Atlas Copco

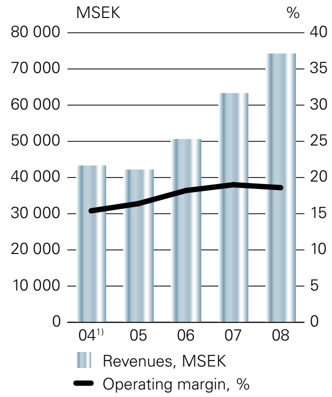
2008 – tough ending to a record year

Annual Report
Sustainability Report
Corporate Governance Report

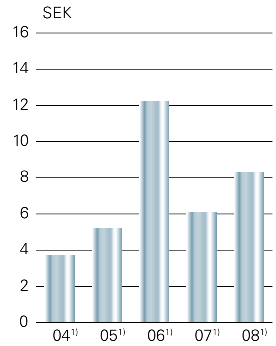
08

Contents

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 Directors 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.

- Strong order growth in most areas during the first nine months was partly offset by a weak fourth quarter.
- Continued good growth in the aftermarket business.
- Revenues MSEK 74 177 (63 355), up 9% in volume.
- Operating profit up 14% to MSEK 13 806 (12 066), corresponding to an operating margin of 18.6% (19.0).
- Profit for the year was MSEK 10 190 (7 469).
- Proposed dividend for 2008: SEK 3.00 (3.00) per share.
- Measures taken to adapt capacity and costs to the new demand situation.

Copco 2008

2008 in figures

MSEK	2008	2007	Change, %
Orders received	73 572	69 059	+7
Revenues	74 177	63 355	+17
Operating profit	13 806	12 066	+14
– as a percentage of revenues	*18.6*	*19.0*	
Profit before tax	13 112	10 534	+24
– as a percentage of revenues	*17.7*	*16.6*	
Profit from continuing operations	10 006	7 416	+35
Basic earnings per share, continuing operations, SEK	8.18	6.05	+35
Diluted earnings per share, continuing operations, SEK	8.18	6.04	+35
Profit from discontinued operations, net of tax	184	53	
Profit for the year[1]	10 190	7 469	
Basic earnings per share, SEK[1]	8.33	6.09	
Diluted earnings per share, SEK[1]	8.33	6.09	
Dividend per share, SEK	3.00[2]	3.00	
Mandatory redemption per share, SEK		20	
Equity per share, SEK[1]	20	12	
Operating cash flow	4 751	4 589	
Return on capital employed, %	34	29	
Return on equity, %[1]	57.7	34.7	
Average number of employees	34 119	29 522	

1) Including discontinued operations.
2) Proposed by the Board of Directors.

Atlas Copco Group

Atlas Copco is a world leading provider of industrial productivity solutions. The products and services range from compressed air and gas equipment, generators, construction and mining equipment, industrial tools and assembly systems, to related aftermarket and rental. In close cooperation with customers and business partners, and with 136 years of experience, Atlas Copco innovates for superior productivity. Headquartered in Stockholm, Sweden, the Group's global reach spans more than 160 markets. In 2008, Atlas Copco had revenues of BSEK 74 (BEUR 7.7) and 34 000 employees.

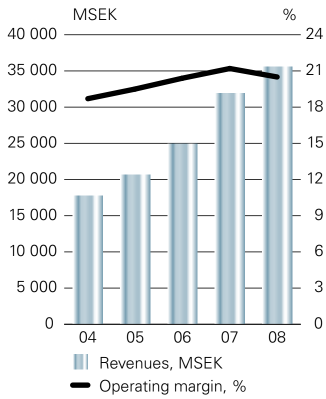
The business

Revenues and operating margin

Compressor Technique

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, oil and gas boosters, gas and process compressors, turbo expanders, generators, air treatment equipment, and air management systems.

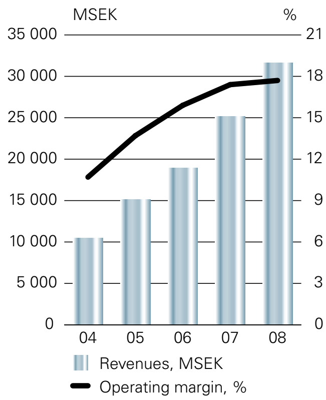
The business area has in-house resources for basic development in its core technologies, and offers specialty rental services. Development, manufacturing, and assembly are concentrated in Belgium, with other units situated in Brazil, China, Czech Republic, France, Germany, India, Italy, New Zealand, Switzerland, and the United States.



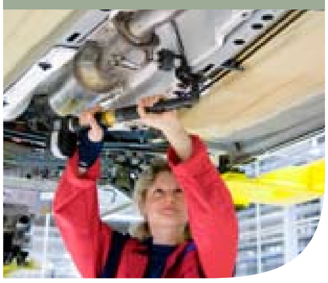
Construction and Mining Technique

The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, underground rock drilling rigs for tunneling and mining applications, surface drilling rigs, loading equipment, exploration drilling equipment, construction tools and road construction equipment.

The business area has its principal product development and manufacturing units in Sweden, Germany, and the United States, with other units in Australia, Austria, Brazil, Bulgaria, Canada, Chile, China, Finland, India, Japan, and South Africa.

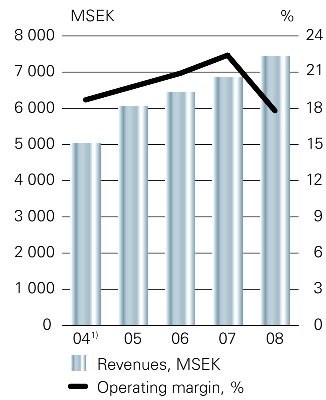


Industrial Technique



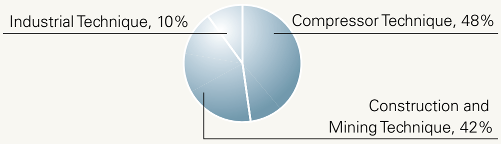
The Industrial Technique business area develops, manufactures, and markets high-quality industrial power tools, assembly systems, and aftermarket products and services. It serves the needs of industrial manufacturing, such as the automotive and aerospace industries, general industrial manufacturing, and maintenance and vehicle service.

The business area has its product development and manufacturing units in Sweden, China, France, Germany, Hungary, Italy, Japan, and the United States. The business area also has assembly system application centers in several markets.

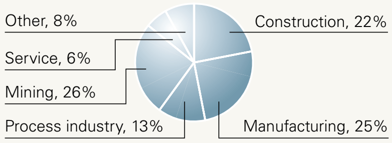


[1)] Excluding the divested professional electric tools business.

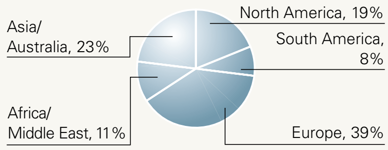
Revenues by business area



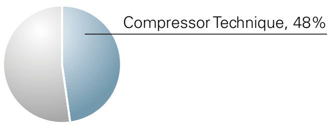
Revenues by customer category



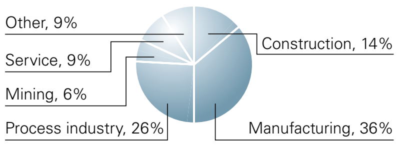
Revenues by geographic area



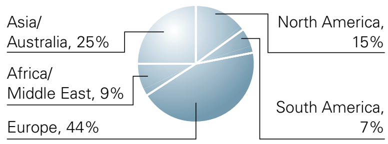
Share of Group revenues



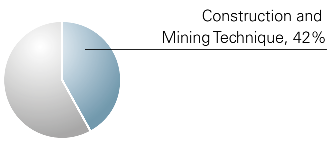
Revenues by customer category



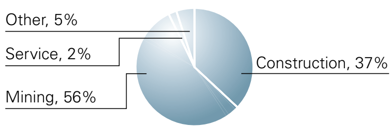
Revenues by geographic area



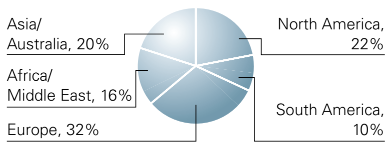
Share of Group revenues



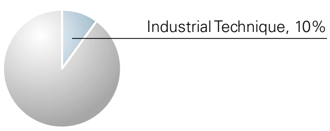
Revenues by customer category



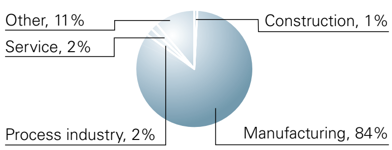
Revenues by geographic area



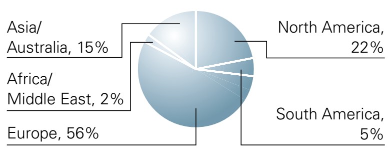
Share of Group revenues



Revenues by customer category



Revenues by geographic area



Records and Resilience

The past year brought a turning point after a long period of unprecedented growth for Atlas Copco. Nine months of very strong overall demand and record-breaking achievements were followed by an unusually rapid weakening of the business climate, putting the resilience of our operations to the test.

Summary of 2008

In all, 2008 was Atlas Copco's sixth year of growth, giving a total 26 consecutive quarters of organic growth. Orders received during 2008 increased 7% to MSEK 73 572, the highest ever achieved by the Group. Operating profit also reached a record level.

Already early during the year, when demand was strong from most customer segments and geographical regions, contingency plans were being made by our business areas and divisions to cope with a potential downturn.

Today, we know how quickly and severely the financial crisis impacted the real economy. During the fourth quarter, customers in nearly every region and industry, particularly mining, postponed or cancelled investment plans and we urgently started to adapt to this new situation. Thanks to the flexible structure of the Group, the necessary changes are being made continuously. Sadly, a number of our employees have had to leave the Group and we will support these colleagues as much as possible.

Emerging markets were not exempt from the decline, although the impact there was more modest. During the year, new customer centers were opened in some developing countries. We remain convinced our strong presence in these markets will prove a decisive factor in helping us emerge stronger from the current crisis. There will be a constant need for many years to come to build out the industrial infrastructure of these nations, and all of our business areas will deliver products needed in this development. In 2008, nearly half of Atlas Copco's sales were derived from emerging markets.

We are also pleased with our achievements in developing the aftermarket business, i.e. sales of consumables, spare parts and service. This highly profitable market recorded good growth throughout the year, generating about 35% of Group revenues. The focus on the aftermarket was strengthened both through organizational measures and acquisitions.

Revenues during 2008 increased 17% to MSEK 74 177 while operating profit increased 14% to MSEK 13 806. The dividend is proposed to be unchanged at SEK 3 per share, corresponding to a total of BSEK 3.6 to be paid out to our shareholders.

The economic downturn did not affect our investments into research and development, which will remain a priority also in coming years. This area is important because to continuously launch new products is the best way of assuring we can maintain good margins. Additionally, product development is the key to

reducing Atlas Copco's main environmental impact; the energy consumption during the use of our products. As of 2008, all divisions are tasked with setting targets to improve the energy efficiency of their main product categories, increasing the productivity and reducing the life-cycle cost.

Group-wide activities

Much of our knowledge of Atlas Copco's strengths and weaknesses comes through regular measurements of customer satisfaction, which are an integral part of our business processes. The results have reinforced our conviction of how significant the service function is in creating good customer relationships, and the need to have dedicated aftermarket organizations in all our operations. We continued our strong efforts to increase our market presence and penetration through focusing resources on developing the sales and aftermarket organizations.

We also carried out employee surveys, which will be repeated annually. The 2008 survey results are encouraging, showing that the Group has a very strong business-oriented culture with clear strategies and job responsibilities, and a high level of motivation among both male and female employees.

Using more than one brand for the same product category, multi-branding, is a cornerstone of our growth strategy, helping us appeal optimally to a larger number of potential customers. Recognizing the strength of our Chicago Pneumatic brand, this was elevated during 2008 to become the second Group brand, used by all business areas on a wide range of products.

Staying sustainable

Throughout the year, we continued the work to meet our many non-financial targets, such as reducing carbon dioxide emissions from our factories and transports. The achievements include now having our first completely CO_2 neutral factory building, in Kalmar, Sweden, and in having almost doubled the number of workplaces which have implemented an environmental management system.

Our work with regards to corporate responsibility takes place in three dimensions: community engagement, internal processes and industry standards. Through these dimensions we can address sustainability challenges on the local level, within the Group, at business partners, and in the larger environment.

Developing Atlas Copco in a sustainable way is not only our responsibility as a corporate citizen in the communities where we work, but also one of our best business opportunities. We are well positioned to meet customer demands for more energy-efficient products as we face global trends such as climate change and rising energy costs.

Business areas

Compressor Technique

During the year, the Compressor Technique business area further strengthened its leading market position and introduced a large number of new products and services. Overall demand for compressed air equipment was healthy up until the last quarter of the year. Actions were then launched to adjust the manufacturing capacity of the business area.

The U.S. acquisition of Hurricane™ and GrimmerSchmidt™ portable high-pressure compressors and boosters improved Atlas Copco's offer to the oil and gas industry. Two U.S. compressor distributors were also acquired, in line with the Group's strategy of being close to the end-users of the products.

As of January 1, 2008, Compressor Technique's service and spare parts operations were merged to create a dedicated service division. During the year, Compressor Technique has further extended its focus on services, for example through the offering of a monitoring service intended to identify leaks in compressed air systems, helping customers save energy.

Among notable product launches within the business area we saw the most energy-efficient oil-injected compressors ever produced, using up to 13% less electricity than previous models.

Construction and Mining Technique

The Construction and Mining Technique business area strengthened its market position through very strong organic growth during the first nine months of the year, and made selective acquisitions to further bolster its aftermarket and consumables business.

In Indonesia, the acquisition of the service company PT Fluidcon Jaya added reach to the service offering for the local mining industry. Construction and Mining Technique also acquired strategic holdings in two Indian manufacturers of drill bits and hammers, with operations both in India and other selected markets.

The business area noted the first signs of weakening demand for construction equipment early on in 2008, and began reducing capacity and costs during the fall. These measures were accelerated when mining demand declined sharply in the fourth quarter, as a result of the financial crisis and falling metal prices.

Product development, driven by customer demands for increased efficiency, limited environmental impact and higher safety, led to several new launches of innovative new products. We initiated cooperations with customers to develop automated mining solutions, which will increase both productivity and safety in the mines.

Industrial Technique

Industrial Technique is a world-leading supplier of tools and assembly systems for the motor vehicle industry and the general industry. Despite the extreme difficulties of the motor vehicle industry, particularly in the U.S., the business area achieved organic sales growth in 2008.

Many new products were introduced during the year, with a focus on the development of faster and more energy-efficient tools, which at the same time offer improved ergonomics through lower noise and vibration levels.

A restructuring of the pneumatic tools production, initiated during 2007, is being finalized following the decision to close Industrial Technique's factory in Great Britain. Manufacturing has been moved to other facilities, including a newly established factory in Hungary. As a result of the global economic downturn, the business area decided on capacity reductions during the fourth quarter, affecting among others its production plant in Sweden.

Resilience

In summarizing the events of 2008 we also see the challenge of 2009; how can we effectively adjust from a number of record years to this substantial slowdown and deterioration of the world economy?

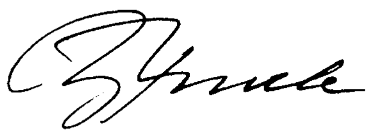
It is clear that growth is forgiving in the sense of hiding inefficiencies which will come to the surface during a slower period. We must seize the opportunity to change and address such issues within the organization.

But there is also reason to believe Atlas Copco is already in a position to withstand a recession better than many companies. The reasons behind this resilience can be summarized as follows:

- A truly global distribution of sales. We do not stand or fall as a result of development in a few countries. We are strong both in developed and developing markets.
- We have a very good diversity of customer and industry segments.
- We are not dependent on a few major customers.
- We have a large aftermarket business which is much less cyclical than equipment sales.
- We have good flexibility, due to a large part of our cost base being variable rather than fixed.

The severe recession in the global economy that we saw during early 2009 will present major challenges, but I am convinced the resilience of our company and our motivated and loyal employees will allow us to safely navigate our company through this stormy weather.

On a personal note, as I will be leaving my position in June 2009 after seven years as CEO of Atlas Copco, let me thank all our customers, employees, the Board of Directors and our shareholders for giving me the opportunity to help shape the future of this company. Let me also wish my successor Ronnie Leten, who during the past three years has been part of our executive leadership team, all the success in his new role.



Gunnar Brock
President and CEO
Stockholm, February 2, 2009

Vision and Mission

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 a world leading provider of industrial productivity solutions. The products and services range from compressed air and gas equipment, generators, construction and mining equipment, industrial tools and assembly systems, to related aftermarket and rental.

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
- acquiring more channels to the market, for example more brands or more distributor channels
- continuously launching new products for existing applications
- finding new applications for existing products
- 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.

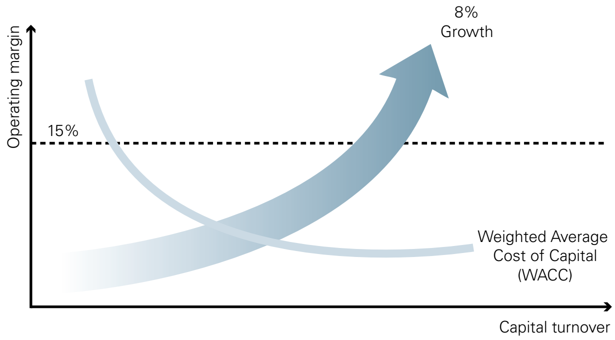
Targets

Financial targets

Atlas Copco Group has defined financial targets that will create and continuously increase shareholder value. The overall objective is to grow while achieving a return on capital employed that always exceeds the Group's average total cost of capital.

The financial targets are
- to have an annual revenue growth of 8%,
- to reach an operating margin of 15%, and
- to challenge and continuously improve the efficiency of operating capital in terms of fixed assets, inventories, receivables, and rental-fleet utilization.

To reach these targets, all operative units within the Group follow a proven development process: stability first, then profitability, and finally growth.



Non-financial targets

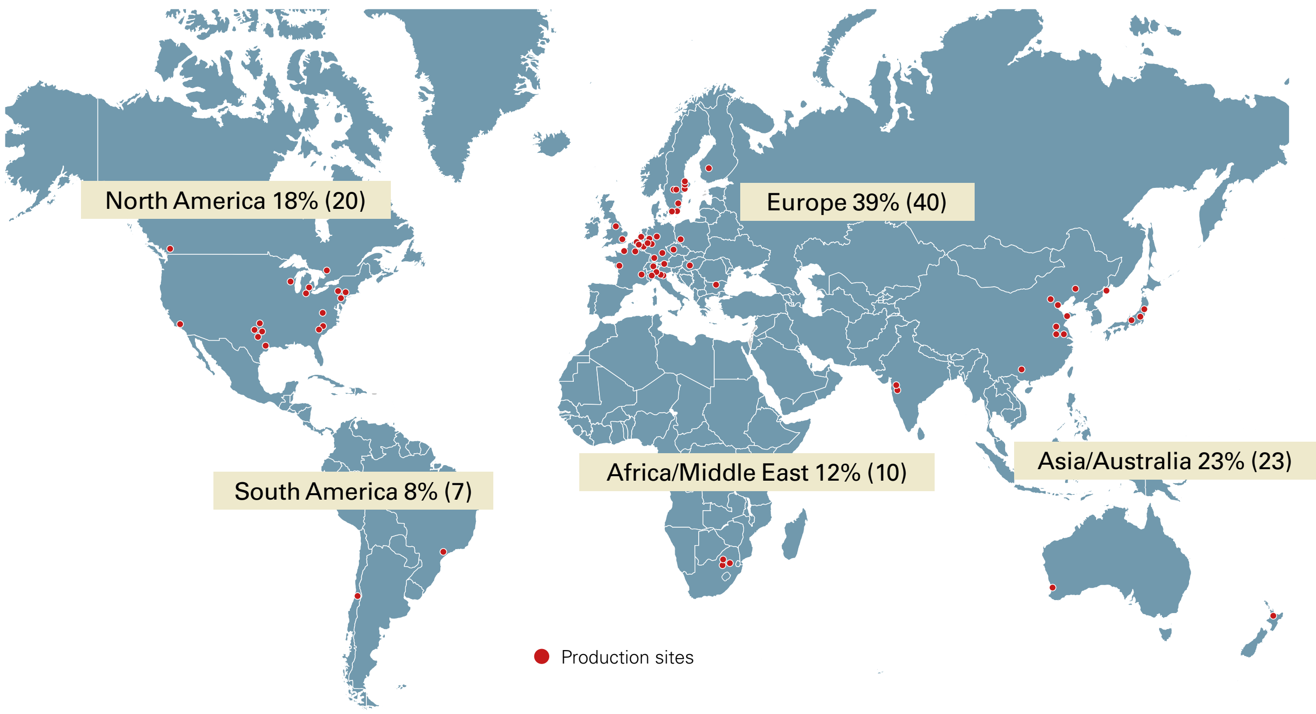
General
- All employees shall receive appropriate training in the Business Code of Practice, including human rights aspects.

Social
- Each employee shall be provided with an average of 40 hours competence development per year.
- Each employee shall receive an annual personal performance appraisal.
- Internal mobility is encouraged with the aim to recruit 85% of managers internally.
- No work-related accidents.

Environmental
- All product companies/production sites shall be ISO 14001 certified.
- All employees shall work in an Environmental Management System (EMS) certified environment.
- All divisions shall have measurable targets for main product categories to increase energy efficiency.
- All product companies/production sites shall reduce their CO_2 emissions, including transport to and from production sites.

Business partners
- Business partners shall be evaluated from an environmental and social performance point of view in addition to general business objectives.
- Business partners shall be encouraged to implement an environmental system similar to Atlas Copco's system.

The regions' portion of orders received



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 reduce cost and improve productivity, quality, and capacity. Customers in the construction and mining industries require equipment, including drill rigs, drilling tools, breakers, portable compressors, and generators. 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. Atlas Copco is also looking to offer more services and aftermarket products in line with the Group's aftermarket strategy. Demand for these services and products is relatively stable compared to the demand for equipment. Currently, aftermarket, consumables, 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

Brands

In order to reach its vision of First in Mind—First in Choice®, the Group owns more than 30 brands. The multi-brand strategy is fundamental to the Atlas Copco Group and by using more brands it can better satisfy the various customer segments' specific needs.

The Atlas Copco brand accounts for about 85% of revenues.

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.

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.

Processes

Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are finance, 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.

Organization 2009

Board of Directors

President and Chief Executive Officer

Business areas

Executive Group Management and Corporate Functions

Compressor Technique (CT)	Construction and Mining Technique (CMT)	Industrial Technique (IT)

Divisions – The divisions generally conduct business through product companies, distribution centers, and customer centers

Oil-free Air Industrial Air Portable Air Gas and Process Specialty Rental Compressor Technique Service Airtec	Underground Rock Excavation Surface Drilling Equipment Drilling Solutions Secoroc Construction Tools Geotechnical Drilling and Exploration Road Construction Equipment Rocktec	Atlas Copco Tools and Assembly Systems Motor Vehicle Industry Atlas Copco Tools and Assembly Systems General Industry Chicago Pneumatic Tooltec

Provides productivity solutions in the areas of:

Industrial compressors Air treatment equipment Portable compressors Generators Specialty rental Gas and process compressors Services and parts	Drilling rigs Rock drilling tools Construction tools Road construction equipment Load-Haul-Dump vehicles (LHDs) Services and parts	Industrial tools Assembly systems Services and parts

Internal and external service providers

Board of Directors' Report on 2008 Operations

Market Review and Demand Development

Atlas Copco recorded strong order growth for most of its products and services in the first three quarters of 2008 but with the global financial crisis accelerating during the fall, demand fell sharply towards the end of the year. The largest swing in demand was seen in the mining business, which recorded excellent growth up until September and then suffered from both order cancellations and lower volumes. This development was a result of sharply dropping metal prices and lower demand for raw material. The demand from most manufacturing and process industries for industrial equipment was more stable, but this segment also experienced a slowdown in the last quarter. Demand from the construction industry slowed down in certain areas already early in the year. Order intake for aftermarket products showed continued strength and recorded healthy growth throughout the year.

Orders received increased 7%, to MSEK 73 572 (69 059). Volumes decreased 1% for comparable units with a similar development in all business areas. Construction and Mining Technique volumes decreased 2%, and both Compressor Technique and Industrial Technique were flat. Prices increased 3% and structural changes (acquisitions and divestments) added 5%.

See also business area sections on pages 24–35.

North America

North America accounted for 18% (20) of orders received. Demand for mining equipment was very strong during the main part of the year, boosted by high activity in the coal mining sector in the United States. Order intake for most types of construction equipment decreased as the weakness in the residential construction segment spread to other parts of the construction industry during the year. The demand for compressed air solutions, including air treatment and aftermarket products, from the manufacturing and process industries remained relatively favorable throughout the year. The motor vehicle industry had a tough end of the year and demand for advanced assembly tools and systems decreased compared with the previous year. The good development in many segments early in the year was offset by the deteriorating business climate in the last quarter and in total, orders received were flat in local currencies.

South America

South America, representing 8% (7) of orders received, was not unaffected by the global slowdown in the fourth quarter, but demand held up better than in other regions and most major countries recorded double-digit growth for the year. Increased demand was recorded for compressors, mining and construction equipment and industrial tools. In total, orders received increased 23% in local currencies.

Europe

The development in Europe, representing 39% (40) of orders received, varied between regions and industries but the general drop in demand in the fourth quarter was also visible here. Demand for mining equipment was strong in Eastern Europe. Demand from the construction industry in Western Europe weakened. Order intake for light construction equipment from rental companies were considerably lower than the previous year. Investments in compressed air equipment continued on a good level for large machines while demand for small and medium-sized compressors weakened, especially from customer segments with a consumer exposure. Demand for advanced assembly tools and systems from the motor vehicle industry increased. Geographically, the best development was recorded in Eastern Europe, the Alpine region and the Nordic countries. In total, orders received increased 1% in local currencies.

Africa/Middle East

The Africa/Middle East region accounts for 12% (10) of orders received. The region developed favorably for most products and services. Demand for mining equipment was particularly strong in southern and central Africa. In total, orders received increased 29% in local currencies.

Asia/Australia

The demand in Asia/Australia, representing 23% (23) of orders received, leveled off in the fourth quarter but the region started the year with strong growth. Demand for mining equipment was very strong in Australia and Asia recorded good growth for construction equipment during the first nine months. Demand was also solid for compressed air equipment although the previous year saw some very large Asian orders, which were not repeated in 2008. Order intake for industrial tools was healthy in Asia, both within the general industrial and the motor vehicle segment. In total, orders received increased by 4% in local currencies.

Significant Events and Structural Changes

Acquisitions

The Group completed six acquisitions during the year, which added annual revenues of MSEK 345 and 459 employees. The Compressor Technique business area made four acquisitions, including two distributors, but also divested a non-core part of its rental business in Spain. Another distributor acquisition was announced in January 2009. The Construction and Mining Technique business area completed one acquisition and also acquired a 25% stake in two Indian companies. The Industrial Technique business area acquired a distributor during the year. Acquisitions are always integrated into the existing business structure in order to give the best possibilities for profitable growth and to exploit synergies. See also business area sections on pages 24–35 and note 2.

New division

Effective January 1, 2008, Atlas Copco's first service division was created within the Compressor Technique business area. Customer service and spare parts operations from other divisions within the business area have been merged into a dedicated service division.

Personnel reductions

Following the drop in demand across the businesses during the fourth quarter, measures to adjust capacity and costs have been taken across the Group. The workforce was reduced with 1 365 employees in the fourth quarter 2008. Costs related to these activities amounted to MSEK 258 in 2008.

Change of President and CEO

In January 2009, the Atlas Copco Board announced that Ronnie Leten, presently President of the Compressor Technique business area, will be the new President and CEO of the Atlas Copco Group, effective June 1, 2009. He will replace Gunnar Brock who has decided to leave his position after seven years of leading the Group.

Subsequent events

In connection to the fourth quarter results on February 2, it was announced that additional reductions in the workforce will be made during 2009, which are expected to affect more than 3 000 people globally. Costs related to these reductions are estimated to total MSEK 400.

Geographic distribution of orders received, by business area, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
North America	15	21	21	18
South America	7	11	5	8
Europe	43	31	57	39
Africa/Middle East	10	16	2	12
Asia/Australia	25	21	15	23
Total	100	100	100	100

Distribution of orders received, by geographic region, %

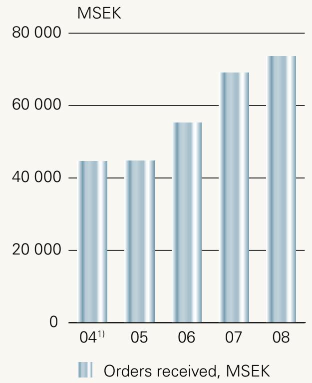
	Compressor Technique	Construction and Mining Technique	Industrial Technique	Total
North America	40	48	12	100
South America	43	51	6	100
Europe	54	32	14	100
Africa/Middle East	42	56	2	100
Asia/Australia	55	38	7	100

Orders received by customer category, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
Construction	14	37	1	22
Manufacturing	36	0	84	25
Process industry	26	0	2	13
Mining	6	56	0	26
Service	9	2	2	6
Other	9	5	11	8
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.

Orders received



[1)] Including discontinued operations.

Near-term demand outlook

The current economic situation makes the outlook very uncertain, but demand is expected to remain very weak in most industries and regions.

Published February 2, 2009

Financial Summary and Analysis

Revenues

The Group's revenues increased 17% to MSEK 74 177 (63 355). Volume increased 9% for comparable units attributable to all business areas; Construction and Mining Technique +13%, Compressor Technique +7%, and Industrial Technique +3%. Prices increased 3% and structural changes (acquisitions and divestments) added 5% while the currency translation effect was close to neutral. See also business area sections on pages 24–35 and notes 2 and 3.

Operating profit

Operating profit increased 14%, to a record MSEK 13 806 (12 066), corresponding to an operating profit margin of 18.6% (19.0). Strong profitability as a result of increased revenue volumes and prices was partly offset by one-time costs taken in the fourth quarter for personnel reductions. Changes in exchange rates and lower profitability in recently acquired companies also affected the margin negatively. The negative impact from foreign exchange rate fluctuations was approximately MSEK 340 compared with the previous year, affecting the operating margin by about half a percentage point.

Operating profit for the Compressor Technique business area increased 8% to MSEK 7 291 (6 749), corresponding to a margin of 20.5% (21.2). The margin benefited from increased revenue volumes and prices and a capital gain from the sale of rental operations in Spain, but was negatively affected by one-time costs in the fourth quarter, currency effects, and recent acquisitions/divestments. The negative effects had an impact of slightly more than one percentage point on the operating margin. The return on capital employed was 57% (65).

Operating profit for the Construction and Mining Technique business area increased 28% to MSEK 5 602 (4 384), corresponding to a margin of 17.7% (17.4). The operating margin benefited strongly from higher revenue volumes and price increases, which more than offset the negative effects from currency, recent acquisitions and one-time costs. The impact on the operating margin from the negative effects was close to two percentage points. Return on capital employed was 29% (32).

