information see appropriation of profit on page 97.

The proposed dividend for 2009 of SEK 3.00 as approved by the AGM on April 28, 2010 was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 3 645 587 402.

A14. Post-employment benefits

	2010			2009		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	47	25	72	29	26	55
Provision made	5	–	5	18	–	18
Provision used	–	–1	–1	–	–1	–1
Closing balance, Dec. 31	**52**	**24**	**76**	**47**	**25**	**72**

The Parent Company has endowment insurances of 52 (47) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

Description of defined benefit pension plans
The Parent Company has three defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Atlas Copco AB which benefits are secured through the Atlas Copco pension trust. The second plan relates to a group of employees earning more than 10 income base amounts who have opted out from the ITP plan. This plan is insured. The third plan relates to retired former senior employees. These pension arrangements are provided for.

A14. Continued

	2010			2009		
	Funded pension	**Unfunded pension**	**Total**	**Funded pension**	**Unfunded pension**	**Total**
Defined benefit obligations	127	24	151	132	25	157
Fair value of plan assets	–202	–	–202	–185	–	–185
Present value of net obligations	–75	24	–51	–53	25	–28
Not recognized surplus	75	–	75	53	–	53
Net amount recognized in balance sheet	**–**	**24**	**24**	**–**	**25**	**25**

Reconciliation of defined benefit obligations	**Funded pension**	**Unfunded pension**	**Total**	**Funded pension**	**Unfunded pension**	**Total**
Defined benefit obligations at Jan. 1	132	25	157	144	26	170
Service cost	2	–	2	2	–	2
Interest expense	4	1	5	4	1	5
Other changes in obligations	1	–	1	–5	–	–5
Benefits paid from plan	–12	–2	–14	–13	–2	–15
Defined benefit obligations at Dec. 31	**127**	**24**	**151**	**132**	**25**	**157**

Reconciliation of plan assets	**Funded pension**	**Unfunded pension**	**Total**	**Funded pension**	**Unfunded pension**	**Total**
Fair value of plan assets at Jan. 1	185	–	185	174	–	174
Return on plan assets	17	–	17	11	–	11
Payments	–	–	–	–	–	–
Fair value of plan assets at Dec. 31	**202**	**–**	**202**	**185**	**–**	**185**

Defined benefit plans are not accounted for in accordance with IAS 19 but are accounted for according to Swedish standards including the Swedish law on pensions, "Tryggandelagen" and regulations prescribed by the Swedish Financial Supervisory Authority. The primary differences as compared to IAS 19 include the discount rate, the calculation of defined benefit obligations based on current salary levels without consideration of future salary increases and that all actuarial gains and losses are included in earnings as they occur.

	2010	**2009**
Pension commitments provided for in the balance sheet		
Costs excluding interest	14	14
Interest expense	1	1
	15	**15**
Pension commitments provided for through insurance contracts		
Service cost	18	15
	18	**15**
Reimbursement from the Atlas Copco pension trust	–	–
	–	**–**
Net cost for pensions, excluding taxes	**33**	**30**
Special employer´s contribution	8	9
Credit insurance costs	0	0
	41	**39**

Pension expenses for the year included within administrative expenses amounted to 32 (29) of which the Board members and Group Management 8 (8) and others 24 (21).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 202 (185) and is allocated as follows:

	2010	**2009**
Equity securities	31	26
Bonds	134	152
Real estate	33	–
Cash and cash equivalents	4	7
	202	**185**

The plan assets of the Atlas Copco pension trust are not included in the financial assets of the Atlas Copco Group.

The return on plan assets in the Atlas Copco pension trust amounted to 10.0% (6.4).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.9% (3.9).

The Parent Company estimates 12 will be paid to defined benefit pension plans during 2011.

A15. Other provisions

	2010	2009
Opening balance, Jan. 1	130	40
During the year		
– provisions made	269	107
– provisions used	–41	–17
Closing balance, Dec. 31	**358**	**130**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

A16. Borrowings

	2010		2009	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Non-current borrowings				
Medium Term Note Program	8 610	8 026	10 768	10 153
Other bond loans	7 172	6 411	7 257	6 738
Other bank loans	3 657	3 657	3 656	3 656
Non-current borrowings from Group companies	28 938	28 938	33 345	33 345
Less current portion of bank loans	–	–	–2 000	–2 000
	48 377	**47 032**	**53 026**	**51 892**
Current borrowings				
Current portion of bank loans	–	–	2 000	2 000
Short-term loans	10	10	166	166
Current borrowings from Group companies	11 309	11 309	10 761	10 761
	11 319	**11 319**	**12 927**	**12 927**
Total interest-bearing loans and borrowings	**59 696**	**58 351**	**65 953**	**64 819**

A17. Other liabilities

	2010	2009
Accounts payable	29	18
Liabilities to Group companies	299	500
Derivatives		
– not designated for hedge accounting	71	165
– designated for hedge accounting	371	6
Other liabilities	11	4
Accrued expenses and prepaid income	361	388
	1 142	**1 081**

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

A18. Financial exposure and principles for control of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 19 449 (21 847) of external borrowings and MSEK 40 247 (44 106) of internal borrowings at December 31, 2010. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 27 in the Consolidated Financial Statements.

2010 Maturity	Fixed	Float	Carrying amount	Notional amount
2011		10	10	10
2012	2 605		2 605	2 513
2013			–	–
2014	6 005	2 008	8 013	7 522
2015		943	943	943
2016		705	705	705
2017	4 650	1 550	6 200	5 438
2018			–	–
2019	973		973	973
	14 233	**5 216**	**19 449**	**18 104**

Hedge accounting

The Parent Company hedges shares in subsidiaries through external loans of MEUR 913 (913) and MUSD 142 (142), internal loans of MEUR 3 214 (3 214) and derivatives of MEUR 570 (556). The deferral hedge accounting of the external loans is based on a RFR 2 exemption. The derivatives are accounted as fair value hedges.

The effect of the change in the exchange rate, which as of the reporting date amounted to MSEK 1 664 (–1 490) net of tax, has been recognized in equity.

The interest rate risk is managed with interest rate swaps, designated as fair value hedges. Note 27 of the Consolidated Financial Statements includes fair value of these swaps and further details.

Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by 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 below shows the actual exposure of financial instruments as at December 31:

Financial credit risk	2010	2009
Cash and cash equivalents	10 813	9 264
Receivables from Group companies	6 814	5 807
Derivatives	557	1 450
Other	319	76
	18 503	**16 597**

A18. Continued

Valuation methods

Derivatives

Fair value of futures contracts are calculated based on quoted market rates. Fair values of forward exchange contracts are calculated with the forward exchange rate.

Interest-bearing liabilities

Fair values are calculated by using discounted cash flows and interest rates prevailing on the balance sheet date.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010	Level 1	Level 2	Total	2009	Level 1	Level 2	Total
Derivatives		557	557	Derivatives		1 450	1 450
Financial assets	**–**	**557**	**557**	**Financial assets**	**–**	**1 450**	**1 450**
Derivatives		454	454	Derivatives		204	204
Financial liabilities	**–**	**454**	**454**	**Financial liabilities**	**–**	**204**	**204**

The Parent Company's financial instruments per category

The following tables show the Parent Company's financial instruments per category as of December 31, 2010 and 2009:

2010 Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			77	77	77
Derivatives	206	6		212	212
Long-term receivables from Group companies			697	697	697
Non-current financial assets	**206**	**6**	**774**	**986**	**986**
Other receivables			227	227	227
Derivatives	321	24		345	345
Other accrued income			15	15	15
Cash and cash equivalents			10 813	10 813	10 813
Short-term receivables from Group companies			6 117	6 117	6 117
Current financial receivables	**321**	**24**	**17 172**	**17 517**	**17 517**
Financial assets	**527**	**30**	**17 946**	**18 503**	**18 503**

2009 Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			55	55	55
Derivatives	1 298	10		1 308	1 308
Long-term receivables from Group companies			687	687	687
Non-current financial assets	**1 298**	**10**	**742**	**2 050**	**2 050**
Other receivables			16	16	16
Derivatives	109	33		142	142
Other accrued income			5	5	5
Cash and cash equivalents			9 264	9 264	9 264
Short-term receivables from Group companies			5 120	5 120	5 120
Current financial receivables	**109**	**33**	**14 405**	**14 547**	**14 547**
Financial assets	**1 407**	**43**	**15 147**	**16 597**	**16 597**

A18. Continued

2010 Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 439	19 439	20 701
Derivatives		12		12	12
Long-term liabilities to Group companies			28 938	28 938	28 938
Non-current financial liabilities	**–**	**12**	**48 377**	**48 389**	**49 651**
Liabilities to credit institutions			10	10	10
Short-term liabilities to Group companies			11 309	11 309	11 309
Current financial interest-bearing liabilities	**–**	**–**	**11 319**	**11 319**	**11 319**
Derivatives	371	71		442	442
Other accrued expenses			361	361	361
Trade payables			29	29	29
Other liabilities			310	310	310
Current financial operating liabilities	**371**	**71**	**700**	**1 142**	**1 142**
Financial liabilities	**371**	**83**	**60 396**	**60 850**	**62 112**

2009 Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 681	19 681	21 608
Derivatives		33		33	33
Long-term liabilities to Group companies			33 345	33 345	33 345
Non-current financial liabilities	**–**	**33**	**53 026**	**53 059**	**54 986**
Liabilities to credit institutions			2 000	2 000	2 000
Short-term liabilities to Group companies			10 761	10 761	10 761
Current financial interest-bearing liabilities	**–**	**–**	**12 761**	**12 761**	**12 761**
Derivatives	6	165		171	171
Other accrued expenses			388	388	388
Trade payables			18	18	18
Other liabilities			504	504	504
Current financial operating liabilities	**6**	**165**	**910**	**1 081**	**1 081**
Financial liabilities	**6**	**198**	**66 697**	**66 901**	**68 828**

A19. Assets pledged and contingent liabilities

	2010	2009
Assets pledged for pension commitments		
Endowment insurances	52	47
	52	**47**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	522	245
	525	**248**

Sureties and other contingent liabilities include bank and commercial guarantees as well as performance bonds.

A20. Directly owned subsidiaries

	2010			2009		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned product companies						
Atlas Copco Airpower N.V., Wilrijk	76 415	100	45 793	76 415	100	45 785
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	122	60 000	100	108
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	36	200 000	100	28
Atlas Copco MAI GmbH, Feistritz an der Drau	1	100	129	1	100	129
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	411	1 000 000	100	375
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	160	2 325 000	100	149
Directly owned customer centers						
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	99 998	100	0
Atlas Copco Argentina S.A.C.I., Buenos Aires	525 000	75/100[1)]	11	525 000	75/100[1)]	11
Atlas Copco (India) Ltd., Mumbai	18 899 360	84	602	18 899 360	84	596
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	37	250 000	100	37
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	14	1 000 000	100	13
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	6	121 995	100	4
Atlas Copco (Switzerland) AG., Studen/Biel	8 000	100	14	8 000	100	13
GreenField Brazil Ltda, Sao Paulo	5 997	100	4	5 997	100	4
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	5	1 500 000	100	5
Atlas Copco Brasil Ltda., Sao Paulo	22 909 089	100	228	22 909 089	100	227
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	7	24 998	100	7
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	14	103 000	100	12
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	11	60 000	100	11
Atlas Copco Customer Finance Chile Ltd., Santiago de Chile	6 317 500	95/100[1)]	0	6 317 500	95/100[1)]	0
GreenField AG, Birsfelden	5 997	100	37	5 997	100	37
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100[1)]	1	5	0/100[1)]	1
Atlas Copco Ges.m.b.H., Vienna	1	100	54	1	100	6
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	1	3 500	100	1
Atlas Copco Eastern Africa Ltd., Nairobi	482 999	100	5	482 999	100	5
Atlas Copco KK, Tokyo	375 001	100	27	375 001	100	25
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	3	4 000	100	3
Atlas Copco Maroc SA., Casablanca	3 854	96	1	3 854	96	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	3	500	100	2
Atlas Copco Venezuela S.A., Caracas	38 000	100	15	38 000	100	15
Chicago Pneumatic Construction Equipment AB, 556197-5375, Stockholm	30 000	100	31	–	–	–
CP Scanrotor Aktiebolag, 556103-0080, Tanum	1 500	100	2	1 500	100	2
Servatechnik AG., Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	23	1	100	23
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	29	200 000	100	29

A20. Continued

	2010			2009		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned holding companies and others						
Atlas Copco A/S, Langhus	2 498	100	17	2 498	100	16
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	670	15 712	100	637
Atlas Copco Dynapac AB, 556655-0413, Nacka	86 993 823	100	5 310	86 993 823	100	5 298
Atlas Copco Finance Belgium bvba, Wilrijk	1	0/100[1)]	0	1	0/100[1)]	0
Atlas Copco Finance Europe n.v., Wilrijk	1	0/100[1)]	0	1	0/100[1)]	0
Atlas Copco France Holding S.A., St. Ouen l'Áumône	278 255	100	179	278 255	100	172
Atlas Copco Holding GmbH, Essen	1	100	271	1	100	269
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 550
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	719	700 500	100	718
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	16	4 999	100	16
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	10 612	1 000	100	10 590
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	298	50 623 666	100	297
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 394	100	100	3 353
CP Scanrotor Global AB, 556337-5897, Tanum	1 000	100	0	1 000	100	0
Dynapac Nordic AB, 556653-3658, Stockholm	1 000	100	19	–	–	–
Econus S A, Montevideo	21 582 605	100	17	21 582 605	100	16
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Gulf Turbomachinery, Dubai	–	–	–	6	50/100[1)]	3
Oy Atlas Copco AB, Vantaa	150	100	30	150	100	30
Power Tools Distribution n.v., Hoeselt	1	0/100[1)]	0	1	0/100[1)]	0
16 dormant companies		100	34		100	34
Net investment hedge			60			821
Carrying amount, Dec. 31			**90 110**			**90 542**

1) First figure; percentage held by Parent Company, second figure; percentage held by Atlas Copco Group.

A21. Related parties

Relationships

The Parent Company has related party relationships with its largest shareholder, its subsidiaries, its associates and with its Board Members and Group Management.

The Parent Company's largest shareholder, the Investor Group, controls approximately 22 % of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A20 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 124–126 and 128–130.

Transactions and outstanding balances

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

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

The following table summarizes the Parent Company's transactions with Group companies:

	2010	2009
Revenues		
Dividends	4 099	8 241
Group contribution	4 028	1 976
Interest income	153	673
Expenses		
Group contribution	–221	–336
Interest expenses	–808	–1 849
Receivables	6 814	5 807
Liabilities	40 546	44 606
Guarantees	522	245

A21. Continued

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	*Alger*
Angola	Atlas Copco Angola Lda	*Luanda*
Argentina	Atlas Copco Argentina S.A.C.I	*Buenos Aires*
	Atlas Copco Servicios Mineros S.A.	*Buenos Aires*
Australia	Atlas Copco South Pacific Holdings Pty Ltd	*Blacktown*
	Atlas Copco Australia Pty Ltd	*Blacktown*
	Atlas Copco Customer Finance Australia Pty Ltd	*Blacktown*
Austria	AGRE Kompressoren GmbH	*St Ulrich*
	Atlas Copco Powercrusher GmbH	*St. Valentin*
	Atlas Copco MAI GmbH	*Feistritz An Der Drau*
	Atlas Copco Ges.m.b.H.	*Vienna*
Bahrain	Atlas Copco Services Middle East OMC	*Bahrain*
Bangladesh	Atlas Copco Bangladesh Ltd	*Dhaka*
Belgium	Power Tools Distribution n.v.	*Tongeren*
	Atlas Copco ASAP n.v.	*Wilrijk*
	Atlas Copco Rental Europe n.v.	*Rumst*
	CP Benelux n.v.	*Hoeselt*
	Atlas Copco Finance Belgium bvba	*Wilrijk*
	Atlas Copco Finance Europe n.v.	*Wilrijk*
	Atlas Copco Airpower n.v.	*Wilrijk*
	International Compressor Distribution n.v.	*Wilrijk*
	Atlas Copco Belgium n.v.	*Overijse*
Bolivia	Atlas Copco Boliviana SA	*La Paz*
Bosnia Herzegovina	Atlas Copco BH d.o.o.	*Sarajevo*
Botswana	Atlas Copco (Botswana) (Pty) Ltd	*Gaborone*
Brazil	Atlas Copco Brasil Ltda	*Sao Paulo*
	Dynapac Brasil Industria e Comercio Ltda	*Sao Paulo*
	Chicago Pneumatic Brasil Ltda	*Sao Paulo*
Bulgaria	Atlas Copco Lifton Eood	*Ruse*
	Atlas Copco Bulgaria Eood	*Sofia*
	ALUP Compressors Bulgaria OOD Ltd	*Sofia*
Canada	Atlas Copco Canada Inc.	*Dollards des Ormeaux, QC*
	Chicago Pneumatic Tool Co. Canada Ltd	*Toronto, ON*
Chile	Atlas Copco Customer Finance Chile Ltda	*Santiago*
	Atlas Copco Chilena S.A.C.	*Santiago*
China	Atlas Copco (China) Investment Co Ltd	*Shanghai*
	Atlas Copco (Nanjing) Construction and Mining Equipment Ltd	*Nanjing*
	Atlas Copco (Shanghai) Process Equipment Co Ltd	*Shanghai*
	Atlas Copco (Wuxi) Compressor Co Ltd	*Wuxi*
	Atlas Copco (Wuxi) Research and Development Center Co Ltd	*Wuxi*
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd	*Zhangjiakou*
	Dynapac (China) Compaction & Paving Eq Co Ltd	*Tianjin*
	Kunshan Q-Tech Air System Technologies Ltd	*Kunshan*
	Tooltec (Qingdao) Tool Co Ltd	*Qingdao*
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd	*Shenyang*
	Atlas Copco (Wuxi) Exploration Equipment Ltd	*Wuxi*
	Liuzhou Tech Machinery Co Ltd	*Liuzhou*
	Shanghai Bolaite Compressor Co Ltd	*Shanghai*
	Wuxi Pneumatech Air/Gas Purity Equipment Co Ltd	*Wuxi*
	Atlas Copco (Shanghai) Equipment Rental Co Ltd	*Shanghai/Pudong*
	Atlas Copco (Shanghai) Trading Co Ltd	*Shanghai/Pudong*
	Dynapac (Tianjin) International Trading Co Ltd	*Tianjin*
	Shanghai Tooltec Industrial Tool Co Ltd	*Shanghai*
	Shenyang Rui Feng Machinery Ltd	*Shenyang*
Colombia	Atlas Copco Colombia Ltda	*Bogota*
Croatia	Atlas Copco d.o.o.	*Zagreb*

Country	Company	Location (City)
Cyprus	Atlas Copco (Cyprus) Ltd	*Nicosia*
Czech Republic	Atlas Copco S.r.o.	*Praha*
	ALUP CZ spol. S.r.o	*Breclav*
Democratic Republic of the Congo	Atlas Copco DRC sprl	*Lubumbashi*
Denmark	Atlas Copco Kompressorteknik A/S	*Copenhagen*
Egypt	Atlas Copco Equipment Egypt S.A.E.	*Cairo*
Finland	Oy Atlas Copco Ab	*Vantaa*
	Oy Atlas Copco Rotex Ab	*Tampere*
	Oy Atlas Copco Kompressorit Ab	*Vantaa*
	Oy Atlas Copco Louhintatekniikka Ab	*Vantaa*
	Oy Atlas Copco Tools Ab	*Vantaa*
France	Atlas Copco France Holding S.A.	*St. Ouen L'aumône*
	Atlas Copco Crépelle S.A.S.	*Lille*
	Compresseurs Worthington Creyssensac S.A.S.	*Meru*
	ETS Georges Renault S.A.S.	*Nantes*
	ABAC France S.A.S.	*Valence*
	Atlas Copco Applications Industrielles S.A.S.	*St. Ouen L'aumône*
	Atlas Copco Compresseurs S.A.S	*St. Ouen L'aumône*
	Atlas Copco Forage et Construction S.A.S.	*St. Ouen L'aumône*
	Compresseurs Mauguière S.A.S.	*Meru*
	Techfluid Nord S.A.S.	*Lille*
	Vibratechniques S.A.S.	*Saint Valéry-En-Caux*
Germany	Atlas Copco Holding GmbH	*Essen*
	Rodcraft Pneumatic Tools GmbH	*Muelheim*
	Dynapac GmbH	*Wardenburg*
	Atlas Copco Application Center Europe GmbH	*Essen*
	Atlas Copco Construction Tools GmbH	*Essen*
	Atlas Copco Energas GmbH	*Köln*
	IRMER + ELZE Kompressoren GmbH	*Bad Oeynhausen*
	Microtec Systems GmbH	*Villingen-Schwenningen*
	ALUP-Kompressoren GmbH	*Köngen*
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	*Essen*
	Atlas Copco MCT GmbH	*Essen*
	Atlas Copco Tools Central Europe GmbH	*Essen*
	Chicago Pneumatic Tool Verwaltungs GmbH	*Maintal*
	Desoutter GmbH	*Maintal*
	TBB Industrial Tools Services GmbH	*Dingolfing*
Ghana	Atlas Copco Ghana Ltd	*Accra*
Great Britain	Atlas Copco UK Holdings Ltd	*Hemel Hempstead*
	Air Compressors & Tools Ltd	*Hemel Hempstead*
	ABAC UK Ltd	*Oxon*
	Atlas Copco Ltd	*Hemel Hempstead*
	PS Pneumatic Services Ltd	*Manchester*
	Medaes Ltd	*Chesterfield*
	Atlas Copco (NI) Ltd	*Lisburn*
Greece	Atlas Copco Hellas AE	*Rentis Koropi*
Hong Kong	CP China/Hong Kong Ltd	*Kowloon*
	Atlas Copco China/Hong Kong Ltd	*Kowloon*
Hungary	Industrial Technique Hungary Kft	*Budapest*
	ALUP Magyaroszàg Kft	*Eger*
	Atlas Copco Kft	*Budapest*
India	Atlas Copco (India) Ltd	*Pune*
Indonesia	PT Atlas Copco Indonesia	*Jakarta*
	PT Atlas Copco Fluidcon	*Jakarta*
Ireland	Atlas Copco (Ireland) Ltd	*Dublin*
Italy	Atlas Copco Customer Finance Italia S.p.A	*Milan*
	ABAC Aria Compressa S.p.A	*Robassomero*
	Ceccato Aria Compressa S.p.A.	*Vicenza*
	Atlas Copco BLM S.r.l.	*Milan*
	Atlas Copco Italia S.p.A.	*Milan*