Operating profit for the Industrial Technique business area decreased 14% to MSEK 1 328 (1 539), corresponding to a margin of 17.8% (22.4), significantly below the record level from the previous year. One-time items included both restructuring costs related to the closure of a factory in Great Britain and redundancy costs. The operating margin was also negatively affected by an unfavorable sales mix, currency and recent acquisitions. Return on capital employed was 43% (58).

Depreciation and EBITDA

Depreciation and amortization totaled MSEK 2 080 (1 800), of which rental equipment accounted for MSEK 585 (588), property and machinery MSEK 891 (731), and amortization of intangible assets MSEK 604 (481). Earnings before depreciation and amortization, EBITDA, was MSEK 15 886 (13 866), corresponding to a margin of 21.4% (21.9).

Net financial items

The Group's net financial items totaled MSEK –694 (–1 532). The net interest cost increased to MSEK –1 243 (–453), reflecting the increased borrowing since the middle of 2007, and slightly higher interest rates. Net financial items include a tax-free gain of MSEK 939 from the repatriation to Sweden of Euro-denominated equity, as well as an MSEK 33 capital gain from the divestment of some of the shares held in the divested Rental Service Corporation (RSC). Net financial items from the previous year include an MSEK 134 capital gain from the divestment of some RSC shares as well as a write-down of MSEK 864 of the rights to notes, which represented a conditional extra payment in the 2006 divestment of the equipment rental business. Financial foreign exchange differences were MSEK –126 (–54).

Other financial items were MSEK –297 (–295), primarily related to negative effects from fair market valuation of derivative instruments. See note 27 for additional information on financial instruments, financial exposure and principles for control of financial risks.

Profit before tax

Atlas Copco Group profit before tax increased 24% to MSEK 13 112 (10 534), corresponding to a margin of 17.7% (16.6).

Taxes

Taxes for the year totaled MSEK 3 106 (3 118), corresponding to 23.7% (29.6) of profit before tax. See also note 10. Excluding the effect from the tax-free gain in net financial items, taxes

Key figures by business area

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets[1]	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Compressor Technique	35 587	31 900	7 291	6 749	20.5	21.2	57	65	1 194	925
Construction and Mining Technique	31 660	25 140	5 602	4 384	17.7	17.4	29	32	1 213	1 074
Industrial Technique	7 450	6 871	1 328	1 539	17.8	22.4	43	58	148	159
Common Group functions/eliminations	–520	–556	–415	–606					344	201
Total Group	74 177	63 355	13 806	12 066	18.6	19.0	34	29	2 899	2 359

[1] Excluding assets leased.

corresponded to 25.5% of profit before tax. Previous year's taxes corresponded to 27.4% of profit before tax excluding the MSEK 864 charge for the write-down of the rights to notes, for which no tax reduction was recorded.

Profit and earnings per share

Profit from continuing operations increased 35% to MSEK 10 006 (7 416). Basic earnings per share from continuing operations were SEK 8.18 (6.05), up 35%. Adjusted for the one-time effect from the tax-free gain, profit from continuing operations was MSEK 9 067 and basic earnings per share were SEK 7.41.

Profit for the year amounted to MSEK 10 190 (7 469), of which MSEK 10 157 (7 439) and MSEK 33 (30) are attributable to equity holders and minority interests, respectively. The profit includes profit from discontinued operations, net of tax, of MSEK 184 (53). See also note 3. Basic and diluted earnings per share, including discontinued operations, were SEK 8.33 (6.09).

Key figures

MSEK	2008	2007
Orders received	73 572	69 059
Revenues	74 177	63 355
Operating profit	13 806	12 066
– in % of revenues	18.6	19.0
Profit before tax	13 112	10 534
– in % of revenues	17.7	16.6
Profit from continuing operations	10 006	7 416
Basic earnings per share, SEK	8.18	6.05
Diluted earnings per share, SEK	8.18	6.04
Profit for the year[1]	10 190	7 469
Basic earnings per share, SEK[1]	8.33	6.09
Diluted earnings per share, SEK[1]	8.33	6.09

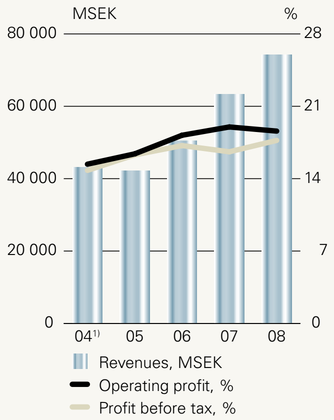
[1] Including discontinued operations.

Sales bridge

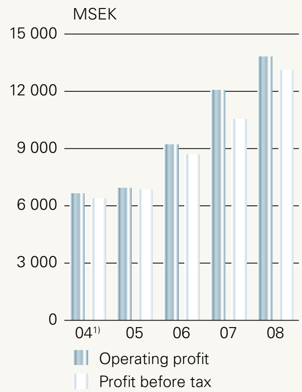
MSEK	Orders received	Orders on hand, December 31	Revenues
2006	55 239	12 639	50 512
Structural change, %	+11		+11
Currency, %	–4		–4
Price, %	+2		+2
Volume, %	+16		+16
Total, %	+25		+25
2007	69 059	19 618	63 355
Structural change, %	+5		+5
Currency, %	0		0
Price, %	+3		+3
Volume, %	–1		+9
Total, %	+7		+17
2008	73 572	20 692	74 177

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

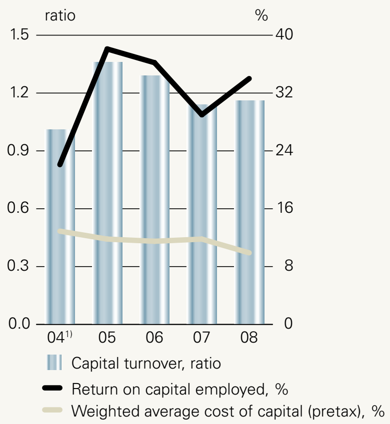
Revenues and margins



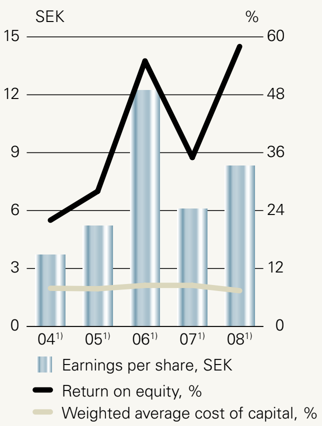
Operating profit and profit before tax



Capital turnover and return on capital employed



Return on equity and earnings per share



[1] Including discontinued operations.

Financial Summary and Analysis

(continued)

Balance sheet

The Group's total assets increased to MSEK 75 394 (56 659). Excluding cash and cash equivalents, assets increased approximately 20% in comparable units, reflecting the revenue growth with the corresponding increase in working capital. Currency translation effects added approximately 9% and acquisitions net of divestments added about 1%. Assets tied up in the customer financing business represented 3% of the increase.

Balance sheet in summary

MSEK	December 31, 2008		December 31, 2007	
Intangible assets	12 916	17%	11 665	21%
Rental equipment	2 282	3%	1 906	3%
Other property, plant and equipment	6 353	8%	4 894	9%
Other fixed assets	7 977	11%	4 245	8%
Inventories	17 106	23%	12 725	22%
Receivables	21 603	29%	16 627	29%
Current financial assets	1 659	2%	1 124	2%
Cash and cash equivalents	5 455	7%	3 473	6%
Assets classified as held for sale	43	0%	–	–
Total assets	75 394	100%	56 659	100%
Total equity	23 768	32%	14 640	26%
Interest-bearing liabilities	30 404	40%	24 397	43%
Non-interest-bearing liabilities	21 222	28%	17 622	31%
Total equity and liabilities	75 394	100%	56 659	100%

Fixed assets and investments

Fixed assets increased, primarily as a result of acquisitions and investments in property, plant and equipment. Acquisitions added MSEK 411. Investments in intangible fixed assets, mainly related to capitalization of certain development expenditures, were MSEK 646 (530).

Gross investments in rental equipment amounted to MSEK 1 158 (1 028), while sales of used rental equipment totaled MSEK 419 (586). Consequently, net investments in rental equipment were MSEK 739 (442).

Investments in other property, plant and equipment totaled MSEK 1 741 (1 331), 95% above the annual depreciation. Significant investments to increase production capacity and efficiency were made at Compressor Technique's plants in Belgium, Germany and China, at Construction and Mining Technique's plants in Sweden and the United States and at Industrial Technique's plant in Sweden. A new office building, shared by all three business areas, was built in Russia.

Investments in financial assets, primarily finance leases related to equipment financing for customers, increased to MSEK 1 141 (1 088). The minority ownership stake in the equipment rental business is recorded as a non-current financial asset. The book value of this asset at year end was MSEK 713 (957).

Working capital

Inventories and trade receivables increased 34% and 17%, respectively, primarily due to the sales growth and currency translation effects. The average ratio of inventories to revenues increased to 20.2% (17.3), which, apart from currency effects, reflects the sudden reduction of demand at the end of the year and a mix change with stronger growth in countries far away from core factories. The average ratio of trade receivables to revenues increased to 19.0% (18.6). At year end, the corresponding ratios were 23.1% (20.1) and 20.8% (20.7) respectively.

Trade payables increased by 15%. Average trade payables in relation to revenues increased to 8.4% (8.1).

Cash and cash equivalents

Cash and cash equivalents were MSEK 5 455 (3 473). The increase was a result of a positive cash flow and translation of foreign liquidity to SEK.

Interest-bearing debt

The borrowings, excluding post-employment benefits, were MSEK 28 482 (22 669). Post-employment benefits increased to MSEK 1 922 (1 728), primarily due to changes in currency exchange rates. See notes 21 and 23 for additional information.

Equity

Changes in equity in summary

MSEK	2008	2007
Opening balance	14 640	32 708
Net income and expense recognized directly in equity	3 056	1 791
Profit for the year	10 190	7 469
Shareholders' transactions	–4 118	–27 328
Closing balance	23 768	14 640
Equity attributable to		
– equity holders of the parent	23 627	14 524
– minority interest	141	116

At year end, Group equity including minority interests was MSEK 23 768 (14 640). Translation differences recognized in equity amounted to MSEK 4 914 (1 899). There was a net effect after taxes of MSEK –1 858 related to hedging and fair value reserves. MSEK 3 662 (2 899) was distributed to shareholders of the parent through the ordinary dividend and the previous year MSEK 24 416 was distributed through a mandatory share redemption. Sales and repurchases of shares during the year equaled net MSEK 453 (25).

Equity per share was SEK 20 (12). Equity accounted for 32% (26) of total assets. Atlas Copco's total market capitalization on NASDAQ OMX Stockholm at year end was MSEK 78 350 (114 630), excluding shares held by the company, or 329% (783) 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.

Net indebtedness

The Group's net indebtedness, adjusted with –1 604 (–25) for the fair value of related interest rate swaps, amounted to MSEK 21 686 (19 775) at year end. The debt/equity ratio (defined as net cash/debt divided by equity) was 91% (135).

Cash flow

The cash flow before change in working capital (defined as revenues less operating expenses after the reversal of non-cash items, such as depreciation and amortization, and after taxes) totaled MSEK 11 874 (10 005).

Working capital increased MSEK 2 991 (2 326) as trade receivables and inventory increased, primarily due to the volume growth.

Net cash from operating activities increased to MSEK 8 883 (7 679). Net cash from investing activities, excluding discontinued operations, was MSEK –4 352 (–8 808), including increased investments in property, plant and equipment and financial assets for customer financing, as well as the net effect of acquisitions/divestments, which amounted to MSEK –237 (–5 718).

Operating cash flow before acquisitions, divestments and dividends was MSEK 4 751 (4 589), equal to 6% (7) of Group revenues.

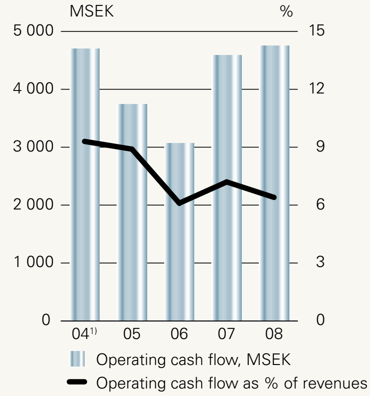
Capital turnover

The capital turnover ratio was 1.16 (1.14) and the capital employed turnover ratio was 1.67 (1.60). The turnover ratios increased as the cash proceeds received from the divested equipment rental business was recorded as an asset in the balance sheet during the first half of the previous year.

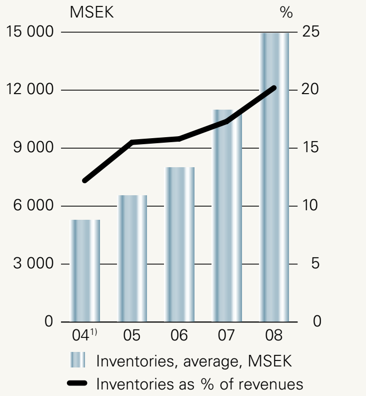
Return on capital employed and return on equity

Return on capital employed increased to 33.5% (29.3) and the return on equity to 57.7% (34.7). Excluding the customer financing business, the return on capital was 36.4% (31.1). The Group currently uses a weighted average cost of capital (WACC) of 7.4%, corresponding to a pre-tax cost of capital of approximately 9.9%, as an investment and overall performance benchmark.

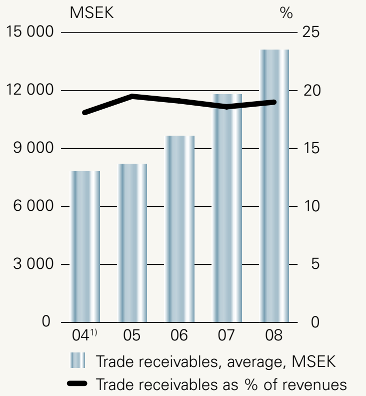
Operating cash flow



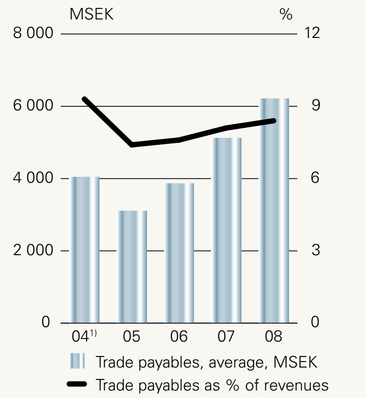
Inventories



Trade receivables



Trade payables

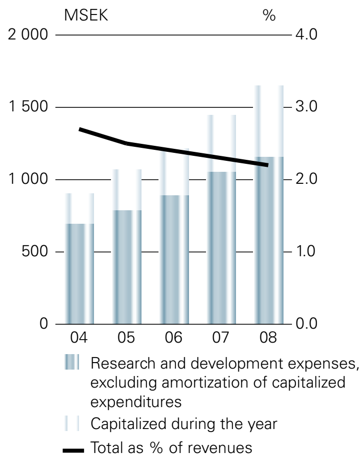


[1)] Including discontinued operations.

Product Development

The aim of the research and development activities is to reach the Group's vision First in Mind—First in Choice®, by being innovative and interacting 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 2008, the amount invested in product development, including capitalized expenditures, increased 14% to MSEK 1 649 (1 446), corresponding to 2.2% (2.3) of revenues and 2.7% (2.8) of operating expenses. For further information, see the description under each business area.

Research and development expenditures



Personnel

	2008	2007
Average number of employees, total	34 119	29 522
– Sweden	4 515	3 898
– Outside Sweden	29 604	25 624
Business areas		
– Compressor Technique	15 303	14 066
– Construction and Mining Technique	13 992	11 132
– Industrial Technique	3 748	3 386
– Common Group Functions	1 076	938

In 2008, the average number of employees in the Atlas Copco Group increased by 4 597 to 34 119 (29 522). At year end, the number of employees was 34 043 (32 947). For comparable units, the number of employees increased by 868. Acquisitions, net of divestments, added 228 employees. See also note 5.

Management resourcing

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 goal is to have 85% of the managers internally recruited, and the outcome in 2008 was 80% (80).

Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally, published in the Internal Job Market database since 1992. In 2008, 2 231 (3 019) positions were advertised, of which 338 (533) were international positions.

The Group employs 349 (323) expatriates from 46 countries working in 59 countries. The share of Swedish expatriates has decreased from 28% in 1998 to 14% in 2008. The role of the expatriate is to develop local managers and to get international professional experience for even more demanding positions within the Group.

Recruitment and competence development

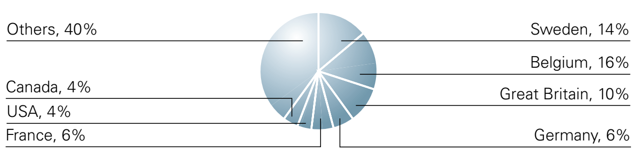
One of the Group targets is that every employee shall be provided with an average of 40 hours of training per year. During 2008, the average number of hours increased to 38.1 (37.2). Another target is to eliminate work-related accidents and during the year the number of accidents decreased further compared to the previous year. One reason for this development is the implementation of OHSAS 18001 in more companies in the Group.

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 employees and during the year the female proportion of recent graduate recruitments increased.

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.

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

Expatriate nationality 2008



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 realizing 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, 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. 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 current, affects the Group negatively both in terms of revenues and profitability. Furthermore, the current deteriorating 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 to a single industry, country or region.

Changes in customers' production levels also have an effect on sales of aftermarket products such as spare parts, service and consumables. These changes have however historically been relatively small in comparison to changes in investments, indicating that the risk of aftermarket sales deteriorating as a result of decreased production levels is more 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 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 over the entire life cycle (such as energy, water, steel, and human effort). 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.

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. The core component manufacturing is concentrated to few locations and if there are interruptions or if there is not enough capacity in these locations, this may have an effect on deliveries. 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 etc.

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 exposed to raw material prices, directly and indirectly. Cost increases for raw materials and components have in recent years been compensated partly by increased volumes, partly by increased market prices towards customers.

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 a target that all manufacturing units shall be certified in accordance with the ISO 14001 standard.

Distribution risks

Atlas Copco distributes products and services primarily directly to the end customer, but also through distributors and rental companies. All 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 there is no single distributor that has a significant importance for the Group.

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, which provides training in the Atlas Copco acquisition model, which is 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 post-acquisition audit. 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. Correspondingly, divestments of non-core assets can prove more costly than anticipated.

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

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 recent turbulence in the financial markets has made it more expensive and difficult to obtain new funding for borrowers in general. Although Atlas Copco has already secured long-term loans and a guaranteed long-term stand-by credit facility, a prolonged turbulence and further deterioration of the functioning of the financial markets could lead to increased costs and difficulty 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. Occasionally, 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 build up an in-house customer finance operation, ACF, as a means of broadening the offering to customers. Stringent credit policies are applied, and in the case of ACF, the norm is to retain security in the equipment until full payment is received. No major concentration of credit risk exists 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 also 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.

From time to time, Atlas Copco encounters customers who have problems concerning environmental and human rights issues. To support its operations in such situations, the Group has developed an Atlas Copco 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.

Corruption and fraud

The Group is aware of the risk of being defrauded 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).

Corruption and bribery exist in markets where Atlas Copco conducts business. Approximately 15% of the world's population lives in areas with high levels of corruption. Transparency International's Corruption Perception Index shows that the business integrity trends in many countries move in the wrong direction. Atlas Copco has zero tolerance for corruption. To avoid the risk of creating an unhealthy loyalty or breaking laws, employees should 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.

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 2008 was that the potential legal risk exposure to the Atlas Copco Group has been on the same level as or even decreased compared with 2007, primarily reflecting the continuous decrease 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 and the fact that Group products have so far not been linked with an actual impairment in any of these cases, 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 and the company is not dependent upon any single agreement or intangible property right. An area which previously has not been of any concern, but which has drawn some interest as a result of the current economic situation is the effect of order cancellations.

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 Group's 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 S. A. Reinsurance capacity is purchased in cooperation with external insurance advisors. 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 various findings of the surveys are summarized in a grading schedule, which gives the 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.

Financial reporting risks

Atlas Copco subsidiaries report their financial position regularly in accordance with internal reporting rules which are in line with International Financial Reporting Standards (IFRS). The Group's financial position, based on those reports, is reported in accordance with the Annual Accounts Act and IFRS. 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 company'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 (see further Internal Control section in the Corporate Governance Report).

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 positions
Product development	Lack of new products, legislation, increased energy costs	Continuous investments
Production	Interruptions or lack of capacity at own facilities or at suppliers, rising costs, pollution	Multi-purpose production equipment, wide supplier network, environmental certifications
Distribution	Interruptions at distribution 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 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	Product and patent liability claims, commercial and financial agreements	Annual legal risk exposure review by legal function
Insurable	Physical damage to all insurable assets and interests	Customary insurance program, extensive risk management surveys
Financial reporting	Internal and external reports could fail to give a fair view of true financial position and results	Internal audits and other control procedures

Environmental Impact

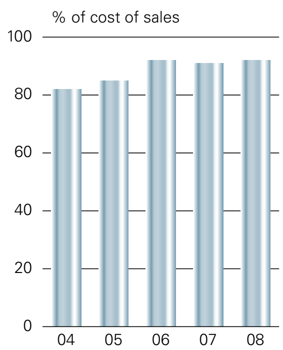
Atlas Copco strives to conduct its business so that the environment is preserved, complying with environmental legislation in its operations and processes world-wide. The Group reports incidents relating to non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, in accordance with these laws. In 2008, there were no major incidents reported concerning these aspects.

The Group conducts operations requiring permission based on Swedish environmental regulations in eight Swedish companies. 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. No permits have been revised during 2008 and the Group has been granted all permits needed to conduct its business. One of these permits is up for renewal and one will be revised during 2009. No penalties relating to environmental permits have been imposed during 2008.

In 2008, Atlas Copco established specified Group environmental targets, see the Corporate Governance Report. The Group also has a global Environmental Policy to support its environmental efforts. The policy states that all product companies should be certified in accordance with the international standard ISO 14001 and that all employees shall work in an Environmental Management System (EMS) certified environment. During the year, six new sites achieved ISO 14001 certification. Overall, the manufacturing sites with ISO 14001 certification represent 92% (91) of cost of sales. Many Group companies around the world have introduced an EMS and by the end of 2008, 65% (44) of Atlas Copco's employees worked in an EMS certified environment.

Atlas Copco's main environmental impact is when the products are in use. The Group focuses on developing products and solutions to increase energy efficiency. During the year, Group companies have established measurable targets for main product categories, relating to the Group environmental targets. Environmental, safety and health 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 and ergonomic.

ISO 14001 certification



Atlas Copco also strives to decrease the environmental impact in terms of energy and water consumption, waste and CO_2 emissions. In most cases, consumption and emissions increased both in absolute and relative terms, mainly because of business growth and acquisitions.

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

Parent Company

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Stockholm, Sweden. Its operations include holding company functions as well as part of Group Treasury. In 2008, the Group function for administration of expatriates and benefits including post-employment benefits for such personnel has been integrated into the Parent Company.

Earnings

Profit after financial items totaled MSEK 4 550 (285). The profit for 2008 includes large dividends from subsidiaries. See also note A4. Profit for the period after appropriations and taxes amounted to MSEK 6 081 (621). Undistributed earnings totaled MSEK 27 475 (28 725).

Financing

The total assets of the Parent Company were MSEK 108 709 (105 448). At year end 2008, cash and cash equivalents amounted to MSEK 3 587 (89) and interest-bearing liabilities to MSEK 71 128 (68 471) whereof the main part is Group internal loans. The increase in cash and cash equivalents is the result of ongoing efforts to concentrate liquidity to Atlas Copco AB, to obtain a more efficient cash management. Equity, including the equity portion of untaxed reserves, represented 31% (34) of total assets.

Personnel

The average number of employees in the Parent Company was 96 (85).

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 2008 are specified in note 5. The Board proposes to the Annual General Meeting 2009 that the guidelines shall be applied for another year, without any changes.

Risks and factors of uncertainty

Atlas Copco completed a multi-currency bond issue program in the second quarter of 2007, in order to adjust the balance sheet to a more efficient structure. The higher indebtedness increases the exposure to changes in interest rates, whereas the borrowings partially hedge the currency exposure of net assets of foreign subsidiaries.

See also Risk Factors and Risk Management on page 19–21.

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 outstanding. Net of shares held by Atlas Copco, 1 215 909 704 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 2008 Investor held a total of 204 244 326 shares, representing 22.3% of the votes and 16.6% 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 nor are there any employee pension funds or similar employee organizations which hold shares and are, thereby, eligible to vote.

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 2008

The 2007 Annual General Meeting approved a mandate to divest own B shares held and purchase a maximum of 6 400 000 A shares to be delivered under the company's personnel stock option program.

The 2008 Annual General Meeting approved a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the company over NASDAQ OMX Stockholm. This mandate is valid up until the Annual General Meeting in 2009 and includes repurchases of shares to cover the commitments under the 2008 personnel stock option plan and in relation to the synthetic shares offered as part of the Board remuneration. Share repurchases for the specific purpose of covering the personnel stock option plan and the synthetic shares were initiated in August. As per December 31, 2008 Atlas Copco held 11 275 000 A shares and 2 428 400 B shares, each with a quota value of approximately SEK 0.64 and corresponding to 1.1% of both the share capital and the total number of shares. The amount spent on repurchases during the year, net the divestment of some of the B shares held, amounted to MSEK 453.

Appropriation of Profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 3.00 (3.00) per share, equal to MSEK 3 648 (3 662), be paid for the 2008 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described on page 95.

Compressor Technique

The business area introduced a large number of new products and services during the year and strengthened its position as a world-leading provider of compressed air solutions. The business climate was good during the main part of 2008 but worsened towards the end of the year.

- 2% organic order growth for 2008.
- Acquisitions of both distributors and complementary businesses.
- Increased operating profit and sustained high profitability.

Significant events and structural changes

Apart from acquiring two distributors in the United States in May, the business area made two strategic acquisitions during 2008.

The Hurricane™ booster and GrimmerSchmidt™ portable compressor business was acquired from Grimmer Industries Inc., United States in May. The acquired business manufactures, sells and services compressed air and gas booster compressors, natural gas boosters and portable air compressors. High pressure compressors and boosters are used widely within the oil and gas industry and this acquisition strengthened the Atlas Copco offer to this increasingly important customer segment.

In November, Atlas Copco announced the acquisition of the European compressor rental business of Aggreko plc. The business fits well with the already existing rental operations and broadens the customer base in Europe. To further focus on its core business of oil-free air and high-pressure equipment, the Specialty Rental division divested parts of its operations in Spain in February. Early in the year, the Specialty Rental division received, as the first rental company in the world, a triple certification for quality, environmental and occupational health, and safety management.

Effective January 1, 2008, a dedicated service division was created within the business area, merging customer service and spare parts operations from the other divisions within the business area.

New factories were opened in China and New Zealand during the year and new customer centers operating as part of Compressor Technique were established in Angola and Bangladesh.

A need to adjust the cost structure arose during the fourth quarter when demand decreased notably and as a result, personnel reductions were implemented across the business area. One-time costs related to these activities amounted to MSEK 93.

In January 2009, the acquisition of a UK distributor was announced.

Business development

Overall demand for compressed air equipment was healthy until the last quarter of the year, when the global economic situation changed drastically and customers became very cautious. Sales of large stationary industrial compressors, used for example in the chemical, petrochemical, food, textile and pharmaceutical industries were solid during the main part of the year. Demand for small to medium-sized compressors started slowing down in the last six months, specifically in Western Europe in segments where customers have a consumer demand exposure, such as in the motor vehicle and the electronic industries. Investments for capacity increases, energy savings, and productivity enhancements were important drivers for equipment sales, which benefited, for example, sales of energy efficient Variable Speed Drive (VSD) compressors, as well as compressors with integrated features such as dryers and coolers. Geographically, the best development for industrial stationary compressors was recorded in South America and the Africa/Middle East region. The aftermarket business – sales of service and spare parts – recorded good growth in all geographic regions throughout the year.

Sales of gas and process compressors and expanders did not reach the previous year's very high level, but demand held up well and large orders were won for air separation and the chemical and petrochemical industry. An interesting order in the market for renewable energy was received from a geothermal power plant in Germany, where an expansion turbine will be used to recover energy from a natural hot water basin several kilometers beneath the earth's surface.

Demand for portable compressors from the construction industry and construction-related customers, such as equipment rental companies, was down in North America and Western Europe while solid growth was recorded in all other regions. The specialty rental business, primarily rental of oil-free and high-pressure equipment, recorded good growth for comparable units in most markets.

Revenues totaled MSEK 35 587 (31 900), up 7% in volume. Operating profit increased to MSEK 7 291 (6 749), corresponding to a margin of 20.5% (21.2). The operating profit includes MSEK 20 in capital gain from the divestment of rental operations in Spain (previous year included MSEK 115 in capital gain). The operating margin was positively affected by increased revenue volumes and prices but negatively affected by changes in exchange rates and costs related to personnel reductions taken in the fourth quarter. The return on capital employed was 57% (65).

Competence development

Competence development continued to be an important tool in support of short- and long-term developments. Competence mapping is done extensively to establish hiring and resource needs, particularly in core areas. The AIR Academy, a structured training and development program especially aimed at sales and service engineers, was held in several markets. The AIR Academy was introduced for the first time in 2007. Annual training hours per employee reached 38 hours.

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

Key figures

	2008	2007
Orders received	36 511	35 005
Revenues	35 587	31 900
Operating profit	7 291	6 749
Operating margin, %	20.5	21.2
Return on capital employed, %	57	65
Investments	1 194	925
Average number of employees	15 303	14 066

Sales bridge

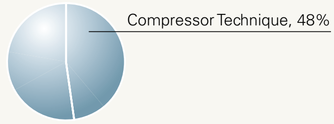
	Orders received	Revenues
2006	**27 910**	**24 907**
Adjusted for Prime Energy	581	581
2006	**28 491**	**25 488**
Structural change, %	+11	+11
Currency, %	–4	–4
Price, %	+2	+2
Volume, %	+14	+16
Total, %	+23	+25
2007	**35 005**	**31 900**
Structural change, %	+1	+1
Currency, %	+1	+1
Price, %	+2	+2
Volume, %	0	+7
Total, %	+4	+11
2008	**36 511**	**35 587**

ISO certified oil-free rotary screw compressor

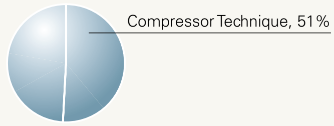
these are important features for customers. Production cost and environmental impact are other important aspects and all components used are evaluated from an environmental, quality, design and cost-efficiency perspective.

One of the most important product launches made in 2008 was a new range of large oil-injected compressors offered to manufacturing industries. Even in its default mode the renewed range is more energy efficient than the previous range and offers additional energy efficient options such as an integrated energy recovery system and/or VSD (Variable Speed Drive) for the main motor. Another launch was a range of smaller oil-injected compressors that are more energy efficient, smaller in size and quieter than their predecessors. The compressors, used for example in automotive, packaging, oil and gas, and woodworking industries, are equipped with newly developed controllers, optimizing the service intervals and the levels of utilization. A range of medium-sized oil-free compressors, used for example in food processing, was also introduced and the multibrand strategy was strengthened by the introduction of ranges of non-Atlas Copco-branded industrial compressors, some of which have energy efficiency and air quality features.