A21. Continued

Country	Company	Location (City)
Italy	Desoutter Italiana S.r.l.	*Milan*
	MultiAir Italia S.r.l.	*Milan*
Japan	Fuji Air Tools Co., Ltd	*Osaka*
	KTS Co., Ltd	*Tokyo*
	Atlas Copco KK	*Tokyo*
Kazakhstan	Atlas Copco Central Asia LLP	*Almaty*
Kenya	Atlas Copco Eastern Africa Ltd	*Nairobi*
Latvia	Atlas Copco Latvija SIA	*Riga*
Lithuania	Atlas Copco Lietuva UAB	*Kaunas*
Luxemburg	Atlas Copco Finance S.á.r.l.	*Luxemburg*
	Atlas Copco Reinsurance SA	*Luxemburg*
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	*Kuala Lumpur*
Mali	Atlas Copco Mali Sárl	*Bamako*
Mexico	Desarrollos Técnologicos ACMSASA de CV	*Tlalnepantla*
	Atlas Copco Mexicana SA de CV	*Tlalnepantla*
Mongolia	Atlas Copco Mongolia LLC	*Ulaanbaatar*
Morocco	Atlas Copco Maroc SA	*Casablanca*
Namibia	Atlas Copco Namibia (Pty) Ltd	*Windhoek*
Netherlands	Atlas Copco Beheer B.V.	*Zwijndrecht*
	Atlas Copco Internationaal B.V.	*Zwijndrecht*
	Grass-Air Holding B.V.	*Oss*
	Atlas Copco Rental B.V.	*Rotterdam*
	ALUP Kompressoren B.V.	*Nieuwegein*
	Atlas Copco Nederland B.V.	*Zwijndrecht*
	Creemers Compressors B.V.	*Oss*
	Grass-Air Compressoren B.V.	*Oss*
	Cirmac International B.V.	*Apeldoorn*
New Zealand	Atlas Copco (N.Z.) Ltd	*Mt. Wellington*
	Intermech Ltd	*Auckland*
Nigeria	Atlas Copco CMT & CT Nigeria Ltd	*Abuja*
Norway	Atlas Copco A/S	*Langhus*
	Atlas Copco Anlegg- og Gruveteknikk A/S	*Langhus*
	Atlas Copco Kompressorteknikk A/S	*Langhus*
	Atlas Copco Tools A/S	*Langhus*
	Berema A/S	*Langhus*
	Dynapac Norway A/S	*Oslo*
Pakistan	Atlas Copco Pakistan (Pvt) Ltd	*Lahore*
Panama	Atlas Copco Central América SA	*Panama City*
Peru	Atlas Copco Peruana SA	*Lima*
Philippines	Atlas Copco (Philippines) Inc.	*Binan*
Poland	ALUP Kompressoren Polska Sp. Z.o.o.	*Warsaw*
	Atlas Copco Polska Sp. Z.o.o.	*Warsaw*
	Dynapac Poland Sp. Z.o.o.	*Katowice*
Portugal	Sociedade Atlas Copco de Portugal Lda	*Lisbon*
Romania	Atlas Copco Romania S.R.L.	*Otopeni*
	S.C. ALUP Kompressoren Romania S.R.L.	*Baia Mare*
	Atlas Copco Industrial Technique S.R.L.	*Pitesti*
Russia	ZAO Atlas Copco	*Khimki*
Serbia	Atlas Copco A.D.	*Belgrade*
Singapore	ABAC DMS Air Compressors Pte Ltd	*Singapore*
	Atlas Copco (South East Asia) Pte Ltd	*Singapore*
	Fluidcon Services (Pte) Ltd	*Singapore*
Slovakia	Atlas Copco Compressors Slovakia s.r.o	*Trencin*
	Industrial Technique s.r.o.	*Bratislava*
Slovenia	Atlas Copco d.o.o.	*Trzin*
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd	*Witfield*
	Atlas Copco Investment Company (Pty) Ltd	*Witfield*
	ZAQ Coalfields Drilling Services (Pty) Ltd	*Witfield*
	Atlas Copco South Africa (Pty) Ltd	*Witfield*
South Korea	CP Tools Korea Co. Ltd	*Seoul*
	Atlas Copco Mfg. Korea Co. Ltd	*Seoul*
Spain	Atlas Copco S.A.E.	*Madrid*
	Aire Comprimido Industrial Iberia, S.L	*Madrid*
Spain	Desoutter S.A.	*Madrid*
	Dynapac Iberia SLU	*Madrid*
Sweden	Atlas Copco AB	*Nacka*
	Dynapac AB	*Karlskrona*
	Atlas Copco Järla Holding AB	*Nacka*
	Atlas Copco Nacka Holding AB	*Nacka*
	Atlas Copco Sickla Holding AB	*Nacka*
	Atlas Copco Lugnet Treasury AB	*Nacka*
	Atlas Copco Customer Finance AB	*Nacka*
	Industria Försäkringsaktiebolag	*Nacka*
	Atlas Copco Construction Tools AB	*Nacka*
	Atlas Copco Craelius AB	*Märsta*
	Atlas Copco Rock Drills AB	*Örebro*
	Atlas Copco Secoroc AB	*Fagersta*
	Atlas Copco Tools AB	*Nacka*
	Atlas Copco CMT Sweden AB	*Nacka*
	Atlas Copco Compressor AB	*Nacka*
	Atlas Copco Iran AB	*Nacka*
	CP Scanrotor Aktiebolag	*Fjällbacka*
	Chicago Pneumatic Construction Equipment AB	*Stockholm*
	Dynapac Compaction Equipment AB	*Karlskrona*
	Dynapac International AB	*Malmoe*
Switzerland	Atlas Copco (Schweiz) AG	*Studen/Biel*
	GreenField AG	*Birsfelden*
	Servatechnik AG	*Oftringen*
Taiwan	Atlas Copco Taiwan Ltd	*Taipei*
Tanzania	Atlas Copco Tanzania Ltd	*Geita*
Thailand	Sickla Holding (Thailand) Ltd	*Bangkok*
	Atlas Copco (Thailand) Ltd	*Bangkok*
Turkey	Atlas Copco Makinalari Imalat AS	*Istanbul*
	Scanrotor Otomotiv Ticaret AS	*Istanbul*
Ukraine	LLC Atlas Copco Ukraine	*Kiev*
United Arab Emirates	Atlas Copco Services Middle East SPC	*Abu Dhabi*
	Atlas Copco Middle East FZE	*Dubai*
Uruguay	Econus S A	*Montevideo*
USA	Atlas Copco North America LLC	*Pine Brook, NJ*
	Atlas Copco USA Holdings, Inc.	*Pine Brook, NJ*
	MedaesUSCo, Inc.	*Rock Hill, SC*
	Atlas Copco ASAP North America LLC	*Pine Brook, NJ*
	Atlas Copco Customer Finance USA LLC	*Pine Brook, NJ*
	Chicago Pneumatic International, Inc.	*Rock Hill, SC*
	Atlas Copco Assembly Systems LLC	*Auburn Hills, MI*
	Atlas Copco Comptec LLC	*Voorheesville, NY*
	Atlas Copco Drilling Solutions LLC	*Garland, TX*
	Atlas Copco Mafi-Trench Company LLC	*Santa Maria, CA*
	Atlas Copco Secoroc LLC	*Grand Prairie, TX*
	Chicago Pneumatic Tool Company LLC	*Rock Hill, SC*
	Beacon Medical Products LLC	*Rock Hill, SC*
	Atlas Copco Rental LLC	*Laporte, TX*
	Atlas Copco Compressors LLC	*Rock Hill, SC*
	Atlas Copco Construction & Mining Technique USA LLC	*Commerce City, CO*
	Atlas Copco Tools & Assembly Systems LLC	*Auburn Hills, MI*
	Benz Compressed Air Systems, Inc.	*Montebello, CA*
	Atlas Copco Hurricane LLC	*Franklin, IN*
	Atlas Copco Specialty Rental LLC	*Humble, TX*
	Quincy Compressor, Inc.	*Pine Brook, NJ*
	Quincy Compressor LLC	*Bay Minette, AL*
Venezuela	Atlas Copco Venezuela SA	*Caracas*
Vietnam	Atlas Copco Vietnam Company Ltd	*Hanoi*
Zambia	Atlas Copco (Zambia) Ltd	*Chingola*
Zimbabwe	Atlas Copco Zimbabwe (Private) Ltd	*Harare*

Appropriation of Profit

Proposed distribution of profit

As shown in the balance sheet of Atlas Copco AB, the following funds are available for appropriation by the Annual General Meeting:

Retained earnings including Reserve for fair value	SEK	35 133 833 357
Profit for the year	SEK	5 987 657 607
	SEK	**41 121 490 964**

The Board of Directors propose that these earnings be appropriated as follow:

To the shareholders, a dividend of SEK 4.00 per share	SEK	4 873 504 924
To be retained in the business	SEK	36 247 986 040
	SEK	**41 121 490 964**

Proposed share split and mandatory redemption of shares

The board proposes that the Annual General Meeting 2011 decides on an automatic redemption procedure of shares, including a share split 2:1. The proposal also includes a reduction of the share capital for repayment to the shareholders by a redemption of shares with one share being redeemed for SEK 5.00 and a restoring of the sharecapital by way of a a bonus issue without shares utilizing the non-restricted equity. In total, approximately MSEK 6 092 will be distributed to the shareholders, in addition to the proposed dividend distribution.

The Parent Company financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, February 11, 2011

Sune Carlsson
Chair

Jacob Wallenberg
Vice Chair

Staffan Bohman
Board Member

Johan Forssell
Board Member

Ronnie Leten
President and CEO

Ulla Litzén
Board Member

Gunilla Nordström
Board Member

Anders Ullberg
Board Member

Margareth Øvrum
Board member

Mikael Bergstedt
Union representative

Bengt Lindgren
Union representative

Our Audit Report was submitted on February 17, 2011
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Atlas Copco AB is required to publish information included in this Annual Report in accordance with the Swedish Securities Market Act. The information was made public on March 15, 2011.

Audit Report

To the Annual General Meeting of the shareholders of Atlas Copco AB
Corporate identity number 556014-2720

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Atlas Copco AB for the year 2010. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 12-97. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Nacka, February 17, 2011
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Financial Definitions

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

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

Capital employed turnover ratio
Revenues divided by average capital employed.

Capital turnover ratio
Revenues divided by average total assets.

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

Dividend yield
Dividend divided by the average share price quoted.

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

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

EBITDA margin
EBITDA as a percentage of revenues.

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

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

Interest coverage ratio
Profit before tax plus interest paid and foreign exchange differences divided by interest paid and foreign exchange differences.

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

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

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

Net interest expense
Interest expense less interest income.

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

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

Operating profit margin
Operating profit as a percentage of revenues.

Profit margin
Profit before tax as a percentage of revenues.

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

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

Weighted average cost of capital (WACC)

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

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

Pre-tax WACC
WACC divided by (1 – estimated standard tax rate).

Sustainability Report

Atlas Copco's vision is to become and remain First in Mind—First in Choice® for its stakeholders. This vision is also the driving force of the Group's corporate responsibility strategy, and the objective is to be a good corporate citizen in each market. As such, Atlas Copco is committed to making a positive impact within its corporate responsibility framework: through the economic, environmental and social dimensions, and through the pride among employees in the Group's values.

Atlas Copco was for the sixth time selected as one of the 100 most sustainable companies in the world. By and large, the Group's production units are ISO 14001 certified and business partners are encouraged to have a safety, health and environmental management system.

A word cloud was created to communicate the new brand promise.

Important Events in 2010

- The new brand promise *Committed to sustainable productivity* was launched and rolled-out globally.
- Awarded the Swedish Industry's Big Sustainability Award.
- Top ranked in Sweden in CSR reporting on the web.
- Comprehensive safety and health program including an Atlas Copco Safety and Health Award.
- Achieved OHSAS 18001 certification at some of the biggest production units.
- Continued focus on innovation of energy-efficient products and solutions. Awarded the prestigious Swedish iF design award for the energy-efficient electric tool Tensor Nutrunner.
- Recognized for the HIV/AIDS program in South Africa for the second year in a row.

About the report

Atlas Copco's Sustainability Report is a yearly report prepared since 2001 in accordance with the Global Reporting Initiative (GRI) guidelines. Since 2006 the report has followed the GRI 3.0 version guidelines.

This report is also Atlas Copco's Communication on Progress (COP), i.e. the report on the performance in relation to the ten principles within UN Global Compact.

Basis for the Sustainability Reporting is presented in this section with regards to the Sustainability Reporting and in note 1 with regards to financial accounting principles.

Atlas Copco's Sustainability Report includes information regarding all three aspects of the Group's corporate responsibility strategy i.e. where Atlas Copco has a significant economic, environmental and social impact. It also gives examples of activities that employees are proud to present.

The report covers all of Atlas Copco's operations for the fiscal year 2010, i.e. Atlas Copco and its subsidiaries, unless otherwise stated. Operations divested during the year are excluded, while units that have been acquired are included. This may at times cause major changes in reported performance. Limitations and reporting principles as well as any restatement of the reporting are explained in the corresponding section. In 2010, this regards the reporting of emissions to air.

Environmental data is reported twice a year and covers production units, including distribution centers and applications centers. The environmental impact from rental operations is disclosed on page 120. Employee data is reported quarterly and all other data is annual and covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is compiled by the Group Controlling and Corporate Communications and is then reported to Group Management.

The Sustainability Report and the Corporate Governance Report are both included in the 2010 Annual Report. To avoid duplication of information, references are, at times, made to these reports, including the statement from the President and CEO.

Atlas Copco's most recent Sustainability Report and Corporate Governance Report were published in March 2010, as part of the Annual Report 2009. Atlas Copco has used the GRI Indicator Protocols when compiling and disclosing information on core indicators in the Sustainability Report, unless specifically noted in GRI compliance index. Atlas Copco has also applied the Guidance on Defining Report Content and the corresponding principles on materiality, stakeholder inclusiveness, sustainability context and completeness, see "Atlas Copco's sustainability reporting definitions" published on www.atlascopco.com/cr. The GRI core indicators reported and analyzed are those that are understood to be relevant and material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense.

The "Atlas Copco Sustainability Report 2010 – GRI Compliance Index" is published on www.atlascopco.com/cr, and presents how Atlas Copco has implemented the GRI reporting guidelines. The report has been structured in accordance with Atlas Copco's stakeholder model, see page 101. The Group has self-declared the report to be GRI Application Level A, which was confirmed by Deloitte. This means that Deloitte agreed that the content, page references and comments of the Atlas Copco Sustainability Report 2010 and GRI Compliance Index fulfills the GRI application level A.

Review/audit

Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. The sustainability report has been reviewed and approved by Atlas Copco's Group Management. The Sustainability Report 2010 has not been subject to limited assurance by an external part.

Corporate Responsibility

Atlas Copco's standards and performance expectations are the same for all operations around the world, and the Business Code of Practice helps employees understand the Group's spirit and commitments to stakeholders. Policy documents, guidelines and instructions are established in the internal database *The Way We Do Things*, and are available to all employees to help Group companies interpret and implement the Business Code of Practice. New employees are routinely introduced to these standards and expectations. Atlas Copco's companies have established routines to share the Group's views with business partners and customers.

International guidelines and standards

The Atlas Copco Business Code of Practice is built on United Nations Universal Declaration of Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, United Nations Global Compact, and OECD's Guidelines for Multinational Enterprises. The principles refer to human rights, labor, environment and anti-corruption. Atlas Copco has supported the principles of UN Global Compact for many years and signed membership in 2008, which is a long-term commitment.

www.unglobalcompact.org

Corporate responsibility

Atlas Copco's corporate responsibility work aims at achieving sustainability. It covers safety, health, environmental and human rights issues as well as ethical relationships with employees, business partners, customers, shareholders and the society and the environment. The Group's corporate responsibility work is based on the policies that are summarized in the Business Code of Practice, which was approved by the Atlas Copco AB Board in 2004 and endorsed by the union. The related principles, guidelines, processes and instructions are published and available to all employees in *The Way We Do Things*. The governance structure, which covers corporate responsibility, is also reported in the Corporate Governance Report.

Roles and responsibilities

The Board of Directors formally approves the Group's Business Code of Practice. Group Management is responsible for the policies in the Business Code of Practice and the principles, guidelines, processes, and instructions in *The Way We Do Things*. Group Management also initiates guidance, support activities, and follow-up procedures as required and establishes Group goals. It provides support for corporate responsibility work through the Group's Safety, Health and Environmental (SHE) Council, and the Organizational Development and Human Resources department. The corporate responsibility spokesperson in Group Management is the Senior Vice President Corporate Communications. The CEO is responsible for corporate responsibility and reports directly to the Board of Directors in situations with for example significant environmental or social aspects.

The role of the business areas is to develop, implement, and follow up on the objectives and strategy within the total business scope, including environmental and social performance.

The divisions are the highest operational units in the Group and they are in charge of the implementation of corporate responsibility policies in their area of responsibility. They establish measurable targets for product development projects and conduct supplier evaluations as appropriate.

Risk assessments regarding legal, social, and environmental performance are reported at board meetings. The Group Internal Audit and Assurance function monitors internal control routines.

Goals

Based on its vision to become and remain First in Mind—First in Choice® for its stakeholders, in February 2011, Atlas Copco Group Management and the Board decided on revised and more ambitious goals for the Group. The goals are described on pages 10–11. A performance summary is reported on page 120. The analysis of the performance is reported in respective stakeholder section of the sustainability report.

Training

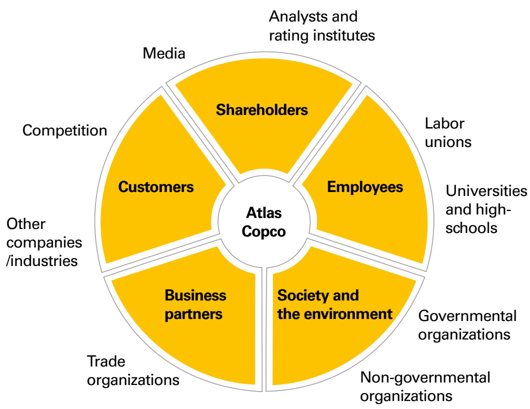
Environmental or social considerations may at times override purely commercial considerations. In recognition of that fact, guidance documents and training materials are available to assist operations with the implementation of corporate responsibility policies within the context of their commercial responsibilities.

The Group has a process in place that all employees receive training in the Business Code of Practice. In 2010, approximately 80% of Atlas Copco employees had received training, mainly via the Group's internal training program at local company level.

One of the Group targets is that all employees shall work in a company with a Safety, Health and Environmental Management System. It means that all employees shall receive relevant training. A safety, health and environmental interactive e-learning module is available to all employees and special training is offered to managers.

In 2010, Atlas Copco rolled out globally the training package

Atlas Copco's stakeholder model



on the Business Code of Practice aimed at managers worldwide. The class-room training material includes a number of dilemma cases on human rights, corruption, environmental concerns and business integrity in general. The ambition during 2011 is to develop and roll out a focused e-learning on corruption to all employees.

During the year, a training package on fraud awareness was launched and rolled out globally in the Group, primarily to managers and business controllers.

Reporting of violations

The ethical helpline on Group level can be used by employees for reporting of behavior or actions that are, or for good reasons may be perceived as, violations of laws or of the Business Code of Practice. The ethical helpline process is used when a case cannot be solved at a local unit level. It serves as a complement to similar processes on a country level. The Group legal department is responsible for managing the reports and it ensures that they are treated confidentially. The person reporting is guaranteed anonymity.

In 2010, a total of 20 (26) possible violations of the Business Code of Practice were reported to Group Management through the ethical helpline. The nature of the violations was related to organizational changes, economic issues, and personal issues. The relation to corruption was difficult to distinguish and there were no incidents of discrimination during the reporting period. Eleven of the reported cases were substantiated and lead to actions, for example an internal audit, a police investigation or a disciplinary action. Five cases are still under investigation. There are no pending cases of fraud or discrimination.

During the year one case of fraud was discovered, which was followed up by an internal investigation, in parallel to the police investigation. The case has been brought to court for criminal charges and the person involved was convicted. The internal control procedures at the company in question have been reviewed to prevent this from happening again.

Corporate responsibility dimensions

Atlas Copco has grouped its main sustainability activities in three dimensions: community engagement (philanthropy), reengineer within the family (internal processes) and reengineer the larger environment (industry standards). All are important, but the third dimension, to reengineer the larger industrial environment and set new standards, will potentially have a greater positive impact on the environment. A table with detailed dimensions is available at the Atlas Copco website.

More information on corporate responsibility WWW

The following information is available at www.atlascopco.com/cr:

- Sustainability reports since 2001
- Energy-efficient products and solutions
- Business Code of Practice
- Sustainability scorecards
- Safety, Health and Environmental policy
- Community engagement projects and case stories
- Substances of concern – prohibited and restricted lists
- Corporate responsibility risks and opportunities
- GRI compliance index
- Sustainability reporting definitions
- Sustainable productivity

Stakeholder Engagement

Atlas Copco conducts dialogues with a number of stakeholders regarding its corporate responsibility. The discussions are held both on a local and a corporate level. The ambition is to identify opportunities to improve sustainability performance with specific focus on safety, health and environmental aspects as well as ethical aspects, compare performance with other leading multinational companies, and to take account of stakeholders' views and perspectives on the Group.

Besides the identified stakeholder groups: customers, business partners, society and the environment, employees and shareholders, general selection criteria are not used due to the fact that the Group tries to take all opportunities to stakeholder dialogues.

Atlas Copco values discussions with non-governmental organizations (NGOs), governmental organizations (GOs) and other influencers, with whom it can have constructive dialogues. The Group takes advice and/or learns from listening to their views. No stakeholders are excluded.

Atlas Copco replies to surveys from major rating institutes, for example SAM, Eiris, and Vigeo.

Regular meetings are held with the following:

- Major shareholders and Socially Responsible Investors (SRI)
- Amnesty International
- Transparency International
- Students, e.g. theses writing, internships, job fairs at universities and technical schools
- Corporate responsibility-focused networks, for example UN Global Compact Nordic Network, Globalt Ansvar
- Discussion groups sponsored by trade organizations in which Atlas Copco is a member
- Industry organizations, for example Pneurop and CECE

In 2010 Atlas Copco has conducted one formal stakeholder dialogue with the Group's major shareholders. Members of Group Management participated in the meeting. The meeting was positively perceived and resulted in a list of issues that Atlas Copco should take into account regarding its corporate responsibility.

Main issues from stakeholder/influencer dialogues

Stakeholders	Stakeholder views	Focus 2010
Society and the environment	Continue to develop and measure the performance in community engagement projects.	Further promotion of *Water for All* and a more structured follow up from philanthropy and corporate citizen projects.
Customers	Further increase the energy efficiency of products and solutions.	Continued focus on development and launch of new and more energy-efficient, safe and ergonomic products and solutions. Increased focus from customers on Atlas Copco's sustainability performance.
	Perform customer risk assessments in countries with weak governments[1].	Customer risk mapping and checklists are developed and will be rolled out in 2011.
Employees	Continue to offer a safe and healthy workplace in all operations.	Increased number of implementations of OHSAS 18001, which puts more focus on safety and health. Expansion of HIV/AIDS program to more countries.
	Continue to strengthen employee relations and loyalty.	The 2010 employee survey result showed that there are areas that need attention and improvement, such as on-the-job training and coaching.
	Ensure employees' knowledge of the content of the Business Code of Practice and their compliance to it.	Launch of a compliance process to the Business Code of Practice and roll out of the updated training program.
Business partners	Supplier evaluations process regarding social aspects.	Training package for purchasers and quality engineers in supplier evaluations was globally rolled out. Third party audits on social aspects at business partners' sites in China were conducted.
Shareholders	Continue to improve sustainability performance and reporting through follow up on goals on key performance indicators.	Performance versus goals is reported. Performance versus goals including analysis is reported at the Atlas Copco website.