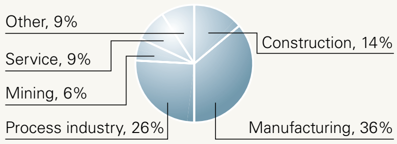
Share of Group revenues



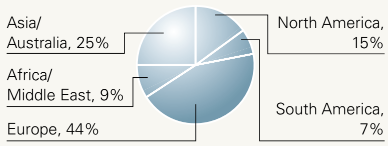
Share of Group operating profit



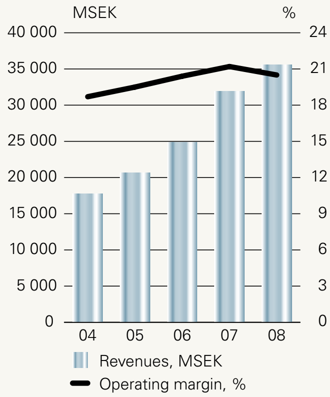
Revenues by customer category



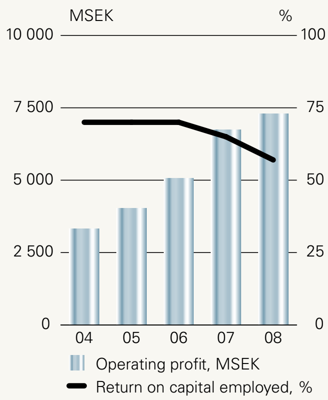
Revenues by geographic area



Revenues and operating margin



Earnings and return



Compressor Technique, including Prime Energy from 2006.

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, 2009

Business Area President: Ronnie Leten*

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 André Schmitz
- Airtec, President Filip Vandenberghe
- Compressor Technique Service, President Nico Delvaux


Ronnie Leten*


Chris Lybaert


Ray Löfgren


Horst Wasel


Geert Follens


André Schmitz


Filip Vandenberghe


Nico Delvaux

* President and CEO of Atlas Copco AB from June 1, 2009

Already in 2006, Atlas Copco set a new standard for compressed air purity when a range of oil-free compressors became the first in the world to get the new ISO certification "Class 0", assuring 100% oil-free air. During 2008, a high-pressure Atlas Copco compressor range, mainly used in the manufacturing of PET bottles, was certified with the "Class 0" standard.

The portable compressor range was updated with two series of compressors featuring reduced canopy size and lighter weight. The compressors, offered to customers within the rental and construction industries, meet the latest exhaust emission and noise directives for off-highway vehicles.

The operations

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, oil and gas boosters, gas and process compressors, turbo expanders, generators, air treatment equipment (such as compressed air dryers, coolers, and filters) and air management systems. The business area has in-house resources for basic development of its core technologies. In addition, the business area offers specialty rental services of mainly compressors and generators. Development, manufacturing, and assembly are concentrated in Belgium, with other units situated in Brazil, China, Czech Republic, France, Germany, India, Italy, New Zealand, Switzerland, 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 its leading position in the field of compressed air and grow the business profitably by capitalizing on its strong market presence worldwide, improving market penetration in Asia, North America, the Middle East, and Eastern Europe, and continuously developing improved products and solutions to satisfy demands from customers. The local presence is further enhanced by establishing the multibrand concept in more markets. The strategy encompasses giving a continuous focus to the aftermarket business as well as developing businesses within focused segments such as compressed and liquid natural gas, 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, 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 invest in people in sales, service and support
- Establish presence in new markets
- Develop new 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 organization, providing uniform service in all markets

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 (e.g., 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 65–70% of sales. Large gas and process compressors represent just above 10% and the balance is portable compressors, generators and specialty rental, some 20–25% of sales.

The aftermarket represented about 27% of total sales in 2008.

Market trends

- Energy efficiency – 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

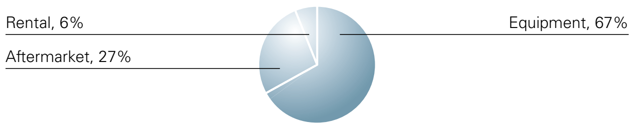
Market position

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. 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 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.

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.

Oil-free rotary blowers
Oil-free rotary blowers are used in process industry applications with a demand for a consistent flow of low-pressure air.

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 to process industries. The main product category is multi-stage centrifugal, or turbo, compressors which are complemented by turbo expanders.

Portable compressors and generators provide temporary compressed air or electricity. Portable compressors are available with 21.6–429 kW engine size. Generators are available with an output of 12–1 250 kVA.

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 breakers and pneumatic rock drills.

High-pressure portable compressor

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
Portable generators fulfill a temporary need for electricity, primarily in construction applications.

Oil-injected rotary screw compressor

Refrigerant dryer, a quality air product for applications requiring extremely dry air

Construction and Mining Technique

During 2008 the business area strengthened its position in many areas and launched several new products. Strong order growth was recorded in the first nine months of the year while the fourth quarter saw a sharp drop in demand.

- Organic order growth for the full year reached 2%.
- Record revenues and improved operating margin.
- Cost cutting measures initiated due to sudden fall of demand.

Significant events and structural changes

The business area completed one acquisition during 2008 and also acquired a 25% stake in two companies with an option to acquire the remaining shares. The acquired businesses improve the presence and penetration in key markets and add products and services.

PT Fluidcon Jaya, Indonesia, and its parent company Fluidcon Service Pte Ltd, Singapore, were acquired in late April. Fluidcon is a service company present in the Indonesian mining sector with eight strategically placed branch offices throughout the Indonesian archipelago.

In early April, a 25% stake was acquired in the two Indian companies Focus Rocbit Pvt and Prisma Roctools Pvt Ltd. Focus manufactures bits for rotary drilling and Prisma manufactures bits and hammers for down-the-hole drilling. The acquisitions add a competitive range of products for customers in India and other selected markets.

In June, Construction and Mining Technique's Drilling Solutions division, based in Texas, United States, received an award from the U.S. Environmental Protection Agency, for its exemplary environmental programs to reduce pollution. The division has implemented environmental programs reducing energy and water consumption, increased recycling, and trained suppliers in environmental standards.

A global distributor agreement was signed between Atlas Copco and Minova International in August. As a result of this agreement, Minova customers get access to the Atlas Copco rockbolting products and Atlas Copco customers will be offered the range of Minova ground control products, including rockbolts, resins and grouts.

During the year, new production facilities were opened in China for rock drilling tools, in Canada for exploration equipment and rock reinforcement consumables, and in India for road construction equipment. The Chinese and Canadian factories replaced old factories and the road construction equipment plant in India is completely new.

Personnel reductions during the fourth quarter resulted in redundancy costs of MSEK 100. Restructuring costs of MSEK 10 were taken earlier during the year, within the recently acquired Dynapac business.

Business development

The demand for drilling equipment from underground and open pit mines was very strong during the larger part of the year but dropped in the last few months as the demand for raw material and metal prices fell sharply. For the full year, order intake for underground drilling and loading equipment decreased moderately. The fourth quarter was considerably down compared to the same quarter the previous year, mainly because of order cancellations, but also due to lower underlying volumes. Sales of surface drill rigs for open pit applications increased overall, boosted by very strong demand for large rotary drill rigs for open-pit coal mines, a business that recorded double-digit growth in most geographic regions. Demand for exploration equipment was very strong in the early part of the year, reflecting high mineral prices, but sales were down for the full year due to significantly lower demand in the last few months. The aftermarket business continued to develop well throughout the year and solid growth rates were recorded in all regions. Sales of consumables slowed somewhat in the fourth quarter, mainly due to customers reducing their inventory levels.

The demand from the construction industry weakened somewhat during the year, primarily driven by lower demand in North America and Western Europe, especially for light equipment. This development started early in the year with residential construction slowing down, but accelerated and spread to other parts of the construction industry during the second half of the year as the global economic situation worsened. Sales of crawler rigs for surface applications such as quarries and road construction slowed in the developed parts of the world while most emerging markets recorded healthy growth. Order intake for underground drilling rigs for infrastructure projects, such as tunneling and hydropower, increased. Sales of light construction equipment such as breakers and crushers as well as sales of road construction equipment were down compared to the previous year, mainly due to slowing demand in Western Europe and North America. An important customer group for light construction equipment is rental companies, who tend to hold back on new investments in volatile times. The aftermarket business continued to develop favorably. The best development for construction equipment was achieved in South America and Asia.

Revenues increased 26% to a record MSEK 31 660 (25 140), up 13% in volume. Operating profit increased to MSEK 5 602 (4 384), corresponding to a record margin of 17.7% (17.4). The margin was positively affected by increased prices and revenue volumes while currency, one-time items, and increased material costs had a negative impact. Return on capital employed was 29% (32).

Competence development

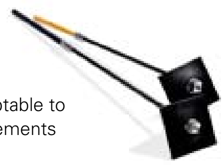
Competence development continued to be a high priority and annual training hours per employee were 36 hours. A key focus during the year has been on training both new and more experienced service engineers to ensure growth in the aftermarket business. A special training program for aftermarket managers was also conducted in several locations during the year. A new training center was introduced in South Africa to train service technicians and engineers for the African markets. The CMT Academy in Sweden, started in 2005, continued its training in mining and construction applications for general managers and sales managers from all around the world. New employees received training in *The Way We Do Things*, the Group's single most important management tool.

Product development

A number of new machines and aftermarket products were launched during 2008, all with the aim of increasing customers' productivity and efficiency, while at the same time limiting environmental impact and increasing safety.

In September, Atlas Copco and the mining company Rio Tinto formed an alliance to develop autonomous drilling solutions for surface mining. The main objectives of the project are increased safety and more efficient and consistent operations.

Among the new products introduced to mining customers was a large rotary drilling rig for open pit mining. A core drill rig, used mainly for exploration drilling both underground and on the surface, was updated with a new generation of a computerized control system. The control system lowers the risk of drilling errors, which both saves time and prolongs the service life of the drilling consumables. A rock reinforcement bolt that adapts to large rock mass movements was also launched, targeting both mining and tunneling applications. A small, remotely controlled surface drill rig was introduced on the construction market. For the road development segment two new heavy compaction machines were launched.



Rock bolts adaptable to large rock movements

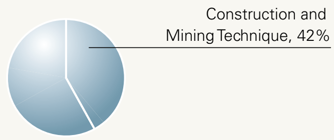
Key figures

	2008	2007
Orders received	30 129	27 447
Revenues	31 660	25 140
Operating profit	5 602	4 384
Operating margin, %	17.7	17.4
Return on capital employed, %	29	32
Investments	1 213	1 074
Average number of employees	13 992	11 132

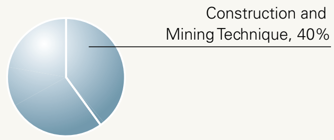
Sales bridge

	Orders received	Revenues
2006	20 563	18 914
Structural change, %	+13	+15
Currency, %	–5	–6
Price, %	+4	+4
Volume, %	+21	+20
Total, %	+33	+33
2007	27 447	25 140
Structural change, %	+9	+10
Currency, %	–1	–1
Price, %	+4	+4
Volume, %	–2	+13
Total, %	+10	+26
2008	30 129	31 660

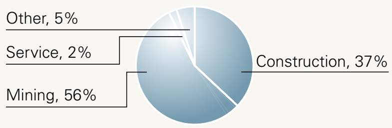
Share of Group revenues



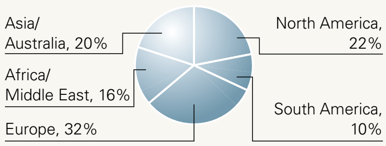
Share of Group operating profit



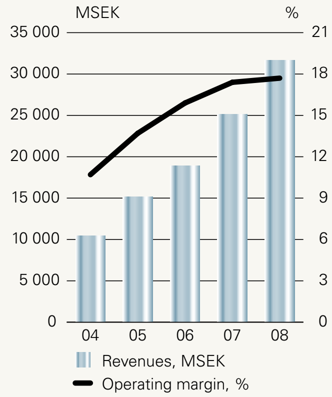
Revenues by customer category



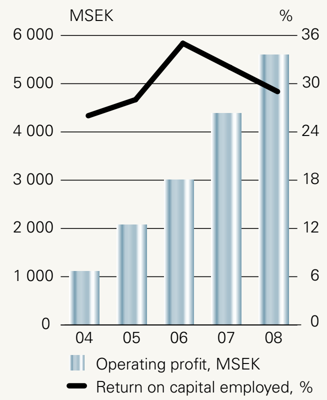
Revenues by geographic area



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, loading equipment, exploration equipment, construction tools, and road construction equipment.

Business area management

On February 2, 2009

Business Area President: Björn Rosengren

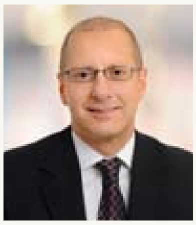
Construction and Mining Technique's divisions are:

- Underground Rock Excavation, President Patrik Nolåker
- 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 Roger Sandström


Björn Rosengren


Patrik Nolåker


Andreas Malmberg


Robert Fassl


Claes Ahrengart


Johan Halling


Henk Brouwer


Peter Salditt


Roger Sandström

New consumables and aftermarket products were also brought to market during the year. A new service package introduced for surface drilling crawlers includes a satellite navigation system enabling customers to locate the crawler. The service package also includes an extended warranty. The assortment of drilling consumables was expanded with a number of drill bits of various categories and sizes.

The operations

The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, underground rock drilling rigs for tunneling and mining applications, surface drilling rigs, loading equipment, exploration drilling equipment, construction tools and road construction equipment. The business area has its principal product development and manufacturing units in Sweden, Germany, and the United States, but also other units in Australia, Austria, Brazil, Bulgaria, Canada, Chile, China, Finland, 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 and invest in people in sales, service and support, with special attention given to focused growth markets
- Invest in production capacity in strategic growth markets such as China and India to meet local demand
- Develop new products and solutions offering enhanced productivity and safety, while limiting 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

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 represented 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, and compaction and paving equipment, while 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 about 44% of sales in 2008.

Market trends
- More productive equipment
- More intelligent products and remote control
- Increased focus on 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

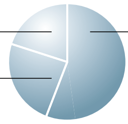
Market position

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, exploration drilling equipment, and rock drilling tools; Caterpillar Elphinstone for loading and haulage equipment; and Volvo, Caterpillar, Wirtgen, and Bomag for road construction equipment.

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, and 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.

Compaction and asphalt laying equipment

The business area offers a range of compaction and asphalt laying 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.

Deep hole surface drilling rig (max 1 500 m)

Asphalt paver

Heavy hydraulic breaker

Two-boom face drilling rig

Industrial Technique

In 2008, the business area further strengthened its leading market position in industrial tools and assembly systems. A good start of the year was partly offset by a weak last quarter when the business was affected by the global financial turmoil.

- Sales to the motor vehicle industry exceeded the previous year despite a difficult market situation.
- Sales to customers within the general industry were in line with 2007.
- Operating profit and margin suffered from restructuring activities and deteriorating customer demand.

Significant events and structural changes

In June, Mats Rahmström replaced Fredrik Möller as President of the Industrial Technique business area. Mats Rahmström previously headed the Atlas Copco Tools and Assembly Systems General Industry division and he has more than 20 years of experience from different positions within the Group.

In August, the business area acquired Industrial Power Sales Inc., a company based in the United States that has acted as an Atlas Copco distributor for 28 years.

At the end of 2007, the assembly operations of pneumatic tools were moved from Hemel Hempstead, Great Britain to a newly established factory in Hungary. During 2008, a decision to close the factory in Great Britain was taken and the closure will be finalized in the first quarter of 2009. The production has been moved to other manufacturing units within the Group and to sub-suppliers. In 2008, restructuring costs related to this move amounted to MSEK 43 (45).

Personnel reductions were made in the fourth quarter as a result of falling demand. One-time costs related to these amounted to MSEK 59.

Business development

Sales of industrial tools to the general manufacturing industry (electrical appliances, aerospace, and shipyards, for example) improved up until the last quarter of the year when the global business climate changed. For the full year, sales were flat compared to the previous year.

Demand for advanced industrial tools and assembly systems from the motor vehicle industry fell in the last few months of the year as customers experienced a dramatic drop in demand for their products. For the full year, strong growth in emerging markets was partly offset by weaker development in North America. The vehicle service business, providing large fleet operators and specialized repair shops with tools, also had a tough ending to the year, resulting in sales falling below the level of the previous year. The aftermarket business developed favorably and recorded strong growth in all geographic markets.

The business area's organic order growth was 1%. Geographically, the growth was very strong in Eastern Europe and South America. Healthy growth was also recorded in Asia while Western Europe was flat and North America down compared to 2007.

Revenues totaled MSEK 7 450 (6 871), up 3% in volume. Operating profit decreased 14% to MSEK 1 328 (1 539), corresponding to an operating profit margin of 17.8% (22.4). The margin was negatively affected by restructuring and redundancy costs, an unfavorable sales mix and currency, while price increases had a positive effect. Return on capital employed was 43% (58).

Competence development

For every employee an annual competence review takes place and the development plan for the employee is assessed and discussed. Gap analysis is used as a tool to identify areas for competence development and in the customer centers it is linked to the internal training organization. During 2008, the business area worked on developing a structured competence development program for sales and service engineers to visualize different career paths.

Training hours per employee averaged 37 hours during the year. A significant amount of time was devoted to value-based sales training, in which understanding the customer's application is essential. Special attention was given to Asia where sales engineers were trained in order to gain efficiency in the sales process and meet customers' expectations. The business area also continued its financial training to people in managerial positions without a financial background. Remote learning in the form of interactive computer-based programs is often used as a complement to classroom training. It has the advantage of being easily adaptable to the needs and skill level of each participant. The business area also supports initiatives for management training, personal and group development and language training.

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.

During 2008, a range of small, lightweight screwdrivers was introduced to industries where confined spaces can be a challenge, such as within the aerospace industry. The screwdrivers are as fast, powerful, and accurate as other tools on the market that are twice their size. Another tool introduced to general industry applications such as aerospace and metal workshops is an ergonomic and powerful pistol-grip drill. A new generation of impact wrenches with a closed lubrication system was also brought to market. The closed lubrication system prolongs the lifetime of the tool and also decreases the need for maintenance. For heavy vehicle manufacturers, both a pneumatic nutrunner with twin motors making it twice as fast as its predecessor and an electric multi-torque nutrunner with ergonomic design were launched. A range of battery clutch pistol-grip screwdrivers was introduced, targeting a wide range of both motor vehicle and general industrial applications. A new product line comprising handheld industrial pneumatic and battery tools for applications such as assembly, drilling and grinding was introduced to light industrial customers. The product assortment was also complemented by new ranges of grinders and angle drills. The Tensor series of battery tools, introduced to selected markets the previous year, was successfully launched worldwide.

Key figures

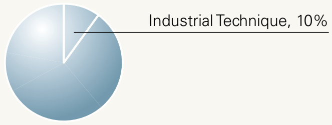
	2008	2007
Orders received	7 407	7 043
Revenues	7 450	6 871
Operating profit	1 328	1 539
Operating margin, %	17.8	22.4
Return on capital employed, %	43	58
Investments	148	159
Average number of employees	3 748	3 386

Sales bridge

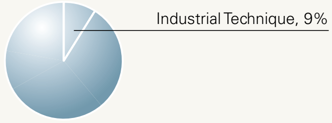
	Orders received	Revenues
2006	6 533	6 440
Structural change, %	+3	+3
Currency, %	–3	–3
Price, %	+1	+1
Volume, %	+7	+6
Total, %	+8	+7
2007	7 043	6 871
Structural change, %	+2	+2
Currency, %	+2	+2
Price, %	+1	+1
Volume, %	0	+3
Total, %	+5	+8
2008	7 407	7 450

Ergonomic workstation for vehicle service applications

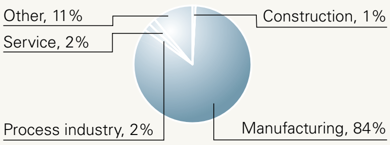
Share of Group revenues



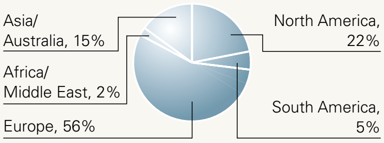
Share of Group operating profit



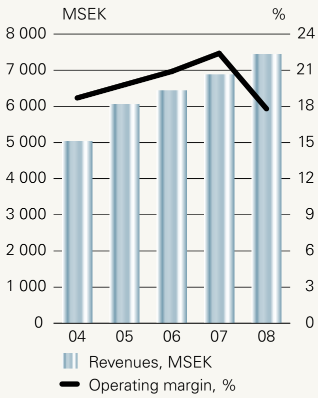
Revenues by customer category



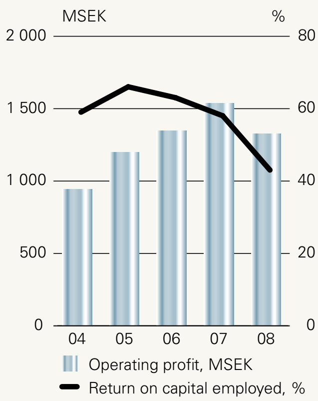
Revenues by geographic area



Revenues and operating margin



Earnings and return



Industrial Technique, excluding professional electric tools in 2004.

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

Business area management

On February 2, 2009

Business Area President: Mats Rahmström

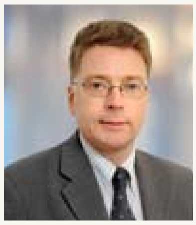
Industrial Technique's divisions are:

- 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 Industrial*, President Norbert Paprocki
- Chicago Pneumatic Vehicle Service*, President Yves Antier
- Tooltec, acting President Anna Wedar

* The divisions will merge on March 1, 2009

Mats Rahmström

Anders Lindquist



Tobias Hahn

Norbert Paprocki

Yves Antier

Anna Wedar

The operations

The Industrial Technique business area develops, manufactures, and markets high-quality industrial power tools, assembly systems, and aftermarket products and services. It serves the needs of industrial manufacturing, such as the automotive and aerospace industries, general industrial manufacturing, and maintenance and vehicle service.

Industrial Technique has its product development and manufacturing in Sweden, China, France, Germany, Hungary, Italy, Japan, and the United States, and also has assembly system application centers in several markets.

The brands used for industrial power tools and assembly systems are Atlas Copco, Chicago Pneumatic, Desoutter, Fuji, Microtec, 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 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 aftermarket 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 products and solutions, offering better value to customers
- Extend product offering, including electric tools for general industrial manufacturing
- Extend aftermarket 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 in 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.

Industrial manufacturing, in a broader sense, uses industrial tools for 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 (maintenance contracts and calibration services, for example) that improve customers' productivity. The aftermarket represented approximately 23% of total sales in 2008.

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
- Productivity and ergonomics

Demand drivers

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

Market position

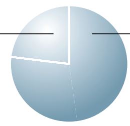
Industrial Technique has a leading market position globally in most of its operations.

Competition

Industrial Technique's competitors in the industrial tools business include Cooper Industries, Ingersoll-Rand, Uryu, Stanley, Bosch and several local and regional competitors.

Share of revenues

Aftermarket, 23%



Equipment, 77%

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 tools that are tough, powerful and dependable 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. It ranges 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.

Battery screwdriver

Data analyzer for quality assurance

Advanced electric nutrunner

Pneumatic grinder

Consolidated Income Statement

For the year ended December 31, Amounts in MSEK	Note	2008	2007
Revenues	4	74 177	63 355
Cost of sales	7	–47 786	–39 896
Gross profit		**26 391**	**23 459**
Marketing expenses		–7 414	–6 549
Administrative expenses		–3 914	–3 518
Research and development expenses		–1 473	–1 286
Other operating income	8	254	292
Other operating expenses	8	–52	–335
Share of profit in associated companies	14	14	3
Operating profit	4, 5, 6, 7	**13 806**	**12 066**
Financial income	9	2 741	688
Financial expense	9	–3 435	–2 220
Net financial items		**–694**	**–1 532**
Profit before tax		**13 112**	**10 534**
Income tax expense	10	–3 106	–3 118
Profit from continuing operations		**10 006**	**7 416**
Profit from discontinued operations, net of tax	3	184	53
Profit for the year		**10 190**	**7 469**
Attributable to:			
Equity holders of the parent		10 157	7 439
Minority interest		33	30
Basic earnings per share, SEK	11	8.33	6.09
–of which continuing operations		*8.18*	*6.05*
Diluted earnings per share, SEK	11	8.33	6.09
–of which continuing operations		*8.18*	*6.04*

Consolidated Balance Sheet

As at December 31, Amounts in MSEK	Note	2008	2007
ASSETS			
Non-current assets			
Intangible assets	12	12 916	11 665
Rental equipment	13	2 282	1 906
Other property, plant and equipment	13	6 353	4 894
Investments in associated companies	14	121	71
Other financial assets	15	5 119	3 331
Other receivables		47	11
Deferred tax assets	10	2 690	832
Total non-current assets		**29 528**	**22 710**
Current assets			
Inventories	16	17 106	12 725
Trade receivables	17	15 404	13 116
Income tax receivables		893	578
Other receivables	18	5 306	2 933
Other financial assets	15	1 659	1 124
Cash and cash equivalents	19	5 455	3 473
Assets classified as held for sale	3	43	–
Total current assets		**45 866**	**33 949**
TOTAL ASSETS		**75 394**	**56 659**
EQUITY	Page 38		
Share capital		786	786
Other paid-in capital		5 129	5 075
Reserves		4 589	1 534
Retained earnings		13 123	7 129
Total equity attributable to equity holders of the parent		**23 627**	**14 524**
Minority interest		141	116
TOTAL EQUITY		**23 768**	**14 640**
LIABILITIES			
Non-current liabilities			
Borrowings	21, 22	26 997	19 926
Post-employment benefits	23	1 922	1 728
Other liabilities		124	63
Provisions	25	536	505
Deferred tax liabilities	10	155	823
Total non-current liabilities		**29 734**	**23 045**
Current liabilities			
Borrowings	21, 22	1 485	2 743
Trade payables		6 415	5 591
Income tax liabilities		587	1 189
Other liabilities	24	12 031	8 523
Provisions	25	1 374	928
Total current liabilities		**21 892**	**18 974**
TOTAL EQUITY AND LIABILITIES		**75 394**	**56 659**

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

Consolidated Statement of Changes in Equity

2007			Reserves						
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Opening balance, Jan. 1	786	4 999	–	–	–253	27 084	32 616	92	32 708
Translation differences, changes during the period					1 895		1 895	4	1 899
Hedge of net investments in foreign subsidiaries					–824		–824		–824
Change in fair values									
– Cash flow hedges, changes during the period			–86				–86		–86
– Available-for-sale, changes during the period excl. reclassifications				562			562		562
– Available-for-sale, realized and reclassified to income statement				–15			–15		–15
Tax related to items reported in equity			24		231		255		255
Net income and expense recognized directly in equity	**–**	**–**	**–62**	**547**	**1 302**	**–**	**1 787**	**4**	**1 791**
Profit for the year						7 439	7 439	30	7 469
Total recognized income and expense for the year excl. shareholders' transactions	**–**	**–**	**–62**	**547**	**1 302**	**7 439**	**9 226**	**34**	**9 260**
Dividends						–2 899	–2 899	–4	–2 903
Redemption of shares	–262					–24 154	–24 416		–24 416
Increase of share capital through bonus issue	262					–262	–		–
Redemption of shares	–18					18	–		–
Increase of share capital through bonus issue	18					–18	–		–
Divestment of series B shares held by Atlas Copco AB		76				246	322		322
Acquisition of series A shares						–347	–347		–347
Share-based payment, equity settled									
– Expense during the year						89	89		89
– Exercise of options						–67	–67		–67
Acquisition of minority shares in subsidiaries								–6	–6
Closing balance, Dec. 31	**786**	**5 075**	**–62**	**547**	**1 049**	**7 129**	**14 524**	**116**	**14 640**

2008			Reserves						
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Opening balance, Jan. 1	786	5 075	–62	547	1 049	7 129	14 524	116	14 640
Translation differences									
– Changes during the period, excl. reclassifications					5 763		5 763	1	5 764
– Realized and reclassified to income statement					–850		–850		–850
Hedge of net investments in foreign subsidiaries									
– Changes during the period, excl. reclassifications					–3 432		–3 432		–3 432
– Realized and reclassified to income statement					656		656		656
Change in fair values									
– Cash flow hedges, changes during the period			–392				–392		–392
– Available-for-sale, changes during the period, excl. reclassifications				–281			–281		–281
– Available-for-sale, realized and reclassified to income statement				–33			–33		–33
Tax related to items reported in equity			102		2 271		2 373		2 373
Tax related to items reclassified from equity to income statement					–749		–749		–749
Net income and expense recognized directly in equity	**–**	**–**	**–290**	**–314**	**3 659**	**–**	**3 055**	**1**	**3 056**
Profit for the year						10 157	10 157	33	10 190
Total recognized income and expense for the year excl. shareholders' transactions	**–**	**–**	**–290**	**–314**	**3 659**	**10 157**	**13 212**	**34**	**13 246**
Dividends						–3 662	–3 662	–5	–3 667
Divestment of series B shares held by Atlas Copco AB		54				192	246		246
Acquisition of series A shares						–699	–699		–699
Share-based payment, equity settled									
– Expense during the year						52	52		52
– Exercise of options						–47	–47		–47
Acquisition of minority shares in subsidiaries						1	1	–4	–3
Closing balance, Dec. 31	**786**	**5 129**	**–352**	**233**	**4 708**	**13 123**	**23 627**	**141**	**23 768**

See note 20 for additional information.

Consolidated Statement of Cash Flows

Including discontinued operations

For the year ended December 31, Amounts in MSEK	Note	2008	2007
Cash flows from operating activities			
Operating profit		13 806	12 066
Adjustments for:			
Depreciation, amortization and impairment	7	2 080	1 800
Capital gain/loss and other non-cash items		–81	–136
Operating cash surplus		15 805	13 730
Net financial items received/paid		44	–379
Taxes paid		–3 975	–3 346
Cash flow before change in working capital		**11 874**	**10 005**
Change in:			
Inventories		–2 830	–2 332
Operating receivables		–1 223	–1 417
Operating liabilities		1 062	1 423
Change in working capital		**–2 991**	**–2 326**
Net cash from operating activities		**8 883**	**7 679**
Cash flows from investing activities			
Investments in rental equipment		–1 158	–1 028
Investments in other property, plant and equipment		–1 741	–1 331
Sale of rental equipment		419	586
Sale of other property, plant and equipment		96	126
Investments in intangible assets		–646	–530
Sale of intangible assets		1	3
Sale of investments		67	172
Acquisition of subsidiaries	2	–370	–6 139
Divestment of subsidiaries	3	92	–475
Acquisition of associated companies	14	–12	–
Investment in other financial assets, net		–1 141	–1 088
Net cash from investing activities		**–4 393**	**–9 704**
Cash flows from financing activities			
Dividends paid		–3 667	–2 903
Redemption of shares		–	–24 416
Repurchase of own shares		–453	–25
Borrowings		3 085	19 804
Repayment of borrowings		–1 604	–7 340
Payment of finance lease liabilities		–67	–63
Net cash from financing activities		**–2 706**	**–14 943**
Net cash flow for the year		**1 784**	**–16 968**
Cash and cash equivalents, Jan. 1		3 473	20 135
Net cash flow for the year		1 784	–16 968
Exchange-rate difference in cash and cash equivalents		198	306
Cash and cash equivalents, Dec. 31	19	**5 455**	**3 473**

For information on cash flows for continued and discontinued operations, see note 3.

Notes to the Consolidated Financial Statements

MSEK unless otherwise stated

Contents

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.

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 accounting standard RFR 1.1 "Supplementary accounting standards for group accounts" which details certain additional disclosure requirements for Swedish consolidated financial statements, prepared in accordance with IFRS.

The accounting policies set out in the following paragraphs, have been consistently applied to all periods presented in these consolidated financial statements and have been consistently applied by Group companies.

The Annual report for the Group and the Company, including financial statements, was issued on February 12, 2009 and balance sheet and income statement are subject to the approval of the Annual Meeting of the shareholders to be held on April 27, 2009.

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 policies. 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 policies, which can have significant effects on the financial statements, is described in note 30.

Classification

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

Changes in accounting principles

Two new interpretations have been applied from 2008:

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 also provides guidance on share-based payment arrangements involving equity instruments of the parent. Retrospective application is required. The interpretation has not had any effect on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 has been applied retrospectively from the beginning of 2007. The interpretation has not had any significant impact on the consolidated financial statements.

The amendments of IAS 39 Financial instruments: Recognition and Measurement regarding extended reclassification of some financial assets and the adherent amendments of IFRS 7 Financial Instruments: Disclosures were effective from July 1, 2008. The amendments had no effect on the consolidated financial statements.

Business combinations and consolidation

The consolidated income statement and balance sheet of the Atlas Copco 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 purchase method. According to this method, business combinations are seen as the Group directly acquires the assets and assumes the liabilities and contingent liabilities of the entity acquired. The assets acquired and liabilities and contingent liabilities assumed are recognized in the consolidated financial statements at fair value when control is established. The cost of a business combination is measured as the aggregate, at the date of control, of the fair value of the assets given, liabilities incurred or assumed and equity instruments issued by the Group to acquire the business. Costs directly attributable to the business combination are also included in the cost of business combinations.

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 and is recognized in the balance sheet. Goodwill is not amortized but tested for impairment at least annually. If the acquired interest in the net fair value, at date of control, exceeds the cost of the business combination, the Group, after reassessment, immediately recognizes the excess in the income statement.

Earnings of entities acquired during the year are reported in the consolidated income statement from the date of control. The gain or loss from entities divested during the year is calculated on the basis of the Group's reported net assets in such entities, including earnings to the date of divestment.

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains and losses on intra-group transactions are eliminated, but losses only to the extent that there is no evidence of impairment.

Business combinations that have occurred since January 1, 2004 have been recognized in accordance with IFRS 3, Business Combinations. Business combinations prior to January 1, 2004, were not restated when IFRS was adopted and are reported on the basis previously used by the Group in accordance with Swedish GAAP. According to Swedish GAAP, intangible assets are not separately recognized to the same extent as according to IFRS 3 and contingent liabilities are not measured at fair value on initial recognition of business combinations.

Associated companies

An associate is an entity in which the Group has significant influence over financial and operating policies but not control. 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

1. Continued

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 consolidated income statements include as "Share of results of associated companies" 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.

Atlas Copco's share of income after tax in associated companies is reported on a separate line in the income statement. 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
A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary segments are business segments which comprise the business areas.

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 rate differences on translation to functional currency are reported in the income statement, except when deferred in equity 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, or
- qualifying hedging instruments in *cash flow hedges* hedging currency risk to the extent 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 as 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 the income statement, increasing or decreasing the profit or loss on divestments. Accumulated translation differences from before the date of transition to IFRS, which was January 1, 2004, are not reported in the separate component of equity for translation differences and will not be recycled 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. Buy-back commitments can lead to that sales revenue cannot be recognized if the substance of the agreement is that the customer only has leased the product for a certain period of time. No revenue is recognized if there are significant uncertainties regarding the possible return of goods.

Services rendered
Revenue from services is recognized in current earnings in proportion to the stage of completion of the transaction at the balance sheet dates or on a straight-line basis providing that a reliable profit estimate can be made. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Rental operations
Revenues are 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.

Other 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 income" or "other expense".

Government grants
A government grant is recognized in the balance sheet 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 the income statement on a systematic basis in the same periods in which expenses are incurred and in the same way. Grants related to assets are presented by deducting the grant from the carrying value of the asset.

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 gains on hedging instruments, that are recognized in the income statement, hedging items recognized as financial income. Interest income is recognized as it accrues in the income statement using the effective interest method. Dividend income is recognized in the income statement 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 losses on hedging instruments, that are recognized in the income statement, hedging items recognized as financial expense. All borrowing costs are recognized in the income statement using the effective interest method.

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit attributable to shareholders 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

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effects of all dilutive potential shares, which comprise stock options granted to employees. The options are dilutive if the exercise price is less than the quoted stock price and 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 from acquisitions before January 1, 2004 is carried at cost less amortization until December 31, 2003 and any accumulated impairment losses. Goodwill from acquisitions after December 31, 2003 is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested at least annually for impairment.

Technology-based intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is expensed in earnings as incurred. Research projects acquired as part of business combinations are capitalized and carried at cost less amortization and impairment losses.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is 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. 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 and are carried at cost less accumulated amortization and impairment losses.

Other intangible assets

Acquired intangible assets relating to contract-based rights such as licenses or franchise agreements are capitalized 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 current earnings 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 salvage 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 life of the parts do not coincide with the useful life 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	3–5
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 the income statement, 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 earnings 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.

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

1. Continued

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 a largely independent cash inflow cannot be linked to an individual asset, impairment is tested 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 cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 the income statement.

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 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 overheads. 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 shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the expected payment date 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.

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.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity 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 due as employees provide services to the entity during a period. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

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. Gains and losses before January 1, 2004 have been reported in equity.

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 or profit-sharing plans if the Group has a

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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 the share options 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 classified as cash-settled are recognized as an employee expense with a corresponding increase in liabilities. The fair value, measured at grant date and remeasured at each reporting date using the Black-Scholes formula, is recognized as an expense over the vesting period. Changes in fair value are recognized in profit or loss as an employee expense. The total expense recognized over the vesting period equals the cash amount paid at settlement.

Social security charges are paid in cash. Social security charges are accounted for consistent with the share appreciation rights, regardless of whether they are related to the share options, share appreciation rights or syntethic shares. 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.

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. Financial assets and financial liabilities are classified into different categories upon initial recognition, depending on the purpose. 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 discounted values due to short expected time to payment.
- *Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. 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 the income statement.
- *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 directly in equity except for impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, which are recognized in earnings. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the income statement.
- *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 regardless of how the borrowings are used.
- *Derivative instruments* are measured at fair value. Fair value changes on derivatives are recognized in the income statement unless the derivatives are designated as hedging instruments in cash flow or net investment hedges. 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 the income statement as gains and losses from financial instruments. Interest payments for interest swaps are recognized in the income statement 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 income statement as interest expense.

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.

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

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loss resulting from hedging instruments is dependent on the type of hedge relationship, i.e. which type of risk exposure that is secured by the hedging instrument.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 the income statement to offset the effect of gain or loss on the hedging instrument.

Based on decisions taken in the Financial Risk Management Committee, transaction exposure can be hedged using various derivative instruments. The overriding objective is to attain cash flow or fair value hedge accounting in the consolidated financial statements. See note 27 for additional information.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases, the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

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 equity. Gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement on disposal of foreign operations. For derivatives which are not part of hedge accounting, 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.

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. 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. 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. In respect of an available-for-sale financial asset, any cumulative loss previously recognized in equity is recognized in the income statement. Impairment losses on financial assets of all other categories are recognized directly in the income statement.

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 the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

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 the income statement unless the underlying transaction is reported directly in equity. In those cases the related income tax is also reported directly in equity.

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

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: goodwill not deductible for tax purposes, the initial recognition 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 tax rates are used for the individual tax jurisdictions.

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.

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, noncurrent 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 the income statement. 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 the income statement for discontinued operations. When an operation is classified as a discontinued operation, the comparative income statement 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.

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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, 2008 and have not been applied by the Group. The assessment of the effect the implementation of these standards and interpretations could have on the consolidated financial statements is preliminary.

- Amended IFRS 2 Share-based Payment: Vesting conditions and cancellations clarifies the terms 'vesting conditions', other features of a share-based payment which are 'non-vesting conditions' and how non-vesting conditions should be accounted for. The amendment is effective for annual periods beginning on or after January 1, 2009 and requires retrospective application. It is not expected to have a significant impact on consolidated financial statements.
- Revised IFRS 3 Business Combinations and amended IAS 27 Consolidated and Separate Financial Statements require changes in consolidated financial statements and accounting for business combinations. The revised standards are effective for annual periods beginning on or after July 1, 2009. The revised IFRS 3 will have an effect on how future business combinations are accounted for. The changes in the amended IAS 27 will mainly influence the accounting of future transactions. (Not yet adopted by the EU.)
- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Group presents segment information in respect of its business and geographical segments. The adoption of this standard will not require any change in the presentation of the segments, i.e. the operating segments agree with the business segments.
- Revised IAS 1 Presentation of Financial Statements: A Revised Presentation requires certain changes in the presentation of the financial statements as well as proposed changes in the titles of the financial statements (not required to be adopted). The revised statement does not change the recognition and measurement of the amounts reported in the financial statements. The revised IAS 1 is effective for annual periods beginning on or after January 1, 2009. The implementation will only to a limited extent affect the form of presentation for the consolidated financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. It is not expected to have a significant 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 IAS 27 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements named 'Puttable Financial Instruments and Obligations Arising on Liquidation'
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRSs (2009)

2. Acquisitions

The following summarizes the significant acquisitions during 2008 and 2007:

Closing date		Country	Business area	Revenues[1]	Number of employees[1]
2008 Nov. 20	Aggreko	Belgium and others	Compressor Technique	91	25
2008 Aug. 8	Industrial Power Sales	USA	Industrial Technique	– [2]	61
2008 May 23	Gulf Atlantic Equipment and Compressed Air Products	USA	Compressor Technique	– [2]	60
2008 May 2	Hurricane and Grimmer	USA	Compressor Technique	146	90
2008 April 30	Fluidcon	Indonesia	Construction and Mining	68	223
2007 Dec. 12	KTS	Japan	Industrial Technique	75	46
2007 Nov. 1	Shenyang Rui Feng	China	Construction and Mining	100	700
2007 Aug. 1	Mafi-Trench	USA	Compressor Technique	360	120
2007 May 31	Dynapac	Sweden and others	Construction and Mining	4 600	2 100
2007 April 2	ABAC	Italy and others	Compressor Technique	1 700	650
2007 Mar. 15	GreenField	Switzerland and others	Compressor Technique	270	200
2007 Mar. 1	Rodcraft	Germany	Industrial Technique	208	78

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

Certain of the above acquisitions were made through the direct purchase of net assets with the Group gaining full control of the operations at the date of the acquisition. In other cases, the Group acquired 100% of the shares and voting rights with the exception of the ABAC Group in 2007 where some minor subsidiaries had a minority interest. The remaining 75% share of the former associated company Shenyang Rui Feng Machinery Ltd. was purchased in 2007. 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 carrying amounts and fair value adjustments aggregated by business area, as the relative amounts of the individual acquisitions are not considered material. The fair value adjustments related to intangible assets are amortized over 5–10 years.

The pre-acquisition carrying amounts were determined based on the applicable IFRSs immediately before the acquisition. The Group is in the process of reviewing the final values for the acquired businesses but any adjustments are not expected to be material. Similar adjustments from 2007 acquisitions are described under each business area.

Compressor Technique	Carrying amounts	Fair value adjust-ments	Recognized values	
			2008	2007
Intangible assets	1	337	338	505
Property, plant and equipment	34	12	46	78
Other assets	76	–1	75	1 081
Cash and cash equivalents	8		8	88
Assets held for sale				123
Interest-bearing loans and borrowings	–4		–4	–302
Other liabilities and provisions	–43	–100	–143	–809
Net identifiable assets	**72**	**248**	**320**	**764**
Minority interest			3	2
Goodwill			–69	843
Consideration paid			**254**	**1 609**

The Compressor Technique business area made four acquisitions in 2008. The most recent acquisition was the European oil-free air compressor rental business of Aggreko plc, which supports the growth of the Specialty Rental division's core business, rental of oil-free air equipment. The acquired business serves similar market segments and applications and will broaden the customer base in Europe. The acquisition of the operations in certain countries is subject to final approval by anti-trust authorities. For those businesses included in the acquisition which have been approved by the anti-trust authorities, the consideration paid amounted to 52 and goodwill of 10 was recorded on the purchase.

The second purchase in this business area was the acquisition of Grimmer Industries Inc.'s Hurricane booster and GrimmerSchmidt portable compressor business, which manufactures, sells and services compressed air and gas booster compressors, natural gas boosters and portable air compressors under the brands of Hurricane and GrimmerSchmidt. This acquisition will meet the growing demand for high-pressure products used in the oil and gas industries. The consideration paid was 138 and goodwill of 42 and intangible assets of 65 (of which customer related 50 and trademark11) were recorded on the purchase.

Atlas Copco has also acquired two distributors in the USA, Gulf Atlantic Equipment Company and Compressed Air Products. Both companies' product offer consists mainly of stationary Atlas Copco compressors. The acquisitions will bring Atlas Copco closer to their customers in this region and also improve the ability to offer the customers the support that they demand.

Some adjustments related to acquisitions from 2007 have been made. The goodwill of 733 related to the acquisition of ABAC which was initially calculated has been reduced by 142 with an increase of 230 in customer-related and other intangible assets and net of deferred taxes of 88. Resultantly, the net movement in goodwill for 2008 is negative.

Construction and Mining Technique	Carrying amounts	Fair value adjust-ments	Recognized values	
			2008	2007
Intangible assets		18	18	1 328
Property, plant and equipment	4		4	403
Other assets	5		5	2 718
Cash and cash equivalents	1		1	322
Interest-bearing loans and borrowings	–7		–7	–2 796
Other liabilities and provisions	–17	21	4	–1 664
Net identifiable assets	**–14**	**39**	**25**	**311**
Minority interest				4
Goodwill			50	4 463
Consideration paid			**75**	**4 778**

The Construction and Mining Technique business area made one major acquisition in 2008, which was the acquisition of PT Fluidcon Jaya, Indonesia and its parent company Fluidcon Service Pte Ltd, Singapore. Through the acquisition, Atlas Copco expanded its business in the Indonesian mining sector. Fluidcon supplies and installs, for example, fuel and oil filtration equipment and hydrocarbon management systems. Fluidcon also provides its customers with professional aftermarket services. This acquisition gives Atlas Copco access to a wide range of mining customers and also gives a platform to more rapidly increase equipment sales into this market sector. The consideration paid amounted to 72 and goodwill of 35 and intangible assets of 16 were recorded on the purchase. Some minor adjustments related to the acquisition of Dynapac in 2007 have been made.

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Industrial Technique	Carrying amounts	Fair value adjust-ments	Recognized values 2008	Recognized values 2007
Intangible assets		2	2	159
Property, plant and equipment	5	–2	3	40
Other assets	27		27	97
Cash and cash equivalents	1		1	19
Interest-bearing loans and borrowings	–8		–8	–43
Other liabilities and provisions	–20	1	–19	–152
Net identifiable assets	**5**	**1**	**6**	**120**
Goodwill			45	61
Consideration paid			**51**	**181**

The Industrial Technique business area made one major acquisition in August 2008, Industrial Power Sales, Inc., USA. The company is a distributor of tools, assembly systems and material handling equipment and will give Atlas Copco better geographical coverage. Industrial Power Sales employees also have a great deal of valuable knowledge and experience, which complements that of Atlas Copco's employees. Consideration paid was 44 and goodwill of 40 was recorded on the purchase.

Total fair value of acquired assets and liabilities	Carrying amounts	Fair value adjustments	Group recognized values 2008	Group recognized values 2007
Intangible assets	1	357	358	1 992
Property, plant and equipment	43	10	53	521
Other non-current assets	–2		–2	12
Inventories	17	–1	16	1 832
Receivables	93		93	2 052
Cash and cash equivalents	10		10	429
Assets held for sale			–	123
Interest-bearing loans and borrowings	–19		–19	–3 141
Other liabilities and provisions	–100		–100	–2 095
Deferred tax liabilities, net	20	–78	–58	–530
Net identifiable assets	**63**	**288**	**351**	**1 195**
Minority interest			3	6
Goodwill			26	5 367
Consideration paid			**380**	**6 568**
Cash and cash equivalents acquired			–10	–429
Net cash outflow			**370**	**6 139**

The goodwill recognized on acquisitions is primarily related to the synergies expected to be achieved from integrating these businesses into the Group's existing structure. In the case of the acquisition of Industrial Power Sales, the goodwill is primarily related to the knowledge of the employees and the geographical presence. The total consideration paid for all acquisitions was 380 including directly related costs of 10. For all acquisitions, the outflow totaled 370 excluding cash and cash equivalents acquired of 10.

Contribution from businesses acquired in 2008 and 2007 by business area	Compressor Technique		Construction and Mining Technique		of which Dynapac	Industrial Technique		Group	
	2008	2007	2008	2007	2007	2008	2007	2008	2007
Contribution from date of control									
Revenues	179	1 708	89	2 754	2 737	46	188	314	4 650
Operating profit	28	121	6	149	151	1	34	35	304
Profit for the year								21	168
Contribution if the acquisition had occurred on Jan. 1									
Revenues	307	2 444	129	4 984	4 920	111	319	547	7 747
Operating profit	51	198	8	381	379	2	42	61	621
Profit for the year								34	269

3. Assets held for sale, divestments and discontinued operations

The following summarizes the significant divestments during 2008 and 2007:

Closing date		Country	Business area	Revenues[1]	Number of employees[1]
2008 Feb. 13	Guimerá	Spain	Compressor Technique	130	92
2007 Dec. 17	ABIRD	Netherlands	Compressor Technique	94	31
2007 Aug. 29	Prime Industrial Rentals	Australia	Compressor Technique	112	52

[1] Annual revenues and number of employees at time of divestment.

Divestments

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. Consistent with this strategy, the business area previously divested parts of two operations in Australia and the Netherlands in 2007. The gains on these 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. The 2007 values also include parts of the ABAC group to comply with conditions set up by anti-trust authorities in approving this acquisition.

Carrying value of assets and liabilities for divestments including discontinued operations	2008	2007
Intangible assets	10	–
Rental equipment	74	162
Other property, plant and equipment	4	6
Inventories	3	–
Receivables	7	19
Assets held for sale	–	105
Borrowings	–	–3
Other liabilities and provisions	–198	–959
Deferred tax liabilities, net	–50	–25
Net identifiable assets	**–150**	**–695**
Capital gain	204	168
Translation differences recycled	–3	–
Goodwill	41	52
Consideration and cash received	**92**	**–475**

The consideration received in 2008 was primarily for the divestment of Guimerá. In 2007, the consideration received for the divested operations, including ABAC and the Australian rental operations, totaled 421. The consideration received was offset by a payment of 896 made in 2007 which was related to the rental operations which were divested in 2006 and resulted in a net cash effect in 2007 of –475.

Assets held for sale

During the second quarter of 2008, the business area Industrial Technique announced the closure of one of its factories in Great Britain. This decision followed previous restructuring measures in the pneumatic tools production. As a result of the closure, buildings, land and equipment will be sold. In the third quarter these tangible assets fulfilled the criteria to be classified as assets held for sale. The assets are measured at their carrying amounts totaling 43. The estimated net realizable value is reviewed on a regular basis. The sale is expected to be finalized in the first quarter of 2009.

Discontinued operations

The Group completed the sale of the equipment rental operations in North America in November 2006 which were reported as discontinued operations. The net gain of 53 reported as discontinued operations in 2007 represents the final settlement on this divestment which was received in 2007. Final tax assessments related to this divestment were received in 2008 and resulted in a gain of 184.

Basic and diluted earnings per share amounted to SEK 0.15 (0.04).

The cash flows from continued and discontinued operations are presented in the following table:

Cash flows from continuing and discontinued operations	2008			2007		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flows from:						
operating activities	8 883		8 883	7 679	–	7 679
investing activities	–4 352	–41	–4 393	–8 808	–896	–9 704
financing activities	–2 706		–2 706	–14 943	–	–14 943
Net cash flow for the year	**1 825**	**–41**	**1 784**	**–16 072**	**–896**	**–16 968**
Cash and cash equivalents, Jan. 1			3 473			20 135
Exchange-rate difference in cash and cash equivalents			198			306
Cash and cash equivalents, Dec. 31			**5 455**			**3 473**

4. Segment information

2008	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common group functions	Eliminations	Group
Revenues from external customers	35 225	31 376	7 426	150		74 177
Inter-segment revenues	362	284	24	45	–715	–
Total revenues	**35 587**	**31 660**	**7 450**	**195**	**–715**	**74 177**
Operating profit	**7 291**	**5 602**	**1 328**	**–388**	**–27**	**13 806**
– of which share of profit in associated companies	*1*	*3*	*10*			*14*
Net financial items						–694
Income tax expense						–3 106
Profit from discontinued operations, net of tax[1)]						184
Profit for the year						**10 190**
Non-cash expenses						
Depreciation/amortization/impairment	959	832	193	149	–53	2 080
Other non-cash expenses	164	114	32	–42		268
Segment assets	24 134	27 282	4 889	6 484	–1 649	61 140
– of which goodwill	*2 018*	*5 825*	*556*			*8 399*
Investments in associated companies	4	15	102			121
Unallocated assets						14 133
Total assets						**75 394**
Segment liabilities	9 880	5 728	1 479	5 829	–2 455	20 461
Unallocated liabilities						31 165
Total liabilities						**51 626**
Capital expenditures						
Property, plant and equipment	1 211	1 276	151	444	–100	2 982
– of which assets leased	*17*	*63*	*3*			*83*
Intangible assets	240	238	142	26		646
Total capital expenditures	**1 451**	**1 514**	**293**	**470**	**–100**	**3 628**
Goodwill acquired	–69	50	45			26

2007	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common group functions	Eliminations	Group
Revenues from external customers	31 654	24 726	6 849	126		63 355
Inter-segment revenues	246	414	22	33	–715	–
Total revenues	**31 900**	**25 140**	**6 871**	**159**	**–715**	**63 355**
Operating profit	**6 749**	**4 384**	**1 539**	**–566**	**–40**	**12 066**
– of which share of profit in associated companies	*1*	*–4*	*6*			*3*
Net financial items						–1 532
Income tax expense						–3 118
Profit from discontinued operations, net of tax[1)]						53
Profit for the year						**7 469**
Non-cash expenses						
Depreciation/amortization/impairment	884	653	158	141	–36	1 800
Other non-cash expenses	94	83	–4	–7		166
Segment assets	19 312	22 543	4 239	3 576	–2 090	47 580
– of which goodwill	*1 835*	*5 592*	*475*			*7 902*
Investments in associated companies	4		67			71
Unallocated assets						9 008
Total assets						**56 659**
Segment liabilities	7 775	4 997	1 406	3 419	–2 000	15 597
Unallocated liabilities						26 422
Total liabilities						**42 019**
Capital expenditures						
Property, plant and equipment	945	1 110	163	323	–121	2 420
– of which assets leased	*20*	*36*	*4*	*1*		*61*
Intangible assets	239	187	91	13		530
Total capital expenditures	**1 184**	**1 297**	**254**	**336**	**–121**	**2 950**
Goodwill acquired	843	4 463	61			5 367

[1)] See note 3 for information on discontinued operations.

4. Continued

The Group operates through a number of divisions within three business areas. These business areas coincide with the definition for business segment reporting in that they offer different products and services to different customer groups. These groups are also the basis for the Group's management and internal reporting structure. All business areas are managed on a worldwide basis with their own sales operations and strive to maintain close and long-term relationships with their customers. The following describes the business areas:

- The Compressor Technique business area develops, manufactures, markets, distributes and services oil-free and oil-injected stationary air compressors, portable air compressors, oil and gas boosters, gas and process compressors, turbo expanders, generators, air treatment equipment (such as compressed air dryers, coolers, and filters) and air management systems. The business area has in-house resources for basic development of its core technologies. In addition, the business area offers specialty rental services of mainly compressors and generators.
- The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, underground rock drilling rigs for tunneling and mining applications, surface drilling rigs, loading equipment, exploration drilling equipment, construction tools and road construction equipment. In 2007, a new division, Road Construction Equipment, was added to the business area with the acquisition of the Dynapac group which is a leading supplier of compaction and paving equipment for the road construction market.
- The Industrial Technique business area develops, manufactures and markets high-quality industrial power tools, assembly systems, and aftermarket products and services. It serves the needs of industrial manufacturing, such as the automotive and aerospace industries, general industrial manufacturing, and maintenance and vehicle service.

Common group functions include those operations which serve all business areas or the Group as a whole. The accounting principles of the segments are the same as those described in note 1. Atlas Copco intersegment 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:	**2008**	**2007**
Sale of equipment	47 312	40 284
Service (incl. spare parts, consumables and accessories)	24 497	20 493
Rental	2 368	2 578
	74 177	**63 355**

The revenues presented for the geographical segments are based on the location of the customers while assets and capital expenditures are based on the geographical location of the assets.

By geographic area	**Revenues**		**Segment assets**		**Capital expenditures**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
North America	13 920	12 418	10 080	7 951	579	563
South America	6 084	4 690	2 259	1 772	232	138
Europe	29 175	26 324	36 405	29 228	2 236	1 750
–of which Sweden	*1 834*	*1 545*	*20 376*	*12 773*	*1 085*	*532*
Africa/Middle East	8 303	6 391	2 367	1 674	165	110
Asia/Australia	16 695	13 532	10 029	6 955	416	389
	74 177	**63 355**	**61 140**	**47 580**	**3 628**	**2 950**

5. Employees and personnel expenses

Average number of employees	2008			2007		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	52	44	96	46	39	85
Subsidiaries						
North America	723	3 939	4 662	678	3 563	4 241
South America	323	1 994	2 317	266	1 738	2 004
Europe	2 801	14 056	16 857	2 701	12 372	15 073
–of which Sweden	*736*	*3 683*	*4 419*	*622*	*3 191*	*3 813*
Africa/Middle East	469	1 998	2 467	245	1 863	2 108
Asia/Australia	1 491	6 229	7 720	1 145	4 866	6 011
Total in subsidiaries	**5 807**	**28 216**	**34 023**	**5 035**	**24 402**	**29 437**
	5 859	**28 260**	**34 119**	**5 081**	**24 441**	**29 522**

Women in Atlas Copco Board and Management, %	2008	2007
Parent Company		
Board of Directors excl. union representatives	33	29
Group Management	25	25

Absence due to illness, %	2008	2007
Parent Company	**1.8**	**2.1**
Swedish companies	**3.6**	**3.6**
Long-term absence due to illness, in % of total absence	*34.5*	*31.8*
Group	**2.3**	**2.3**

Remuneration and other benefits	Group		Parent Company	
	2008	2007	2008	2007
Salaries and other remuneration	11 572	9 970	108	108
Contractual pension benefits	615	473	16	21
Other social costs	2 368	2 253	55	45
	14 555	**12 696**	**179**	**174**
Pension obligations to Board members and Group Management[1]	25	27	25	27

[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 2008	Adj. due to change in stock price and accrual period	Total expense recognized 2008[2]	Total expense recognized 2007
Chair of the Board:								
Sune Carlsson	759	825	8 144	170	1 754	–417	1 337	1 500
Vice Chair:								
Jacob Wallenberg	281	300	2 962	60	641	–152	489	550
Other members of the Board:								
Staffan Bohman	225	250	2 468	110	585	–126	459	500
Christel Bories	150	250	2 468		400	–126	274	
Ulla Litzén	225	250	2 468	230	705	–126	579	600
Margareth Øvrum	150	250	2 468		400	–126	274	
Anders Ullberg	225	250	2 468	120	595	–126	469	500
Johan Forssell	150	250	2 468		400	–126	274	
Grace Reksten Skaugen	75				75		75	400
Other members of the Board previous year								75
Union representatives	47				47		47	57
Total	**2 287**	**2 625**	**25 914**	**690**	**5 602**	**–1 325**	**4 277**	**4 182**

[1] Refers to fees for membership in board committees.
[2] Provision for synthetic shares as at December 31, 2008 amounted to 1 (–).

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation[1]	Recognized costs for stock options, SARS[2]	Other benefits[3]	Pension fees	Total expense recognized 2008	Total expense recognized 2007
Group Management:							
Gunnar Brock, President and CEO	9 100	6 370	1 300	364	3 306	20 440	21 652
Other members of the Group Management (7 positions)	19 586	6 764	3 405	2 384	6 036	38 175	46 393[4]
Total	**28 686**	**13 134**	**4 705**	**2 748**	**9 342**	**58 615**	**68 045**
Total remuneration and other benefits to Board and Group Management						**62 892**	**72 227**

[1] The CEO has exercised the option to have his compensation for 2008 as an additional pension contribution.
[2] For information on share based payments, see note 23.
[3] Refers to vacation pay, company car, medical insurance and disability pension.
[4] Including pension severance agreements.

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 2008 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 2008 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 2007 gross fee before tax and the 2008 increase of the fee, excluding other committee fees, in 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 2008. 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 end of 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 2008 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. In addition, the Group President is entitled to a health pension amounting to 50% of his base salary.
- Other benefits consist of company car and private health insurance.

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 paid, broken down into a maximum of 50% based on the Group's EVA (Economic Value Added) and a maximum of 20% for various projects.

The variable compensation is not included in the basis for pension benefits. According to agreement, the CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution. Resultantly, the Company has purchased endowment insurance which is recorded as an asset to offset the related obligations to the President. The endowment insurance asset has been pledged as collateral for the obligations.

The President and CEO is a member of the Atlas Copco Group 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. It has been agreed with the CEO to freeze the premium for the disability pension at the 2005 level and instead increase the premium for the retirement pension. This is cost neutral for the Company. The pension premium is therefore somewhat higher than 35% and the disability pension somewhat lower than 50%. 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 appreciations rights holdings as at December 31, are detailed below:

Stock options/share appreciation rights holdings as at Dec. 31, 2008

Grant year	2003	2006	2007	2008[1]	Total
CEO	165 814	117 500	117 500	117 500	518 314
Other members of Group Management	41 453	205 625	205 625	293 750	746 453

[1] Estimated grants for the 2008 stock option program.

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 committee
In 2008, 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, two members of the Board participated in a committee regarding repurchase and sale of own shares for option program and synthetic shares.

6. Remuneration to auditors

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

	2008	2007
KPMG		
–Audit fee	53	55
–Other	19	14
Other audit firms		
–Audit fee	6	5
	78	**74**

The 2007 audit fees to KPMG include audit procedures in connection with the bond issue program.