[1] OECD definition

Society and the Environment

Atlas Copco is a world-leading provider of industrial productivity solutions with own operations in 86 countries around the world, and production facilities in 20 countries on five continents. Its global reach spans customers in the manufacturing, process, mining, construction and service sectors in more than 170 countries.

Atlas Copco has an impact on a number of local communities, contributing to economic and social development, and has accordingly a responsibility to manage its business in an environmentally sound manner. The Group is truly global, with ambitious business growth targets in different regions where social standards and cultures vary significantly.

Society

Atlas Copco recognizes that its social responsibility extends beyond its own workplace and evaluates the social, environmental, political and reputation risks it faces when operating globally. Striving to be a good and reliable corporate citizen, the Group considers interaction to be an important success factor. Therefore it wants constructive dialogues with its key stakeholders in society. The practice to assess and manage the impact of the operations on communities when entering, operating and divesting, is since 2009 included in the acquisition and divestment process in the Group. In 2010, eight companies were acquired, where the acquisition process was applied in all, including human rights. Group companies operate as good corporate citizens and decide locally on their key stakeholders. The Group collects information on the impact on local communities through the acquisition and divestment process as well as regularly at board meetings when operating. With few exceptions, Atlas Copco's processes have been sufficient to limit the impact on the environment or the local community. An analysis of the environment when acquiring or divesting is normal procedure and if needed the environment is restored.

Community engagement and charity

Atlas Copco companies have a long history of local engagement in the societies where they operate. Besides supporting local charity projects, the Group's Community Engagement Policy also encourages companies to provide support in the case of natural and humanitarian disasters. The policy acknowledges the value of supporting employee-led initiatives, by following the financial 'matching' principle. This principle says that Group companies shall seek to match financial donations made by employees, with company funds.

In Atlas Copco companies, a local community need assessment is performed in order to determine how Atlas Copco best can contribute to the local society. The initiative *Water for All* is the major example of this type of engagement.

Since 1984, Atlas Copco has supported the employee managed organization *Water for All*, which raises funds to finance water well drilling activities and equipment in order to supply clean drinking water to villages and communities in need. As from 2011 Atlas Copco does not only match employee contributions to *Water for All*, it doubles the employee contributions. The water supply is normally achieved through drilling or digging and installing hand pumps or through protection of natural springs. Over the years, the *Water for All* organization has given more than 1 000 000 people access to clean water from water wells. The *Water for All* organization is established in twelve countries and more are under way. Atlas Copco employees run the local *Water for All* organization on a voluntary basis and largely in their own time, with support from the Atlas Copco Group and local management. Employees make donations of various sizes to the organization. More information about the *Water for All* organization can be found at www.water4all.org. www

The Group's local charity initiatives, selected and supported by local companies, chiefly focus on three areas: providing education, a safe upbringing for children, and fighting diseases. In line with this, Atlas Copco companies support schools or universities to raise the educational level and support orphanages that provide children a safe upbringing.

All local charity activities should provide support over a medium or long-term period. However, support following natural and humanitarian disasters, which is of a completely different character, can be provided on a short-term basis. Often this support is provided in the form of products, for example generators and breakers, but it can also be funds raised by employees, which are matched by Atlas Copco. In the case of the earthquake in Chile in February 2010 many Atlas Copco employees and their families lost their homes. They received both financial and other support from Group companies and its employees. Atlas Copco employees raised funds globally for victims of the earthquake that struck Haiti.

Human rights

The Business Code of Practice supports and covers fundamental human rights, such as freedom of association and collective bargaining and the non-existence of forced and child labor, as well as the rights of indigenous people, and respect those rights in the Group's operations throughout the world. The basic principles are also promoted to business partners around the world.

Human rights abuse exists in markets where Atlas Copco operates. In order to identify areas where there are risks related to human rights abuse, Atlas Copco takes advice from Amnesty International. In this way, it can provide support to its own companies active in such areas. Countries such as Angola, Democratic Republic of the Congo, Iran, Uzbekistan and China have according to Amnesty International high risk of human rights abuse, for example child labor or young workers and forced labor or compulsory labor. Atlas Copco has sales and service operations in these countries. In China it has also extensive production.

The Group companies in countries with high risk to human rights abuse are encouraged to evaluate business processes and relationships, and to act in order to minimize such risks. To support the local companies' work in this area, Atlas Copco has issued a set of guidance documents to help identify and deal with such risks.

Human rights aspects are integrated in the acquisition process. As soon as an acquisition has been completed the Atlas Copco guidelines and policies are applied.

Atlas Copco both highlights and follows up that Group companies have systems in place to inform customers and business partners about the human rights policies as well as to assess possible reputational risks by association with customers through the Control Self Assessment routine, see Corporate Governance Report. To date, 72% of Atlas Copco's operational units have established this routine.

There have been no instances of incidents involving indigenous rights among the Group's own employees and no instances of human rights violations brought to the attention of Group Management in 2010.

Anti-competitive behavior and corruption

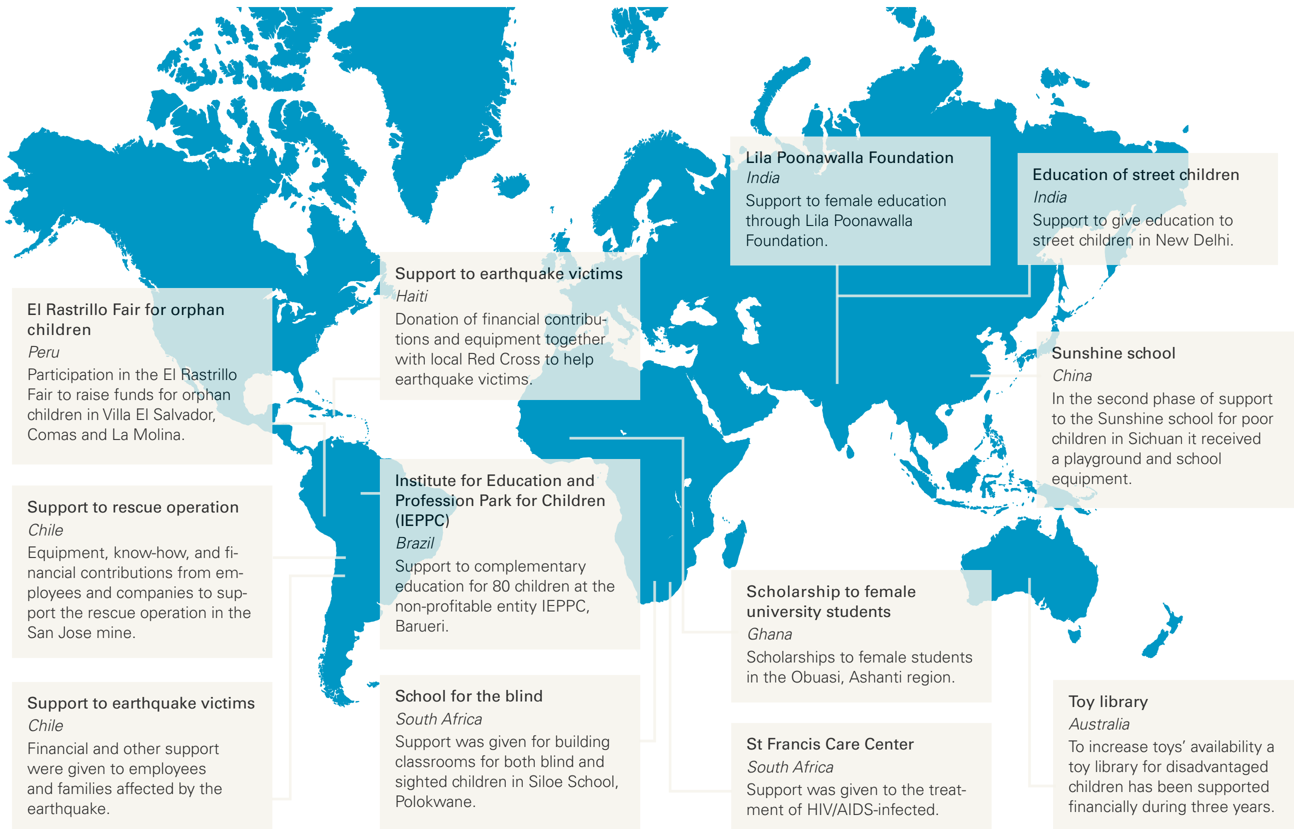
As a global citizen with valuable brands, Atlas Copco is mindful of the importance of working actively to build awareness of, and compliance with, principles of integrity in its business dealings. Atlas Copco has a zero vision of corruption and bribes. It instructs its operations not to give or receive anything of more than token value to or from any stakeholder, to avoid the risk of creating an unhealthy loyalty or break a law.

Anti-corruption procedures and behavior are covered by Group training packages. Corruption Perception Indices provided by Transparency International are used in the training, see also www.transparency.org. Local companies are encouraged to run training workshops which deal pragmatically with business integrity and possible ethical dilemmas. The Ethical helpline supports employees and other stakeholders to report on behavior or actions that may conflict with the Business Code of Practice. More than 90% of Atlas Copco's companies have a process in place to analyze risks related to corruption, as measured from the Control Self Assessment routine.

In 2010, Atlas Copco initiated a formal compliance process of the Business Code of Practice. Managers were asked to sign-off the compliance to the Business Code of Practice. Through this process and through internal audits all companies are regularly analyzed for risks related to corruption. The new process will be a yearly process and it will be developed to also cover the process of and reporting of commission payments. It resulted in more sessions of class-room training of managers in dilemma discussions and on understanding the content and practices of the Business Code of Practice.

The Group is committed to supporting fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. There have been no instances of anti-competitive behavior or corruption brought to the attention of Group Management in 2010. There are no pending legal actions in this area and no fines have been paid during the year.

Examples of community engagement and charity projects around the world:



Public policy

Atlas Copco is a member of a number of trade organizations – such as The Association of Swedish Engineering Industries, Agoria (Federation for the Technology Industry) in Belgium, CAGI (Compressed Air and Gas Institute) in the United States, and the German Engineering Federation, VDMA and many others.

Since 1959, Atlas Copco has been actively involved in Pneurop, the European committee of manufacturers of compressors, vacuum pumps, pneumatic tools and allied equipment. Pneurop acts on behalf of its members in European and international forums regarding the harmonization of technical, normative and legislative development of construction equipment.

Atlas Copco is a member of CECE, the Committee for the European Construction Equipment Industry. The committee is for example working to remove technical barriers and improve the safety standards and environmental aspects of construction equipment.

Atlas Copco is participating in the ongoing development of international standards and is involved in the ISO committee ISO/TC 118 and the CEN committee CEN 232. Atlas Copco participated in the development of the ISO 26000 guiding standard on Social Responsibility, and served as the Swedish industry representative.

The Atlas Copco Group does not take political stands and does not use Group funds or assets to support political campaigns or candidates, or otherwise provide services to political endeavors.

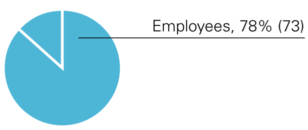
Environment

Life cycle analysis shows that Atlas Copco products have their main impact on the environment, not when they are produced, but when they are used, through the energy required to operate them. The Group works to reduce this impact already in the design of its new products and in the continuous product development as well as in the ongoing improvements of the manufacturing plants where environmental considerations are integral parts.

The environmental performance covers Atlas Copco's product companies, including distribution centers and application centers. The Group decided not to include environmental performance for customer centers. Reporting quality for customer centers is developing, but is in further need of improvement.

The Atlas Copco Group's main environmental impact is related to CO_2 emissions during the use of the products and to some lesser degree during transport and in production. The major disclosures regarding environmental aspects are therefore energy consumption and emissions of CO_2. However, Atlas Copco also discloses information regarding water consumption, packaging material, waste and other emissions to air.

Proportion of employees working in an Environmental Management System



Environmental Management Systems

To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco implements environmental management systems (EMS) in all operations, which is a target. In 2010, 78% (73) of Atlas Copco's employees worked in an EMS verified environment.

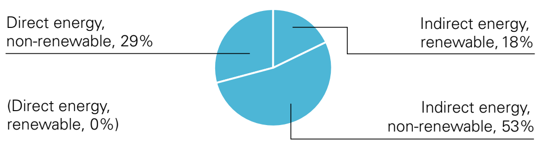
All product companies shall be certified according to the international standard ISO 14001. Acquired product companies are normally certified within a two-year period. In 2010, an additional ten product companies were ISO 14001 certified. Out of the 84 product companies, distribution centers and application centers, 65 are ISO 14001 certified, representing 97% (95) of cost of sales.

Use of resources

The transformation of raw materials and purchased components into finished products is a fundamental part of the Atlas Copco business, and substantial amounts of material, energy and water are consumed in this process. The Group works constantly to improve the efficient use of resources in the manufacturing process.

The reporting of energy consumption is divided into direct and indirect energy as well as in renewable and non-renewable energy. Direct energy is defined as purchased and consumed fuel for own production, for example oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example energy required to produce and deliver purchased electricity and district heating. The renewable energy includes electricity and heat generated from solar, wind, ocean, hydropower, geothermal resources, bio fuels, and hydrogen derived from renewable resources.

Proportion of energy consumption



www A detailed overview over direct and indirect energy consumption by primary source is available on the web, both for renewable and non-renewable energy: www.atlascopco.com/corporateresponsibility/cratatlas/environment/useofresources

In 2010, the total energy used in production decreased by 6% measured in relation to cost of sales. The result is explained by the increased business volume. Efficiencies to report on in 2010 are for example activities such as improved lighting in several production units and the change to more energy-efficient end environmental-friendly energy sources. In 2010, 27% (27) of the electricity consumption came from renewable resources.

The new Group goal on increased customer energy efficiency by 20% by 2020 relates to energy efficiency on major product categories. Achievements on energy-efficient products launched during 2010 are reported on in the customer section of this report.

Atlas Copco tracks materials used in the production process, and for packing of finished products or parts. By far the most significant direct material used in the production process is steel, either as raw steel, or as part of components that are machined in-house or by sub-suppliers. In terms of weight, steel represents more than 92% of the raw material used in production. Recycled steel calculation is derived from European average values, which amounts to approximately 90% of the steel used.

Steel and other major direct material are reported on Group level. Other materials used in the production process include: aluminum, copper and brass, plastics, rubber, oils and greases, and natural gas. A detailed overview is available on the Atlas Copco website. The finished products mainly consist of parts or components, which are not accounted for. WWW

There are initiatives to change to more environmental-friendly materials in the companies, for example in regards of plastics. The service boxes used are made from recycled environmentally-friendly material.

Every year the Group awards its internal environmental achievements. The Atlas Copco Environmental Award winner 2010 was the launch of energy-efficiency audits at customer sites, which can reduce energy costs by 25% on average. This decrease could at the same time increase productivity. The audit reviews the customer's compressed air system to optimize its installation.

The Group has initiatives to reduce its use of resources, for example products such as stationary compressors, drill rigs and hydraulic breakers are taken back from customers, refurbished and resold as used equipment. In 2010, the *Xtended Life Program* was launched where hydraulic breakers are taken back, refurbished and sold. The requirements to be met by the quality, performance and reliability are the same as those to be met by new units.

Optimizing packaging material is a focus area for the Group's companies. The consumption decreased by 4% in relation to cost of sales primarily due to establishment of local distribution centers that reduce the need for extensive packaging.

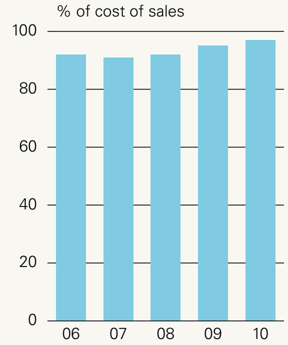
Atlas Copco has operations in countries with water scarcity and understands the importance of water, as noted in the commitment to the employee led organization *Water for All*. The new Group goal on water supports companies to work with keeping its water consumption at current level. The water withdrawal is disclosed as a total figure and not by source, as water is normally purchased and not considered as the major environmental impact to the Group. The water usage is to a great extent related to the non-production process. The water consumption decreased by 20% in relation to cost of sales. The relative decrease is primarily explained by unchanged water consumption despite the increased activities in production units during the year. During 2010, there has not been any unplanned water discharge and planned water discharges were not material.

Emissions and waste

Climate change is high on the political agenda and a global environmental problem. Atlas Copco reports CO_2 emissions from direct and indirect energy used in production, and from transport to and from production sites. Standardized conversion factors published by the Greenhouse Gas Protocol Initiative are used to calculate CO_2 emissions, see www.ghgprotocol.org.

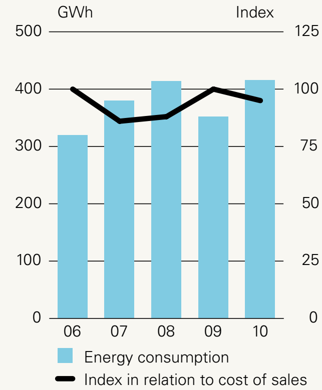
The Group's goal is to reduce the CO_2 emissions from energy in production by 20% by 2020 in relation to cost of sales. In 2010, CO_2 emissions from energy at production sites decreased by 9% in relation to cost of sales. The decrease is primarily due to the increased use of renewable energy in some major product companies, for example in the product company in Karlskrona, Sweden, which decreased its CO_2 emissions by more than 60 %, equivalent

ISO 14001 certification

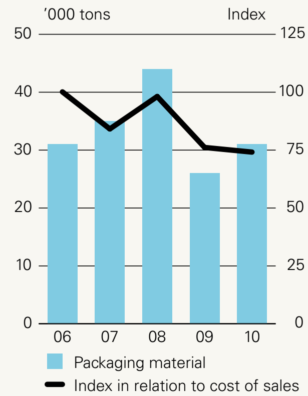


Target: 100%

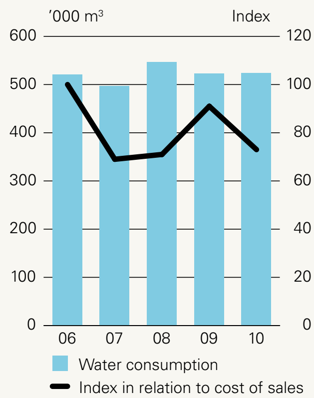
Energy consumption



Packaging material

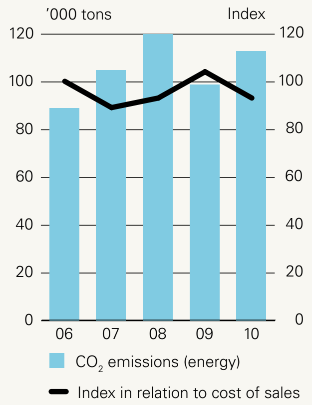


Water consumption



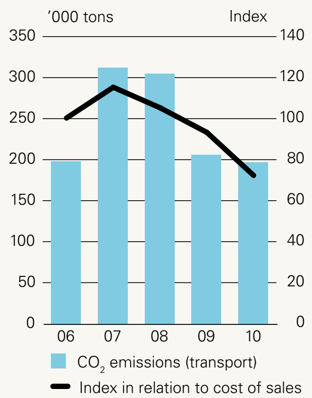
Goal: Keep water consumption at current level

CO_2 emissions from energy



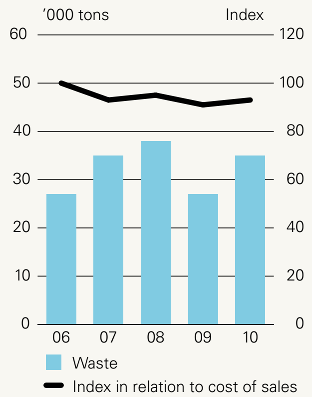
Target: –20% (2020)

CO_2 emissions from transport



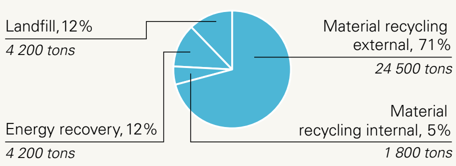
Target: –20% (2020)

Waste



Goal: reuse or recycle waste

Waste disposal*



* of which regulated waste 2 600 tons

to 1 106 tons CO_2 and in Örebro, Sweden, which decreased its CO_2 emissions by more than 22%. In absolute numbers the increase in CO_2 emissions was 14% for the Group, which is less than the increase in production activities. Atlas Copco's production units continue the work to reduce the CO_2 emissions.

In 2010, Atlas Copco started to report on emissions to air, on sulfur dioxide and nitrogen oxide.

Emissions to air

	Kg
Sulfur dioxide, SO_2	14 095
Nitrogen oxide, NO_x	57 773

The rental operations continued the work to switch its rental fleet to more environmental friendly equipment, which saves the carbon footprint. The target is to increase the share of VSD compressors in the rental fleet.

Transport of goods to and from production is purchased. The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline. The Group goal is to reduce its CO_2 emissions from transport by 20% by 2020 in relation to cost of sales. In 2010, the CO_2 emissions from transport decreased by 23% in relation to cost of sales. The reduction is primarily explained by the improved reporting from transport companies, but also by an active choice of some companies to replace air freight by other means of transportation, for example by ship. Other initiatives to reduce transport were to make better use of each transport, to lower its weight and to send spare parts directly to customers instead of via customer centers.

During the year, the Group continued its efforts to monitor emissions caused by business-related travel. The use of internet-based meetings, and telephone and video conferences were used to a high extent. A number of Atlas Copco companies have invested in video conference units.

The Atlas Copco Chemical and Gas Manual is a guiding document available to operations globally. The use of chemicals is monitored and followed-up on in the Group global database, which is used by the majority of the product companies.

Atlas Copco is using cooling agents in some products (air dryers) and processes (cooling installations). For products, all cooling agents used have a zero ozone depleting impact, and there is a continued strive to introduce cooling agents with lower Global Warming Potential (GWP). The majority of the cooling agents is in closed-loop systems in the products and therefore not released during the operational life of the products. In 2010, the amount of cooling agents used for facility equipment was 0.3 ton, including 0.2 ton HCFC and 0.1 ton HFC and HFC blends. A newly acquired company reported 30 kg of the prohibited substance CFC-11, which will be further investigated and replaced.

Atlas Copco tracks the generation of various categories of waste in the production process, including regulated (sometimes referred to as hazardous) waste. The goal is to avoid creation of waste and that all waste is reused or recycled. As the main raw material going into the process is steel, metal scrap is not surprisingly the most significant fraction of waste coming out of the process, and practically all of this scrap is reused or recycled. Other waste categories are various plastics, as well as wood and paper from incoming packaging material and office use.

There are initiatives to reduce the waste to landfill, for example an increased separation of waste in cooperation with recycling handling companies. Another initiative regards for example the separation of metal scrap from oil before sending it to external recycling. The Atlas Copco Waste Manual is a guiding document describing strict procedures and required documents regarding waste handling. It is available to all companies in the internal database *The Way We Do Things.*

Electronic equipment such as computers and mobile phones are leased or purchased. Leased equipment is returned to the provider and the purchased equipment is sold to for example charitable purposes such as schools and hospitals, or is sent to waste handling.

In 2010, the amount of waste in relation to cost of sales increased by 1% and the proportion of reused or recycled waste increased to 76%.

Biodiversity

Almost all of Atlas Copco's production units are located in industrial areas. However, Atlas Copco Comptec in the New York State in the United States, representing 1.7% of the cost of sales of the reporting product companies, is located near a protected area of biodiversity value. The property size of the company's property is 178 000 m^2. The area is affected by Atlas Copco's use of water to cool the compressors in the performance testing. In 2006, measures were taken in cooperation with the local authority. In 2010, no units reported issues regarding biodiversity.

Atlas Copco investigates its environmental impact from operations in life-cycle analyses. The environmental impact from the companies varies depending on size and location. They address their potential impact on biodiversity, for example water consumption, in the ISO 14001 environmental management system.

Legal matters and environmental incidents

Atlas Copco follows applicable environmental laws in all countries where the Group operates and reports incidents or fines for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, in accordance with these laws. No major incidents have occurred during 2010 and no major fines have been paid.

Economy

Atlas Copco's overall goal is to deliver sustainable, profitable development. When achieved, this growth clearly adds value both to the local and global economies, for example in employing local personnel and in purchasing from local suppliers. The Group's goals for sustainable, profitable development are reported in the Annual Report on pages 10–11. Sales development in different regions is reported on page 12.

In many countries Atlas Copco works in close relation with society, which has indirect positive economic impact, through the training of engineers, for example. The Group does not receive any significant assistance from governments.

Atlas Copco assesses its economic sustainability in terms of the economic value generated by the Group's own operations. The economic value generated by selling products and services to customers is distributed to various stakeholders and/or retained in the business.

Development and distribution of economic value

Through subcontracting manufacturing and other activities, Atlas Copco generated further employment and financial stability. Operating costs include payments to suppliers for goods and services and deducted for functional costs and employee wages and benefits, amounted to MSEK 41 466 (41 593).

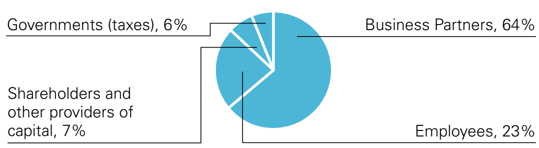
Employee wages and benefits paid by the Group increased by 10% to MSEK 14 699 (13 339).

Atlas Copco's providers of capital, for example shareholders and creditors, provide funds to finance the asset base that is used to create economic value. In turn, these stakeholders receive annual dividend and interest payments. The payments to providers of capital decreased by 23% to MSEK 4 489 (5 819).

The Group contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2010, payments to governments through direct tax was up 73% to MSEK 3 619 (2 095).

The economic value retained increased by 146% to MSEK 6 217 (2 528), as a result of increased business demand in 2010. Further details are reported in the Annual Report and on page 120.

Distribution of direct economic value



Customers

Atlas Copco strives to be the preferred supplier to current and potential customers, by developing, manufacturing, and delivering quality products and solutions that provide sustainable productivity. The Group's success depends on the interaction with customers.

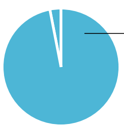
Atlas Copco's customers require sustainable products and solutions to increase their productivity. By providing high quality products and services, which meet or exceed customer requirements, the Group adds value to its customers' own operations and business objectives.

In 2010, customer centricity continued to be a guiding principle in the Atlas Copco organization. Customer centers track their performance in terms of customer share, as a measurement of how customers value the products and services offered by the Group. Furthermore, in accordance with the Group's quality policy, all units conduct customer surveys to measure how satisfied customers are. They are using a common concept to measure customer loyalty and to continuously improve performance. The overall objective is to achieve long-term profitable growth. In 2010, the process was further developed to ensure that the customer loyalty metrics were linked with profitable growth and to continuous improvements of operational processes. The 2010 surveys emphasized the importance of maintaining a market-leading position not only in product innovation and performance, but also in efficient supply chains and excellent after sales services and support.

The Group recognizes it has reputation risks related to the association with certain customers. In countries defined to be high risk areas or at risk, Atlas Copco seeks to minimize these risks by safeguarding that its own commitments are met regarding its business practices and the safety and technological leadership of its products and services. In addition, Atlas Copco strives to build awareness for the ethical guidelines supported by the Group. The internal customer risk assessment guideline was further developed to support companies in the process. This guideline will in particular be used in cases of financing by credit export agencies. Trainings will be conducted during 2011.

Atlas Copco follows both local and international rules (US OFAC, UN and EU) and regulations regarding trading in high risk countries. In all of its operations the Group follows its own Business Code of Practice.

Proportion of product companies with a quality management system (ISO 9001)



Products and Solutions

Atlas Copco's products and solutions are continuously improved in regards to customers' demands of quality, cost and efficiency as well as in regards to ergonomic, safety, health and environmental aspects. The Group complies with laws and regulations, stricter regulation has a direct effect on the development of for example more environmental friendly or safer products. Seen over the entire product life cycle, from product development, manufacturing, usage to discards, the largest environmental impact takes place during the use of the products. In designing its products the Group aims to reduce the environmental impact and improve the performance of every product. Life cycle assessments show energy consumption has the most significant environmental impact.

Atlas Copco assesses relevant aspects of ergonomics, safety and health not only in its product development process but in all life cycle stages of the product. Significant product or service categories are all covered by and assessed in terms of safety and health impacts.

A recent change in the product development process is the transfer of technical know-how to product development hubs in India and China.

The Group is organized in three separate, but still integrated, business areas. Each business area operates globally. Depending on the nature of the products and solutions offered, the focus and priorities vary. It is difficult to report a consolidated figure for their environmental impact, since each business area manufactures a wide variety of products and solutions. Some examples in each business area are given below.

Compressor Technique

In 2010, the Compressor Technique business area continued the focus to continuously improve both products and services, designed to reduce customers' energy consumption and increase their capacity. Product improvements were realized for compressors of all brands owned by Atlas Copco. Examples include the energy efficient oil-free screw blowers and the new range of small oil-injected screw compressors with variable speed drive, which offers significant energy savings and lower noise than previous versions. Atlas Copco's energy efficient screw blower range for aeration applications has proven to be on average 30% more energy efficient than conventional blower technology. In the typical municipal and industrial wastewater treatment plants air blowers can represent up to 70% of the total electricity costs.

A range of energy recovery kits was launched. It is for its rotary screw compressor range which enables up to 94% of the energy from wasted compression heat to be recovered. More than 45% of industry applications use hot water in their processes. The energy recovery units enable preheated water to be used in these processes to reduce the use of traditional energy sources and to reduce the amount of CO_2 emissions.

The portfolio of equipment upgrade kits, allowing customers to benefit from service products such as AirScan, AirOptimizer and AirConnect, provide comprehensive control over the entire system installations or configurations for customers. This type of intelligent control system has been shown to produce energy savings of up to 25%.

In 2010, many compressor rooms were equipped with the AirOptimizer solution realizing an energy saving of 7% on an average. A new portable air compressor range was launched. It is powered by a petrol engine, with emissions lower than emissions regulations. A new range of air dryers was also launched. It reflects the focus on sustainable solutions, increasing energy efficiency while offering reliable performance for every application.

Saving costs and the environment

All manufacturing industries need compressor air. Up to 10% of all energy consumption comes from compressed air systems. Variable speed drive (VSD) technology closely follows the air demand by automatically adjusting the motor speed, which has resulted in average energy savings of 25% for the customers. All Atlas Copco VSD compressors sold during last five years save for the customers 4 300 GWh per year, an equivalent of 1 985 000 tons CO_2 emissions.

Construction and Mining Technique

Part of the Construction and Mining Technique business area's strategy is to develop new products and offer services to reduce the environmental impact and customers total cost of ownership, by enhancing performance and reduction of costs, such as fuel, labor and parts, as well as ensuring a safe working environment.

New road construction machines were developed such as the new tandem asphalt rollers, which use close to 25% less fuel than its already fuel-efficient predecessors. Saving both money and the environment, the new asphalt pavers use 15% less fuel, reduce noise by 50% and keep operators comfortable as well as have high efficiency.

Mining companies using Scooptram underground loaders can now raise their productivity and lower the fuel consumption thanks to design improvements, for example a new generation bucket that is lighter, shorter and faster combined with new ground engaging tools. Safety, ergonomics and high productivity have been in focus when designing a new direct-control drilling rig. Great emphasis has been placed on the interaction between operator and machine.

Under the *Xtended Life Program,* Atlas Copco is offering second-hand hydraulic breakers. The units are restored so their condition can be compared to that of new breakers. Customers receive a product with a virtually normal lifespan, the original documentation and a works guarantee.

Atlas Copco launched a new hydraulic attachment cutter, which features a box-shape jaw, allowing the recycling rate to be increased for demolition jobs. The result is a better grade of material to be recycled and reduced stress on the environment.

Atlas Copco has been selected by the mining company Rio Tinto to develop one of two rapid tunneling concepts for underground block cave projects. The new machine will enable fast and cost-effective construction of mines which are safe, productive and have a minimal impact on the environment.

Sustainable products launched 2010

Energy recovery unit for rotary screw compressors
The new range of energy recovery kits for the rotary screw compressor range enables up to 94% of the energy from wasted compression heat to be recovered.

Minetruck
The new Minetruck is powered by a fuel efficient, low-emission engine, delivering reliable performance. It is 7–12% more energy-efficient than its predecessor. Operator comforts in the cabin include an air suspended forward-facing seat, a multifunction display monitor, air conditioning and a trainer's seat.

Asphalt paver
The new Asphalt pavers for road construction are 15% more fuel efficient and have significantly reduced noise levels compared to previous models. The new, ergonomic operator´s platform keeps the operator comfortable and enables efficient paving operations.

Screw blower technology for low pressure air compressors
The new and proven energy-efficient technology for air blowing applications: the ZS screw blower. Screw technology on average is 30% more energy efficient compared to conventional technology.

Tensor Nutrunner electric tool
A powerful pistol grip nutrunner with ergonomic features. It is equipped with a new motor with improved cooling, which gives a tool that is up to 45% faster and 30% lighter than its predecessors.

System for impulse nutrunner
New system and range of pulse tools with improved accuracy and monitoring, which reduces air consumption during run down of the fastener and results in less energy consumption.

Industrial Technique

The Industrial Technique business area's product development focus among other things on reducing energy consumption during the customer's use of the tools, from a life-cycle cost perspective while increasing the customers' productivity.

One example is the CO_2 neutral tightening made possible by the battery tools. Another is the transformation to energy-efficient electric tools. For users of pneumatic tools, an airline audit helps ensuring that the air distribution systems are delivering the correct pressure to the tools. The product development teams work closely with the marketing people, who listen to the customers and identify common needs and new trends.

The Atlas Copco Environmental Award 2010 was given to Industrial Technique for launching energy-efficiency audits at customer sites. Customers can benefit from the audit through reduced energy costs by on average 25%. This decrease can result in increased productivity. The audit reviews the customer's compressed air system to optimize its installation.

During 2010, many new products were launched that outperform their predecessors significantly in terms of efficiency, energy consumption, ergonomics, waste and total life cycle costs. Some examples of improvements were: new electric tools, which in its modular design is flexible, lighter and easier to disassemble. Electric tools vibrate less and make less noise than pneumatic tools. In larger, advanced industrial production facilities, they also offer traceability and quality monitoring. The optimized design of the tools improves the ergonomic aspects, increases the efficiency, consumes less energy and reduces waste. Industrial Technique was awarded the Swedish iF design award for the Tensor Nutrunner, see page 111.

Efficient tools save resources

By using electric tools, which are more precise than pneumatic tools, a bolt can be tightened so that the clamp load capability of the bolt is used to maximum. On average, a weight reduction of 20 kg per car can be achieved if lighter screws are used. This could reduce global fuel consumption by 12 billion liters/year, equal to four maximum capacity oil tankers.

Product Responsibility

Atlas Copco strives to consistently deliver high quality products and services that contribute to its customers' productivity and prosperity. All products and services are intended to meet or exceed quality, functionality, safety, and environmental expectations.

The Group's total quality concept is a combination of different factors, such as availability, ergonomics, durability, performance, profitability, reliability, safety, and serviceability. Additionally, during the design stage, products are evaluated from a safety and health perspective, including ergonomics. Further, all the Atlas Copco products and services come with relevant product, service and safety information. The product and service information required by the companies' procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product or service. The significant and major product or service categories are covered by and assessed for compliance with the procedures for product and service information and labeling. Training of customers are included when relevant, to secure a safe handling of the products.

Atlas Copco is in general not directly covered by the EU Waste Electrical and Electronic Equipment (WEEE) Directive. However, a few products are defined to be within the scope (handheld electric tools and monitoring control instruments). For those products Atlas Copco has a producer responsibility for the disposed products. The ambition is global and not limited to the European Union. Approximately 1% of products sold in Industrial Technique were returned from customers, in 2010.

The Group strives to follow laws and regulations in regards to safety, health and environmental, aspects or product information and labeling. In cases where product labeling is required, Atlas Copco meets those demands.

No significant cases of non-compliance with regulations concerning safety and health or product information and labeling have occurred during 2010. No fines have been paid. There have neither been any incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship. The companies review the compliance with these standards or codes regularly or as required in yearly reviews in their management systems.

Sales and marketing communication

The Group's products and services are marketed and sold on the basis of their quality, productivity, price and service level and other legitimate attributes. The Group companies are responsible for the marketing activities and for communications as well as training of personnel within the area of customer safety and health, product and service labeling, marketing communications, customer privacy and compliance.

Atlas Copco's new brand promise *Committed to sustainable productivity* communicates that in addition to the ability to innovate for superior productivity, Atlas Copco is a responsible company. Sustainability – thinking about what will last – has always been a part of the Group's product innovation, customer service, diversity, safety, or environmental concerns.

There are established clear policies published in *The Way We Do Things* where it is stated how to communicate with different stakeholders while adhering to applicable laws and regulations, standards (for example ISO) and the Business Code of Practice. As a result, Atlas Copco does not sell products that are banned in certain markets.

Communications professionals are employed in the local markets. In addition to the competence that they bring, they are offered internal training through the Atlas Copco Communications Academy, for example on legal aspects of communication or on how to write for the website.

Sponsoring

The Group has a sponsoring policy, which is followed by the Group's companies. On Group level Shanghai World Expo 2010 in China was supported. Several local sponsoring activities were also supported.

Employees

Atlas Copco has a vision to become and remain First in Mind—First in Choice® for potential, as well as for its existing, employees. During 2010, Atlas Copco continued to focus on offering a safe, healthy and diverse working environment for all employees.

Labor Practices and Decent Work

Atlas Copco's people management strategy is to attract, develop and keep motivated people, while expecting managers to take responsibility for developing their employees, their organizations and themselves. One of the key success factors of this strategy has been the encouragement of diversity as well as the integration of the Group's basic beliefs and values with local culture.

At year end 2010, Atlas Copco employed 32 790 (29 802) people globally and 88% of its workforce was based outside of Sweden. In 2010, new acquisitions brought 670 (169) new employees to the Group, and 0 (0) left through divestments

Employer/employee relations

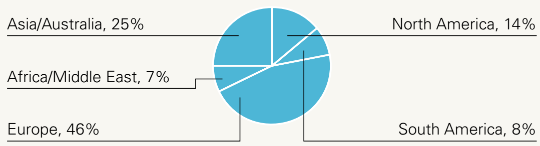
All employees have access to information regarding the Group's people management processes, which includes guidance on recruitment, compensation, performance reviews, and competence development. It is available in *The Way We Do Things*.

The non-discrimination policy covers all employees. All employees have the right to decide whether or not to be represented by a labor union, for example in case of collective bargaining purposes, which is recognized in the Business Code of Practice. In 2010, 42% (38) of all companies, which represents 63% (52) of all employees, reported that the employees had union representatives that could support them. The increase is due to new employees in companies where there is a union representative. In countries where no independent labor union may be established, Atlas Copco has taken measures to establish forums for employer/employee relations, for example as in China through Environment and Safety Committees.

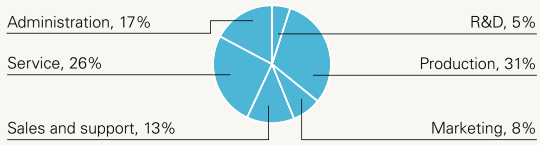
Wages and benefits are determined in accordance with market forces. The goal is to be fair, consistent and competitive, and to remain in line with the industry standards, in order to attract and retain the best people. To safeguard a fair salary structure, Atlas Copco consults external companies to classify different positions. The compensation level for each position is established based on the classification and on benchmarks with similar companies using the same system. The ratio of the basic salary of women to the basic salary of men for each employee category is not reported on Group level. However, the policy assures that employees with the same qualifications, experience and performance receive equal pay for equal work in the country where they work.

The Group does not have any material differences in benefits provided to full-time or part-time employees, by major operations. For temporary employees, benefits provided are in line with national legislation. Atlas Copco complies with national laws and regulations regarding minimum wages and minimum notice period in cases of operational changes.

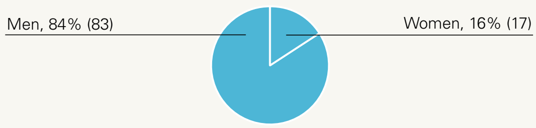
Proportion of employees by geographical spread



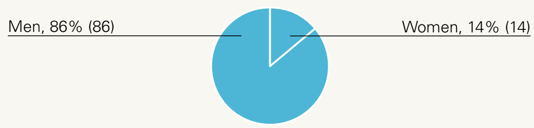
Proportion of employees by professional category



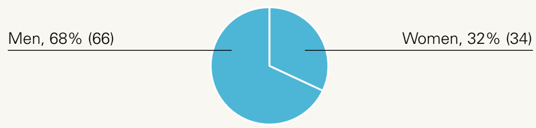
Proportion of male and female employees



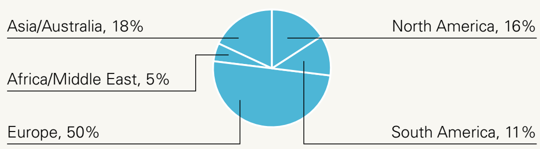
Proportion of male and female managers



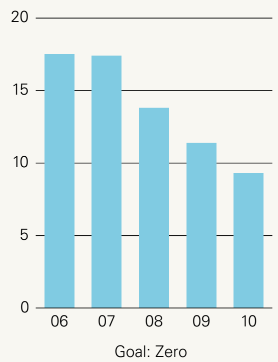
Proportion of male and female recent graduates recruited in the year



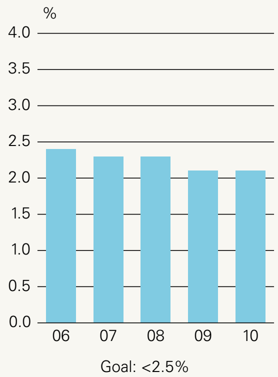
Proportion work-related accidents by geographical spread



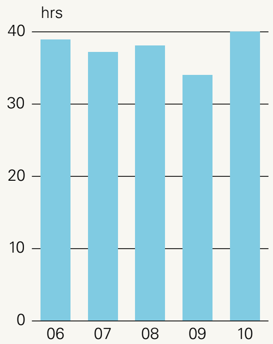
No. of accidents per million of hours worked



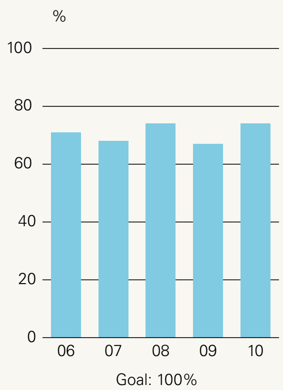
Percent of sick-leave



Average hours of training per employee



Proportion of appraisals among employees



Atlas Copco encourages mobility across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced Atlas Copco managers in senior positions lead the integration process and make it possible to establish the Group's business code, values and vision in an efficient and pragmatic manner.

In 2010, internal mobility for white-collar employees was 9.5% (8), which means that 1 953 (1 650) people moved to new positions. The overall external recruitment for salaried employees reached 15% (6). External recruitment totaled 3 090 (1 230) people excluding acquisitions. Employee turnover for white-collar employees was 7% (10). The increase in internal mobility and external recruitment are explained by the return of business after the global financial crisis. The reporting of employee turnover for blue-collar employees was not reported on Group level but will be collected for 2011.

Proportion of white-collar and blue-collar employees, %*

	2006	2007	2008	2009	2010
White-collar employees	70	66	68	67	61
Blue-collar employees	30	34	32	33	39

* During 2010 Atlas Copco changed definitions from salaried and hourly to white-collar and blue-collar employees.

Employee surveys

Atlas Copco conducts a Group employee survey at least every second year. During 2010, employees were invited to the Group employee survey. The result showed strengths such as team work towards goals, coworkers and managers show the employee respect and pride in working in the company. The Group's challenges related to being an attractive employer, for example in regards of on-the-job training, coaching and implementing decisions. The areas that need attention and improvement will be followed up on by local management, who involve the employees in workshops to explore how they can best improve their weaknesses and capitalize on their strengths.

Safety and health

The aim is to offer a safe and healthy working environment in all Atlas Copco operations. In 2010, goals on safety and health were decided by Group Management. The divisions are responsible for deciding on activities to achieve the targets. The focus on safety and health during 2010 has resulted in a new Safety, Health and Environmental policy, increased certification of OHSAS 18001 (Occupational Health and Safety Accounting Standard), improved performance on work-related accidents, and updated reporting definitions covering incidents reporting, as well as a newly initiated internal Safety and Health Award.

The Atlas Copco Safety and Health Award is given to four companies in the Group that have had a long-term commitment and a structured approach in the safety and health area, which have reached the employees in the companies. The companies had good management support and showed improved safety and health performance over the years. The awarded companies will be promoted internally as best practices, to give inspiration to other companies in their safety and health efforts.

Based on more comprehensive information available in each company, local management can take appropriate measures to further improve the well-being of employees. Almost all Atlas Copco companies have reported that a safety and health policy is implemented and that the employees have received safety and health awareness training. In general, safety and health topics are covered by national laws and regulations, not by agreements with trade unions. Activities in this regard are for example the *Safety F!RST* campaign promoting safety among employees at Compressor Technique and other stakeholders and the sustainability initiative, *Dynapac Sustainable Way*, see page 116.