Other fees to KPMG are primarily consultancy for tax and accounting matters.

7. Operating expenses

Amortization, depreciation and impairment	2008	2007
Product development	319	241
Trademark	33	43
Marketing and customer related assets	131	94
Other technology and contract based assets	121	103
Buildings	113	88
Machinery and equipment	778	643
Rental equipment	585	588
	2 080	**1 800**

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

	2008		2007	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	28	12	20	11
Marketing expenses	3	165	3	140
Administrative expenses	30	16	22	10
Research and development expenses	295	55	232	43
	356	**248**	**277**	**204**

Impairment charges for 2008 totaled 7 which were recorded as marketing expenses. The impairment charge was recorded for the Techmotive trademark that management has decided will not be utilized anymore.

No impairment charges for non-financial assets were recorded for 2007.

Cost of sales

The amount of inventories recognized as expense amounted to 37 668 (30 002).

Personnel expenses

Total personnel expenses amounted to 14 555 (12 696), see note 5.

8. Other operating income and expenses

	2008	2007
Other operating income		
Commissions received	42	38
Income from insurance operations	74	58
Capital gain on sale of fixed assets	54	46
Capital gain on divestment of business	20	115
Exchange-rate differences	21	–
Other operating income	43	35
	254	**292**

	2008	2007
Other operating expenses		
Capital loss on sale of fixed assets	–10	–10
Exchange-rate differences	–	–229
Other operating expenses	–42	–96
	–52	**–335**

The gain on divestment of business for 2008 was related to the sale of Guimerá in Spain, while the gains for 2007 were related to the sale of the ABIRD operations in the Netherlands and part of the Australian rental operations. See note 3 for more information.

The operating profit includes 28 (–107) of realized and –47 (1) 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

	2008	2007
Interest income		
– held-to-maturity investments	14	11
– assets held for trading	21	–
– bank deposits	101	154
– loans and receivables	255	356
Dividend income		
– other financial assets	1	1
Change in fair value		
– financial assets to fair value through profit or loss	1 377	25
Capital gain		
– disposal of available-for-sale financial assets	33	134
– gain on repatriation of subsidiary equity	939	–
– other financial assets	–	7
Financial income	**2 741**	**688**
Interest expense		
– financial liabilities measured at amortized cost	–1 510	–907
– liabilities held for trading	–36	1
– derivatives for fair value hedge	–	3
– pension provision, net	–88	–71
Net foreign exchange loss	–126	–54
Change in fair value		
– financial assets to fair value through profit or loss	– 49	–285
– ineffective part of fair value hedge	–33	–4
– related to other liabilities	–1 583	–20
Impairment loss		
– loans and receivables	–10	–19
– financial assets available-for-sale	–	–864
Financial expense	**–3 435**	**–2 220**
Net finance costs	–694	–1 532

Interest expenses have increased due to the increased borrowings in the second quarter of 2007 and slightly higher interest rates under the first three quarters of 2008.

The change in fair value gain of 1 377 is mainly due to the sharp decrease in interest rates at the end of 2008 resulting in a large fair value gain on interest rate swaps which have been designated as hedging instruments in a fair value hedge. The related losses on the long-term loans included in the hedge are included in the change in fair value of 1 583 on other liabilities. The change in fair value from financial instruments entered into in connection with the personnel stock option programs amounted to –49 (25).

The gain of 939 represents accumulated translation differences, previously reported in equity, on the portion of equity in subsidiaries which was repatriated in the fourth quarter 2008 and accordingly was reclassified to the income statement.

The gain on disposal of available-for-sale assets was from the sale of shares in the divested rental business operations and include 33 (15) previously recognized in equity.

In 2007, an impairment charge of 864 was recorded on the right to notes received in connection with the divestment of the rental business operations.

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

	2008	2007
Total interest income on financial assets	370	521
Total interest expense on financial liabilities	–1 510	–907

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

	2008	2007
Net gain/loss on		
– financial assets to fair value through profit or loss	4 578	–478
– loans and receivables, incl. bank deposits	347	549
– available-for-sale financial assets	33	–730
– held-to-maturity investments	14	11
– other liabilities	–5 545	–812
– fair value hedge	–33	–1
	–606	**–1 461**
Other financial expense		
– interest expense on pension provisions, net	–88	–71
Net finance costs	**–694**	**–1 532**

The gain on financial assets to fair value through profit or loss include foreign exchange gains of 3 265 while foreign exchange losses of 3 391 are included in loss on other liabilities.

10. Taxes

Income tax expense	2008	2007
Current taxes	–3 194	–3 434
Deferred taxes	88	316
	–3 106	**–3 118**

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:

	2008	2007
Profit before tax	13 112	10 534
Weighted average tax based on national rates	–4 077	–3 371
– in %	31.1	32.0
Tax effect of:		
Non-deductible expenses	–201	–90
Imputed interest on tax allocation reserve	–10	–13
Withholding tax on dividends	–45	–30
Tax-exempt income	1 306	611
Adjustments from prior years:		
– current taxes	47	19
– deferred taxes	–79	107
Effects of tax losses/credits utilized	21	17
Change in tax rate, deferred tax	25	25
Tax losses not valued	–68	–384
Other items	–25	–9
Income tax expense	**–3 106**	**–3 118**
Effective tax in %	23.7	29.6

The effective tax rate amounted to 23.7% (29.6). The capital restructuring executed in the end of 2006 and the tax-exempt gain in connection with repatriation of equity in subsidiaries contribute positively to the lower effective tax rate. The stronger foreign exchange rates have also contributed to the relative increase in tax-exempt income.

Previously unrecognized tax losses/credits and deductible temporary differences which have been recognized against current tax expense amounted to 21 (17). 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 and associated companies have not been recognized. For group companies, the Parent Company controls the realization of the deferred tax liability/asset and realization is not in the foreseeable future. The following reconciles the net liability balance of deferred taxes at the beginning of the year to that at the end of the year:

Change in deferred taxes	2008	2007
Net balance, Jan. 1	9	–29
Business acquisitions	–58	–530
Divestment, discontinued operations	50	25
Charges to profit for the year	88	316
Tax on amounts recorded to equity	2 401	228
Translation differences	45	–1
Net balance, Dec. 31	**2 535**	**9**

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

Deferred tax assets and liabilities	2008			2007		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	43	643	–600	124	473	–349
Property, plant and equipment	294	756	–462	240	707	–467
Other financial assets		210	–210	3	147	–144
Inventories	879	7	872	679	6	673
Current receivables	100	41	59	128	117	11
Operating liabilities	331	4	327	210	3	207
Provisions	233	1	232	161	12	149
Post-employment benefits	231	12	219	205	13	192
Borrowings	1 645		1 645	48	1	47
Loss/credit carry forwards	511		511	51		51
Other items	326	384	–58	237	598	–361
Deferred tax assets/liabilities	**4 593**	**2 058**	**2 535**	**2 086**	**2 077**	**9**
Netting of assets/liabilities	–1 903	–1 903	–	–1 254	–1 254	–
Net deferred tax balances	**2 690**	**155**	**2 535**	**832**	**823**	**9**

Other items primarily include tax deductions (tax allocation reserve etc.) which are not related to specific balance sheet items.

At December 31, 2008, the Group had total tax loss carry-forwards of 3 331 (1 483) of which no deferred tax assets had been recognized of 1 450 (1 307) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiration date for utilization of the tax losses for which no deferred tax assets have been recorded.

10. Continued

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

	2008	2007
Intangible assets	–35	–36
Property, plant and equipment	–99	41
Other financial assets	–68	–102
Inventories	136	140
Current receivables	–3	190
Cash and cash equivalents	–	8
Operating liabilities	70	–50
Provisions	36	24
Post-employment benefits	–1	–33
Borrowings	–335	–134
Assets held for sale	–	11
Other items	–57	224
Changes due to temporary differences	**–356**	**283**
Loss/credit carry-forward	444	33
	88	**316**

11. Earnings per share

	Basic earnings per share		Diluted earnings per share	
Amounts in SEK	**2008**	**2007**	**2008**	**2007**
Earnings per share	8.33	6.09	8.33	6.09
– of which continuing operations	*8.18*	*6.05*	*8.18*	*6.04*
– of which discontinued operations	*0.15*	*0.04*	*0.15*	*0.04*

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 the equity holders of the parent	2008	2007
Profit for the year	10 157	7 439
– of which continuing operations	*9 973*	*7 386*
– of which discontinued operations	*184*	*53*

Basic earnings per share

Basic earnings per share are calculated based on the profit for the year attributable to the equity holders 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 the equity holders of the parent and the diluted weighted average number of shares outstanding. The dilutive effects arise from the stock options 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	2008	2007
Basic weighted average number of shares outstanding	1 219 099 275	1 220 784 704
Effect of employee stock options	716 123	1 520 569
Diluted weighted average number of shares outstanding	**1 219 815 398**	**1 222 305 273**

Potentially dilutive instruments

As of December 31, 2008 Atlas Copco has four outstanding employee stock option programs, of which the exercise price for three programs exceeded the average share price for ordinary shares, SEK 86 (106) per share including adjustment for repurchased shares. These three programs are, therefore, considered anti-dilutive and are not included in the calculation of diluted earnings per share. If the average share price exceeds the strike price in the future, these options will be dilutive.

12. Intangible assets

2008	Internally generated intangible assets: Product development	Internally generated intangible assets: Other technology and contract based	Acquired intangible assets: Product development	Acquired intangible assets: Trademark	Acquired intangible assets: Marketing and customer related	Acquired intangible assets: Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	1 746	340	63	1 715	830	614	7 915	13 223
Investments	495	100				51		646
Business acquisitions				50	314	–6	26	384
Divestments				–3	–13		–41	–57
Disposals		–7				–4		–11
Reclassifications	5	–11			1	24		19
Translation differences	198	28	1	85	169	102	514	1 097
Closing balance, Dec. 31	**2 444**	**450**	**64**	**1 847**	**1 301**	**781**	**8 414**	**15 301**
Amortization and impairment losses								
Opening balance, Jan. 1	892	103	13	92	208	237	13	1 558
Amortization for the period	306	50	13	26	131	71		597
Impairment charge for the period				7				7
Divestments				–1	–5			–6
Disposals		–7				–3		–10
Reclassifications		2		–1	3	9		13
Translation differences	116	11	–1	17	40	41	2	226
Closing balance, Dec. 31	**1 314**	**159**	**25**	**140**	**377**	**355**	**15**	**2 385**
Carrying amounts								
At Jan. 1	854	237	50	1 623	622	377	7 902	11 665
At Dec. 31	1 130	291	39	1 707	924	426	8 399	12 916

2007	Internally generated intangible assets: Product development	Internally generated intangible assets: Other technology and contract based	Acquired intangible assets: Product development	Acquired intangible assets: Trademark	Acquired intangible assets: Marketing and customer related	Acquired intangible assets: Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	1 321	212	3	229	485	513	2 583	5 346
Investments	394	111				25		530
Business acquisitions			63	1 495	376	76	5 367	7 377
Divestments							–52	–52
Disposals	–3			–5	–9	–4		–21
Reclassifications		10	–3		–4	–2		1
Translation differences	34	7		–4	–18	6	17	42
Closing balance, Dec. 31	**1 746**	**340**	**63**	**1 715**	**830**	**614**	**7 915**	**13 223**
Amortization and impairment losses								
Opening balance, Jan. 1	636	57	2	50	126	164	12	1 047
Amortization for the period	234	43	7	43	94	60		481
Business acquisitions			9			9		18
Disposals	–3			–3	–9	–3		–18
Reclassifications	2	1	–5		–2	4		–
Translation differences	23	2		2	–1	3	1	30
Closing balance, Dec. 31	**892**	**103**	**13**	**92**	**208**	**237**	**13**	**1 558**
Carrying amounts								
At Jan. 1	685	155	1	179	359	349	2 571	4 299
At Dec. 31	854	237	50	1 623	622	377	7 902	11 665

Other technology and contract-based intangible assets include computer software, patents and contract-based rights such as licenses and franchise agreements. All intangible assets other than goodwill and trademarks with indefinite useful lives are amortized. For information regarding amortization and impairment, see notes 1 and 7. See notes 2 and 3 for information on acquisitions and divestments.

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 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 are historically integrated with other Atlas Copco operations soon after the acquisition which also includes the related cash flows. 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.

The revenue growth for the five-year forecast is estimated for each of the divisions based on their particular market position and the characteristics and development of their end markets. The values assigned represent management's assessment and are based on both external and internal sources. The average forecasted five-year growth rates are within a range of 0–8% for the divisions in Compressor Technique and Industrial Technique. The growth rates vary by division and are generally lower in the first years of the five-year forecast. For the divisions in Construction and Mining Technique, the forecasted growth rates for 2009 are lower and negative in most cases due to the expected decline in business but the average forecasted growth rates for 2010-2013 are within the same range as the other divisions with rates being within the range 0–14%. The growth rate after the forecast period is 2–3% for all divisions. The operating profit margins are forecasted to be approximately in line with the 2008 levels. The Group's 2008 weighted average cost of capital of 8.5% (approximately 11.8% pre-tax) has been used in discounting the cash flows to determine the recoverable amounts.

The recoverable amounts for all divisions are in excess of their carrying amounts and, accordingly, no impairment has been recorded. The Group also evaluates the sensitivity of the recoverable amounts considering the reasonably expected adverse changes in the most significant assumptions. Also these estimated amounts were in excess of the carrying amounts.

Effective January 1, 2009, the Group uses a weighted average cost of capital of 7.4%. A decrease in discount rates has a positive effect in the calculation of the recoverable amounts.

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

	2008		2007	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique				
Oil-free Air		276		232
Industrial Air		1 100		1 060
Specialty Rental		34		68
Portable Air		64		14
Gas and Process		164		137
Compressor Technique Service		347		290
Business area level		33		34
	–	**2 018**	**–**	**1 835**
Construction and Mining Technique				
Underground Rock Excavation		45		44
Surface Drilling Equipment		147		93
Drilling Solutions		248		208
Road Construction Equipment	1 225	4 448	1 225	4 437
Secoroc		123		106
Construction Tools		609		517
Geotechnical Drilling and Exploration		192		174
Business area level		13		13
	1 225	**5 825**	**1 225**	**5 592**
Industrial Technique				
Tools and Assembly Systems Motor Vehicle Industry		141		101
Tools and Assembly Systems General Industry		58		27
Chicago Pneumatic Industrial		255		265
Chicago Pneumatic Vehicle Service	120	91	104	75
Tooltec		6		2
Business area level		5		5
	120	**556**	**104**	**475**
	1 345	**8 399**	**1 329**	**7 902**

13. Property, plant and equipment

2008	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	2 930	8 125	438	11 493	3 548
Investments	378	1 222	224	1 824	1 158
Business acquisitions	10	8		18	36
Divestments		–19		–19	–169
Disposals	–41	–396		–437	–745
Reclassifications[1)]	–27	–118	–13	–158	–11
Translation differences	435	854	49	1 338	294
Closing balance, Dec. 31	**3 685**	**9 676**	**698**	**14 059**	**4 111**
Depreciation and impairment losses					
Opening balance, Jan. 1	1 242	5 357		6 599	1 642
Depreciation for the period	113	778		891	585
Business acquisitions		1		1	
Divestments		–15		–15	–95
Disposals	–27	–358		–385	–434
Reclassifications[1)]	–7	–99		–106	–10
Translation differences	175	546		721	141
Closing balance, Dec. 31	**1 496**	**6 210**		**7 706**	**1 829**
Carrying amounts					
At Jan. 1	1 688	2 768	438	4 894	1 906
At Dec. 31	2 189	3 466	698	6 353	2 282

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

2007	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	2 442	6 545	353	9 340	3 727
Investments	208	1 115	69	1 392	1 028
Business acquisitions	340	733	13	1 086	52
Divestments	–9	–7		–16	–406
Disposals	–93	–386		–479	–876
Reclassifications		3		3	–2
Translation differences	42	122	3	167	25
Closing balance, Dec. 31	**2 930**	**8 125**	**438**	**11 493**	**3 548**
Depreciation and impairment losses					
Opening balance, Jan. 1	1 121	4 442		5 563	1 748
Depreciation for the period	88	643		731	588
Business acquisitions	68	518		586	31
Divestments	–6	–4		–10	–244
Disposals	–53	–337		–390	–493
Reclassifications		4		4	–2
Translation differences	24	91		115	14
Closing balance, Dec. 31	**1 242**	**5 357**		**6 599**	**1 642**
Carrying amounts					
At Jan. 1	1 321	2 103	353	3 777	1 979
At Dec. 31	1 688	2 768	438	4 894	1 906

The tax assessment values for Group properties in Sweden amount to 269 (268) and pertain exclusively to buildings and land. The corresponding net book value of these is 285 (240). 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	2008	2007
Opening balance, Jan. 1	71	77
Acquisitions of associated companies	12	3
Acquisition of subsidiary	–1	–9
Dividends	–2	–1
Profit for the year after income tax	14	3
Translation differences	27	–2
Closing balance, Dec. 31	**121**	**71**

Summary of financial information for associated companies

	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Percentage of capital
2008							
ABAC Air Compressors SA Pty Ltd.	South Africa	4	1	3	7	1	50
Focus Rocbit Pvt. Ltd.	India	15	3	12	11	3	25
Prisma Roctools Pvt. Ltd.	India	5	2	3	5	–	25
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	14	2	12	9	–	25
Shanghai Toku International Co. Ltd.	China	16	10	6	53	3	50
Toku-Hanbai KK	Japan	135	51	84	315	8	50
Others				1		–1	
				121		**14**	
2007							
ABAC Air Compressors SA Pty Ltd.	South Africa	4	1	3	7	1	50
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	10	1	9	10	–	25
Shenyang Rui Feng Machinery Ltd.	China				17	–5	25
Shanghai Toku International Co. Ltd.	China	8	5	3	30	2	50
Toku-Hanbai KK	Japan	98	44	54	283	4	50
Others				2		1	
				71		**3**	

The above table is based on the most recent financial reporting available and represents Atlas Copco's share of the respective company.

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 has the option to acquire the remaining shares in both companies. The Group also acquired the full interest in a former associated company in Australia, whereby it became a wholly owned subsidiary.

In 2007, a 50% interest in the South African company of ABAC was acquired in connection with the purchase of the ABAC group. The remaining 75% share of Shenyang Rui Feng Machinery Ltd. was purchased in 2007. See note 2 for additional information on acquisitions.

15. Other financial assets

	2008	2007
Non-current		
Pension and other similar benefit assets (note 23)	457	423
Derivatives		
– not designated for hedge accounting	9	6
– designated for hedge accounting	1 695	341
Available-for-sale investments	713	957
Held-to-maturity securities	45	59
Other shares and investments	13	12
Finance lease receivables	1 549	1 052
Other financial receivables	638	481
	5 119	**3 331**
Current		
Held-to-maturity investments		
– government bonds	329	281
Finance lease receivables	863	546
Other financial receivables	467	297
	1 659	**1 124**

The available-for-sale investments include the shares in the rental operations which were divested in 2006. The Group held 14.53% interest in the operations with a value of 413 as of December 31, 2006 which was reduced to 11.5% in 2007 and 10.5% in 2008 through sales of shares. The shares have a value of 713 (957) as of December 31. The contingent consideration note received at the time of the divestment totaling 920 as of December 31, 2006 was written off during 2007 as an impairment. See note 9 for more information.

The substantial increase in the fair value of derivatives designated for hedge accounting is due to the sharp downturn in interest rates during the last quarter of 2008, as the portfolio consists of interest rate swaps to a nominal amount of MEUR 600, MSEK 3 000 and MUSD 600 .

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

16. Inventories

	2008	2007
Raw materials	658	458
Work in progress	3 352	2 783
Semi-finished goods	4 068	3 188
Finished goods	9 028	6 296
	17 106	**12 725**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 380 (263). Reversals of write-downs which were recognized in earnings totaled 101 (86).

17. Trade receivables

Trade receivables are reported net of provisions for doubtful accounts and other impairments totaling 548 (346). Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 342 (118). For credit risk information see note 27.

18. Other receivables

	2008	2007
Derivatives		
– not designated for hedge accounting	1 765	292
– designated for hedge accounting	589	351
Financial assets classified as loans and receivables		
– other receivables	2 227	1 683
– accrued income	211	141
Prepaid expenses	514	466
	5 306	**2 933**

The increase in fair value of derivatives, primarily consisting of foreign exchange forward contracts for the purchase of SEK, is due to the substantial weakening of the Swedish krona during the last quarter of 2008.

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

	2008	2007
Cash	1 844	3 247
Cash equivalents	3 611	226
	5 455	**3 473**

Cash and cash equivalents totaled 5 455 (3 473) at December 31. During 2008, cash equivalents had an average effective interest rate of 3.83% (3.72). The increase in cash equivalents is the result of ongoing efforts to concentrate liquidity to Atlas Copco AB for more effective cash management. The cash equivalents consist of short-term deposits primarily in Swedish banks.

Guaranteed, but unutilized, credit lines equaled 7 738 (6 451). See note 27 for additional information.

20. Equity

Shares outstanding, 2007	A shares	B shares	Total
Opening balance, Jan. 1	419 697 048	209 109 504	628 806 552
Split 3:1	839 394 096	418 219 008	1 257 613 104
Redemption of shares	–419 697 048	–209 109 504	–628 806 552
Redemption of shares held by Atlas Copco		–28 000 000	–28 000 000
Total shares outstanding, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–3 577 500	–5 250 900	–8 828 400
Total shares outstanding, net of shares held by Atlas Copco, Dec. 31	**835 816 596**	**384 968 108**	**1 220 784 704**

Shares outstanding, 2008	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total shares outstanding, 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, net of shares held by Atlas Copco, 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.

In order to adjust the Atlas Copco Group´s balance sheet to a more efficient structure, the Annual General Meeting (AGM) approved a redemption procedure that was carried out during 2007.

Repurchases of shares	Number of shares		Carrying amount	
	2008	2007	2008	2007
Opening balance, Jan. 1	8 828 400	18 414 200	704	3 776
Split of shares 3:1		36 828 400		
Redemption of shares		–18 414 200		–1 259
Redemption of series B shares held by Atlas Copco AB		–28 000 000		–1 914
Sales of B shares	–2 822 500	– 3 577 500	–192	– 246
Repurchase of A shares	7 697 500	3 577 500	699	347
Closing balance, Dec. 31	**13 703 400**	**8 828 400**	**1 211**	**704**
Percentage of total number of shares	1.1%	0.7%		

A resolution was approved at the 2007 AGM whereby the Company was authorized to sell series B shares held by Atlas Copco and purchase 6 400 000 series A shares for the purpose of covering commitments under personnel stock option programs. During 2007, a total of 3 577 500 shares were sold and purchased and in 2008, an additional 2 822 500 shares were sold and purchased in accordance with this resolution.

20. Continued

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 is valid until the 2009 AGM. Share repurchases of 4 875 000 series A shares were made during the third quarter 2008 for the specific purpose of covering the commitments under the 2008 personnel stock option program and in relation to the synthetic shares offered as part of the board remuneration. The series A shares are held for possible delivery under the 2006, 2007 and 2008 personnel stock option programs.

The total number of shares of series A and series B held by Atlas Copco are presented in the preceding table. 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, as well as from the translation of liabilities that hedge the company's net investments in foreign subsidiaries.

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 3.00 (3.00) totaling SEK 3 647 729 112 (3 662 354 112). For further information see appropriation of profit on page 95.

21. Borrowings

	2008		2007	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Non-current				
Medium Term Note Program	12 125	11 571	10 572	10 681
Other bond loans	8 238	7 188	6 212	6 084
Other bank loans	6 616	6 616	3 466	3 466
Less: current portion of bank loans	–89	–89	–408	–408
Total non-current loans	26 890	25 286	19 842	19 823
Finance lease liabilities	107	107	84	84
	26 997	**25 393**	**19 926**	**19 907**
Current				
Current portion of bank loans	89	89	408	408
Short-term loans	1 327	1 327	2 280	2 280
Finance lease liabilities	69	69	55	55
	1 485	**1 485**	**2 743**	**2 743**
	28 482	**26 878**	**22 669**	**22 650**

See note 22 for information on finance leases.

As a result of the funding plan in 2007, the Company raised approximately 16 000 by issuing a MSEK 2 000 3-year issue, a MSEK 3 000 5-year issue, a MEUR 600 7-year issue, and a MUSD 800 10-year issue. The multi-currency bond issue program was complemented by loans from the European Investment Bank and the Nordic Investment Bank, as well as issuance of commercial paper. Atlas Copco has currently a long-term debt rating of A-/A3. See note 27, "Capital Management", for further comments.

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 MSEK17 606 (15 683). As of December 31, 2008, there were no outstanding balances under these programs as compared to 855 outstanding as of 2007. 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 restrictions.

The difference between carrying amount and nominal amount on the Group's external loans 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

	2008			2007
Currency	Local currency (millions)	MSEK	%	%
EUR	953	10 441	37	40
SEK	7 926	7 926	28	26
USD	1 098	8 494	30	29
Others		1 621	5	5
		28 482	**100**	**100**

22. Leases

Operating leases – lessee

The leasing costs for assets under operating leases, such as rented premises, machinery, and significant computer and office equipment are reported as operating expenses and amounted to 573 (415). Future payments for non-cancelable leasing contracts amounted to 1 733 (1 389). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2008	2007
Less than one year	525	391
Between one and five years	883	798
More than five years	325	200
	1 733	**1 389**

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:

	2008	2007
Less than one year	219	115
Between one and five years	394	169
More than five years	56	17
	669	**301**

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2008	131	7
Carrying amounts, Dec. 31, 2008	163	6
Carrying amounts, Jan. 1, 2007	121	9
Carrying amounts, Dec. 31, 2007	131	7

Future payments will fall due as follows:

	2008			2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	77	8	69	64	9	55
Between one and five years	109	14	95	91	11	80
More than five years	13	1	12	4	–	4
	199	**23**	**176**	**159**	**20**	**139**

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:

	2008		2007	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	1 002	863	619	546
Between one and five years	1 628	1 503	1 149	1 002
More than five years	40	36	34	30
	2 670	**2 402**	**1 802**	**1 578**
Unearned finance income		258		204
Unguaranteed residual value		10		20
	2 670	**2 670**	**1 802**	**1 802**

23. Employee benefits

Post-employment benefits 2008	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	4 739	1 738	264	6 741
Fair value of plan assets	–4 863			–4 863
Present value of net obligations	**–124**	**1 738**	**264**	**1 878**
Adjustment in respect of minimum funding requirement	6			6
Unrecognized actuarial gains (+) / losses (–)	–376	–21	27	–370
Recognized liability for defined benefit obligations	**–494**	**1 717**	**291**	**1 514**
Other long-term service liabilities			21	21
Net amount recognized in balance sheet	**–494**	**1 717**	**312**	**1 535**

2007				
Defined benefit obligations	4 595	1 459	234	6 288
Fair value of plan assets	–4 936			–4 936
Present value of net obligations	**–341**	**1 459**	**234**	**1 352**
Unrecognized actuarial gains (+) / losses (–)	–106	92	5	–9
Recognized liability for defined benefit obligations	**–447**	**1 551**	**239**	**1 343**
Other long-term service liabilities			20	20
Net amount recognized in balance sheet	**–447**	**1 551**	**259**	**1 363**

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, Italy, Norway, Sweden, Switzerland and the United States. Some plans are funded in advance with certain assets or funds held separately from the Group for future benefit payment obligations. Other plans are unfunded and the benefits from those plans are paid by the Group as they fall due.

The application of IFRIC 14 effective January 1, 2008 with retrospective application for the Group had effects in Canada and Switzerland, where direct refunds of surplus are not available to the Group. In Switzerland, the impact is due to the minimum contribution requirement reducing the present value of economic benefit available to zero, resulting in a reduction of the 2008 net asset by 2 recognized in the income statement. In Canada, the total impact was 4 due to the minimum funding requirement reducing the economic benefit available to zero and an additional liability recorded for special payment to cover solvency deficit.

A settlement has been recorded in 2008 in Sweden due to new early-retirement plans offered increasing the liability by 9 recognized as an expense. Additionally, redundancy plans in UK and France have been implemented and resulted in a curtailment gain recorded in the income statement, of 10 and 1, respectively.

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 a post retirement benefit plan. Starting in 2008, an unfunded post employment plan was added, valued at 3 at year end.

In France, the companies offer retirement indemnities. These benefits are unfunded for most companies.

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. The plan has the largest defined benefit obligation of all plans and represents 24% of the total defined benefit obligation of the Group.

In Italy, Atlas Copco provides a statutory termination indemnity benefit (TFR) which pays a lump sum benefit to members when they leave the company. The plan is unfunded. After the 2007 reform, the TFR plan was converted from a defined benefit plan to a defined contribution plan for future service.

The Norwegian companies offer a final salary scheme that is insured. Additionally, an unfunded early retirement plan is provided.

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 also has 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 have opted out from the ITP plan. The plan is insured. The third plan subject to IAS 19 relates to former senior employees now retired. These pension arrangements are provided for in the balance sheet.

In Switzerland, the Group offers a cash balance plan where a minimum return is promised. These arrangements are funded.

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. In 2007, a soft freeze for non-grandfathered employees in the US pension plan resulted in a curtailment of 53.

The actual return on plan assets totaled -54 (177). Of the total benefit expense of 281 (214), 193 (143) has been charged to operating expense and 88 (71) to financial expense.

The net pension obligations have been recorded in the balance sheets as follows:	2008	2007
Financial assets (note 15)	–457	–423
Post-employment benefits	1 922	1 728
Other provisions (note 25)	70	58
Total, net	**1 535**	**1 363**

23. Continued

Movement in plan assets	2008	2007
Fair value of plan assets at Jan. 1	4 936	4 739
Plan amendments	4	–
Expected return on plan assets	239	243
Difference between expected and actual return on plan assets	–293	–66
Business acquisitions	–	69
Settlements	–26	–32
Employer contributions	416	419
Plan members contributions	19	18
Benefits paid by the plan	–393	–366
Translation differences	–39	–88
Fair value of plan assets at Dec. 31	**4 863**	**4 936**

Plan assets consist of the following:	2008	2007
Equity securities	1 033	1 159
Bonds	3 392	3 277
Other	265	424
Cash	173	76
	4 863	**4 936**

The plan assets are allocated among the following geographic areas	2008	2007
Europe	3 486	3 641
North America	1 301	1 245
Rest of the world	76	50
	4 863	**4 936**

Plan assets do not include any of the Group's financial instruments or property which is occupied by members of the Group.