The goal is zero work-related accidents. The number of accidents per million hours worked was 9.3 (11.4), in 2010. This corresponds to 561 (652) accidents during the year. The average during the past five years is 867 (983) accidents. This substantial improvement is partly explained by increased awareness through the implementation of the OHSAS 18001 standard in more companies, and by achievements in the preventive work in product companies. Safety training, for example, is included in the induction program for new employees and the reporting of near-accidents or incidents is increasing at the local level. In 2010, an additional 20 product companies were OHSAS 18001 certified. Out of the Group's 84 product companies, including distribution centers and application centers, 30 are certified, representing 61% of cost of sales. Employees that work in an environment with an OHSAS 18001 are represented in formal joint management-worker health and safety committees.

In 2010, there were 0 (2) work-related fatalities in the Group's operations. The reporting of fatalities includes car accidents during work. The level of sick-leave was stable at 2.1% (2.1). During the period 2005–2010, the sick-leave percentage has varied between 2.1% and 2.4%.

The HIV/AIDS pandemic is a big concern in some countries where Atlas Copco operates. The Group starts HIV/AIDS or wellness programs in countries where important diseases such as HIV/AIDS or malaria have an impact on its employees, the business and the local community.

In 2002, Atlas Copco introduced an HIV/AIDS program in its operations in South Africa, including testing, awareness training, and consultation and treatment for those who are diagnosed HIV positive. Today, Atlas Copco's HIV/AIDS program spans nine countries in Africa, including for example South Africa, Ghana, Zambia, Kenya and Zimbabwe. The HIV/AIDS program will continue to expand to other countries. No Atlas Copco employee who joined the program with a negative test result has later been tested positive for HIV/AIDS.

In 2010, Atlas Copco's program in South Africa was recognized with the SWHAP (the Swedish Workplace HIV and AIDS programme, www.swhap.org) Achievement Award for the second consecutive year. The HIV/AIDS program in Zambia was a close runner-up. During the year, Atlas Copco in South Africa has addressed its business partners to support and help with their experience and knowledge on how to conduct HIV/AIDS programs.

Regarding the pandemic influenza (H1N1), all Atlas Copco companies were instructed to follow local medical directives and instructions to reduce the risk of personnel being infected. Locally implemented measures included providing opportunities for vaccination during work hours and procuring hand disinfectant liquids for restrooms in the workplace.

Competence development

Atlas Copco believes in life-long learning and employability and also in regards of an ageing workforce, it ensures training for its employees. The 2010 target was 40 hours on average for all employees per year, regardless of professional category, including on the job training. In 2010, the average number of training hours per employee was 40 (34). The increase is primarily explained by business back as usual and many new employees recruited, who receive competence development when they begin at Atlas Copco. Examples of training initiatives include local Academy training in Russia, China, India and South Africa, management training, sales and service training.

Training provided from a corporate perspective includes workshops and seminar modules that are developed to help implement Group policies and processes. Business areas provide targeted skill-based training in accordance with the needs of the organization. While training seminars and workshops remained the most popular way of offering training within Atlas Copco, the Group also focuses on distance learning, for example e-learning courses and webinars.

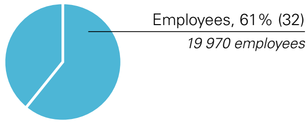
In 2010, the Group launched new leadership training, the Atlas Copco Discovery program for general managers and Atlas Copco Explorer for managers reporting to general managers. It is a world-class training program that will be run yearly in different regions and a member of Group Management will host the seminars.

Certain training courses are mandatory to all employees; one is the introduction course named Atlas Copco Circles, which includes the Business Code of Practice, and another is the safety, health and environmental awareness training.

All business areas have comprehensive competence development programs in place. In 2010, Atlas Copco continued the launch of a program with short-term assignments abroad to increase the competence development but also to increase diversity.

A further measure of success of the focus on competence building within Atlas Copco is the percentage of employees with

Proportion of employees working in an OHSAS 18001



university degree or higher. In 2010, 49% (44) of the white-collar employees had a university degree or higher. The increase is partly explained by newly employed employees having a university degree to a larger extent.

In 2010, 74% (67) of all employees had an appraisal, an annual performance and career development review. The goal is 100%. The increase is partly explained by an increased focus on performing appraisals.

Equality, fairness and diversity

The Group companies establish a local diversity policy and guideline in line with local laws and regulations as well as the Group policy and local ambitions. This can for example include options regarding reduction of working time for childcare or educational leave.

The goal is to increase the diversity both in terms of nationality and gender. The Group is chiefly recruiting both managers and other employees from the local communities where it operates. As such, Atlas Copco's workforce reflects the local recruitment base and comprises all cultures, religions and nationalities. 68% of all senior managers are locally employed.

Atlas Copco has stepped up its efforts within employer brand communications through focused teams. The Group is today considered more international and multicultural than in the past. These are two extremely important factors for students and potential employees. Atlas Copco was ranked among Top 100 Employers in Sweden in 2010, by Universum, an employer brand company.

Atlas Copco strives to increase the proportion of female leaders and has a policy stating that recruiting managers should ensure to always have at least one female candidate when recruiting external candidates to positions where a university degree is needed. In 2010, the first high-level mentorship program was conducted. Based on its good feedback the decision was to go for the second program, which was started at the end of the year. It is still aimed at women with the ambition and potential to become general managers. A global female managers' network *the Pleiades* was established to further enhance gender diversity.

Atlas Copco companies report and comment on the relative number of males and females in their organizations. In 2010, the ratio of female employees was 16.3% (17.0). The decrease is explained by newly recruited employees in functions such as service and production that are by tradition male oriented. The proportion of women in management positions was 13.5% (13.6). Even though the absolute number of female recent graduates increased, the proportion decreased to 32% (34). There will be a continued focus on gender diversity in 2011.

Safety and health in focus during 2010

In line with Atlas Copco's goals on safety and health there was an increased focus during the year in Group companies on safety and health primarily for employees, to reduce work-related accidents and incidents. Below follow a few examples of activities in the safety and health area:

In early 2010 Compressor Technique business area launched a Safety F!RST campaign, with an objective to reduce the number of accidents in each operational unit by at least 50% compared to the previous year. It is planned to run over three years, with a detailed action plan for each year.

In Construction and Mining Technique business area the Road Construction Equipment division launched *Dynapac Sustainable Way* – the objective with this day was to increase internal focus, knowledge and interest in sustainability issues. As an essential part of the day, all attendees were invited to walk through the Dynapac product companies to identify improvement areas focused on innovations to increase efficiency, environmental improvements, efficiency in energy use and reducing waste. This sustainability day was repeated at the end of the year. It is planned to become a yearly activity to keep focus on safety and health issues.

Industrial Technique business area held a Safety, Health and Environment (SHE) day dedicated to the topic of occupational safety, employee health and reducing the impact of the company's operations on the environment. All units throughout the world – customer centers, manufacturing units and distribution centers – participated in workshops. "We wanted to give our employees a clear picture of what Industrial Technique is doing in the SHE areas and make them aware of their own responsibilities and how they can contribute," says Business Area President Mats Rahmström.

Business Partners

Atlas Copco strives to be the preferred associate for its business partners such as suppliers, sub-contractors, joint venture partners and agents, and is committed to working closely with them.

The purchasing process in the Group is decentralized and managed in the divisions. However, local purchasing (non-core) is in most cases made by the individual companies. Atlas Copco promotes local purchasing since it benefits the region where the Group operates and also facilitates close relationships and possibilities to achieve high quality and efficiency, as well as decreases the impact on the environment.

Atlas Copco work closely with business partners especially at the start-up phase of projects and with new suppliers. Training and resources are provided to a great extent in new sourcing projects. Group companies select and evaluate business partners partly on the basis of their commitment to social and environmental performance and development. Business partners are evaluated when being selected and after selection regularly as well as when companies think it is necessary, for example when there are quality issues in sourced components. At times self-assessment check-lists are sent to suppliers and physical evaluations at suppliers sites are conducted either at regular intervals or when deemed necessary. Physical evaluations result in a report with defined development suggestions that will be followed up on at an agreed time.

To reinforce the Business Code of Practice, a common ten-point checklist, based on the UN Global Compact and on the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, has been developed to clarify the Group's expectations on its business partners. It is also published on the Atlas Copco website. In the ten-point checklist, Atlas Copco requires that the business partner takes responsibility for sub-suppliers business conduct. However, Atlas Copco has the right to evaluate further down the supply chain when deemed necessary. Specific criteria on suppliers are developed within the divisions with the basis of expectations in the Business Code of Practice. Atlas Copco encourages all business partners to implement a safety, health and environmental management system.

During the year three focused areas in regards of supplier evaluations in social and environmental areas have been decided. These areas will be addressed during the coming year and they regard the business partner's commitment to the ten-point checklist, the use of Atlas Copco lists of substances of concern and the implementation of a safety, health and environmental management system. The checklist forms the basis of the supplier evaluation guideline. The Group supplier evaluation template has been adapted to the different businesses in the Group.

During 2010, Atlas Copco consulted a third party company for supplier evaluations in China primarily in the social area. The purpose was to learn from best practice and to train quality engineers, who attended one of the supplier audits. The learnings will be integrated in Group check-lists and training program.

Performance from supplier evaluations

Group companies report quantitative data of evaluated, approved and rejected suppliers and those requiring development. They report in which regions their suppliers are located and the status of environmental and social evaluations.

A supplier is considered approved if Atlas Copco has performed an assessment at the supplier site and then reported that there is no risk of violence to the Business Code of Practice, or that the supplier has corrected all development suggestions from a previous evaluation.

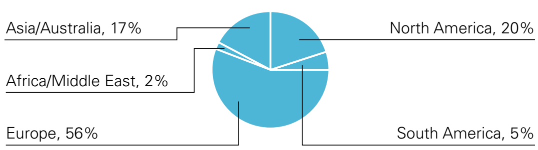
The Internal training program on supplier evaluations was further developed and published in the internal database *The Way We Do Things* available to all employees. Also in 2010, there were training occasions in China, where Atlas Copco purchasers and quality engineers were trained in the process. Training is being given on a worldwide basis and will continue in 2011.

Where business partners operate with a potential conflict to the Business Code of Practice, improvement plans can be agreed upon and Atlas Copco can provide experience and know-how.

Increased activities on supplier evaluations took place in the product companies. In some places suppliers were invited to Suppliers' Day, during which they were informed and trained in the Atlas Copco's supplier evaluation procedure. The activities have in many cases resulted in safety, health and environmental improvements.

Significant suppliers are defined as direct material suppliers and indirect material suppliers where relevant. In 2010, 2 813 suppliers, representing 19% of the total number of significant suppliers (14 968), were evaluated on its environmental performance by teams directly at the suppliers' sites, or through verification of the

Proportion of number of suppliers by geographical distribution



suppliers' own reports. 91% of the suppliers evaluated from an environmental perspective were approved. They were rated average, good, or exceptional. 9% of the suppliers were conditionally approved and will be monitored. The same figures related to the social evaluations were 2 676 suppliers evaluated, out of which 91% were approved and 9% conditionally approved. Approximately 83% of the significant suppliers asked confirmed commitment to the Business Code of Practice.

In 2010, six suppliers were rejected for environmental reasons and eight for social, safety and health reasons. The suppliers were rejected, or not approved, because they were deemed as not living up to Atlas Copco requirements and not willing to improve. It regarded for example safety in the workplace, personal protection for workers and no fulfillment of environmental laws. The supplier evaluations will continue to be a focus area.

Prohibited or restricted substances

Atlas Copco keeps lists of substances whose use are either prohibited or restricted due to their potential negative impact on health or the environment. Restricted substances are not yet legally excluded for use but should be replaced according to a plan considering technical and financial perspectives. Prohibited substances are not allowed in the Group's products or processes. Suppliers' use of such substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with approved alternatives. The lists are continuously revised according to applicable legislation, including REACH.

The second phase of a supplier survey was launched in 2010 by the Compressor Technique business area to increase awareness of suppliers' use of substances of concern. This survey resulted in an increased awareness of the substances of concern used by suppliers, which will be monitored further.

The Atlas Copco lists on prohibited and restricted substances are published at the Atlas Copco website. www

Supplier evaluations safeguard a sustainable supply chain

As suppliers of components to the Group's production plants, business partners constitute an important part of the value chain. Many of these business partners act in countries where ethical, social, and environmental standards are different from those laid down in voluntary ethical guidelines.

Atlas Copco strives to have a capable and competitive supplier base by seeking business opportunities and mitigating risks. The suppliers are selected and evaluated on the basis of objective factors including quality, delivery, price, and reliability, but also on their commitment to environmental and social performance, and development.

Steps in supplier evaluations

1. The evaluation begins with an interview with managers about the environmental management system, laws and regulations, site permits, emergency preparedness training, maintenance, terms of employment, working hours, and so on.
2. The next step is a tour of the production area, where the focus is on health and safety-related aspects: maintenance of machinery, ventilation, handling of hazardous waste, oil spills, risk for contamination, access to fire extinguishers, use of chemical products, and access to personal protection equipment, toilets, drinking water, lighting, and first aid, as well as local legislation compliance.
3. The evaluation is concluded with improvement suggestions. The team goes through the assessment checklist together with the suppliers and provides direct feedback on needed improvements.

In cases of potential non-compliance with the Atlas Copco Business Code of Practice, efforts are made to assist suppliers who show a willingness to improve. However, if there is no demonstrated improvement, Atlas Copco will discontinue the business relationship.

Shareholders

The Group has ambitious goals for sustainable, profitable development and value creation. As such, Atlas Copco must safeguard its good relations with all stakeholders.

Investors, ethical funds in particular, are increasingly interested in evaluating Atlas Copco from a sustainability perspective, in addition to the financial evaluation. Among many of those investors, there is a belief that leading sustainable corporations will create significant long-term value through innovation, attracting and keeping the best people, and through being customers' first choice.

Corporate responsibility challenges

Atlas Copco's approach to assessing and managing risks, including those related to the Group's corporate responsibility work, is described in the Annual Report, section Risk Factors and Risk Management.

One specific area of potential risk and opportunity is global climate change. Governments and authorities all around the world are gradually increasing regulations and requirements related to CO_2 emissions from products and industrial processes. Atlas Copco has consistently developed products with improved energy efficiency and reduced emissions. At present none of the Group's operations are subject to any emission allowance trading schemes or similar systems. Atlas Copco continues to monitor and support the Kyoto protocol, and as an example Atlas Copco Airpower n.v. participates in the voluntary scheme presented by the Flemish Authorities.

Atlas Copco is a minor consumer of energy in its own operations and as such only to a small degree subject to changes in energy costs. However, extreme weather conditions, natural disasters, or other events could cause a shortage of resources such as water and energy, and thus affect the operations.

Atlas Copco's insurance company assesses the exposure to property risks as a result of extreme weather conditions and the danger of natural disasters. Preventive measures are taken to reduce the risk levels wherever necessary. In general, Atlas Copco's exposure to this type of risk is perceived as low, hence potential financial implications have not been quantified.

Atlas Copco has established a Sustainability Construction Manual, which is available for use when new production sites are built, this includes considering climate risks such as weather-related risks and the risk of natural disaster.

Sustainability awards

In 2010, Atlas Copco received a few awards in the corporate responsibility area:

- The Swedish industry's award to the most sustainable industrial company 2010. Atlas Copco was awarded for its comprehensive sustainability approach including the energy-efficient compressor with energy recovery and the social responsibility award for *Water4All*.
- The SWHAP (the Swedish Workplace HIV and AIDS Programme, www.swhap.org) Achievement Award for Atlas Copco's HIV/AIDS program in South Africa for the second year. A close runner up was the HIV/AIDS program in Atlas Copco Zambia.
- Local awards, in the environmental or social area and for sustainable products.

Sustainability ratings

It is important not only to follow Atlas Copco policy and performance from year to year but also to look at the performance against peer companies and external standards. This way the Group learns from the comparison and sets more challenging goals.

Besides the reporting on its key performance indicators, which have been defined based on GRI's indicator protocols, Atlas Copco each year reports on its sustainability performance to a number of companies involved in sustainability ratings. Atlas Copco was not placed in Dow Jones Sustainability Index 2010/2011. The Group will strive to be included in next year's rating.

Atlas Copco was listed in:

- 2010 Global 100 list by Corporate Knights, www.global100.org
- Atlas Copco A has been selected for inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers (see www.ethibel.org)
- FTSE4Good Global Index, www.ftse.com
- OMX GES Sustainability Nordic index by NASDAQ OMX Stockholm and GES Investments Services, indexes.nasdaqomx.com
- Folksam Diversity Index 2010, www.folksam.se
- Carbon Disclosure Project's (CDP) annual reporting of climate impact, www.cd-project.net

The Group received its most recent recognition in December 2010 from NASDAQ OMX.

Performance Summary[1]

GRI indicator*	Economic[4]	2006	2007	2008	2009	2010
EC1	*Direct economic value*					
EC1	Revenues	60 430	64 391	77 370	65 374	70 490
EC1	*Economic value distributed*					
EC1	Operating costs[2]	30 483	38 888	46 084	41 593	41 466
EC1	Employee wages and benefits	10 965	12 696	14 555	13 339	14 699
EC1	Payments to providers of capital[3]	3 846	5 119	7 097	5 819	4 489
EC1	Payments to governments (tax)	2 690	3 434	3 194	2 095	3 619
EC1	Community investments n/a	–	–	–	–	–
EC1	Economic value retained	12 446	4 254	6 440	2 528	6 217
EC1	– Redemption of shares	–	24 416	–	–	–
	– Repurchase of own shares	3 776	–	–	–	–

GRI indicator*	Social/employees[4]	2006	2007	2008	2009	2010	Goal[5]
LA7	Number of accidents per million hours worked	17.5	17.4	13.8	11.4	9.3	0
LA7	Absolute numbers of accidents		911	881	652	561	0
LA7	Sick-leave, %	2.4	2.3	2.3	2.1	2.1	<2.5
LA10	Average training hours per employee	39	37	38	34	40	
LA10	Average training hours per white-collar employee		39	39	36	44	
LA10	Average training hours per blue-collar employee		35	36	30	34	
LA12	Proportion of appraisals, % employees	71.0	68.1	74.0	67.1	74.1	100
LA13	Proportion of women, % employees	16.2	16.4	16.6	17.0	16.3	
LA13	Proportion of women in management positions, % managers	11.7	12.0	12.9	13.6	13.5	

GRI indicator*	Environmental (production units)[4]	2006	2007	2008	2009	2010	Goal[5]
EN1	Material use in '000 tons (iron and steel)	85	143	138	104	145	
EN1	Packaging material in '000 tons	31	35	44	26	31	
EN3[6]	Direct energy use in GWh		122	140	101	119	
EN4[6]	Indirect energy use in GWh		258	276	251	297	
EN3+EN4	Energy use in GWh	321	380	416	352	416	
EN8	Water consumption in '000 m^3	523	497	547	523	524	keep at current level
EN16	CO_2 emissions in '000 tons (direct energy)	20	25	30	21	25	–20%/COS (2020)
EN16	CO_2 emissions in '000 tons (indirect energy)	69	80	90	78	88	–20%/COS (2020)
EN16	CO_2 emissions in '000 tons (total energy)	89	105	120	99	113	–20%/COS (2020)
EN17	CO_2 emissions in '000 tons (transport)	198	312	305	206	197	–20%/COS (2020)
EN19[7]	Cooling agents in tons				0.9	0.3	
EN22	Waste in '000 tons	27	35	38	27	35	reuse or recycle

GRI indicator*	Environmental (specialty rental)[4]	2006	2007	2008	2009	2010	Goal[5]
EN3 + EN4	Energy consumption in GWh	40	65	27	17	8	
EN8	Use of water in '000 m^3	25	19	23	16	15	keep at current level
EN16	CO_2 emissions in '000 tons (energy)	24	17	7	5	3	–20%/COS (2020)
EN17	CO_2 emissions in '000 tons (transports)	2	9	4	3	5	–20%/COS (2020)

* Calculations according to GRI guidelines, www.globalreporting.org.

www

1) Changes reflect both changes in volume, consumption and an increase in the number of reporting units.
2) In operating costs, cost of sales also includes taxes paid to local governments.
3) Payments to providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.
4) Reported values are not corrected retroactivaly.
5) Goal base year is 2010.
6) Direct and indirect energy is reported in detail at the Atlas Copco website: www.atlascopco.com/corporateresponsibility/cratatlas/environment/useofresources.
7) EN19 Cooling agents added to facility equipment is reported.

Corporate Governance Report

Atlas Copco AB is incorporated under the laws of Sweden with a public listing at NASDAQ OMX Stockholm AB (OMX Stockholm). Reflecting this, the corporate governance of Atlas Copco is based on Swedish legislation and regulations: primarily the Swedish Companies Act, but also the rules of OMX Stockholm, the new version of the Swedish Corporate Governance Code, the Articles of Association and other relevant rules.

More information on corporate governance www

The following information is available at www.atlascopco.com:

– Corporate Governance Reports since 2004
– Atlas Copco's Articles of Association
– An item-by-item report on Atlas Copco's compliance with the Swedish Code of Corporate Governance
– Business Code of Practice
– Information on Atlas Copco's Annual General Meeting (AGM)

Shareholders

In the Atlas Copco Share section, pages 134–137, the shareholder structure, share capital, voting rights, and dividend policy are described as well as the trading and market capitalization.

Annual General Meeting

The Annual General Meeting shall be held within six months of the close of the financial year. All shareholders registered in the shareholders' register who have given due notification to the company of their intention to attend may attend the meeting and vote for their total shareholdings. Shareholders who cannot participate personally may be represented by proxy holders and a proxy form is made available for the shareholders. A shareholder or a proxy holder may be accompanied by two assistants.

Shareholders representing 49.2% of the total number of votes in the company and 52.6% of the shares attended the Annual General Meeting held on April 28, 2010 in Stockholm, Sweden.

Among other matters, all specified in the Notice, the Annual General Meeting elects Board members for a period of one year. A Board member can be nominated for re-election up to and including the year the member reaches the age of 70. Board members are nominated in accordance with the process proposed by the Nomination Committee and adopted by the Annual General Meeting.

Nomination Process

Board members

The process for nomination and presentation of Board members for election at the 2011 Annual General Meeting has been performed in accordance with the nomination process and the criteria adopted at the 2010 Annual General Meeting.

As prescribed by this process and criteria, during October 2010 the Chair of the Board of Directors, Sune Carlsson, contacted the four largest shareholders listed in the shareholders' register as of September 30 to establish the Nomination Committee. In addition to Sune Carlsson, the committee representatives were Petra Hedengran, Investor AB, Chair, Ramsay Brufer, Alecta Pension Insurance, Mutual, KG Lindvall, Swedbank Robur Fonder and Håkan Sandberg, Handelsbanken Fonder. The names of the Committee members were made public on October 17, 2010. A way to contact the Nomination Committee directly was also provided. The Committee members represented some 30% of all votes in the company. Late October the Committee began preparing a proposal to be submitted to the 2011 Annual General Meeting covering the issues specified at the 2010 Annual General Meeting and the Corporate Governance Code.

In line with the formal evaluation process adopted by the Committee, Sune Carlsson made an evaluation of the work performed and the processes employed by the Board and its members. This evaluation was presented to the Nomination Committee. He also presented his assessment of the need for special competence considering the current phase of the company's development and, together with the Nomination Committee, compared these needs with the resources presently available within the Board. Members of the Nomination Committee also met with Board members for discussions.

When the notice of the Annual General Meeting 2011 is issued, the Nomination Committee will issue a statement on Atlas Copco's website explaining its proposal regarding the Board members as stated in the Corporate Governance Code.

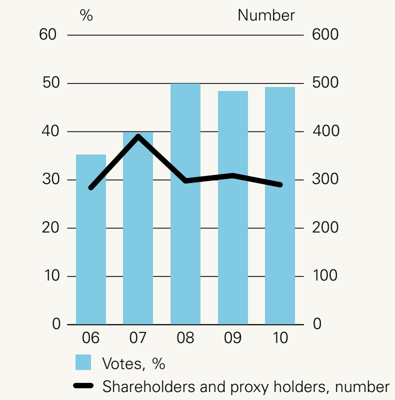
In the notice to the 2011 Annual General Meeting, the Committee will present its proposal regarding Chair of the Annual General Meeting, number of Board members, names of the proposed Board members, as well as Chair and Vice Chair of the Board. It also submits its proposal for remuneration to the Chair, Vice Chair and other Board members not employed by the company, as well as a proposal for remuneration for committee work. In addition, the Committee will present a proposal for the process and criteria that shall govern the appointment of the members of the Nomination Committee until the Annual General Meeting 2012 as well as a list of decision points for this Annual General Meeting.

Neither Sune Carlsson nor the other members of the Nomination Committee received any compensation for their work in the committee.

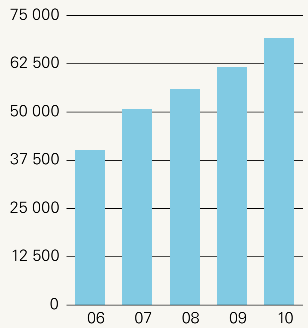
External auditor

At the Annual General Meeting 2010 the audit firm Deloitte AB, Sweden was elected external auditor until the 2014 Annual General Meeting in compliance with a proposal from the Nomination Committee.

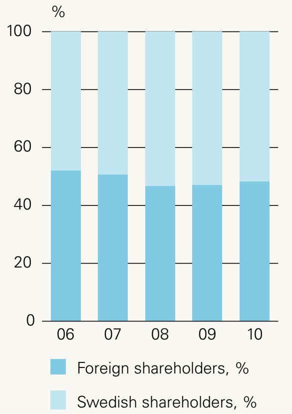
Annual General Meeting attendance



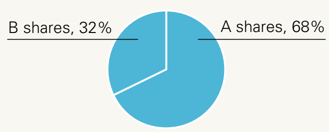
Number of shareholders



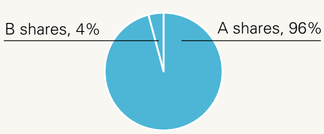
Ownership structure (votes)



Distribution of shares, % of number



Distribution of shares, % of votes



Board of Directors

At the 2010 Annual General Meeting, ten Board members were elected, one of which is the President and Chief Executive Officer (CEO). The Board also has two members, with personal deputies, who are appointed by the labor unions.

The Board had eight meetings in 2010, six times at Atlas Copco AB in Nacka, Sweden, one per capsulam and one in Atlas Copco (Shanghai) Trading Co. Ltd., China. Each Board meeting was governed by an approved agenda. Supporting documentation for the agenda items as well as a list of outstanding issues from the previous meeting(s) were distributed to the Board members prior to each meeting. All meetings of the Remuneration and Audit Committees have been reported to the Board and the corresponding Minutes have been distributed. Hans Sandberg, General Counsel and Board secretary as well as Hans Ola Meyer, CFO, have been present at most meetings. The two business area presidents, Björn Rosengren and Mats Rahmström have been present at one meeting each when they presented in-depth reviews of their respective business area. Jeanette Livijn, Vice President Organizational Development and Human Resources, Mats Högberg, Vice President Corporate IT, and Ken Lagerborg, Group Treasurer, presented the situation in their areas of responsibility at the April and July Board meetings.

At the February meeting 2011, the main responsible external auditor, Jan Berntsson, Deloitte, reported his observations from the annual audit 2010; both the September hard close and as of December 31. Members of the management were not present during the Board's discussion with the auditor regarding the audit process and findings.

Rules of Procedure and Written Instructions

The Rules of Procedure and Written Instructions for the Board and its committees have been updated and re-adopted by the Board at each statutory meeting since 1999. In addition to the task of preparing matters for decision by the Board described in the Rules of Procedure and Written Instructions, Anders Ullberg, Ulla Litzén and Sune Carlsson were given the task to support management in the implementation of the share repurchase mandates given by the Annual General Meeting.

Besides the general distribution of responsibilities that apply in accordance with the Swedish Companies Act, the Rules of Procedure primarily provide information on:

- The minimum number of Board meetings per year, as well as when and where they are to be held.
- The President's authority to sign quarterly reports for quarter one and three.
- The Board of Directors' delegation of authority to prepare matters for decision by the Board.
- Items normally to be included in the agenda for each Board meeting, e.g. a financial status report, business development from a financial and operative perspective, acquisitions and divestments of business operations, decisions on investments exceeding MSEK 20, changes in the legal organization, follow-up of acquisitions, financial guarantees, and appointments.
- When Board documentation is to be available prior to every meeting.
- Identification of the Chair's major tasks.
- Keeping of Minutes.

- Appointment of the Remuneration Committee and the Audit Committee and the identification of the respective committee's major tasks.
- The Board's right to receive vital information, the right to make statements on behalf of the company, and the obligation to observe confidentiality.

The Written Instructions, which regulate the distribution of tasks between the Board, the President, and the company's reporting processes, particularly when it comes to financial reports, deal primarily with:
- The President's responsibility for daily operations, corporate responsibility and for maintaining both the company's operative (business), as well as legal (owner) structure.
- The structure and the contents in the database *The Way We Do Things*, which covers principles, guidelines, processes and instructions of the Atlas Copco Group. *The Way We Do Things* is the Group's single most important management tool, and – for example – contains a detailed plan for all accounting and financial reporting within the company. See fact box on page 133.
- Issues that always require a Board decision or an application to the Board, such as quarterly reports, major investments, changes of the legal structure, certain appointments, and financial guarantees.
- The order in which the Senior Executive Vice Presidents are to serve in the President's absence.
- The external auditor's reporting to the Board upon completion of the yearly audit.

Board decisions are made after an open discussion lead by the Chair. No dissenting opinions in relation to a decision have been reported in the Minutes during the year. However, the Board has at times decided to table an issue until a later meeting or rejected a proposal from Management. Each Board member has commented on the market/economic development from his/her perspective at the Board meetings.

Major issues dealt with by the Board during the year include the follow-up of measures to increase production, cost development of raw material and acquisition strategies. Further, the capital structure has been discussed in depth.

During the year, the Board has continuously addressed the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Atlas Copco Group in a recovery environment. Corporate responsibility issues were covered, with a special focus on safety and health.

Remuneration to the Board members

The 2010 Annual General Meeting decided on the following fees: the Chair received SEK 1 500 000, the Vice Chair SEK 550 000, and each of the other Board members not employed by the company SEK 450 000. An amount of SEK 200 000 was granted to the Chair of the Audit Committee and SEK 125 000 to each of the other three members of this committee. An amount of SEK 60 000 was granted to each one of the three members of the Remuneration Committee and SEK 60 000 to a Board member who participated in additional committee work decided upon by the Board.

The Annual General Meeting further decided that out of the stated fees, 50% of the Board fee could be received in the form of synthetic shares. All Board members accepted this offer prior to the AGM.

Remuneration to Group Management

The Board established a Remuneration Committee in 1999. Chair of the Board, Sune Carlsson, Vice Chair, Jacob Wallenberg, and Board Member Anders Ullberg were committee members in 2010. The committee submitted its proposals to the Board for remuneration to the President and CEO and its proposal for a long-term incentive plan covering a maximum of 280 key employees. The committee also supported the President and CEO in determining remuneration to the other members of Group Management.

In 2003, the Board adopted a Remuneration Policy for Group Management aimed at establishing principles for a fair and consistent remuneration with respect to compensation (base pay, variable compensation, any long-term incentive plans), benefits (pension premiums, sickness benefits, and company car), and termination (notice period and severance pay). The base salary is determined by position and performance and the variable compensation is for the achievement of individual goals. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders.

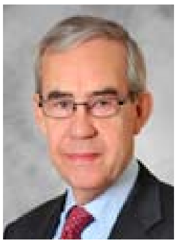
The Remuneration Policy is reviewed every year and was presented to the 2010 Annual General Meeting for approval. The current Remuneration Policy is included in the Annual Report. During the year, the Remuneration Committee had two meetings where all members were present.

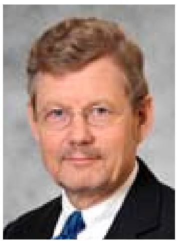
Audit Committee

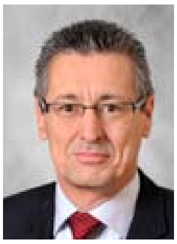
In 2010, the committee consisted of Board Members Ulla Litzén, Chair, Sune Carlsson, Staffan Bohman, and Johan Forssell. The Chair of the committee has the accounting competence required by the Swedish Companies Act and two of the members are independent from the company and its main shareholder. The committee convened six times. For the members' attendance, see table on page 126. The meetings were also attended by the responsible auditor, Thomas Thiel, KPMG, and Jan Berntsson, Deloitte, respectively, Atlas Copco's President and CEO, Ronnie Leten, CFO, Hans Ola Meyer and Vice President Group Internal Audit & Assurance, Anders Björkdahl.

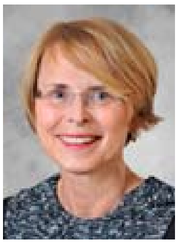
The work of the Audit Committee is directed by the Audit Committee Charter, adopted by the Board in 2003 and reviewed and approved each year, latest in April 2010. The committee's primary task is to support the Board in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and to supervise the financial structure and operations of the Group. In the beginning of 2010 the committee finalized the proposal for auditor (Deloitte) for the period until the Annual General Meeting 2014, and presented it to the Nomination Committee. Subsequently the proposal was approved by the Annual General Meeting. Work in 2010 focused on follow-up of the 2009 audit, the auditor's procedures on the half-year report according to agreeed upon procedures and the hard close audit carried out as of September 30. Further, each quarterly interim report was reviewed, the financial risk exposure , the capital and financial structures, and taxes were regularly reviewed. The Group's internal control procedures were evaluated and certain risk areas were monitored by the committee.

Board of Directors

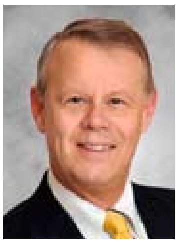

Sune Carlsson


Jacob Wallenberg

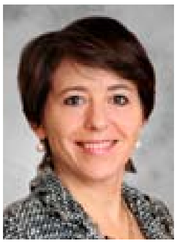

Ronnie Leten


Ulla Litzén

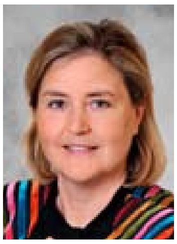

Anders Ullberg


Staffan Bohman

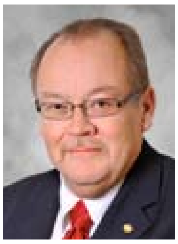

Margareth Øvrum


Christel Bories

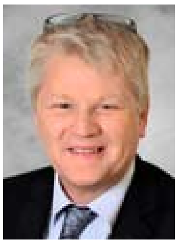

Johan Forssell


Gunilla Nordström

Union Representatives


Bengt Lindgren


Ulf Ström


Mikael Bergstedt


Kristina Kanestad

Board of Directors

The Board of Directors consists of ten elected Board members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2010 requirements of the OMX Stockholm and the proposed rules of the Swedish Code of Corporate Governance regarding independency of board members, which secures that conflicts of interest are avoided. See table on page 125.

All Board members have participated in the training sessions arranged by OMX Stockholm.

Sune Carlsson, Chair of the Board. M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg, Sweden. Member of the Board of the investment company Investor AB, Sweden, the shipping company Stena AB, Sweden and the automotive safety systems company Autoliv Inc., the United States. *Work experience:* Vice Chairman of Scania AB, Sweden, President and CEO of AB SKF, Sweden, and Executive Vice President of ASEA AB, Sweden, and ABB Ltd, Switzerland.

Jacob Wallenberg, Vice Chair. B.Sc. in Economics and MBA, Wharton School, University of Pennsylvania, the United States. Chair of the Board of investment company Investor AB, Sweden. Vice Chair of the commercial bank SEB AB, Sweden, and the airline SAS AB, Sweden. Board Member of the power and automation company ABB Ltd., Switzerland, The Coca-Cola Company, the United States, the nonprofit Knut and Alice Wallenberg Foundation, Sweden, and the Stockholm School of Economics, Sweden. *Work experience:* Chairman of SEB AB, President and CEO of SEB AB, Executive Vice President and Head of Enskilda Division, SEB AB, Advisor to the President and CEO of SEB AB, Executive Vice President and CFO of Investor AB. All positions based in Sweden.

Ronnie Leten, President and CEO. Master's Degree in Applied Economics, University of Hasselt, Belgium. *Work experience:* Various positions at General Biscuits, Plant Manager in Monroe Tenneco, Business Development Manager for Compressor Technique, Atlas Copco, President of the Airtec division, Atlas Copco, President of the Industrial Air division, Atlas Copco and Business Area President for Compressor Technique, Atlas Copco. All positions based in Belgium.

Ulla Litzén, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and MBA, Massachusetts Institute of Technology, the United States. Member of the Board of bearing manufacturer SKF AB, the mining company Boliden AB, the industrial company Alfa Laval AB, the construction company NCC AB and outdoor equipment company Husqvarna AB, all based in Sweden. *Work experience:* President of W Capital Management AB, Sweden, and Managing Director and member of the Management Group, Investor AB, Sweden.

Anders Ullberg, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Chair of the Board of the mining company Boliden AB, Sweden, and the technical services company Studsvik AB, Sweden. Member of the Board of the aluminum profile company Sapa AB, Sweden, the investment company Beijer Alma, Sweden and the roll manufacturer Åkers AB, Sweden. Chairman of the Swedish Financial Reporting Board and member of the Swedish Corporate Governance Board. *Work experience:* Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB Swedish Steel and President and CEO of SSAB Swedish Steel. All positions based in Sweden.

Staffan Bohman, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and Stanford Executive Program, the United States. Member of the Board of the holding company Inter-IKEA Holding N.V., the Netherlands, the private equity company Ratos AB, Sweden, the mining company Boliden AB, Sweden, the lift manufacturer Cibes Lift AB, Sweden, and the component manufacturer OSM AB, Sweden. Chair of the hospital- and social welfare organization Ersta Diakoni, Sweden, Vice Chair of the Board of trustees of SNS, Sweden. *Work experience:* Former CEO of Sapa AB, Gränges AB and DeLaval AB. All positions based in Sweden.

Margareth Øvrum, M.Sc. in Technical Physics, Norwegian University of Science and Technology (NTNU). Executive vice president for the Technology & New Energy business area in Statoil, Norway. Member of the Board of the private equity company Ratos AB, Sweden, and of the Norwegian Research Council. *Work experience:* Several leading positions within technology, projects, production, maintenance, health/safety/environment, and procurement in Statoil. All positions based in Norway.

Christel Bories, graduated in Business Administration from the HEC School of Management in Paris, France. President and CEO, Alcan Engineered Products, part of aluminum producer Rio Tinto Alcan, Canada. Member of Rio Tinto Alcan's Executive Committee. Board Member of the European Aluminium Association (EAA), Belgium. *Work experience:* Member of the Executive Committee of materials technology group Umicore, France, of aluminum conglomerate Pechiney and of Alcan, Canada. Left the Board in December 2010.

Johan Forssell, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Member of the management team of investment company Investor AB, Sweden, and Managing Director and Head of Core Investments. Board Member of the defense and security company Saab AB and the Foundation SSE-MBA, Sweden. *Work experience:* Head of Research, Head of Capital Goods and Healthcare sector, Head of Capital Goods sector and Analyst Core Holdings in Investor AB.

Gunilla Nordström, M.Sc. in Electronics, Industrial Marketing Management, Linköping University. President and CEO of Electrolux Major Appliances Asia/Pacific, based in Singapore, and Executive Vice President of Electrolux AB. Member of the Board of Videocon Industries Limited, India. *Work experience:* Senior management positions with Telefonaktiebolaget LM Ericsson and Sony Ericsson in Europe, Latin America and Asia.

Union representatives (local union branches)

Bengt Lindgren, Chair of IF Metall, Atlas Copco Secoroc AB, Fagersta, Sweden.

Deputy **Ulf Ström,** Chair of IF Metall, Atlas Copco Rock Drills AB, Örebro, Sweden.

Mikael Bergstedt, Chair of Ledarna, Atlas Copco Tools AB, Tierp, Sweden.

Deputy **Kristina Kanestad,** Chair of Unionen, Atlas Copco Rock Drills AB, Örebro, Sweden.

Honorary Chair

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

Peter Wallenberg

The Board of Directors of Atlas Copco AB, roles, and dependency

Name	Born	Nationality	Elected	Position	Audit Committee	Remuneration Committee	Independent to the company's major shareholders	Independent to the company and its management
Sune Carlsson	1941	Swedish	1997	Chair	Member	Chair	No[2]	Yes
Jacob Wallenberg[1]	1956	Swedish	1998	Vice Chair		Member	No[2]	Yes
Ronnie Leten	1956	Belgian	2009	Member			Yes	No[3]
Ulla Litzén	1956	Swedish	1999	Member	Chair		Yes	Yes
Anders Ullberg	1946	Swedish	2003	Member		Member	Yes	Yes
Staffan Bohman	1949	Swedish	2003	Member	Member		Yes	Yes
Margareth Øvrum	1958	Norwegian	2008	Member			Yes	Yes
Christel Bories[4]	1964	French	2008	Member			Yes	Yes
Gunilla Nordström	1959	Swedish	2010	Member			Yes	Yes
Johan Forssell	1971	Swedish	2008	Member	Member		No[5]	Yes
Bengt Lindgren	1957	Swedish	1990	Member*				
Ulf Ström	1961	Swedish	2008	Member*				
Mikael Bergstedt	1960	Swedish	2004	Member*				
Kristina Kanestad	1966	Swedish	2007	Member*				

1) Jacob Wallenberg was also a Board Member of Atlas Copco AB between 1985–1994
2) Board member in a company which is a larger owner (Investor AB)
3) President and CEO of Atlas Copco
4) Left the Board in December 2010
5) Employed by a company which is a larger owner (Investor AB)
* Union representative

Board members' attendance in 2010

Name	Board meeting	Annual General Meeting	Audit Committee meeting	Remuneration Committee meeting
Sune Carlsson	8 of 8	Yes	6 of 6	2 of 2
Jacob Wallenberg	8 of 8	Yes		2 of 2
Ronnie Leten	8 of 8	Yes		
Ulla Litzén	8 of 8	Yes	6 of 6	
Anders Ullberg	8 of 8	Yes		2 of 2
Staffan Bohman	7 of 8	Yes	6 of 6	
Margareth Øvrum	8 of 8	Yes		
Christel Bories	6 of 8	Yes		
Gunilla Nordström[1)]	5 of 5	Yes		
Johan Forssell	8 of 8	Yes	5 of 6	
Bengt Lindgren	8 of 8	Yes		
Ulf Ström	8 of 8	Yes		
Mikael Bergstedt	7 of 8	Yes		
Kristina Kanestad	8 of 8	Yes		

Board of Directors' holdings[2)] in Atlas Copco

Name	Class A shares	Class B shares	Synthetic shares/employee stock options
Sune Carlsson	20 000	34 284	25 495
Jacob Wallenberg	163 000		9 321
Ronnie Leten	15 666	8 000	293 541
Ulla Litzén	75 800	3 000	7 674
Anders Ullberg	14 000	10 000	7 674
Staffan Bohman	10 000	30 000	7 674
Margareth Øvrum			7 674
Christel Bories			7 674
Gunilla Nordström			1 993
Johan Forssell		2 000	7 674
Bengt Lindgren			
Ulf Ström			
Mikael Bergstedt			
Kristina Kanestad			

1) Gunilla Nordström was elected member of the board at the 2010 AGM.
2) Holdings as per end of 2010, including those of close relatives or legal entities.

Auditor

The audit firm KPMG AB (KPMG), Sweden, was elected auditor for the period until the 2010 Annual General Meeting with Authorized Public Accountant Thomas Thiel as main responsible auditor. Following a thorough evaluation process, the audit firm Deloitte AB (Deloitte), Sweden, was at the 2010 Annual General Meeting elected auditor for the period until the 2014 Annual General Meeting and has appointed Authorized Public Accountant Jan Berntsson as main responsible auditor. Deloitte has the necessary expertise and a global network that coincides with Atlas Copco's demands.

The responsible auditors personally reported their observations and presented their views on the quality of internal control in the Group at the February 2010 and February 2011 Board meetings, respectively. They also participated in all meetings with the Audit Committee and met regularly with management representatives.

Group Structure and Management

Atlas Copco's operations are organized in three business areas and, at year end, comprised of 19 divisions. In addition to the business areas, there are four Group functions and a number of internal service providers.

Business areas and divisions

The Group's operative organization is based on the principle of decentralized responsibilities and authorities. The business areas are in charge of developing their respective operations by implementing and following up on strategies and objectives – financial, environmental, and social – defined for each business area. The divisions are the Group's highest operational units, responsible for operative results and capital employed, strategies, and structures for product development, manufacturing, marketing, sales, and rental, as well as service of the products and solutions of the division. Comprehensive information about the business areas can be found on pages 24–35.

Internal service providers

Part of the efforts to achieve profitable growth includes combining the advantages of a decentralized operative organization with the synergy advantages that the Atlas Copco Group can offer. Therefore, as a complement to the divisions, a number of internal service providers have been set up to provide service in the areas of administration, IT support, treasury and customer finance, insurance, and product distribution. Information technology enables people around the world to work together to improve the quality of these services. The internal service providers are an integral part of the Group's strategy and structure, which besides realizing internal synergy effects, facilitate continuous improvement of processes and routines.

Operational responsibility

In addition to a legal board, each company has one or more operative boards, business boards, reflecting the operational structure of the Group. The duty of a business board is to serve in an advisory and decision-making capacity concerning operative issues.

Each division has a business board that gives advice and makes decisions concerning strategic matters and ensures the implementation of controls and assessments. A division can have one or more product companies (producing units) and customer centers (selling units).