Movement in the obligations for defined benefits	2008	2007
Defined benefit obligations at Jan. 1	6 288	6 416
Service cost	178	196
Interest expense	327	314
Actuarial experience gains (–) / losses (+)	33	–16
Actuarial assumptions gains (–) / losses (+)	36	–319
Business acquisitions	6	170
Settlements	–37	–89
Benefits paid from plan or company assets	–393	–366
Other	31	5
Translation differences	272	–23
Defined benefit obligations at Dec. 31	**6 741**	**6 288**

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas	2008	2007
Europe	5 103	4 785
North America	1 546	1 444
Rest of the world	92	59
	6 741	**6 288**

Expenses recognized in the income statement	2008	2007
Service cost	178	196
Interest expense	327	314
Expected return on plan assets	–239	–243
Employee contribution	–19	–18
Past service cost	17	6
Amortization of unrecognized actuarial loss	19	15
Settlement/curtailment	–8	–56
Adjustment in respect of minimum funding requirement	6	–
	281	**214**

The expenses are recognized in the following line items in the income statement	2008	2007
Cost of sales	67	44
Marketing expenses	47	33
Administrative expenses	67	56
Research and development expenses	12	10
Financial expense (note 9)	88	71
	281	**214**

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	2008	2007
Discount rate		
Europe	5.03	5.15
North America	6.15	5.83
Rest of the world	3.87	3.79
Expected return on plan assets		
Europe	4.53	3.60
North America	5.85	4.83
Rest of the world	3.34	2.65
Future salary increases		
Europe	3.41	3.39
North America	3.51	3.51
Rest of the world	3.28	3.34
Medical cost trend rate		
North America	11.0	9.0
Future pension increases		
Europe	2.29	2.12
North America	0.32	0.40
Rest of the world	1.50	n/a

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.

23. Continued

Assumed healthcare cost trend rates have a significant effect on the amounts recognized in profit and loss. 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	9.7%	–8.5%
Effect on defined benefit obligation	8.7%	–7.7%

Historical information	2008	2007	2006	2005	2004
Present value of defined benefit obligations	6 741	6 288	6 416	6 656	6 201
Fair value of plan assets	4 863	4 936	4 739	4 445	3 234
Present value of net obligations	**1 878**	**1 352**	**1 677**	**2 211**	**2 967**

Experience adjustments relating to:	2008	2007	2006	2005	2004
Plan assets	–293	–66	11	244	86
Plan liabilities	–33	16	–51	–142	16

The Group expects to pay 341 in contributions to defined benefit plans in 2009.

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 and 2007, the Annual General Meeting decided on performance based personnel stock option programs for 2006 and 2007 based on a proposal from the Board reflecting an option program for 2006–2008. In 2008, the Annual General Meeting decided on a performance based personnel stock option program for 2008 similar to the 2006 and 2007 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 are the following: they are issued by Atlas Copco AB; have a term of six years from grant date and vest at a rate of one third per year as from the date of grant. They are not transferable. The personnel options were granted free of charge and had no performance conditions.

Option program 2006–2008

At the Annual General Meeting 2006, 2007 and 2008 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in May each year and the options were issued in March the following year. The number of options issued depended on the development of the value growth within the Group, expressed as Economic Value Added (EVA), during the respective program year.

In connection to the issuance, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period before the issuance date. The options were issued without compensation paid by the employee and they remain the property of the employee also if the employment is terminated. The options have a term of five years from the issuance date and are not transferable. The options become exercisable at a rate of one third per year, starting one year after the date of issue.

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 program 2008 the option 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 in the program 2008 are for accounting purposes classified 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 grant date (May each year) where the exercise price was a simulation of what it may be established at in March the following year. For the program in 2008, the fair value of the options/SARs was based on the following assumptions:

	Program 2008
Expected exercise price	SEK 127.50
Expected volatility	30%
Expected option life	3.84–5.84 years
Expected/estimated share price	SEK 112.50
Expected dividend (growth)	SEK 3.00 (10%)
Risk free interest rate	4.05%–4.07%
Average grant value	SEK 23.36
Maximum number of options	4 200 000
– of which forfeited	219 792

For stock options, the fair value is recognized as an expense over the period May through March the following year, while the value of the SARs and the options classified as cash-settled are remeasured at each reporting date until exercise or expiration.

In accordance with IFRS 2, the expense in 2008 for all share-based incentive programs amounted to 50 (93) excluding social costs whereof 52 (89) 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 per December 31 amounted to 28 (51). Atlas Copco shares are held by the Group in order to cover commitments under the programs 2006–2008. See also note 20.

23. Continued

The details on all outstanding options/SARs are presented in the table below:

Summary of share value based incentive programs[1)]

	Stock options					Share appreciation rights				
Program	**2001**	**2002**	**2003**	**2006**	**2007**	**2001**	**2002**	**2003**	**2006**	**2007**
Initial number of employees	142	145	138	183	181	118	125	127	36	34
Initial number of options	3 316 292	3 378 473	3 337 019	3 201 795	3 187 109	2 735 941	2 963 935	2 901 754	543 320	514 046
Expiration date	May 13, 07	May 12, 08	May 11, 09	Mar 30, 12	Mar 30, 13	May 13, 07	May 12, 08	May 11, 09	Mar 30, 12	Mar 30, 13
Exercise price, SEK	32.41	36.41	28.81	111.06	105	32.41	36.41	28.81	111.06	105
Type of share	A	A	A	A	A	A	A	A	A	A
Number of options/rights 2008										
Outstanding Jan. 1		655 708	934 009	3 201 795	3 098 987		144 856	449 724	499 360	469 985
Exercised		–655 708	–259 834	–	–		–144 856	–183 202	–	–
Outstanding Dec. 31	**–**	**–**	**674 175**	**3 201 795**	**3 098 987**	**–**	**–**	**266 522**	**499 360**	**469 985**
– of which vested	–	–	*674 175*	*3 201 795*	*3 098 987*	–	–	*266 522*	*499 360*	*469 985*
– of which exercisable	–	–	*674 175*	*1 067 265*	–	–	–	*266 522*	*166 453*	–
Remaining exercise period, months	–	–	5	39	51	–	–	5	39	51
Average stock price for exercised options, SEK	–	98	90	–	–	–	101	91	–	–
Number of options/rights 2007										
Outstanding Jan. 1	359 270	889 717	1 279 110	3 201 795	–	106 041	285 511	784 815	499 360	–
Granted					3 187 109					514 046
Exercised	–317 816	–234 009	–345 101	–	–	–106 041	–133 743	–335 091	–	–
Forfeited	–41 454	–	–	–	–88 122	–	–6 912	–	–	–44 061
Outstanding Dec. 31	**–**	**655 708**	**934 009**	**3 201 795**	**3 098 987**	**–**	**144 856**	**449 724**	**499 360**	**469 985**
– of which vested	–	*655 708*	*934 009*	*3 201 795*	–	–	*144 856*	*449 724*	*499 360*	–
– of which exercisable	–	*655 708*	*934 009*	–	–	–	*144 856*	*449 724*	–	–
Remaining exercise period, months	–	5	17	51	63	–	5	17	51	63
Average stock price for exercised options, SEK	107	108	107	–	–	101	103	104	–	–

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

24. Other liabilities

	2008	2007
Derivatives		
– not designated for hedge accounting	584	108
– designated for hedge accounting	1 858	674
Financial liabilities classified as other liabilities		
– other operating liabilities	2 197	1 929
– accrued expenses	4 158	3 476
Advances from customers	2 759	1 936
Prepaid income	107	119
Deferred revenues service contracts	368	281
	12 031	**8 523**

The increase in fair value of derivatives, primarily consisting of foreign exchange forward contracts for the sale of SEK, is due to the substantial weakening of the Swedish krona during the last quarter of 2008.

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

2008	Product warranty	Restructuring	Service contract	Other	Total
Opening balance, Jan. 1	710	37	173	513	1 433
During the year					
– provisions made	898	134	286	359	1 677
– provisions used	–751	–32	–223	–308	–1 314
– provisions reversed	–60	–2	–8	–25	–95
Business acquisitions	14		–1	9	22
Translation differences	103	10	21	53	187
Closing balance, Dec. 31	**914**	**147**	**248**	**601**	**1 910**
Non-current	121	45	77	293	536
Current	793	102	171	308	1 374
	914	**147**	**248**	**601**	**1 910**

2007	Product warranty	Restructuring	Service contract	Other	Total
Opening balance, Jan. 1	526	37	166	430	1 159
During the year					
– provisions made	683	22	240	306	1 251
– provisions used	–557	–14	–231	–201	–1 003
– provisions reversed	–32	–8	–7	–35	–82
Business acquisitions	87			5	92
Translation differences	3		5	8	16
Closing balance, Dec. 31	**710**	**37**	**173**	**513**	**1 433**
Non-current	127	30	62	286	505
Current	583	7	111	227	928
	710	**37**	**173**	**513**	**1 433**

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 replacement. 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. Provisions for service contracts relate to future commitments to customers. Other provisions consist of amounts related to share-based payments including social fees, jubilee benefits (se note 23) and environmental remediation obligations.

26. Assets pledged and contingent liabilities

	2008	2007
Assets pledged for debts to credit institutions		
Real estate mortgages	55	61
Chattel mortgages	29	40
	84	**101**
Contingent liabilities		
Notes discounted	33	30
Sureties and other contingent liabilities	104	636
	137	**666**

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 mangement 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 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.

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 income statement 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 instrument.

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.

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 5 455 (3 473), of which 3 438 were on short-term deposits in Swedish banks. The overall liquidity of the Group is sufficient 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 MUSD 1 000 committed and sufficient uncommitted stand-by credit facilities to meet operational, strategic and rating objectives.
- The average tenor (i.e. time until maturity) of Atlas Copco AB's external debt should be at least 3 years (actual: 5.6 years).
- No more than MSEK 5 000 of Atlas Copco AB's external debt may mature within the next 12 months (actual: 0).

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:

Maturity	Fixed	Float	2008 Total
2009		1 416	1 416
2010		2 078	2 078
2011		2 094	2 094
2012		3 201	3 201
2013		5	5
2014		9 367	9 367
2015		1 095	1 095
2016		705	705
2017	1 811	5 432	7 243
Later years	1 102	–	1 102
Total	**2 913**	**25 393**	**28 306**

The amounts maturing in 2009 are comprised of various credit facilities at a number of subsidiaries throughout the Group.

At year end 2008, the main credit facilities available to the Group were:

- MUSD 1 000 committed revolving credit facility with maturity in 2012. The facility was not utilized. 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.
- Uncommitted 1-year commercial paper facilities in EUR, SEK and USD totaling 17 606 (MSEK equivalent). At year end 2008, the utilization was zero. The costs for utilizing these facilities depend on the market at time of utilization.

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 24 months, with a benchmark of 12 months. Atlas Copco generally favors a short interest rate duration which results in more volatility in net interest expense as compared to fixed rates (long duration). 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.

Excluding any derivatives, Atlas Copco AB's effective interest rate was 5.1% (5.2) and the average duration was 3.8 (4.6) years.

To convert fixed to floating interest on EUR, SEK and USD denominated loans, Atlas Copco AB has entered into interest rate swaps designated as hedging instruments, with notional amounts of MEUR 600, MSEK 3 000 and MUSD 600, respectively. Including the effect of the derivatives, the effective interest rate and duration of the Group's borrowings at year end 2008 was 4.8% (5.1) and 1.0 (1.0) year, respectively.

27. Continued

The fair value of the interest rate swaps outstanding at December 31 was 1 695 (214) and the effect of these are not included in the calculation of the effective interest rate.

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:

Fair value hedge	Net income 2008	Net income 2007
Financial liabilities	–1 474	–25
Interest rate-related derivatives	1 441	14
	–33	**–11**

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 303 (188) as at December 31.

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.

A one percentage point weakening of the SEK against all other currencies would have increased the fair value of the loan portfolio by 171 (151). 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 equity (see also Accounting Principles for Financial Instruments).

Group currency risk policy

a) Transaction exposure

Due to Atlas Copco presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies are created. The value of these net positions fluctuates with the changes in currency rates and, thus, a transaction exposure is created. The following describes the Group's general policies for managing transaction exposure:

- Exposures should be reduced by matching 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 the transaction exposure should be hedged, fully or partly.

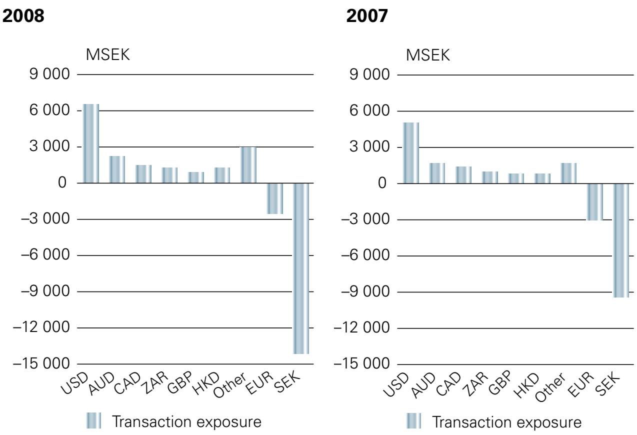
In accordance with the above, Atlas Copco has entered into foreign currency forwards which are designated as hedging instruments in an operational cash flow hedge. As a part of the normal business operations, the hedged cash flows are received or paid and the currency effects recorded in earnings. The 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 fair value of the outstanding foreign currency forwards at December 31 was –73 (39) and the maturities are set out in the table to the right. A net realized result for currency hedging of 28 (–107) was included in earnings during 2008.

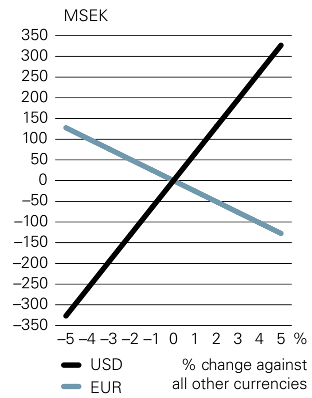
The largest operational surplus and deficit currencies are shown in graph 1. The amounts presented in the graph are based on the Group's intercompany netting system which includes the majority of subsidiaries in the countries whose functional currencies are presented. Graph 2 indicates the effect on 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.

The transaction exposure is 14 122 (9 407) and the hedge ratio at December 31 was 24 % (15).

Graph 1
Estimated transaction exposure in the Group's most important currencies 2008 and 2007



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



Maturity table of foreign currency forwards	
Q1 2009	–67
Q2 2009	–11
Q3 2009	21
Q4 2009	–16
	–73

27. Continued

Atlas Copco AB also entered into 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 positive 295 (435), with a corresponding loss on the loan, both accounted for in the income statement. 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:

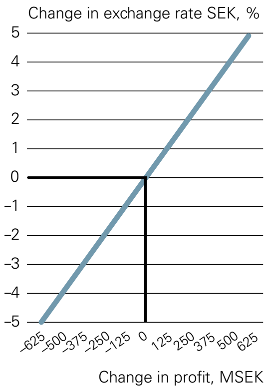
- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge the remaining translation exposure.

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. The hedging instruments used to hedge the corresponding EUR-denominated net assets in subsidiaries are loans totaling MEUR 1 461 (1 851). As of December 31, the fair value of the hedging instruments was –1 996 (–946), of which currency effect was –1 416 (–612). Atlas Copco also uses loans totaling MUSD 58 (253) to hedge the corresponding equity positions in USD. The fair value of the hedging instruments as of December 31, 2008 was –226 (83). The following table shows the amounts of the fair value adjustments included in net income during the year, excluding amounts reclassified to income statement:

Net investment hedge	Net income 2008	Net income 2007
Equity	3 432	824
Loans and forward contracts realized and unrealized	–3 432	–824
	0	**0**

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.

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 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 usually retains collateral in the 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).

The Group has during the past years established an in-house customer finance operation as a means of broadening its offering to customers. At December 31, the credit portfolio of the customer finance operations totaled approximately 3 991 (2 755). There were no concentrations of customer risks in these operations. The Group maintains collateral for its credit portfolio primarily through repossession rights.

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 political risk policy is that political risks should be monitored and managed on a group level, based on country risk ratings and country limits established by the FRMC. Political risk management decisions could be to transfer political risks exposure for a certain country to a third party, to temporarily suspend the creation of additional risks on a certain country, etc. 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.

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 2008, the provision for bad debt amounted to 3.4% (2.6) 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:

	2008		2007	
Trade receivables	Gross	Impairment	Gross	Impairment
Not past due	9 818	15	9 183	2
Past due but not impaired				
0–30 days	3 083		2 147	
31–60 days	1 103		836	
61–90 days	514		383	
More than 91 days	969		609	
Past due and individually impaired				
0–30 days	66	19	72	21
31–60 days	48	13	25	7
61–90 days	46	15	22	8
More than 91 days	352	237	196	178
Collective impairment		249		130
Total	**15 999**	**548**	**13 473**	**346**

27. Continued

Finance lease receivables	2008 Gross	2008 Impairment	2007 Gross	2007 Impairment
Not past due	2 406	7	1 583	4
Past due but not impaired				
0–30 days	8		13	
31–60 days	3		2	
61–90 days	1		2	
More than 90 days	1		2	
Past due and individually impaired				
31–60 days	2	2		
61–90 days	1	1		
More than 90 days	3	3		
Total	**2 425**	**13**	**1 602**	**4**

Other financial receivables	2008 Gross	2008 Impairment	2007 Gross	2007 Impairment
Not past due	1 083	13	791	13
Past due but not impaired				
0–30 days	35		–	
Total	**1 118**	**13**	**791**	**13**

Provision for bad debts, trade	2008	2007
Provisions at Jan. 1	346	278
Business acquisitions	1	41
Divestments	–3	–1
Provisions recognized for potential losses	342	118
Amounts used for established losses	–71	–52
Release of unnecessary provisions	–111	–40
Translation differences	44	2
Provisions at Dec. 31	**548**	**346**

Impairment of finance lease receivables	2008	2007
Provisions at Jan. 1	4	–
Provisions recognized for potential losses	13	4
Amounts used for established losses	–2	–
Release of unnecessary provisions	–2	–
Provisions at Dec. 31	**13**	**4**

Impairment of other financial receivables	2008	2007
Provisions at Jan. 1	13	–
Provisions recognized for potential losses	12	13
Release of unnecessary provisions	–13	–
Effect of foreign currency movements	2	–
Translation differences	–1	–
Provisions at Dec. 31	**13**	**13**

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 the amount of excess cash by reducing the Group's interest bearing debt. Any remaining excess cash should be invested in order to receive a return on it. Such investments may only be made if the credit rating of the counterpart or underlying investment is at least A-/A3 as rated by Standard & Poor's or Moody's. Investments in complex financial products are not allowed even if they meet the rating criteria unless approved by the FRMC.

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 2008, 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 5 144 (3 468).

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.

The table below shows the actual exposure of financial instruments as per December 31:

Financial credit risk	2008	2007
Trade receivables	15 404	13 116
Cash and cash equivalents	5 455	3 473
Held to maturity investments	374	340
Available-for-sale investments	713	957
Financial receivables	3 530	2 388
Unrealized derivative gains	4 058	990
Other	2 094	1 534
	31 628	**22 798**

27. Continued

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 10 816 575 shares in RSC Holdings Inc. representing approximately 10.5% (11.5) of total shares. The shares are listed on the New York Stock Exchange. The market value of the shares, as of year end 2008, was approximately 713 (957), which exceeds the historic cost value by approximately 248 (569). These shares are classified as available-for-sale. A one-percentage change in the share price gives a change of MUSD 0.9 (1.5) for Atlas Copco.
- Pension fund investments. The Group had funded defined pension benefit plan assets totaling 4 863 (4 936) at year end 2008. The pension investment policy gives guidelines regarding the investment of these funds and is as follows:
  - The assets should be invested with low risk (e.g. low-risk bonds or equity related instruments, preferably with a capital guarantee).
  - 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.

The Group has a price risk on agreements with banks related to the share options and rights in the 2002 and 2003 share based incentive programs.

Guarantees

At December 31, the Group had approximately 280 (209) 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 52 250 (37 309). 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 40 – 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, a distribution 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 stability of long-term ratings has been an objective in connection with the significant cash distributions and share buy-backs made in 2006 and 2007. The outstanding loans of the Group at December 31, 2008 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.

Valuation methods

Derivatives
Fair value of futures, forward rate agreements (FRAs) and interest rate swaptions are calculated based on quoted market rates.

Foreign exchange contracts
Fair values are calculated with the forward exchange rate.

Standard currency options
Fair values are based on the Garman & Kohlhagen option valuation model.

Interest-bearing liabilities
Fair values are calculated by using discounted cash flows.

Finance leases
Fair values are based on present value of future cash flows discounted to the market rate for similar contracts.

The total net amount of the change in fair value estimated using a valuation technique and recognized in the income statement during 2008 was – (–18) as per December 31.

Currency rates used in the financial statements

			Year-end rate		Average rate	
	Value	Code	2008	2007	2008	2007
Australia	1	AUD	5.36	5.65	5.56	5.65
Canada	1	CAD	6.30	6.59	6.21	6.30
EU	1	EUR	10.95	9.47	9.67	9.25
Hong Kong	100	HKD	99.84	82.76	84.81	86.50
United Kingdom	1	GBP	11.21	12.90	12.11	13.49
USA	1	USD	7.74	6.46	6.60	6.75

27. Continued

The Group's financial instruments per category

The following tables show the Group's financial instruments per category at December 31, 2008 and 2007:

2008 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			2 200	45	713	2 958	2 958
Other receivables			47			47	47
Derivatives	1 695	9				1 704	1 704
Non-current financial assets	**1 695**	**9**	**2 247**	**45**	**713**	**4 709**	**4 709**
Trade receivables			15 404			15 404	15 404
Financial assets			1 330	329		1 659	1 659
Other receivables			1 836			1 836	1 836
Derivatives	589	1 765				2 354	2 354
Other accrued income			211			211	211
Cash and cash equivalents			5 455			5 455	5 455
Current financial receivables	**589**	**1 765**	**24 236**	**329**	**–**	**26 919**	**26 919**
Financial assets	**2 284**	**1 774**	**26 483**	**374**	**713**	**31 628**	**31 628**

2007 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			1 545	59	957	2 561	2 508
Other receivables			11			11	11
Derivatives	341	6				347	347
Non-current financial assets	**341**	**6**	**1 556**	**59**	**957**	**2 919**	**2 866**
Trade receivables			13 116			13 116	13 116
Financial assets			843	281		1 124	1 124
Other receivables			1 382			1 382	1 382
Derivatives	351	292				643	643
Other accrued income			141			141	141
Cash and cash equivalents			3 473			3 473	3 473
Current financial receivables	**351**	**292**	**18 955**	**281**	**–**	**19 879**	**19 879**
Financial assets	**692**	**298**	**20 511**	**340**	**957**	**22 798**	**22 745**

27. Continued

2008 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			26 997	26 997	27 890
Derivatives		76		76	76
Other liabilities			42	42	42
Non-current financial liabilities	**–**	**76**	**27 039**	**27 115**	**28 008**
Liabilities to credit institutions			1 327	1 327	1 327
Current portion of interest-bearing liabilities			158	158	158
Current financial interest-bearing liabilities	**–**	**–**	**1 485**	**1 485**	**1 485**
Derivatives	1 858	584		2 442	2 442
Other accrued expenses			4 158	4 158	4 158
Trade payables			6 415	6 415	6 415
Other liabilities			2 197	2 197	2 197
Current financial operating liabilities	**1 858**	**584**	**12 770**	**15 212**	**15 212**
Financial liabilities	**1 858**	**660**	**41 294**	**43 812**	**44 705**

2007 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 926	19 926	20 004
Derivatives	7			7	7
Other liabilities			50	50	50
Non-current financial liabilities	**7**	**–**	**19 976**	**19 983**	**20 061**
Liabilities to credit institutions			2 280	2 280	2 280
Current portion of interest-bearing liabilities			463	463	463
Current financial interest-bearing liabilities	**–**	**–**	**2 743**	**2 743**	**2 743**
Derivatives	674	108		782	782
Other accrued expenses			3 476	3 476	3 476
Trade payables			5 591	5 591	5 591
Other liabilities			1 929	1 929	1 929
Current financial operating liabilities	**674**	**108**	**10 996**	**11 778**	**11 778**
Financial liabilities	**681**	**108**	**33 715**	**34 504**	**34 582**

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 A22 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A23. Information about associated companies is found in note 14. Information about Board members and Group Management is presented on pages 120–121 and pages 124–125.

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 with in 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:

	2008	2007
Revenues	23	47
Goods purchased	103	193
Service purchased	30	21
At Dec. 31:		
Trade receivables	1	4
Trade payables	14	14
Guarantees	12	10

Compensation to key management personnel

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

29. Subsequent events

In January 2009, the Atlas Copco Board announced that Ronnie Leten, presently President of the Compressor Technique business area, will be the new President and CEO of the Atlas Copco Group, effective June 1, 2009. He will replace Gunnar Brock who has decided to leave his position after seven years of leading the Group.

In connection to the fourth quarter results on February 2, it was announced that additional reductions in the workforce will be made during 2009 and is expected to affect more than 3 000 people globally. Costs related to these reductions are estimated to total 400.

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 it would be reasonably possible 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.

Credit loss reserves

The Group provides for credit losses 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.

Parent Company

Income Statement

For the year ended December 31, Amounts in MSEK	Note	2008	2007
Administrative expenses		–287	–292
Other operating income	A3	223	171
Other operating expenses	A3	0	–1
Operating loss		**–64**	**–122**
Financial income	A4	11 925	3 211
Financial expense	A4	–7 311	–2 804
Profit after financial items		**4 550**	**285**
Appropriations	A5	1 178	393
Profit before tax		**5 728**	**678**
Income tax	A6	353	–57
Profit for the year		**6 081**	**621**

Statement of Cash Flows

For the year ended December 31, Amounts in MSEK	2008	2007
Cash flows from operating activities		
Operating loss	–64	–122
Adjustments for:		
Depreciation	3	3
Capital gain/loss and other non-cash items	–72	312
Operating cash surplus	–133	193
Net financial items received/paid	5 888	–1 170
Taxes paid	–177	–344
Cash flow before change in working capital	**5 578**	**–1 321**
Change in		
Operating receivables	–645	701
Operating liabilities	303	–86
Change in working capital	**–342**	**615**
Net cash from operating activities	**5 236**	**–706**
Cash flow from investing activities		
Investments in intangible assets	–16	–8
Investments in tangible assets	–3	–2
Investments in subsidiaries	–7 270	–5 679
Divestment of subsidiaries/repatriation of equity	13 491	–
Investments in financial assets	–754	–3 581
Net cash from investing activities	**5 448**	**–9 270**
Cash flow from financing activities		
Dividends paid	–3 662	–2 899
Redemption of shares	–	–24 415
Repurchase of own shares, net	–453	–26
Change in interest-bearing liabilities	–3 071	33 680
Net cash from financing activities	**–7 186**	**6 340**
Net cash flow for the year	**3 498**	**–3 636**
Cash and cash equivalents, Jan. 1	89	3 725
Net cash flow for the year	3 498	–3 636
Cash and cash equivalents, Dec. 31	**3 587**	**89**

Balance Sheet

As at December 31, Amounts in MSEK	Note	2008	2007
ASSETS			
Non-current assets			
Intangible assets	A7	28	12
Tangible assets	A8	7	8
Financial assets			
Deferred tax assets	A9	1 704	132
Shares in Group companies	A10	87 785	95 152
Other financial assets	A11	3 531	1 420
Total non-current assets		**93 055**	**96 724**
Current assets			
Income tax receivables		450	320
Other receivables	A12	11 617	8 315
Cash and cash equivalents	A13	3 587	89
Total current assets		**15 654**	**8 724**
TOTAL ASSETS		**108 709**	**105 448**
EQUITY	Page 80		
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		–2 842	–557
Retained earnings		24 236	28 661
Profit for the year		6 081	621
Total non-restricted equity		**27 475**	**28 725**
TOTAL EQUITY		**33 260**	**34 510**
Untaxed reserves	A15	**–**	**1 178**
PROVISIONS			
Post-employment benefits	A16	55	52
Other provisions	A17	40	86
Total provisions		**95**	**138**
LIABILITIES			
Non-current liabilities			
Borrowings	A18	52 211	43 654
Other liabilities		76	7
Total non-current liabilities		**52 287**	**43 661**
Current liabilities			
Borrowings	A18	18 917	24 817
Other liabilities	A19	4 150	1 144
Total current liabilities		**23 067**	**25 961**
TOTAL EQUITY AND LIABILITIES		**108 709**	**105 448**
Assets pledged	A21	**29**	**23**
Contingent liabilities	A21	**411**	**5 654**

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, 2007	610 392 352	786	4 999	–	55 979	61 764
Dividends					–2 899	–2 899
Split of shares 3:1	1 257 613 104					
– of which held by Atlas Copco AB	–36 828 400					
Redemption of shares	–628 806 552	–262			–24 161	–24 423
– of which held by Atlas Copco AB	18 414 200				7	7
Increase of share capital through bonus issue		262			–262	
Redemption of shares	–28 000 000	–18				–18
– of which held by Atlas Copco AB	28 000 000				18	18
Increase of share capital through bonus issue		18			–18	
Divestment of series B shares held by Atlas Copco AB	3 577 500				322	322
Acquisition of series A shares	–3 577 500				–347	–347
Share–based payment, equity settled						
– Expense during the year					89	89
– Exercise of options					–67	–67
Translation of net investment				–557		–557
Profit for the year[1)]					621	621
Closing balance, Dec. 31, 2007	**1 220 784 704**	**786**	**4 999**	**–557**	**29 282**	**34 510**
Opening balance, Jan. 1, 2008	1 220 784 704	786	4 999	–557	29 282	34 510
Dividends					–3 662	–3 662
Divestment of series B shares held by Atlas Copco AB	2 822 500				246	246
Acquisition of series A shares	–7 697 500				–699	–699
Group contributions paid					–1 300	–1 300
Tax effect of Group contribution					364	364
Share–based payment, equity settled						
– Expense during the year					52	52
– Exercise of options					–47	–47
Translation of net investment				–2 285		–2 285
Profit for the year					6 081	6 081
Closing balance, Dec. 31, 2008	**1 215 909 704**	**786**	**4 999**	**–2 842**	**30 317**	**33 260**

1) Restated due to the adoption of IFRIC 11 retrospectively from January 1, 2007. See note A1 for additional information.

See note A14 for additional information.

Notes to 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. In 2008, the Group function for administration of expatriates and benefits including post-employment benefits for such personnel has been integrated into the Parent Company.

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the accounting standard RFR 2.1, "Accounting for Legal Entities", hereafter referred to as "RFR 2.1", issued by the Swedish Financial Accounting Standards Council. In accordance with RFR 2.1, 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 2.1 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 below.

For discussion regarding accounting estimates and judgments, see note 30 in the consolidated financial statements.

New accounting principle and restatement of 2007 comparative figures
The Parent Company has applied IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, which addresses how share-based payment arrangements are to be classified in entities that receive services from their employees. Previously, the expenses related to such arrangements were expensed in the Parent Company income statement. In applying IFRIC 11, when a Parent Company grants rights to its equity instruments to employees of a subsidiary, the costs related to such arrangements are recorded as a capital contribution to the subsidiary and an increase in the shares of the subsidiary. In applying this principle retrospectively, the January – December 2007 administrative expenses have been restated by MSEK 87. Non-current assets have been increased by the corresponding amount for the period.

Subsidiaries
Participations in subsidiaries are accounted for by the Parent Company at historical cost. Dividend income is only recognized in earnings to the extent that these originate from profits which arose after the date of acquisition. Dividends that exceed these profits are accounted for as a repayment of the investment and a reduction in the historical cost of the investment. 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 on page 44 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 earnings as they occur.

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
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.

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 by the Parent Company to minimize tax within the Swedish tax group are credited directly to equity, net of tax. Group contributions received which are equivalent to dividends are classified as such and included in earnings together with the related 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	2008			2007		
	Women	Men	Total	Women	Men	Total
Sweden	52	44	96	46	39	85

Women in Atlas Copco Board and Management, %	2008	2007
Board of Directors excl. union representatives	33	29
Group Management	25	25

Salaries and other remuneration	2008		2007	
	Board members & Group Management[1)]	Other employees	Board members & Group Management[1)]	Other employees
Sweden	46	60	50	58
of which variable compensation	15		21	

[1)] Includes 10 (8) Board Members who receive fees from Atlas Copco AB and 7 (7) members of Group Management who are employed by and receive salary and other remuneration from the Company.

Pension benefits and other social costs	2008	2007
Contractual pension benefits for Board Members and Group Management	8	14
Contractual pension benefits for other employees	18	20
Other social costs	55	45
	81	**79**
Capitalized pension obligations to Board Members and Group Management	24	26

A2. Continued

Absence due to illness, %	2008	2007
Total	1.8	2.1
for men	0.8	0.6
for women	2.6	3.2
long-term absence due to illness, in percent of total absence	52.9	71.7
Absence due to illness, men		
employees under 30 years old	0.3	0.4
employees 30–49 years old	1.4	0.8
employees 50 years and older	0.3	0.3
Absence due to illness, women		
employees under 30 years old	3.3	0.8
employees 30–49 years old	1.9	1.5
employees 50 years and older	3.1	6.8

Remunerations to auditors

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

	2008	2007
KPMG AB		
– Audit fee	6	7
– Other	2	4
	8	**11**

Other fees to KPMG AB are primarily consultancy for tax and accounting matters.

A3. Other operating income and expenses

	2008	2007
Commissions received	199	160
Exchange-rate differences	19	–
Other	5	11
Total other operating income	**223**	**171**
Total other operating expenses	**0**	**–1**

A4. Financial income and expense

	2008	2007
Financial income		
Interest income		
– bank deposits	30	66
– Group companies	704	606
Dividend income	5 670	690
Group contribution	2 897	1 577
Change in fair value		
– financial assets to fair value through profit or loss	1 086	26
Capital gain		
– gain on repatriation of subsidiary equity	1 538	–
Foreign exchange gain	–	246
Financial income	**11 925**	**3 211**
Financial expense		
Interest expense		
– financial liabilities measured at amortised cost	–1 240	–726
– liabilities to fair value through profit or loss	–36	3
– Group companies	–2 398	–1 132
– pension provision, net	–2	–1
Foreign exchange loss	–1 960	–117
Change in fair value		
– financial assets to fair value through profit or loss	–49	–411
– ineffective part of fair value hedge	–33	–4
– related to other liabilities	–1 583	–19
Impairment loss		
– financial assets	–10	–397
Financial expense	**–7 311**	**–2 804**
Net finance income	**4 614**	**407**

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

	2008	2007
Total interest income on financial assets	734	672
Total interest expense on financial liabilities	–3 276	–1 858

	2008	2007
Net gain/loss on		
– financial assets to fair value through profit and loss	3 086	–501
– loans and receivables, incl bank deposits	9 291	423
– other liabilities	–7 728	–1 780
– fair value hedge	–33	–2

Due to the new tax treaty between Sweden and the U.S. a significant amount has been paid as dividend in 2008 from the U.S.-based subsidiaries. Capital has also been repatriated from subsidiaries in the EU which resulted in a foreign exchange gain of 1 538.

After the redemption and dividend in May, 2007, the Parent Company substantially increased its long-term debt resulting in the substantial increase in both internal and external interest expense in 2008. Further, in the end of 2008 the Parent Company has amortized its borrowings from Group companies of approximately net MEUR 1 450 but also increased external borrowings under the MTN facilities of MSEK 2 705.The Parent Company hedges a substantial part of its debt, which increases the amount of assets to fair value. For further information on the hedges, see note 27 of the consolidated statements, section Hedge Accounting.

A5. Appropriations

	2008	2007
Appropriations	1 178	393
	1 178	**393**

Tax legislation in Sweden allows companies to retain untaxed earnings through tax deductible allocations to untaxed reserves. The untaxed reserves created in this manner cannot be distributed as dividends.

If the Parent Company reported deferred tax on appropriations as reported in the consolidated accounts, deferred tax would have amounted to 330 (110).

A6. Income tax

	2008	2007
Current tax	–30	–230
Deferred tax	383	173
	353	**–57**
The Swedish corporate tax rate, %	28.0	28.0
Profit before taxes	5 728	678
National tax based on profit before taxes (28%)	–1 604	–190
Tax effects of:		
Non-deductible expenses	–44	–173
Tax exempt income	2 112	250
Prior year adjustment, deferred tax	–	89
Imputed interest on tax allocation reserve	–10	–11
Controlled Foreign Company taxation	–36	–18
Change in tax rate, deferred tax	–45	–
Adjustments from prior years	–20	–4
	353	**–57**
Effective tax in %	**–6.2**	**8.4**

The Parent Company's effective tax rate of –6.2% (8.4%) is primarily affected by non-taxable dividends.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2008	**2007**
Accumulated cost		
Opening balance, Jan. 1	12	4
Investments	16	8
Closing balance, Dec. 31	**28**	**12**
Accumulated depreciation		
Depreciation for the year	0	–
Closing balance, Dec. 31	**0**	**–**
Carrying amount		
Closing balance, Dec. 31	28	12
Opening balance, Jan 1	12	4

A8. Tangible assets

	2008			2007		
	Land improvements	Equipment, etc.	Total	Land improvements	Equipment, etc.	Total
Accumulated cost						
Opening balance, Jan. 1	4	28	32	4	26	30
Investments	–	3	3	–	2	2
Disposals	–	–1	–1	–	–	–
Closing balance, Dec. 31	**4**	**30**	**34**	**4**	**28**	**32**
Accumulated depreciation						
Opening balance, Jan. 1	1	23	24	1	20	21
Depreciation for the year	0	3	3	–	3	3
Disposals	–	0	0	–	–	–
Closing balance, Dec. 31	**1**	**26**	**27**	**1**	**23**	**24**
Carrying amount						
Closing balance, Dec. 31	3	4	7	3	5	8
Opening balance, Jan. 1	3	5	8	3	6	9

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, and major computer and office equipment are reported among operating expenses and amounted to 16 (12). Future payments for non-cancelable leasing contracts amounted to 200 (36). During 2008, the Parent Company has signed a rental agreement to 2021. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2008	2007
Less than one year	16	11
Between one and five years	64	21
More than five years	120	4
	200	**36**

The Parent Company has no leases which have been classified as finance leases.

A9. Deferred tax assets and liabilities

	2008			2007		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Fixed assets	0	–	0	93	1	92
Tax loss carryforwards	367	–	367	–	–	–
Post-employment benefits	16	–	16	16	–	16
Other provisions	1	–	1	14	–	14
Non-current liabilities	1 321	1	1 320	10	–	10
	1 705	**1**	**1 704**	**133**	**1**	**132**

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

	2008	2007
Net balance, Jan. 1	132	–41
Charges to equity	1 189	–
Charges to profit for the year	383	173
Net balance, Dec. 31	**1 704**	**132**

A10. Shares in Group companies

	2008	2007
Accumulated cost		
Opening balance, Jan. 1	95 556	79 721
Investments	765	17 874
Shareholders' contribution	15 409	568
Disposals	–25	0
Repatriation of equity	–23 506	–2 607
Closing balance, Dec. 31	**88 199**	**95 556**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–1 004	–603
Write-down	–10	–401
Closing balance, Dec. 31	**–1 014**	**–1 004**
	87 785	**95 152**

For further information about Group companies, see note A22.

A11. Other financial assets

	2008	2007
Receivables from Group companies	1 786	1 037
Other long-term securities	5	5
Derivatives		
– not designated for hedge accounting	9	130
– designated for hedge accounting	1 695	217
Endowment insurances	29	23
Other long-term receivables	7	8
	3 531	**1 420**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A16 and A21).

A12. Other receivables

	2008	2007
Receivables from Group companies	9 311	7 643
Derivatives		
– not designated for hedge accounting	2 236	614
Other receivables	20	15
Prepaid expenses and accrued income	50	43
	11 617	**8 315**

A13. Cash and cash equivalents

	2008	2007
Cash	149	74
Cash equivalents	3 438	15
	3 587	**89**

The Parent Company's guaranteed, but unutilized, credit lines equalled 7 738 (6 455).

A14. Equity

Shares outstanding 2007	A shares	B shares	Total
Opening balance, Jan. 1	419 697 048	209 109 504	628 806 552
Split 3:1	839 394 096	418 219 008	1 257 613 104
Redemption of shares	–419 697 048	–209 109 504	–628 806 552
Redemption of shares held by Atlas Copco AB		–28 000 000	–28 000 000
Total shares outstanding, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
Of which held by Atlas Copco AB	–3 577 500	–5 250 900	–8 828 400
Total shares outstanding, net of shares held by Atlas Copco AB	**835 816 596**	**384 968 108**	**1 220 784 704**

Shares outstanding 2008	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total shares outstanding, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**
Of which held by Atlas Copco AB	–11 275 000	–2 428 400	–13 703 400
Total shares outstanding, net of shares held by Atlas Copco AB	**828 119 096**	**387 790 608**	**1 215 909 704**

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.

A14. Continued

In order to adjust the Atlas Copco Groups´s balance sheet to a more efficient structure, the Annual General Meeting approved a redemption procedure that was carried out during 2007.

Repurchases of own shares	Number of shares		Carrying amount	
	2008	2007	2008	2007
Opening balance, Jan. 1	8 828 400	18 414 200	704	3 776
Split of shares 3:1		36 828 400		
Redemption of shares		–18 414 200		–1 259
Redemption of series B shares held by Atlas Copco AB		–28 000 000		–1 914
Sales of B shares	–2 822 500	–3 577 500	–192	–246
Repurchase of A shares	7 697 500	3 577 500	699	347
Closing balance, Dec. 31	**13 703 400**	**8 828 400**	**1 211**	**704**
Percentage of total number of shares	1.1%	0.7%		

A resolution was approved at the 2007 AGM whereby the Company was authorized to sell series B shares held by Atlas Copco and purchase 6 400 000 series A shares for the purpose of covering commitments under personnel stock option programs. During 2007, a total of 3 577 500 shares were sold and purchased and in 2008 an additional 2 822 500 shares were sold and purchased in accordance with the 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 is valid until the 2009 AGM. Share repurchases of 4 875 000 series A shares were made during the third quarter 2008 for the specific purpose of covering the commitments under the 2008 personnel stock option program and in relation to the synthetic shares offered as part of the Board remuneration. The series A shares are held for possible delivery under the 2006, 2007 and 2008 personnel stock option programs.

The total number of shares of series A and series B held by Atlas Copco are presented in the preceding table. 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

The reserve consists of exchange rate fluctuations relating to net investments in foreign subsidiaries net after tax.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 3.00 (3.00) totaling SEK 3 647 729 112 (3 662 354 112). For further information see appropriation of profit on page 95.

A15. Untaxed reserves

	2008	2007
Additional tax depreciation equipment	–	2
Tax allocation reserves	–	1 176
	–	**1 178**

Provisions have been made to tax allocation reserves as shown below:

Year	2008	2007
2002	–	419
2003	–	321
2004	–	436
	–	**1 176**

A16. Post-employment benefits

	2008			2007		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	23	29	52	17	31	48
Provision made	6	–	6	6	–	6
Provision used	–	–3	–3	–	–2	–2
Closing balance, Dec. 31	**29**	**26**	**55**	**23**	**29**	**52**

Pension expenses for the year, which are included within administrative expenses, amounted to 26 (34). No compensation was received from the Atlas Copco pension foundation. The pension expenses amount to 26 (34), of which the Board of Directors and the President 5 (6) and others 21 (28).

The Parent Company has endowment insurances of 29 (23) 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.

A16. Continued

	2008			2007		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	144	26	170	145	31	176
Fair value of plan assets	–174	–	–174	–187	–	–187
Present value of net obligations	–30	26	–4	–42	31	–11
Not recognized surplus	30	–	30	42	–	42
Net amount recognized in balance sheet	**–**	**26**	**26**	**–**	**31**	**31**

Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	145	30	175	152	31	183
Service cost	3	–	3	2	–	2
Interest expense	9	1	10	4	1	5
Benefits paid from plan	–13	–5	–18	–13	–2	–15
Defined benefit obligations at Dec. 31	**144**	**26**	**170**	**145**	**30**	**175**

Reconciliation of plan assets	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	187	–	187	190	–	190
Return on plan assets	–13	–	–13	3	–	3
Payments	–	–	–	–6	–	–6
Fair value of plan assets at Dec. 31	**174**	**–**	**174**	**187**	**–**	**187**

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.

	2008	2007
Pension commitments provided for in the balance sheet		
Costs excluding interest	16	16
Interest expense	2	1
	18	**17**
Pension commitments provided for through insurance contracts		
Service cost	11	20
	11	**20**
Reimbursement from the Atlas Copco pension trust	–	–
	–	**–**
Net cost for pensions, excluding taxes	**29**	**37**
Special employer´s contribution	8	10
Credit insurance costs	0	0
	37	**47**

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amount to 174 (187) and are allocated as follows:

	2008	2007
Equity securities	40	52
Bonds	122	119
Other financial assets	5	14
Cash and cash equivalents	7	2
	174	**187**

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 –6.0% (4.2).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 5.7% (4.4).

The Parent Company estimates 5 will be paid to defined benefit pension plans during 2009.

A17. Other provisions

	2008	2007
Opening balance, Jan. 1	86	110
Provisions made	1	10
Provisions used	–47	–34
Closing balance, Dec. 31	**40**	**86**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

A18. Borrowings

	2008	Notional amount	2007	Notional amount
Non-current borrowings				
Medium Term Note Program	11 067	10 513	10 404	10 513
Other bond loans	8 213	7 163	6 264	6 137
Other bank loans	5 656	5 656	2 951	2 951
Non-current borrowings from Group companies	27 275	27 275	24 035	24 035
	52 211	**50 607**	**43 654**	**43 636**
Current borrowings				
Short-term loans	29	29	896	896
Current borrowings from Group companies	18 888	18 888	23 921	23 921
	18 917	**18 917**	**24 817**	**24 817**
Total interest-bearing loans and borrowings	**71 128**	**69 524**	**68 471**	**68 453**

A19. Other liabilities

	2008	2007
Accounts payable	18	12
Liabilities to Group companies	1 209	–
Derivatives		
– not designated for hedge accounting	582	354
– designated for hedge accounting	1 858	413
Other liabilities	3	5
Accrued expenses and prepaid income	480	360
	4 150	**1 144**

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

A20. Financial exposure and principles for control of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 24 965 (20 515) of external borrowings and MSEK 46 163 (47 956) of internal borrowings at December 31, 2008. 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 statements.

MSEK Maturity	Fixed	Float	Total 2008
2009	–	29	29
2010	–	2 000	2 000
2011	–	2 000	2 000
2012	–	3 193	3 193
2013	–	–	–
Later years	2 783	14 960	17 743
Total	**2 783**	**22 182**	**24 965**

Hedge accounting

The Parent Company hedges shares in subsidiaries using deferral hedge accounting of loans of MEUR 912 and MUSD 142.5 and a fair value hedge using derivatives of MEUR 547 (589) and MUSD – (75). The deferral hedge accounting is based on a RFR 2.1 exemption.

Internal loans of MEUR 2 514 (3 966) have reduced the net investment in a foreign operation. The effect of the change in the exchange rate, which as of the reporting date amounted to MSEK –2 842 (–557) 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 statements includes fair value of these swaps and further details.

A20. Continued

The Parent Company's financial instruments per category

The following tables show the Parent Company's financial instruments per category as of December 31, 2008 and 2007:

2008 Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			41	41	41
Derivatives	1 695	9		1 704	1 704
Long-term receivables from Group companies			1 786	1 786	1 786
Non-current financial assets	**1 695**	**9**	**1 827**	**3 531**	**3 531**
Other receivables			19	19	19
Derivatives		2 236		2 236	2 236
Cash and cash equivalents			3 587	3 587	3 587
Short-term receivables from Group companies			9 311	9 311	9 311
Current financial receivables	**–**	**2 236**	**12 917**	**15 153**	**15 153**
Financial assets	**1 695**	**2 245**	**14 744**	**18 684**	**18 684**

2007 Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			28	28	28
Derivatives	217	130		347	347
Long-term receivables from Group companies			1 037	1 037	1 037
Non-current financial assets	**217**	**130**	**1 065**	**1 412**	**1 412**
Other receivables			15	15	15
Derivatives		614		614	614
Cash and cash equivalents			89	89	89
Short-term receivables from Group companies			7 643	7 643	7 643
Current financial receivables	**–**	**614**	**7 747**	**8 361**	**8 361**
Financial assets	**217**	**744**	**8 812**	**9 773**	**9 773**

A20. Continued

2008 Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			24 936	24 936	27 286
Derivatives		76		76	76
Long-term liabilities to Group companies			27 275	27 275	27 275
Non-current financial liabilities	**–**	**76**	**52 211**	**52 287**	**54 637**
Liabilities to credit institutions			29	29	29
Short-term liabilities to Group companies			18 888	18 888	18 888
Current financial interest-bearing liabilities	**–**	**–**	**18 917**	**18 917**	**18 917**
Derivatives	1 858	582		2 440	2 440
Other accrued expenses			480	480	480
Trade payables			18	18	18
Other liabilities			1 212	1 212	1 212
Current financial operating liabilities	**1 858**	**582**	**1 710**	**4 150**	**4 150**
Financial liabilities	**1 858**	**658**	**72 838**	**75 354**	**77 704**

2007 Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 619	19 619	19 824
Derivatives		7		7	7
Long-term liabilities to Group companies			24 035	24 035	24 035
Non-current financial liabilities	**–**	**7**	**43 654**	**43 661**	**43 866**
Liabilities to credit institutions			896	896	896
Short-term liabilities to Group companies			23 921	23 921	23 921
Financial interest-bearing liabilities	**–**	**–**	**24 817**	**24 817**	**24 817**
Derivatives	413	354		767	767
Other accrued expenses			360	360	360
Trade payables			12	12	12
Other liabilities			5	5	5
Financial operating liabilities	**413**	**354**	**377**	**1 144**	**1 144**
Financial liabilities	**413**	**361**	**68 848**	**69 622**	**69 827**

A21. Assets pledged and contingent liabilities

	2008	2007
Assets pledged for pension commitments		
Endowment insurances	29	23
	29	**23**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	408	5 651
	411	**5 654**

Sureties and other contingent liabilities include bank and commercial guarantees as well as performance bonds. Of the contingent liabilities reported for Group companies – (5 348) relates to a letter of guarantee issued to a Group company with no liability to a third party.

A22. Directly owned subsidiaries

	2008			2007		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned product companies						
Atlas Copco Airpower N.V. Wilrijk, Belgium	76 415	100	45 778	76 415	100	58 442
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	105	60 000	100	103
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	24	200 000	100	23
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	363	1 000 000	100	361
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	144	2 325 000	100	142
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	11
Atlas Copco (India) Ltd., Mumbai	18 899 360	84	593	18 899 360	84	594
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	37	250 000	100	36
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	12	1 000 000	100	12
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	3	121 995	100	3
Atlas Copco (Switzerland) AG., Studen/Biel	8 000	100	13	7 997	100	13
GreenField Brazil Ltda	5 997	100	4	5 997	100	1
Rodcraft Sarl, Switzerland	1	100	1	1	100	1
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	5	1 500 000	100	4
Atlas Copco Brasil Ltda., Sao Paulo	22 909 089	100	227	22 909 089	100	67
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	6	24 998	100	6
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	11	103 000	100	11
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, Studen/Biel	5 997	100	36	5 997	100	36
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100[1]	1	5	0/80[1]	1
Atlas Copco Ges.m.b.H., Vienna	1	100	6	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	25	375 001	100	24
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	3	4 000	100	3
Atlas Copco Maroc SA., Casablanca	3 854	96	1	3 852	96	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	2	500	100	1
Atlas Copco Venezuela S.A., Caracas	38 000	100	15	38 000	100	14
BEMT Tryckluft AB, 556273-1801 Staffanstorp	1 500	100	36	1 500	100	36
BIAB Tryckluft AB, 556439-1208, Ludvika	5 000	100	6	5 000	100	6
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	–	–	–

A22. Continued

	2008			2007		
	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	16	2 498	100	16
Atlas Copco Dynapac AB, 556655-0413, Nacka	86 993 823	100	4 677	86 993 823	100	4 676
Atlas Copco Finance Europe n.v., Belgium	4 200 000	100	12 675	4 200 000	100	12 675
Gulf Turbomachinery, Dubai	6	50/100[1)]	3	12	50	2
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	626	15 712	100	621
Atlas Copco France Holding S.A., St. Ouen lÁumône	278 255	100	168	221 112	100	122
Atlas Copco Holding GmbH, Essen	1	100	268	1	99/100[1)]	452
Atlas Copco Industrial Technique AB, 556207-8898, Nacka	40 000	100	5	40 000	100	5
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	5 368	95 000	100	10 402
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	717	700 500	100	717
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	12	100 000	100	12
Atlas Copco PAIR Ltd., London	3	100	0	3	100	0
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	16	4 999	100	7
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	10 547	1 000	100	1 002
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	297	50 623 666	100	296
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 337	100	100	3 341
CP Scanrotor Global AB, 556337-5897, Tanum	1 000	100	21	1 000	100	21
Econus S A, Montevideo	21 582 605	100	63	21 582 605	100	63
Industria Försäkrings AB, 516401-7930, Nacka	50 000	100	30	50 000	100	30
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
14 dormant companies		100	16		100	16
Translation difference			1 197			489
Carrying amount, Dec. 31			**87 785**			**95 152**

[1)] First figure; percentage held by Parent Company, second figure percentage held by Atlas Copco Group.

A23. 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 A22 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 120–121 and 124–125.

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 its subsidiaries:

	2008	2007
Revenues		
Dividends	5 670	690
Group contribution	2 897	1 577
Interest income	704	606
Expenses		
Group contribution	–1 300	–
Interest expenses	–2 398	–1 132
Receivables	11 097	8 680
Liabilities	47 372	47 956
Guarantees		
Group companies	408	5 651

A23. 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 Australia Pty Ltd.	BLACKTOWN
	Atlas Copco Customer Finance Australia Pty Ltd.	BLACKTOWN
	Atlas Copco South Pacific Holdings Pty Ltd.	BLACKTOWN
	Dynapac Australia Pty Ltd.	SYDNEY
	Fuji Air Tools (AUST) Pty Ltd.	HORNSBY
Austria	Atlas Copco Ges.m.b.H.	VIENNA
	Atlas Copco MAI GmbH	FEISTRITZ AN DER DRAU
	AGRE Kompressoren GmbH	ST ULRICH
Bahrain	Atlas Copco Services Middle East OMC	BAHRAIN
Bangladesh	Atlas Copco Bangladesh Ltd.	DHAKA
Belgium	Atlas Copco Airpower n.v.	WILRIJK
	Atlas Copco ASAP n.v.	WILRIJK
	Atlas Copco Belgium n.v.	OVERIJSE
	Atlas Copco Finance Europe n.v.	WILRIJK
	Atlas Copco Rental Europe n.v.	RUMST
	CP Benelux n.v.	WONDELGEM
	Power Tools Distribution n.v.	TONGEREN
	Rodcraft Benelux B.V.B.A./S.P.R.L.	BRUSSELS
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
	Chicago Pneumatic Brasil Ltda.	SAO PAULO
	Dynapac Brasil Industria e Comercio Ltda.	SAO PAOLO
	GreenField Brazil Ltda.	SAO PAOLO
Bulgaria	Atlas Copco Bulgaria EOOD	SOFIA
	Atlas Copco Lifton Eood	ROUSSE
Canada	Atlas Copco Canada Inc.	LASALLE
	Chicago Pneumatic Tool Co. Canada Ltd.	TORONTO
Chile	Atlas Copco Chilena S.A.C.	SANTIAGO
	Atlas Copco Customer Finance Chile Ltda	SANTIAGO
China	Atlas Copco (China) Investment Co Ltd.	SHANGHAI
	Atlas Copco (Shanghai) Trading Co Ltd.	SHANGHAI/PUDONG
	Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	NANJING
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	SHENYANG
	Atlas Copco (Wuxi) Compressor Co Ltd.	WUXI
	Atlas Copco (Wuxi) Exploration Equipment Ltd.	WUXI
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	ZHANGJIAKOU
	CP Qianshao (Qingdao) Power Tools Ltd.	QINGDAO
	Dynapac (China) Compaction & Paving Eq Co Ltd.	TIANJIN
	Dynapac (Tianjin) International Trading Co Ltd.	TIANJIN
	Liuzhou Tech Machinery Co Ltd.	LIUZHOU
	Shanghai Bolaite Compressor Co Ltd.	SHANGHAI
	Shanghai Tooltec Pneumatic Tool Co Ltd.	SHANGHAI
	Shenyang Rui Feng Machinery Ltd	SHENYANG
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	WUXI
Colombia	Atlas Copco Colombia Ltda.	BOGOTA
Croatia	Contex d.o.o.	SPLIT
Cyprus	Atlas Copco (Cyprus) Ltd.	NICOSIA

Country	Company	Location (City)
Czech Republic	Atlas Copco s.r.o.	PRAGUE
	Atlas Copco Lutos a.s.	LUBENEC
	ALUP CZ spol. S.r.o.	BRECLAV
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 Kompressorit Ab	VANTAA
	Oy Atlas Copco Louhinta-tekniikka Ab	VANTAA
	Oy Atlas Copco Rotex Ab	TAMPERE
	Oy Atlas Copco Tools Ab	VANTAA
France	Atlas Copco France Holding S.A.	ST. OUEN L'AUMÔNE
	Atlas Copco Applications Industrielles S.A.S.	ST. OUEN L'AUMÔNE
	Atlas Copco Compresseurs S.A.S.	ST. OUEN L'AUMÔNE
	Atlas Copco Crépelle S.A.S.	LILLE
	Atlas Copco Drilling Solutions S.A.S.	ST OUEN L'AUMÔNE
	Atlas Copco Forage et Démolition S.A.S.	ST. OUEN L'AUMÔNE
	ABAC France S.A.	VALENCE
	Compresseurs Mauguière S.A.S.	MERU
	Compresseurs Worthington Creyssensac S.A.S.	MERU
	ETS Georges Renault S.A.S.	NANTES
	Dynapac Concrete SnC	TOURNAN-EN-BRIE
	Dynapac France SnC	TOURNAN-EN-BRIE
	Dynapac Services SAS	TOURNAN-EN-BRIE
	Rodcraft KORB S.A.R.L	VILLEJUIF
	Techfluid Nord SARL	LILLE
	Vibratechnique SnC	TOURNAN-EN-BRIE
Germany	Atlas Copco Holding GmbH	ESSEN
	ABAC Deutschland GmbH	KONGEN
	ALUP Kompressoren GmbH	KONGEN
	IRMER + ELZE Kompressoren GmbH	BAD OEYNHAUSEN
	Atlas Copco Application Center Europe GmbH	ESSEN
	Atlas Copco Construction Tools GmbH	ESSEN
	Atlas Copco Energas GmbH	COLOGNE
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	ESSEN
	Atlas Copco MCT GmbH	ESSEN
	Atlas Copco Tools Central Europe GmbH	ESSEN
	Dynapac GmbH	WARDENBURG
	Desoutter GmbH	MAINTAL
	Microtec Systems GmbH	VILLIGEN-SCHWENNINGEN
	RDW GmbH	KONGEN
	Rodcraft Pneumatic Tools GmbH	MÜLHEIM
	TBB Industrial Tools Services GmbH	LANDSHUT
	TBB Q-Service GmbH	DINGOLFING
Ghana	Atlas Copco Ghana Ltd.	ACCRA
Great Britain	Atlas Copco UK Holdings Ltd.	HEMEL HEMPSTEAD
	Atlas Copco Compressors Ltd.	HEMEL HEMPSTEAD
	Atlas Copco Construction & Mining Ltd.	HEMEL HEMPSTEAD
	Atlas Copco Kolfor Ltd.	DUNDEE
	Atlas Copco (Northern Ireland) Ltd.	LISBURN
	Atlas Copco Tools Ltd.	HEMEL HEMPSTEAD
	ABAC UK Ltd.	OXON
	Compressed Air Systems Ltd.	LISBURN
	Desoutter Ltd.	HEMEL HEMPSTEAD
	Desoutter Sales Ltd.	HEMEL HEMPSTEAD
	Dynapac Ltd.	RUGBY
	Medaes Ltd.	DERBYSHIRE
Greece	Atlas Copco Hellas AE	RENTIS
Hong Kong	Atlas Copco China/Hong Kong Ltd.	KOWLOON
	CP China/Hong Kong Ltd.	KOWLOON
Hungary	Atlas Copco Kft.	BUDAPEST
	ALUP Magyaroszàg Kft.	EGER
	Industrial Tecnhique Hungary Kft.	BUDAPEST
India	Atlas Copco (India) Ltd.	PUNE
	Dynapac Compaction and Paving Equipment (India) Ltd.	NEW DEHLI