Common Group processes

Atlas Copco has regularly introduced and fine-tuned processes and control systems to effectively generate profitable growth.

The Way We Do Things is the Atlas Copco Group's single most important management tool. It includes the principles, guidelines, processes, and instructions of the Atlas Copco Group.

The Atlas Copco Group's ambition is to grow organically and to make complementary acquisitions closely related to the core business. To ensure a successful acquisition strategy and integration, the company has designed a two-phase process that includes the search for and mapping of potential acquisitions, the execution of the acquisition, and the post-acquisition integration and follow-up. The process is used for all Group acquisitions. The company's policy is to have 100% ownership in all its holdings. With respect to the Group's long-term business sustainability, highest priority is given to Atlas Copco's primary stakeholders – customers, employees, business partners, and shareholders – and also to specific stakeholders in the regions where the Group operates. Continuous, informal dialogues are conducted with these stakeholders to address relevant issues; thereby the Group considers the stakeholders' views and expected reactions to business decisions that affect them.

Guidelines for business ethics as well as social and environmental measures are presented in Atlas Copco's Business Code of Practice. The Code applies to all employees and must be followed in all markets. Atlas Copco strives to be an attractive employer and provide a safe and healthy working environment where both human rights and labor rights are respected. The Group has a tradition of developing innovative productivity enhancing solutions that at the same time have a minimum impact on the environment.

Vision

The Atlas Copco Group's vision is to be First in Mind—First in Choice® for its customers and other principal stakeholders.

Goals for Sustainable, Profitable Development

The Board has adopted a limited number of goals at Group level, see table below. Each business area and division respectively gets objectives for its operations within the framework of these Group level objectives.

Risk Management

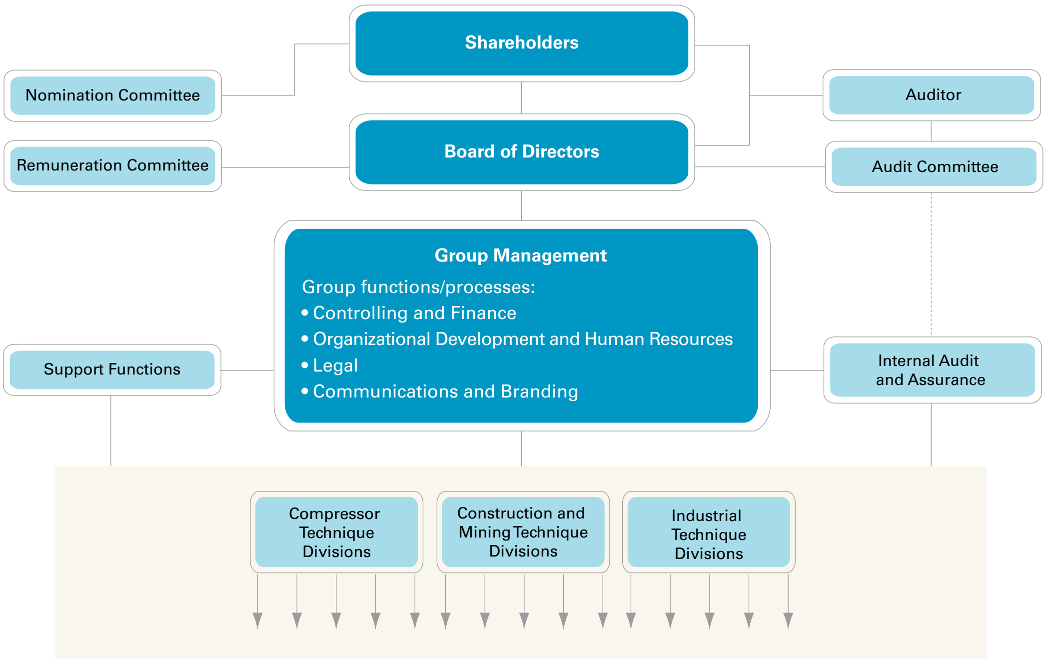
See Board of Directors' report, pages 19–22.

Goals for sustainable, profitable development

Products, services and solutions	Increase customer satisfaction year-on-year.	Increase energy efficiency of products by 20% by 2020*	Offer safe and reliable products and services	
Operations	Develop new products and services with a life-cycle perspective	Decrease CO_2 emissions from operations by 20% in relation to cost of sales by 2020*	Decrease CO_2 emissions from transport of goods by 20% in relation to cost of sales by 2020*	Keep water consumption at current level
	Reuse or recycle waste	Construct Atlas Copco buildings according to sustainable building standards**	No corruption or bribes	Work with business partners committed to high ethical, environmental and social standards
	Zero work-related accidents	Competence development and yearly appraisals to all employees	Safe and healthy working environment for all employees. Sick leave below 2.5%	Increase diversity in both gender and nationality. Encourage internal mobility
Financials	Annual revenue growth of 8% over a business cycle	Sustained high return on capital employed	All acquired businesses to contribute to economic value added	Annual dividend distribution about 50% of earnings per share

* Base year 2010.
** Leadership in Energy and Environmental Design (LEED) or comparable green building criteria.

Governance structure



Group Management

Besides the President and Chief Executive Officer, Group Management consists of three business area executives and four persons responsible for the Group functions: Controlling and Finance, Organizational Development and Human Resources, Legal, and Communications and Branding.

President and Chief Executive Officer

Ronnie Leten, assumed his position as President and CEO on June 1, 2009. He earned his Master's Degree in Applied Economics from the University of Hasselt, Belgium, in 1979. Before joining Atlas Copco in 1985, he worked for the food producer General Biscuits, Belgium, in various positions. From 1985 to 1995, he held several management positions in Atlas Copco Compressor Technique in information technology, logistics, and manufacturing. Between 1995 and 1997, he was Plant Manager in Monroe Tenneco, Belgium, a sub-supplier to the motor vehicle industry. Ronnie Leten returned to Atlas Copco in 1997 as Business Development Manager for Compressor Technique. In 1999, he became President of the Airtec division, in 2001, President of the Industrial Air division and in 2006, Business Area President for Compressor Technique. All positions based in Belgium. Besides his holdings in Atlas Copco, neither Ronnie Leten nor any member of his immediate family have shares/partnerships in companies with which the Atlas Copco Group has significant business connections.

Business Area Presidents

Stephan Kuhn, Business Area President for Compressor Technique as from June 2009. He holds a Masters Degree in Business Administration from Bentley College in Waltham, the United States. Stephan Kuhn started his career at Atlas Copco in 1995 as manager of an electric tools joint venture in China, and later held General Manager positions in Belgium and Germany. He was President of the Surface Drilling Equipment division within the Construction and Mining Technique business area until 2008, when he took a position outside the Group.

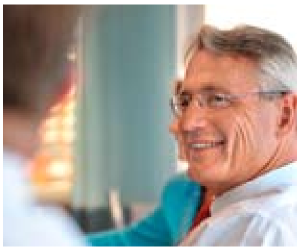
Björn Rosengren, Senior Executive Vice President for Atlas Copco AB and Business Area President for Construction and Mining Technique, earned his M.Sc. in Technology from Chalmers University of Technology in Gothenburg, Sweden, in 1985. Between 1985 and 1995, Björn Rosengren held various positions within the welding equipment company Esab Group, Sweden, including international assignments as Marketing Manager in Switzerland and Sweden and other international positions in the field of marketing. From 1995, he was General Manager for the hydraulic firm Nordhydraulic, Nordwin AB, Sweden. In 1998, Björn Rosengren joined Atlas Copco as President of the Craelius division and, before assuming his present assignment in 2002, he was President of the Rock Drilling Equipment division. Björn Rosengren will as of September 1, 2011 leave Atlas Copco for a position as President and CEO of Wärtsilä Corporation, Finland.

External directorship: HTC AB, professional floor grinding systems, Sweden and Danfoss A/S products and solutions for the climate and energy sector, Denmark.

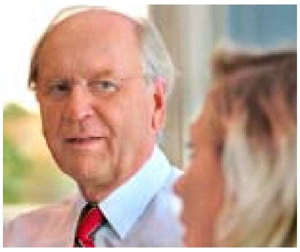
Mats Rahmström, Senior Executive Vice President for Atlas Copco AB and Business Area President for Industrial Technique, earned his MBA in 2005 from the Henley Management College, Great Britain. He joined Atlas Copco in 1988 and has held positions in sales, service, marketing and general management within the Industrial Technique business area. Between 1998 and 2006 he held the position as the General Manager for customer centers in Sweden, Canada, and Great Britain. Between 2006 and 2008 he was President of the Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique. Mats Rahmström holds his current position as from June, 2008.

Group Management










First row, from left to right: Ronnie Leten, Stephan Kuhn, Björn Rosengren, Mats Rahmström.
Second row: Hans Ola Meyer, Jeanette Livijn, Hans Sandberg, Annika Berglund.

Group functional responsible

Hans Ola Meyer, Senior Vice President, Controlling and Finance, and Chief Financial Officer, earned his M.Sc. in Economics and Business Administration from the Stockholm School of Economics in Stockholm, Sweden, in 1977. He was employed by Atlas Copco in 1978 to work with Group accounting and controlling. Later he moved to Ecuador as Financial Manager. Between 1984 and 1991, he held various positions at the broker Penningmarknadsmäklarna, Sweden, among them Head of Asset Management. Hans Ola Meyer returned to Atlas Copco in 1991 as Financial Manager in Spain and in 1993 he became Senior Vice President, Finance, for Atlas Copco AB and a member of Group Management. Hans Ola Meyer has held his current position since 1999.

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

Jeanette Livijn, Vice President Organizational Development and Human Resources, earned her university degree in Business Administration from Växjö högskola in 1987 and joined Atlas Copco later the same year. She started to work in the field of financial and business controlling and held various positions in this function for the Construction and Mining Technique business area as well as for the Industrial Technique business area, working in a customer center, product companies, and divisions. Since 1997 Jeanette Livijn has held managerial positions within human resource management. Before she took up this present position she was Vice President Human Resources for the Industrial Technique business area. Jeanette Livijn is a member of Group Management since 2007.

Hans Sandberg, Senior Vice President General Counsel, earned his Master of Law from Uppsala University, Sweden, in 1970 and his Master of Comparative Jurisprudence (MCJ) from New York University, the United States, in 1972. In 1972, Hans Sandberg began as an Assistant Judge at Södra Roslagen District Court, Sweden, and was later employed at the Lagerlöf Law firm, Sweden. He joined Atlas Copco in 1975 as Corporate Counsel. In 1980, he was appointed General Counsel for Atlas Copco North America, Inc., the United States. He has held his current position since 1984 and has been a member of Group Management since 1989. Hans Sandberg has been Secretary of the Board of Directors for Atlas Copco AB since 1991.

External directorship: Chair of the Board for legal matters of the trade and employers' organization, the Association of Swedish Engineering Industries, Sweden.

Annika Berglund, Senior Vice President Corporate Communications, earned her M.Sc. in Economics and Business Administration from Stockholm School of Economics, Sweden, in 1980 and her MBA from the University of Antwerp, Belgium, in 1995. Annika Berglund began her career in marketing analysis and market research with Atlas Copco in 1979. Since then, she has held a number of positions in the Group related to marketing, sales, and business controlling in Europe. Prior to her current position, which she assumed in 1997, she was Marketing Manager for the electronic company Atlas Copco Controls (Danaher Motion), Sweden. Annika Berglund has been a member of Group Management since 1997.

External directorship: Member of the Committee for Sweden's participation in World Expo 2010 in Shanghai, Sweden.

Group Management

Name	Born	Nationality	Employed	Function	Class A shares	Class B shares	Employee stock options
Ronnie Leten[1)]	1956	Belgian	1997	President and CEO	15 666	8 000	293 541
Stephan Kuhn	1962	German	2009	Compressor Technique	2 161		116 724
Björn Rosengren	1959	Swedish	1998	Construction and Mining Technique	2 884		264 322
Mats Rahmström	1965	Swedish	1988	Industrial Technique	2 040		136 185
Hans Ola Meyer	1955	Swedish	1991	Controlling and Finance	3 286	24 923	132 729
Jeanette Livijn	1963	Swedish	1987	Organizational Development and Human Resources	1 085		68 157
Hans Sandberg	1946	Swedish	1975	Legal	11 539	14 000	83 099
Annika Berglund	1954	Swedish	1979	Communications and Branding	8 867	5 900	73 035

Holdings as per Dec 31, 2010 including those of close relatives or legal entities, grant for the 2010 program and matching shares. See note 23 for additional information.
1) Ronnie Leten was also employed by the Group between 1985–1995.

Remuneration to Group Management

Remuneration covers an annual base salary, variable compensation, possible long term incentive (personnel options), pension premium and other benefits. The variable compensation plan is limited to a maximum percentage of the base salary. No fees are paid for Board memberships in Group companies or for other duties performed outside the immediate scope of the individual's position. See note 5 and 23.

President and Chief Executive Officer: The variable compensation can give a maximum of 70% of the base salary paid. The variable compensation is not included in the basis for pension benefits.

The President and CEO is a member of the Atlas Copco Airpower n.v. pension plan and the contributions follow the Atlas Copco Group's for Swedish executives. He is entitled to retire at the age of 60. The contribution is age related and is 35% of the base salary and includes provisions for a survivors' pension.

Other members of Group Management: The principle is that the base salary is compensation for general performance, while variable compensation is for a combination of the Group's and the individual's results. The variable compensation can amount to a maximum of 40% or 50% of the base salary. The variable compensation is not included in the basis for pension benefits.

Members of the Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary according to age. Members of the Group Management not based in Sweden also have a defined contribution pension plan. These pension plans are vested and pension payments are planned to be for lifetime. The retirement age is 65.

Termination of employment

The basis for severance pay for all members of Group Management is base salary only. No member is able to trigger severance pay for him/herself.

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

President and Chief Executive Officer: The principle of termination for the President and CEO is that if either party intends to terminate the contract, a notice time of six months is stipulated. He is entitled to 12 months severance pay if the company terminates the employment and a further 12 months if other employment is not available within the first 12-month period.

Other members of Group Management: The principle is that other members of Group Management are entitled to compensation if the company terminates the employment. The amount of severance pay depends on how long the individual has been employed by the company and the executive's age but is never less than 12 months and never more than 24 months.

Information for the Capital Market

The Board of Atlas Copco AB adopted an information policy in 2004 that fulfills the requirements stipulated in the listing agreement with OMX Stockholm. The policy was updated in 2007 and 2010 to include new rules and regulations. Financial reports are prepared in line with legal and International Financial Reporting Standards (IFRS).

Financial information is regularly presented to the market in the form of:

- Annual report
- Quarterly reports
- Press releases, as soon as possible, to disclose information about decisions or other facts and circumstances that are "price sensitive"
- Presentations and phone conferences for analysts, investors, and journalists in conjunction with quarterly reports and/or other significant information.

All reports and press releases are simultaneously published by an external distributor and directly after on the Group's website, www.atlascopco.com. www

Internal Control

This is a description of the internal control regarding financial reporting, established in accordance with the Swedish Code of Corporate Governance. This section also covers Atlas Copco's non-financial control routines.

The base for the internal control over the financial reporting consists of the overall control environment that the Board of Directors and the Group management have established. An important part of the control environment is that the organizational structure, the decision hierarchy, and the authority to act are clearly defined and communicated in such guiding documents as internal policies, guidelines, manuals, and codes.

The company applies different processes for risk assessment and identification of the main risks. See also the Board of Directors' report, pages 19–22. The risk assessment process is regularly updated to include changes that substantially influence the internal control over the financial reporting.

The risks concerning the financial reporting that have been identified are managed through the control activities in the company, which are documented in process and internal control descriptions on the company, division, business area, and Group levels. These include instructions for attests and authority to pay and controls in business systems as well as accounting and reporting processes.

The company has information and communication channels designed to ensure that the financial reporting is complete and accurate. Instructions and guidelines are communicated to personnel concerned in *The Way We Do Things* through the Intranet, supported by, for example, training programs for general managers, controllers and accounting staff.

The company continuously monitors the adherence to internal policies, guidelines, manuals, and codes as well as efficiency in the control activities. The Audit Committee has an important role in the Board of Directors' monitoring of the internal control over the financial reporting.

Atlas Copco's internal control processes

Prokura: The delegation of the authority to act both with respect to a third party and internally, or Prokura, as it is referred to in the Atlas Copco Group, aims at defining how responsibility is allocated to positions and, reflecting this, to individuals. With each position covered by a Prokura follows a predetermined authority to act, with stated rights and obligations. The goal is that each individual with any authority to take decisions should have such a defined written Prokura. The delegation of authority in the Group starts with the delegation by the Board of the authority to be in charge of operations to the President and CEO. He then delegates to those reporting to him and so on down the line throughout the legal and operational structure of the Group.

Business control: Each unit has a business controller responsible for ensuring that, among other things, there are adequate internal control processes, the Group's control processes are implemented, and that any risk exposures are reported. The controller is also responsible for ensuring that *The Way We Do Things* is applied in all respects and that the financial reports – for many companies produced with a standard process by the internal service provider ASAP – are correct, complete, and delivered on time. In addition, there are controllers at the division, business area, and Group levels with corresponding responsibilities for these aggregated levels.

Financial reporting: Monthly operative reports are prepared to measure profitability per product category, company, business line, division, and business area. Each division consolidates its units and reports adjustments and eliminations. Quarterly these reports are completed with additional information and specifications in accordance with a standardized reporting routine. These reports constitute the basis for the Group's quarterly and annual consolidated reports.

The Group uses a common system for consolidation of the reports. Information is stored in a central database from which it can be retrieved for analysis and follow-up. The analysis package includes a series of standardized scorecards used to follow up key indicators, trends and to the set targets.

Non-financial reporting: Quarterly and yearly reports are prepared to measure social and environmental performance per company, division, and business area. Consolidated reports constitute the basis for the Group's quarterly reporting and the Sustainability Report, see pages 101–120. Information is stored in central databases from which it can be retrieved for analysis and follow-up, including scorecards used to follow up key indicators, trends and to the set targets.

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

Internal audits: In Atlas Copco, the Internal Audit process is intended to add value to each operational unit by providing an independent and objective assurance of its processes, identify and recommend improvements, serve as a tool for employee professional development and to identify and recommend leading practices within the Group.

Internal audits are initiated by the division in charge of operations or the responsible holding company or by Group functions. An internal audit is performed each time there is a change of General Manager in a company or, for instance, after major negative events or structural changes, remarks from external auditors, when a new company is formed, if a long time has passed since the last audit, or as a planned risk-driven audit.

The target is that all operational units should be audited at least once every four years. Internal audits are normally performed by a team of people appointed from various parts of the organization with suitable competence for the audit to be conducted. There are standardized tools for planning and risk assessment before an audit, as well as audit programs and forms for reports and follow-up activities.

The function Group Internal Audit & Assurance, created during 2008 with a small team of dedicated internal auditors, has continued to strengthen the internal audit function in terms of quality and quantity. The Vice President Group Internal Audit & Assurance participated in the meetings of the Audit Committee during the year.

Post-acquisition audits: Post-acquisition audits are conducted approximately 18–24 months after an acquisition in accordance with a special review format with the objective of following up synergies, integration activities, and the acquisition process as such. The audit is performed by a team in which at least one person should have practical acquisition experience. The audits are initiated by and reported to the acquisition process council, chaired by the General Counsel Operations. A summary is presented to the Board of Directors.

Special risk areas: On request from the Audit Committee, management has during the year identified some specific areas, in which the risks are assessed, activities to control these risks are planned and monitored, and findings and conclusions reported back to the Audit Committee. Examples of such identified areas are specific countries/regions, structural changes, certain accounting principles, business processes and information technology systems.

Control self assessment: The objective of this process is primarily to support local unit managers in understanding and evaluating the status of their responsibilities. One of the areas is internal control. Legal issues, Communication and branding, and Business Code of Practice are also included in the assessment. Unit managers annually review extensive questionnaires to personally assess to what extent their units comply with the defined requirements. The answers are used by the respective unit managers to plan necessary improvement measures and, aggregated, for statistical assessments of the control routines and as a base for improvement of Group processes, clarification of instructions etc.

Ethical helpline: The Group has a process where employees can report on behavior or actions that are, or may be perceived as, violations of laws or of Group policies. This process serves as a

Internal control routines – overview

Procedure	Scope	Frequency
Prokura	Defining how responsibility is delegated to individuals	When a person is recruited to a new position
Business control	Ensures adequate control routines, implementation of Group processes and reporting of risk exposure	Continuously
Financial reporting	Prepared to measure profitability and constitute basis for Group consolidated (public) reports	Monthly, quarterly, annually
Non-financial reporting	Prepared to measure progress within the areas of environmental and social performance. See also Sustainability Report	Quarterly, annually
Business boards and company review meetings	Follow-up on adherence to *The Way We Do Things* and on efficiency in control activities	3–4 times per year
Internal audits	To provide independent objective assurance, recommend improvements, and contribute to employee professional development. To ensure compliance with the Group's corporate governance and internal control procedures	All units at least once every four years
Post-acquisition audits	To follow up synergies, integration activities and the acquisition process as such	18–24 months after acquisition
Special risk areas	To identify, assess and control major risks and monitor actions taken	Annually
Control self assessment	To support the unit manager in taking appropriate actions and to assess control routines on the Group level	Annually
Ethical helpline	To highlight possible violations through anonymous reporting	As required
Compliance statement	To confirm compliance to Business Code of Practice and applicable laws	Annually

complement to similar processes that exist in certain countries. The reports are treated confidentially and the person who is reporting is given anonymity. Efforts have been made to increase the awareness of this process among all employees. A fraud awareness training has been introduced during 2010, with all managers as a primary target group.

Compliance statement: During 2010 a new process has been launched whereby Group management, divisional managements and all managers responsible for an operational or holding entity and certain other positions have been requested to sign a statement confirming compliance to the Groups Business Code of Practice and applicable laws. This will be repeated on a yearly basis.

Internal control statistics

	2010	2009	2008
Operative units in the Group	388	392	395
Internal audits conducted (incl post-acquisition audits)	105	107	86
Control self assessments completed	280	290	250

The Way We Do Things

The Way We Do Things is the single most important management tool of the Atlas Copco Group and includes principles, guidelines, processes, and instructions within the following main areas:

- Business Code of Practice
- Accounting and business control
- Audit and internal control
- Communications and branding
- Crisis management
- Safety, health, environment and quality
- Group standards
- Information technology
- Insurance
- Legal
- People management

Each process in *The Way We Do Things* is owned by a member of Group Management. Managers at various levels are in charge of implementing these processes within their respective areas of responsibility. Training modules are linked with the most important segments of *The Way We Do Things* to give employees a better understanding and ensure that the processes are implemented. All employees shall have access to *The Way We Do Things*.

Auditor's Report on the Corporate Governance Report

To the Annual General Meeting of the shareholders of Atlas Copco AB, corporate identity number 556014-2720

It is the Board of Directors who is responsible for the corporate governance report for the year 2010 included in the printed version of this document on pages 121–133 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Nacka, February 17, 2011

Deloitte AB

Jan Berntsson
Authorized Public Accountant

The Atlas Copco Share

At December 31, 2010, the price of the Atlas Copco A share was SEK 169.70. During 2010, the price of the A share increased 61%. The Industrial Index and General Index on NASDAQ OMX Stockholm increased 48% and 23%, respectively. The annual total return on the Atlas Copco A share, equal to dividend plus the appreciation of the share price, was in average 23.1% for the past 10 years and 20.7% for the past five years. The corresponding total return for NASDAQ OMX Stockholm was 5.9% (2001–2010) and 8.0% (2006–2010), respectively.

Dividend and dividend policy

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 4.00 (3.00) per share be paid for the 2010 fiscal year. This corresponds to a total of MSEK 4 874 (3 646) if the shares held by the company are excluded.

The dividends to shareholders shall reflect the company's profit and cash flow development as well as growth opportunities.

The Board of Directors' opinion is that the dividend should correspond to about 50% of earnings per share. If the shareholders approve the Board of Directors' proposal for a dividend of SEK 4.00 per share, the annual dividend growth for the five-year period 2006–2010 will equal 13.5%. During the same period, the dividend has averaged 38.5% of basic earnings per share. The dividend has averaged 47.3% of basic earnings per share if the effect from profit from discontinued operations is excluded.

Mandatory redemption of shares

Atlas Copco has generated significant cash flows both during the financial crisis and during the fast growth of 2010. Consequently the financial position of the Group is strong.

In order to adjust the Group's balance sheet to a more efficient structure without jeopardizing the capacity to finance further growth, the Board of Directors proposes to the Annual General Meeting a share redemption procedure, whereby every share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 5.00 per share. This corresponds to a total of MSEK 6 092 if the shares held by the company are excluded. The redemption is subject to approval at the Annual General Meeting 2011.

Personnel stock option program

The Board of Directors will propose to the Annual General Meeting 2011 a performance-based long-term incentive program. For Group Executive Management, participation in the plan requires own investment in Atlas Copco shares. It is proposed that the plan is covered as before through the repurchase of the company's own shares.

Transaction in own shares

During 2010, 1 750 160 series A shares, net, and 716 367 series B shares were divested in accordance with mandates granted. No shares were repurchased or divested in 2009.

As per December 31, 2010 Atlas Copco held 9 524 840 series A shares and 1 712 033 series B shares, corresponding to 0.9% of the total number of shares.

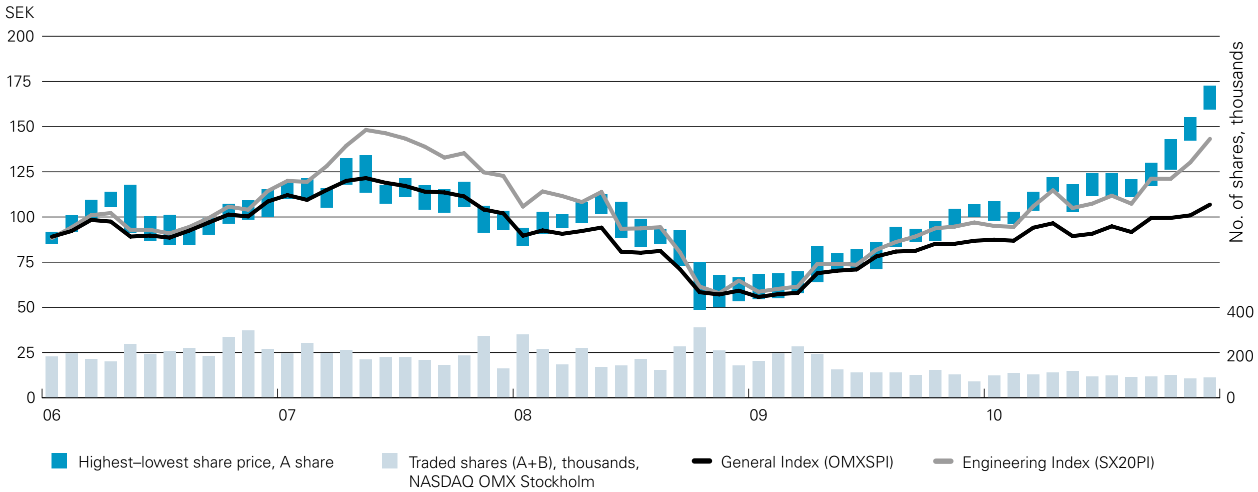
Symbols and tickers

	A share	B share
NASDAQ OMX Stockholm	ATCO A	ATCO B
ISIN code	SE0000101032	SE0000122467
Reuters	ATCOa.ST	ATCOb.ST
Bloomberg	ATCOA SS	ATCOB SS
ADR	ATLKY.OTC	ATLSY.OTC

Share capital and votes

Atlas Copco's share capital at year end 2010 amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately SEK 0.64. Class A shares entitle the holder to one vote, and class B shares entitle the holder to one tenth of a vote. The total number of votes amounted to 878 415 997.

Share price



Distribution of shares, December 31, 2010

Class of share	Shares outstanding	% of votes	% of capital
A shares	839 394 096	95.6	68.3
B shares	390 219 008	4.4	31.7
Total	1 229 613 104	100.0	100.0
– of which A shares held by Atlas Copco	*9 524 840*	*1.1*	*0.8*
– of which B shares held by Atlas Copco	*1 712 033*	*0.0*	*0.1*
Total, net of shares held by Atlas Copco	1 218 376 231		

Market capitalization

Atlas Copco's market capitalization at December 31, 2010 was MSEK 199 921 (123 440), excluding shares held by Atlas Copco. This corresponds to 4.8% (3.6) of the total market value of NASDAQ OMX Stockholm.

Trading

Trading of the Atlas Copco AB shares primarily takes place on NASDAQ OMX Stockholm, where Atlas Copco shares were the 4th (5th) most actively traded shares in 2010. A total of 1 497 818 033 shares were traded, whereof 1 208 884 055 A shares and 288 933 978 B shares, corresponding to a value of MSEK 177 948 (153 541). On average, 5 920 229 (8 151 292) were traded each business day, corresponding to a value of MSEK 703 (612). The turnover rate was 122% (166), compared with the stock market average of 95% (119). Atlas Copco shares are also traded on other markets, so called Multilateral Trading Facilities, e.g. Chi-X Europe, BATS and Burgundy. These are estimated to account for 25–30% of total trading. Foreign trading in the Atlas Copco shares showed a net export of MSEK 837 (import of 3).

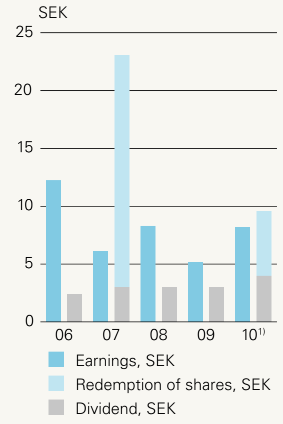
Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A shares, are listed on NASDAQ OMX Stockholm. In 2010, 905 490 (851 773) option contracts were traded. Since the options grant the holder the right to buy or sell existing shares only, they have no dilution effect.

ADRs in the United States

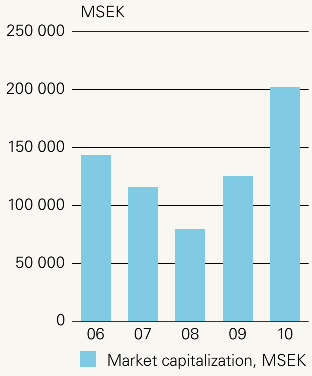
A program for American Depositary Receipts (ADRs) was established in the United States in 1990. Since then, both A and B shares are available as ADRs in the United States without being formally registered on a United States stock exchange. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year end 2010, there were 15 272 081 (17 956 680) ADRs outstanding, of which 11 674 333 represented A shares and 3 597 748 B shares.

Earnings and distribution per share

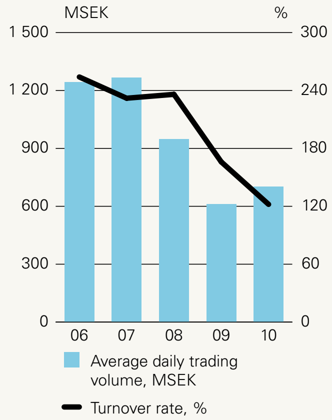


[1] Dividend and redemption proposed by the Board of Directors.

Market capitalization



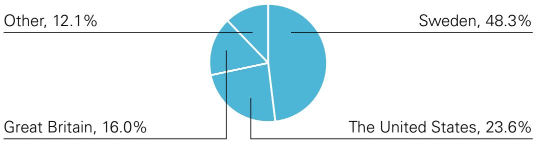
Liquidity



Ownership structure

At year end 2010, Atlas Copco had 69 275 shareholders (61 645). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34% (36) of the voting rights and 33% (34) of the number of shares. Non-Swedish investors held 47% (42) of the shares and represented 52% (47) of the voting rights.

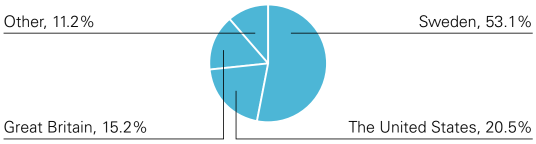
Shareholders by country, December 31, 2010
% of votes



Ownership structure, December 31, 2010

Number of shares	% of shareholders	% of capital
1–500	55.9	0.6
501–2 000	28.6	1.8
2 001–10 000	12.1	2.9
10 001–50 000	2.4	2.8
50 001–100 000	0.3	1.3
>100 000	0.7	90.6
	100.0	**100.0**

Shareholders by country, December 31, 2010
% of capital



Share issues 1973–2010

			Change of share capital, MSEK	Amount paid/ distributed, MSEK
1973	Bonus issue	1:2	69.2	
1974	New issue	1:4 SEK 25	51.7	51.7
1976	New issue	1:5 SEK 50	51.7	103.5
1979	Bonus issue	1:6	51.7	
	New issue	1:6 SEK 60	51.7	124.1
1982	Bonus issue	1:4	103.5	
	New issue (non-preferential)	2 765 000 shares at SEK 135	69.1	373.3
1989	Bonus issue	1 B share: 3 A shares	195.5	
1990	New issue (non-preferential)	4 000 000 B shares at SEK 320.13	100.0	1 280.5
	Conversion[1]	7 930 shares	0.2	1.2
1991	Conversion[1]	42 281 shares	1.1	6.3
1992	Conversion[1]	74 311 shares	1.9	11.1
1993	Non-cash issue[2]	383 500 shares at SEK 317	9.5	121.6
	Conversion[1]	914 496 shares	22.9	137.2
1994	Split	5:1 quota value SEK 5		
1999	New issue	1:7 SEK 160	130.4	4 173.8
2005	Split	4:1 quota value SEK 1.25		
	Share redemption	209 602 184 shares at SEK 20	–262.0	–4 192.0
2007	Split	3:1 quota value SEK 0.417		
	Share redemption[3]	628 806 552 shares at SEK 40	–262.0	–24 415.7
	Bonus issue	No new shares issued, quota value SEK 0.625	262.0	
	Redemption of shares held by Atlas Copco	28 000 000 shares	–17.5	
	Bonus issue	No new shares issued, quota value SEK 0.639	17.5	

[1] Pertains to 1987/1993 convertible debenture loan.
[2] In connection with the acquisition of The Robbins Company.
[3] 610 392 352 shares net of shares held by Atlas Copco.

10 largest shareholders*, December 31, 2010

	Number of shares	A shares	B shares	% of votes	% of capital
Investor	205 471 326	194 803 726	10 667 600	22.30	16.71
Alecta	48 193 000	22 705 000	25 488 000	2.87	3.92
Swedbank Robur	43 684 003	16 298 442	27 385 561	2.17	3.55
Handelsbanken funds	17 450 243	9 568 815	7 881 428	1.18	1.42
Nordea funds	17 649 593	8 861 791	8 787 802	1.11	1.44
Folksam – KPA	19 089 642	8 699 739	10 389 903	1.11	1.55
AP 2	11 562 737	8 085 015	3 477 722	0.96	0.94
AP 1	14 483 553	6 633 026	7 850 527	0.84	1.18
SEB	15 483 453	6 401 315	9 082 138	0.83	1.26
AP 4	9 021 042	5 884 296	3 136 746	0.71	0.73
Others	827 524 512	551 452 931	276 071 581	65.92	67.30
	1 229 613 104	**839 394 096**	**390 219 008**	**100.00**	**100.00**
– of which shares held by Atlas Copco	*11 236 873*	*9 524 840*	*1 712 033*	*1.10*	*0.91*
Total, net of shares held by Atlas Copco	**1 218 376 231**	**829 869 256**	**388 506 975**		

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

Key figures per share[1)]

SEK	2006	2007	2008	2009	2010	Average growth 5 years, %
Basic earnings	12.24	6.09	8.33	5.14	8.16	9.4
Diluted earnings	12.22	6.09	8.33	5.13	8.15	
Dividend	2.38	3.00	3.00	3.00	4.00[2)]	13.5
– in % of basic earnings	19.4%	49.3%	36.0%	58.4%	49.0%	
Dividend yield, %	2.4%	2.7%	3.5%	3.7%	3.3%	
Redemption of shares		20.00			5.00[2]	
Operating cash flow	2.45[3)]	3.76	3.91	11.32	7.98	
Equity	27	12	20	21	24	
Share price, December 31, A	115	97	67	105	170	13.9
Share price, December 31, B	111	88	60	93	152	13.8
Highest share price quoted, A	118	134	113	107	173	
Lowest share price quoted, A	85	91	49	55	155	
Average price quoted, A	99	113	86	81	123	
Market capitalization, December 31, MSEK	138 865	114 630	78 350	123 440	199 921	
Average number of shares	1 254 210 894	1 220 784 704	1 219 099 275	1 215 909 704	1 215 882 771	
Diluted number of shares	1 256 025 654	1 222 305 273	1 219 815 398	1 216 344 248	1 217 278 569	

1) Earnings per share and other per share figures have been adjusted for share split 2:1 in 2007. No adjustment has been made for the redemption of shares in accordance with the recommendation from The Swedish Society of Financial Analysts. To adjust 2006 figures also for the redemption of shares, use factor 0.85.
2) Proposed by the Board of Directors.
3) Continuing operations.

Analysts following Atlas Copco

ABG Sundal Collier . . . . . Erik Pettersson
Bank of America-Merrill Lynch. . . . . Ben Maslen
Barclays Capital. . . . . Allan Smylie
Carnegie . . . . . Joakim Höglund
Cheuvreux . . . . . Johan Eliason
Citigroup . . . . . Natalia Mamaeva
CSFB. . . . . Andre Kukhnin
Danske Bank. . . . . Anders Idborg
Deutsche Markets . . . . . Johan Wettergren
DnB Nor . . . . . Erik Bergöö
Enskilda Securities . . . . . Anders Eriksson
Evli Bank . . . . . Magnus Axén
Exane BNP Paribas . . . . . Jonathan Mounsey
Execution Limited. . . . . Nick Paton
Goldman Sachs. . . . . Samson Edmunds
Handelsbanken. . . . . Peder Frölén
HSBC . . . . . Colin Gibson
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JP Morgan . . . . . Nico Dil
Morgan Stanley . . . . . Guillermo Peigneux
Nomura. . . . . Michael Hagmann
Nordea . . . . . Ann-Sofie Nordh and Johan Trocmé
Redburn Partners . . . . . James Moore
Societe Generale . . . . . Sebastien Gruter
Swedbank . . . . . Mats Liss
The Royal Bank of Scotland. . . . . Klas Bergelind
UBS . . . . . Fredric Stahl
UniCredit Research. . . . . Alasdair Leslie
Ålandsbanken . . . . . Anders Roslund
Öhman . . . . . Oscar Stjerngren

Five Years in Summary

MSEK	2006	2007	2008	2009	2010
Orders received	55 239	69 059	73 572	58 451	75 178
Revenues and profit					
Revenues	50 512	63 355	74 177	63 762	69 875
Change, %	20	25	17	–14	10
Change, excluding currency, %	20	29	17	–22	14
Change, organic from volume and price, %	17	18	12	–22	12
EBITDA	10 840	13 866	15 886	11 560	16 413
EBITDA margin, %	21.5	21.9	21.4	18.1	23.5
Operating profit	9 203	12 066	13 806	9 090	13 915
Operating profit margin, %	18.2	19.0	18.6	14.3	19.9
Net interest expense	–654	–453	–1 243	–808	–423
as a percentage of revenues	*–1.3*	*–0.7*	*–1.7*	*–1.3*	*–0.6*
Interest coverage ratio	14.3	11.2	8.5	8.2	18.1
Profit before tax	8 695	10 534	13 112	8 271	13 495
Profit margin, %	17.2	16.6	17.7	13.0	19.3
Profit from continuing operations	6 260	7 416	10 006	6 276	9 944
Profit for the year	15 373	7 469	10 190	6 276	9 944
Employees					
Average number of employees	24 378	29 522	34 119	31 085	31 214
Revenues per employee, SEK thousands	2 072	2 146	2 174	2 051	2 239
Cash flow[1]					
Operating cash surplus	10 722	13 730	15 805	11 434	16 673
Cash flow before change in working capital	8 197	10 005	11 874	7 889	12 555
Change in working capital	–2 045	–2 326	–2 291	6 715	– 1 730
Cash flow from investing activities	–4 419	–8 808	–4 352	–1 014	–2 818
Gross investments in other property, plant and equipment	–1 035	–1 331	–1 741	–954	–868
as a percentage of revenues	*–2.0*	*–2.1*	*–2.3*	*–1.5*	*–1.2*
Gross investments in rental equipment[1]	–1 133	–1 028	–1 158	–769	–825
Net investments in rental equipment[1]	–638	–442	–739	–212	–345
as a percentage of revenues	*–1.3*	*–0.7*	*–1.0*	*–0.3*	*–0.5*
Cash flow from financing activities	–7 973	–14 943	–2 706	–6 804	–4 740
of which dividends paid[2]	–6 452	–27 344	–3 667	–3 652	–3 650
Operating cash flow	3 065	4 589	4 751	13 761	9 698
Financial position and return					
Total assets	55 255	56 659	75 394	67 874	71 622
Capital turnover ratio	1.29	1.14	1.16	0.89	1.02
Capital employed	25 797	39 512	44 372	53 160	50 006
Capital employed turnover ratio	1.96	1.60	1.67	1.20	1.40
Return on capital employed, %	36.2	29.3	33.5	17.7	28.6
Net indebtedness	–12 364	19 775	21 686	10 906	5 510
Net debt/EBITDA	–1.14	1.43	1.37	0.94	0.34
Equity	32 708	14 640	23 768	25 671	29 321
Debt/equity ratio, %	–37.8	135.1	91.2	42.5	18.8
Equity/assets ratio, %	59.2	25.8	31.5	37.8	40.9
Return on equity, %	54.8	34.7	57.7	25.8	37.6

For definitions, see page 99.
Per share data, see page 137.
Key financial data in USD and EUR is published on www.atlascopco.com

1) Cash flow from increase and sale of rental equipment has been reclassified from investing to operating activities as from 2009.
2) Includes share redemption in 2007 and repurchases of own shares in 2006.

Quarterly Data

Revenues by business area

	2009				2010			
MSEK	1	2	3	4	1	2	3	4
Compressor Technique	8 360	8 221	7 799	8 144	7 659	8 615	8 877	9 451
– of which external	8 292	8180	7 757	8 083	7 593	8 519	8 807	9 327
– of which internal	68	41	42	61	66	96	70	124
Construction and Mining Technique	6 816	6 722	5 976	6 395	6 233	7 393	7 357	8 173
– of which external	6 785	6 712	5 968	6 375	6 204	7 350	7 339	8 154
– of which internal	31	10	8	20	29	43	18	19
Industrial Technique	1 483	1 211	1 243	1 455	1 483	1 535	1 569	1 885
– of which external	1 478	1 207	1 240	1 451	1 473	1 529	1 564	1 880
– of which internal	5	4	3	4	10	6	5	5
Common Group functions/eliminations	–82	1	70	–52	–74	–113	–60	–108
Atlas Copco Group	**16 577**	**16 155**	**15 088**	**15 942**	**15 301**	**17 430**	**17 743**	**19 401**

Operating profit by business area

	2009				2010			
MSEK	1	2	3	4	1	2	3	4
Compressor Technique	1 384	1 323	1 451	1 594	1 577	2 000	2 312	2 238
as a percentage of revenues	*16.6*	*16.1*	*18.6*	*19.6*	*20.6*	*23.2*	*26.0*	*23.7*
Construction and Mining Technique	868	875	823	904	960	1 331	1 312	1 640
as a percentage of revenues	*12.7*	*13.0*	*13.8*	*14.1*	*15.4*	*18.0*	*17.8*	*20.1*
Industrial Technique	76	–13	83	107	243	289	317	413
as a percentage of revenues	*5.1*	*–1.1*	*6.7*	*7.4*	*16.4*	*18.8*	*20.2*	*21.9*
Common Group functions/eliminations	–156	–119	45	–155	–153	–121	–159	–284
Operating profit	**2 172**	**2 066**	**2 402**	**2 450**	**2 627**	**3 499**	**3 782**	**4 007**
as a percentage of revenues	*13.1*	*12.8*	*15.9*	*15.4*	*17.2*	*20.1*	*21.3*	*20.7*
Net financial items	–378	–123	–192	–126	–130	–96	–107	–87
Profit before tax	**1 794**	**1 943**	**2 210**	**2 324**	**2 497**	**3 403**	**3 675**	**3 920**
as a percentage of revenues	*10.8*	*12.0*	*14.6*	*14.6*	*16.3*	*19.5*	*20.7*	*20.2*

Financial Information

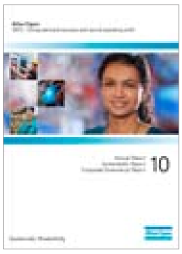
Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Wednesday, April 20, 2011, at 5 p.m. in Aula Magna, Stockholm University, Frescativägen 6, Stockholm, Sweden.

Financial information from Atlas Copco

Atlas Copco will publish the following financial reports:

April 20, 2011	Q1 – first quarter results
July 18, 2011	Q2 – second quarter results
October 21, 2011	Q3 – third quarter results
January 31, 2012	Q4 – fourth quarter results
March, 2012	Annual Report 2011



Order the Annual Report from

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The web site **www.atlascopco.com** serves its stakeholders – customers, students, the press, and the financial markets – with information in several languages.

In the Investor section, **www.atlascopco.com/ir**, available in English and Swedish, you will find financial reports and key figures in ready-to-use digital formats and you can subscribe to information from the Group. Investor presentations can be downloaded and you can view and/or listen to presentations of quarterly reports (in English).

In the Corporate Responsibility section, **www.atlascopco.com/cr**, available in English and Swedish, you will find the Sustainability Report and key figures in digital formats.

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Committed to sustainable productivity

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