A23. Continued

Country	Company	Location (City)
Indonesia	P T Atlas Copco Indonesia	JAKARTA
	PT Fluidcon Jaya	JAKARTA
Ireland	Atlas Copco (Ireland) Ltd.	DUBLIN
	Aircrosse Ltd.	DUBLIN
Italy	Atlas Copco Italia S.p.A.	MILANO
	Atlas Copco Customer Finance Italia S.p.A.	MILANO
	Atlas Copco BLM S.R.L.	MILANO
	ABAC Aria Compressa S.p.A.	ROBASSOMERO
	Ceccato Aria Compressa S.p.A.	VICENZA
	Desoutter Italiana S.r.l.	MILANO
	Dynapac S.p.A.	MILANO
	Rodcraft Te.Co.S.r.l.	MILANO
Japan	Atlas Copco KK	TOKYO
	Atlas Copco Shizouka Service KK	SHIZOUKA CITY
	KTS Co. Ltd.	TOKYO
	Fuji Air Tools Co. Ltd.	OSAKA
Kazakhstan	Atlas Copco Central Asia LLP	ALMATY
Kenya	Atlas Copco Eastern Africa Ltd.	NAIROBI
Latvia	BaltAir SIA	RIGA
Lithuania	UAB Baltair	KLAIPEDA
Luxemburg	Atlas Copco Finance S.à.r.l.	LUXEMBURG
	Atlas Copco Reinsurance SA	LUXEMBURG
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	KUALA LUMPUR
Mexico	Atlas Copco Mexicana SA de CV	TLALNEPANTLA
	Inversora Capricornio SA de CV	TLALNEPANTLA
	Dynapac Mexico S de RL de CV	COL DE VALLE
	Prime Equipment SA de CV	MONTERREY
Mongolia	Atlas Copco Mongolia LLC	ULAANBAATAR
Morocco	Atlas Copco Maroc SA	CASABLANCA
Namibia	Atlas Copco Namibia (Pty) Ltd.	WINDHOEK
Netherlands	Atlas Copco Abird B. V.	ROTTERDAM
	Atlas Copco Beheer B.V.	ZWIJNDRECHT
	Atlas Copco Internationaal B.V.	ZWIJNDRECHT
	Atlas Copco Ketting Marine Center B.V.	IJMUIDEN
	Atlas Copco Nederland B.V.	ZWIJNDRECHT
	Creemers Compressors B.V.	EINDHOVEN
	Grass-Air Compressoren B.V.	OSS
New Zealand	Atlas Copco (N.Z.) Ltd.	MT. WELLINGTON
	Intermech Ltd.	AUCKLAND
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
Peru	Atlas Copco Peruana SA	LIMA
Philippines	Atlas Copco (Philippines) Inc.	PARANAQUE
Poland	Atlas Copco Polska Sp. z o. o.	WARSAW
	ALUP Kompressoren Polska sp. Zo. o. z.	WARSAW
	Dynapac Poland Sp. Zo. o. z. (Ltd)	WARSAW
Portugal	Sociedade Atlas Copco de Portugal Lda.	LISBON
Romania	Atlas Copco Industrial Technique SRL	PITESTI
	Atlas Copco Romania S.R.L.	OTOPENI
	S.C. ALUP Kompressoren Romania S.R.L	BAIA MARE
Russia	ZAO Atlas Copco	MOSCOW
	ZAO Dynapac CIS	ST. PETERSBURG
	ZAO Dynapac Rus	MOSCOW
	ZAO Dynapac Ural	YEKATERINBURG
Serbia	Atlas Copco A.D.	NOVI BEOGRAD
Singapore	Atlas Copco (South East Asia) Pte. Ltd.	SINGAPORE
	ABAC DMS Air Compressors Pte Ltd.	SINGAPORE
Slovakia	Industrial Technique s.r.o.	BRATISLAVA
Slovenia	Atlas Copco d.d.	LJUBLJANA
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd.	WITFIELD
	Atlas Copco South Africa (Pty) Ltd.	WITFIELD
	Dynapac (SA) (Pty) Ltd.	JOHANNESBURG
South Korea	Atlas Copco Mfg. Korea Co. Ltd.	SEOUL
	CP Tools Korea Co. Ltd.	SEOUL

Country	Company	Location (City)
Spain	Atlas Copco S.A.E.	MADRID
	ABAC Iberica Aire Comprimido S. A.	MADRID
	Desoutter S.A.	MADRID
	Dynapac Iberica SLU	MADRID
	Puska Pneumatic S.A.	VIZCAYA
	Worthington Internacional Compresores S.A.	MADRID
Sweden	Atlas Copco AB	NACKA
	Atlas Copco CMT Sweden AB	NACKA
	Atlas Copco Compressor AB	NACKA
	Atlas Copco Construction Tools AB	NACKA
	Atlas Copco Craelius AB	MÄRSTA
	Atlas Copco Customer Finance AB	NACKA
	Atlas Copco Industrial Technique AB	NACKA
	Atlas Copco Iran AB	NACKA
	Atlas Copco Järla Holding AB	NACKA
	Atlas Copco Lugnet Treasury AB	NACKA
	Atlas Copco Nacka Holding AB	NACKA
	Atlas Copco Rock Drills AB	ÖREBRO
	Atlas Copco Secoroc AB	FAGERSTA
	Atlas Copco Sickla Holding AB	NACKA
	Atlas Copco Tools AB	NACKA
	CP Scanrotor AB	TANUM
	Dynapac AB	NACKA
	Dynapac Compaction Equipment AB	KARLSKRONA
	Dynapac Nordic AB	STOCKHOLM
	Industria Försäkrings AB	NACKA
	Nordic Construction Equipment AB	STOCKHOLM
Switzerland	Atlas Copco (Schweiz) AG	STUDEN/BIEL
	GreenField A.G.	STUDEN/BIEL
	Rodcraft Sarl.	CAROUGE
	Servatechnik A.G.	OFTRINGEN
Taiwan	Atlas Copco Taiwan Ltd.	TAIPEI
Tanzania	Atlas Copco Tanzania Ltd.	GEITA
Thailand	Atlas Copco (Thailand) Ltd.	BANGKOK
	Atlas Copco Service (Thailand) Ltd.	BANGKOK
Turkey	Atlas Copco Makinalari Imalat AS	ISTANBUL
	Scanrotor Otomotiv Ticaret A.S.	BURSA
Ukraine	LLC Atlas Copco Ukraine	KIEV
United Arab Emirates	Atlas Copco Middle East FZE	DUBAI
	Atlas Copco Services Middle East SPC, Abu Dhabi	ABU DHABI
	Gulf Turbomachinery Company FZCO	DUBAI
USA	Atlas Copco ASAP North America LLC	PINE BROOK, NJ
	Atlas Copco Assembly Systems LLC	AUBURN HILLS, MI
	Atlas Copco Compressors LLC	ROCK HILL, SC
	Atlas Copco Comptec LLC	VOORHEESVILLE, NY
	Atlas Copco Construction Mining Technique USA LLC	COMMERCE CITY, CO
	Atlas Copco Construction Tools LLC	WEST SPRINGFIELD, MA
	Atlas Copco Customer Finance USA LLC	PINE BROOK, NJ
	Atlas Copco Drilling Solutions LLC	GARLAND, TX
	Atlas Copco North America LLC	PINE BROOK, NJ
	Atlas Copco SECOROC LLC	GRAND PRAIRIE, TX
	Atlas Copco Tools & Assembly Systems LLC	AUBURN HILLS, MI
	Atlas Copco USA Holdings Inc.	PINE BROOK, NJ
	Atlas Copco Prime Energy LLC	DEER PARK, TX
	American Imported Machinery Company Inc.	ROCK HILL, SC
	Beacon Medical Products LLC	ROCK HILL, SC
	Benz Compressed Air Systems Inc.	MONTEBELLO, CA
	Chicago Pneumatic Tool Company LLC	ROCK HILL, SC
	Dynapac USA Inc.	SAN ANTONIO, TX
	Mafi-Trench Company LLC	SANTA MARIA, CA
Venezuela	Atlas Copco Venezuela SA	CARACAS
Vietnam	Atlas Copco Vietnam Company Ltd.	HANOI
Zambia	Atlas Copco (Zambia) Ltd.	CHINGOLA
Zimbabwe	Atlas Copco Zimbabwe (Pty) 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:

Unappropriated earnings from preceding year	SEK	21 393 477 443
Profit for the year	SEK	6 081 457 960
	SEK	**27 474 935 403**

The Board of Directors propose that these earnings be appropriated as follow:

To the shareholders, a dividend of SEK 3.00 per share	SEK	3 647 729 112
To be retained in the business	SEK	23 827 206 291
	SEK	**27 474 935 403**

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 and 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 12, 2009

Sune Carlsson
Chair

Jacob Wallenberg
Vice Chair

Staffan Bohman
Board Member

Christel Bories
Board Member

Gunnar Brock
President and CEO

Johan Forssell
Board Member

Ulla Litzén
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, 2009.
KPMG AB

Thomas Thiel
Authorized Public Accountant

Atlas Copco AB (publ) 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 26, 2009.

Audit Report

To the Annual Meeting of the shareholders of Atlas Copco AB (publ)
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 (publ) for the year 2008. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 12–95. 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 high but not absolute 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 the 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 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, 2009
KPMG AB

Thomas Thiel
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 diluted weighted average number of shares outstanding is the number of shares that would be outstanding if all convertible securities, e.g. personnel stock options, were converted to common stock.

Capital employed
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/EBITDA ratio
Net indebtness in relation to earnings before depreciation and amortization (EBITDA).

Debt/equity ratio
Net indebtedness in relation to equity, including minority interest.

Dividend yield
Dividend divided by the average share price quoted.

Earnings before depreciation and amortization (EBITDA)
Operating profit plus depreciation, impairment and amortization.

Earnings per share
Profit for the period, attributable to equity holders of the parent divided by the average number of shares outstanding.

EBITDA margin
Earnings before depreciation, impairment and amortization as a percentage of revenues.

Equity/assets ratio
Equity including minority interest, as a percentage of total assets.

Equity per share
Equity including minority interest divided by the number of shares.

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 indebtedness/net cash position
Interest-bearing liabilities/provisions less cash and cash equivalents and 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 financial items and taxes.

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 average capital employed.

Return on equity
Profit for the period, attributable to equity holders of the parent as a percentage of average equity, excluding minority interest.

Weighted average cost of capital (WACC)

$$\frac{\text{interest-bearing liabilities x i} + \text{market capitalization x r}}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

i: Due to the very volatile debt markets at the end of 2008, an estimated average Swedish risk-free interest rate (10-year government bonds) and an estimated average risk premium for Atlas Copco compared to Swedish government rates have been used in the WACC calculation. The risk-free interest rate used is 4.0% and the premium used is 0.5%. An estimated standard tax rate of 25% has then been applied.
r: The estimated average risk-free interest rate (4%), plus an equity risk premium (5.0%).

Pre-tax WACC
WACC divided by (1 – the standard tax rate).

Sustainability Report

Atlas Copco's vision is to become and remain First in Mind — First in Choice® for its key stakeholders. This vision is also the driving force of the Group's sustainability 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 sustainability framework: through the economic, environmental and social dimensions, and through the pride among employees in the Group's values.

Atlas Copco has for the fourth time been 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 suppliers are encouraged to have an environmental management system.

Important Events in 2008

- UN Global Compact membership
- Measurable energy efficiency targets for major product categories
- 65% of all employees work in an environmental management system certified environment
- Employee survey showed positive development
- *Water for All* expansion

GRI content index

A detailed GRI content index is available on the Group's website: www.atlascopco.com/cr.

About this 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.

Atlas Copco's Sustainability Report includes information regarding all three aspects of the Group's sustainability 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 2008, unless otherwise stated. Operations divested during the year are excluded, while units that have been acquired are included (see Annual Report for details). 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.

Environmental data is reported twice a year and covers product companies, including distribution centers and applications centers. The environmental impact from rental operations is disclosed on page 115. Employee data is reported quarterly and all other data is annual and covers all operations. Responsibility for reporting rests with the heads of each company except in the case of the divisional environmental target. See non-financial targets in the Corporate Governance Report. Data is compiled by the Public Affairs and Environment function and is then reported to Group Management.

The Sustainability Report and the Corporate Governance Report are both included in the 2008 Annual Report. To avoid duplication of information, references are, at times, made to these reports, including the statement from the President and CEO. Events with high risk within the sustainability area are reported to the business boards as stated in the Corporate Governance Report.

Atlas Copco's most recent Sustainability Report and Corporate Governance Report were published in March 2008, as part of the Annual Report 2007. 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. A document showing how Atlas Copco has implemented the GRI reporting guidelines is published on www.atlascopco.com/cr. The report has been structured in accordance with Atlas Copco's stakeholder model, see Corporate Governance Report. The Group had the self-declared GRI Application Level A confirmed by KPMG.

Review/audit

Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control over non-financial reporting. The sustainability report has been reviewed and approved by Atlas Copco's Group Management.

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 available in the database *The Way We Do Things,* and are available to all employees to help Group companies to interpret and implement the Business Code of Practice. New employees are routinely introduced to these standards and expectations. See also page 123. Atlas Copco's companies have established routines to share the Group's views with business partners and customers.

International guidelines and standards

Atlas Copco supports the following voluntary international ethical guidelines:

- United Nations Universal Declaration of Human Rights, www.un.org
- International Labour Organization Declaration on Fundamental Principles and Rights at Work, www.ilo.org
- United Nations Global Compact, www.unglobalcompact.org (Atlas Copco formally joined The Global Compact in 2008)
- OECD's Guidelines for Multinational Enterprises, www.oecd.org

Sustainable development work

The Atlas Copco Group's sustainable development work is based on the policies that are summarized in the Business Code of Practice. The principles, guidelines, processes and instructions are established in *The Way We Do Things*, as well as on the voluntary international ethical guidelines that the Group supports. The governance structure, which covers corporate responsibility, is also presented in the Corporate Governance Report, see pages 117–129.

Sustainability focus

Atlas Copco has grouped its main sustainability activities in three dimensions. 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 overall.

I Community engagement (Philantropy)	II Reengineer within 'the family' (Internal processes)	III Reengineer the larger environment (Industry standards)
– *Water for All* – Support to orphanages – Many local projects – Natural disaster support	– ISO14001 in all production units – Supplier evaluations – Customer assessments – HIV/AIDS program – Measurable targets	Launch of new, innovative products that shape regulations and push the industry to adapt to new standards, e.g. compressors with variable speed drive Participation in the development of ISO 26000 standard

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 targets. It provides support functions for sustainability work through the Public Affairs and Environment function, including the Group's Environmental Council, and the Organizational Development and Human Resources department.

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 for financial and non-financial processes.

Targets for sustainability work

Based on its vision to become and remain First in Mind—First in Choice® for its key stakeholders, Atlas Copco has established a number of qualitative and quantitative strategies and targets regarding the Group's financial, environmental and social performance.

The non-financial targets are described in the Corporate Governance Report. A five-year performance summary is reported on page 115. The analysis is made under the respective stakeholder section.

Tools and 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 sustainability policies within the context of their commercial responsibilities.

In 2008, around 75% of Atlas Copco employees had received training in the Business Code of Practice, mainly via the Group's internal training program at local company level. This is somewhat higher than in 2007.

One of the environmental targets is that all employees shall work in an EMS certified environment, which means that all employees shall receive relevant training. An environmental interactive e-learning module is available to all employees and special training is offered to managers.

Reporting of violations

Atlas Copco has an ethical helpline on Group level where employees can report on behavior or actions that are, or for good reasons may be perceived as, violations of laws or of the Atlas Copco Group Business Code of Practice. It serves as a complement to similar processes that may exist on a country level. The reports are treated confidentially and the person reporting is given anonymity.

In 2008, a total of 14 possible violations of the Business Code of Practice were reported to Group Management through the ethical helpline. The nature of the violations is not disclosed of concern to the people involved. All cases lead to actions taken.

Stakeholder Engagement

Atlas Copco conducts dialogues with a number of stakeholders regarding its sustainability work. 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, compare performance with other leading multinational companies, and to take account of stakeholders' views and perspectives on the Group.

Atlas Copco values discussions with NGO's, GO's and other influencers, and takes advice and/or learns from listening to their views. Regular meetings are held with the following:

- Amnesty Business Group
- Transparency International
- Rating institutes
- Students
- Corporate responsibility-focused networks, mainly in the Nordic countries
- Discussion groups sponsored by trade organizations in which Atlas Copco is a member

In 2008 Atlas Copco has conducted two formal stakeholder dialogues with the Group's major shareholders. Members of Group Management participated in these meetings. The meetings were positively perceived and resulted in a list of issues for Atlas Copco to consider in its sustainability work.

Main issues from stakeholder/influencer discussion

Stakeholders	Stakeholder views	Focus 2008
Society and the environment	Concern over CO_2 emission increase from transport in 2007.	Reporting guidelines for CO_2 emissions from transport has been restated.
	Continue to develop community engagement projects.	Expansion of *Water for All* to six more countries.
Customers	Further increase the energy efficiency of products and solutions.	Divisional measurable targets on energy efficiency have been established for all main product categories.
	Perform customer risk assessments in countries with weak governments[1].	Customer risk guidelines are developed.
Employees	Continue to offer a safe and healthy workplace worldwide.	36% of the reporting customer centers are certified according to OHSAS 18001, which puts more focus on health and safety.
	Continue to strengthen employee relations and loyalty.	Each year every employee is invited to participate in a survey to evaluate the Group's relative attractiveness as an employer.
Business partners	Provide more information on supplier evaluations and the result of such evaluations.	More and new suppliers have been evaluated, from both an environmental and a social perspective.
Shareholders	Continue to improve sustainability reporting through follow-up on targets on key performance indicators, for example.	Non-financial target-related performance is reported.

[1] OECD definition

Society and the Environment

Atlas Copco is a world-leading provider of industrial productivity solutions with own operations in approximately 85 countries around the world, and production facilities in 23 countries on five continents. Its global reach spans customers in the manufacturing, process, mining, construction and service sectors in more than 160 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. Atlas Copco 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 and therefore wants constructive dialogues with its key stakeholders in society. The Group's practice is to assess and manage the impact of its operations on communities when entering, operating and divesting.

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.

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. The water supply is normally achieved through drilling or digging and installing hand pumps or through protection of natural springs. Over the year, the *Water for All* organization has given approximately 1 000 000 people access to clean water from water wells, which can last for up to 30 years. The *Water for All* organization is established in nine countries and 12 more are under way. In 2008, the Chinese *Water for All* organization was established with almost 65% of the employees signing up for membership.

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 several countries in southern Africa, including Zambia, Kenya and Zimbabwe and has in 2008 recognized a great increase in activities, for example through the HIV/AIDS awareness training and through SWHAP programs (the Swedish Workplace HIV and AIDS programme, www.swhap.org). The HIV/AIDS program will continue to expand to other countries.

Atlas Copco's local charity initiatives, selected and supported by local companies, chiefly focus on three areas: providing education, providing a safe upbringing for children, and fighting disease. In line with this, Atlas Copco companies support schools or universities to raise the educational level and help orphanages to give the children a safe environment to grow up in.

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. A major humanitarian support activity in 2008 was following the big earthquake in China.

Imagine if all rivers had clean drinking water

Atlas Copco strongly agrees with *Water for All's* motto that clean drinking water is a human right and has supported the organization since its start in 1984. Today, approximately one million people have access to clean water from sustainable sources thanks to contributions throughout the years.

Water for All started as a Swedish initiative. Today, it has sister organizations in eight countries; Belgium, Great Britain, China, Germany, Italy, India, South Africa, and Spain. Jo Cronstedt, Vice President Public Affairs and Environment, says, "In 2009, the non-profit organization *Water for All* celebrates 25 years of dedicated work to provide clean drinking water to people in need. We are proud of the achievements and hope to have organizations in place in 25 countries before the end of 2009."

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.

In 2008, the Group invited children of employees, or close to employees, to participate in a worldwide drawing competition. The drawings should reflect the importance of clean drinking water for all people all over the world.

The *Water for All* organization can be reached at info@water4all.org. If you want to learn more about Atlas Copco's engagement, please send an e-mail to: cr@se.atlascopco.com.

Human rights

Atlas Copco's Business Code of Practice supports fundamental human rights, such as freedom of association and collective bargaining and the non-existence of forced and child labor, and respects those rights in the Group's operations throughout the world. These basic principles are also promoted to business partners around the world.

Human rights abuse exists in markets where Atlas Copco operates, for example in Asia and Africa. In order to identify areas where there are risks related to human rights abuses, Atlas Copco takes advice from Amnesty Business Group. Atlas Copco can thereby provide support to its own companies active in such areas. These companies are encouraged to evaluate business processes and relationships, and to act in order to minimize such risks. The Control Self Assessment routine (see Corporate Governance Report page 130) includes a yearly follow-up on the aspects covered by the Business Code of Practice. 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. The Group has not integrated the human rights aspects 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 Group's human rights policies as well as to assess possible reputational risks by association with customers through the Control Self Assessment routine. To date, approximately half of Atlas Copco's operational units have established this routine.

Anti-competitive behavior

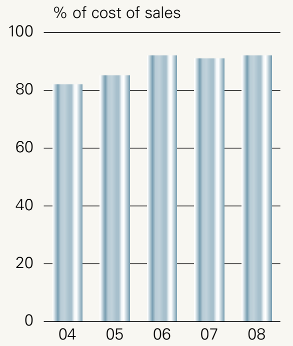
As a global citizen with valuable brands, Atlas Copco is mindful of the importance of working actively to build awareness of, and compliance with, principles of integrity in its business dealings. As regards corruption, Atlas Copco instructs its operations not to give or receive anything of more than 'token value' to or from any stakeholder, to avoid the risk of creating an unhealthy loyalty.

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. More than 90% of Atlas Copco's companies have a process in place to analyze risks related to corruption.

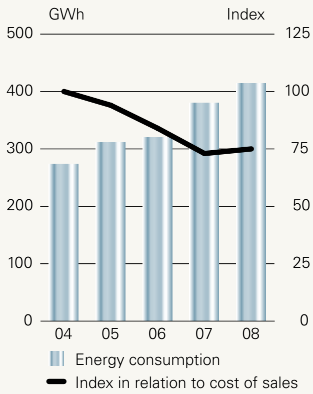
The Group is committed to supporting fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. There have been no instances of anti-competitive behavior brought to the attention of Group management in 2008 and there are no pending legal actions in this area, hence no fines have been paid.

Examples of community engagement and charity projects around the world

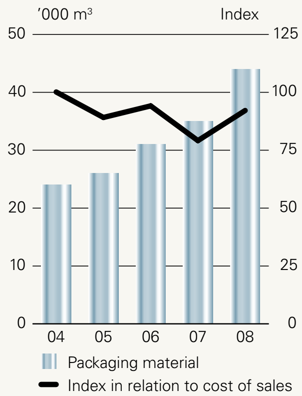
ISO 14001 certification



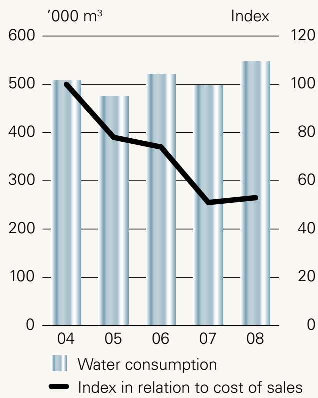
Energy consumption



Packaging material



Water consumption



Environmental indicators are measured in relation to the activity level in cost of sales.

Public policy

Atlas Copco is a member of a number of trade organizations – such as The Association of Swedish Engineering Industries, CAGI (Compressed Air and Gas Institute) in the United States, and the German Engineering Federation, VDMA – and is actively participating in the development of international standardization programs.

Since 1959, Atlas Copco has been an active member of Pneurop, the European sector committee for manufacturers of compressors and pneumatic tools. The committee provides recommendations regarding noise test codes, safety recommendations, test procedures for measurement of dust emissions, etc. Atlas Copco has implemented these recommendations in its operations at an early stage, many of which have served as the basis for ISO and CEN standards.

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 the ISO 26000 standard on Social Responsibility, and serves 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

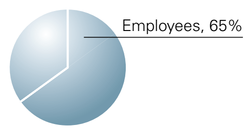
Atlas Copco products have their main impact on the environment, not when they are produced, but when they are being used through the energy required to operate them. The Group works to reduce this impact already in the design of its new products and in the continuous product development as well as in the ongoing improvements of the manufacturing plants where environmental considerations are integral parts.

The 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 and waste.

Environmental management systems

One of Atlas Copco's most significant environmental goals is to implement environmental management systems (EMS) in all operations to help minimize environmental impact. In 2008, 65 % (44) of Atlas Copco's employees worked in an EMS environment.

Proportion of employees working in an EMS environment



All product companies shall be certified according to the international standard ISO 14001. In 2008, an additional six product companies were ISO 14001 certified. Out of the Group's 83 production units, 53 are ISO 14001 certified, representing 92% (91) 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 materials, energy and water are consumed in this process. The Group works constantly to improve the efficient use of resources in the manufacturing process.

In 2008, the energy used in production increased by 2% measured in relation to cost of sales. The increase was due to a restatement in the reporting from a major production unit and to the acquisition of a large factory in China. Adjusted for these two aspects, the decrease was 6% in relation to cost of sales.

Divisional measurable targets regarding energy efficiency on major product categories have been established during the year. Achievements versus these targets will be reported on in the customer section regarding product developments.

Atlas Copco tracks materials used in the production process, and for packing finished products or parts.

By far the most significant 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 94% of the material used in production. The consumption decreased slightly in 2008. Approximately 90% of the used steel is recycled material. Other materials used in the production process include: aluminum,
copper and brass, plastics, rubber, oils and greases, and natural gas.

Every year the Group awards internal environmental achievements. Atlas Copco Environmental award winner 2008, was the screw compressor team that launched a new near net-shaped rotor in cast iron, which will reduce material used by 50%.

The Group has a number of initiatives to reduce its use of resources, for example a new energy saver policy was introduced in the United States in 2008. It involves laptops, desktops and workstations across the country.

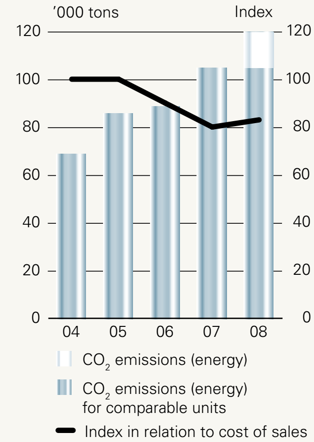
Optimizing packaging material is a focus area for the Group's companies. However the consumption increased in 2008 due to a newly acquired company and business growth.

The water withdrawal is disclosed as a total figure and not by source, as water is normally purchased. The water consumption increased by 3% in relation to cost of sales. The water usage is to a great extent related to the non-production process. The majority of the Group's plants are connected to municipal wastewater treatment plants and a few have their own treatment plants.

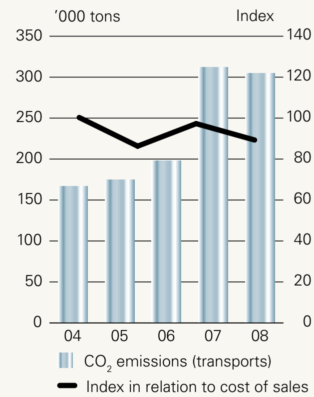
Emissions and waste

Climate change is high on the political agenda and one of the most global of all environmental problems; it is to a great extent caused by the emission of greenhouse gases into the atmosphere. The most abundant greenhouse gas is carbon dioxide (CO_2) also produced as a by-product when burning fossil fuels for producing energy or transportation purposes. Atlas Copco reports CO_2 emissions from direct and indirect energy used in production, and from transportation to and from production sites. Standardized conversion factors published by the Greenhouse Gas Protocol Initiative are used to calculate CO_2 emissions, see also www.ghgprotocol.org.

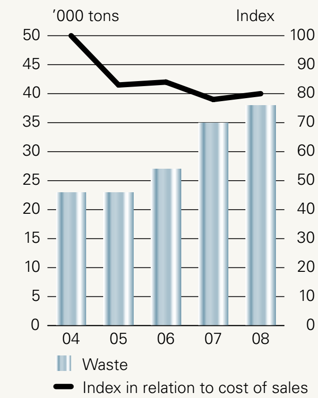
CO_2 emissions from energy



CO_2 emissions from transport



Waste



Environmental indicators are measured in relation to the activity level in cost of sales.

Extract from Atlas Copco's Group Environmental Policy: All companies shall operate within applicable national and local environmental limits and standards, and work proactively to reduce adverse effects to air, ground, water, fauna and flora, and strive to efficiently use natural resources.

In 2008, CO_2 emissions from energy at production sites increased 3% in relation to cost of sales. The increase is related to the higher energy consumption as explained under use of resources. For comparable units, the CO_2 emissions from production decreased 10% in relation to cost of sales.

Atlas Copco's production units continue to work at reducing the CO_2 emissions. For example the breaker production unit in Kalmar, Sweden, invested in groundwater cooling and a new compressor as well as district heating, which reduced the environmental impact from the plant by 90%. This resulted in the first CO_2 neutral factory building. In New Zealand, the new, efficient Intermech facility will decrease its environmental footprint in producing clean fuel CNG (compressed natural gas) compressors.

In 2008, the CO_2 emissions from transport decreased with 5% in relation to cost of sales. The reduction is partly explained by a decrease of the use of air freight. The reporting guideline was also restated in 2008, to facilitate the reporting. Initiatives to provide environmentally friendly means of transportation have also resulted in reduced CO_2 emissions.

Several initiatives to reduce the CO_2 emissions were launched in 2008, for example the implementation of a combination transport train and lorry between Sweden and Belgium, and new car policies in some countries. Atlas Copco also provides employees bus transport in some countries, for example in China, India and Bulgaria.

In Belgium, the production unit Atlas Copco Airpower investigated the possibility of building wind turbines to provide the factory with energy. However, no permission was given since there was a risk of disturbing local air traffic.

During the year, Atlas Copco has started to monitor emissions caused by business-related travel for a few countries. The Group travel policy actively promotes alternatives such as interactive internet-based conferences, and telephone and video conferences.

Atlas Copco is using cooling agents in some products (air dryers) and processes (cooling installations). The Group acknowledges that some cooling agents have an ozone depleting impact, and therefore offers products with zero impact (ODP) and strives to use these agents in all products. The majority of the reported cooling agents are in closed-loop systems in Atlas Copco products and therefore not released during the operational life of the products. The amount of cooling agents used in relation to cost of sales decreased by 5%.

Atlas Copco tracks the generation of various categories of waste in the production process, including regulated (sometimes referred to as hazardous) waste. 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.

In 2008, the amount of waste in relation to cost of sales increased 2%. Of the total waste produced by the Group 6% is classified as regulated waste and 11% is sent to landfill. Other waste tends to be reused on site (10%), recycled by waste handling companies (61%) or burned to produce energy in municipal heat and power plants (12%).

Biodiversity

Atlas Copco units are located in industrial areas. In 2008, no units reported issues regarding biodiversity.

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 2008 and no major fines have been paid.

Economy

Atlas Copco's objective is to deliver value to its stakeholders and to achieve sustainable profitable growth. 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 strategy for growth and financial result is reported in the Annual Report, including the financial targets, which state for example the Group's proven development process: stability first, then profitability, and finally growth. 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 impacts, through the training of engineers, for example.

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

In 2008, the economic value calculation was restated for 2006–2007 to better follow the GRI guideline. The economic value retained increased by 51% to MSEK6 440 (4 254), as a result of increased growth generated by the business as well as acquisitions and no redemption of shares.

Employee wages and benefits paid by the Group increased 15% to MSEK 14 555 (12 696).

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, for example. In 2008, payments to governments through direct tax was down 7% to MSEK 3 194 (3 434).

Through subcontracting manufacturing and other activities, Atlas Copco generated further employment and financial growth. Operating costs include payments to suppliers for goods and services and deducted for functional costs and employee wages and benefits, amounted to MSEK 46 084 (38 888), an increase of 19%.

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. Further details are reported in the Annual Report and on page 115.

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 superior productivity. The Group's success depends on the interaction with customers.

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.

Atlas Copco 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 with Atlas Copco. They are implementing the Net Promoter Score (NPS) concept to measure customer loyalty and to continuously improve performance. The overall objective is to achieve long-term profitable growth.

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 to this, Atlas Copco strives to build awareness for the ethical guidelines supported by the Group. The Group has launched a customer risk assessment guideline, to assist Atlas Copco companies in the process. This guideline will in particular be used in cases of financing by credit export agencies.

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 Atlas Copco follows its own Business Code of Practice.

Products and Solutions

Atlas Copco's products and solutions are continuously improved in regards to customers' demands of quality, costs and efficiency as well as in regards to ergonomic, environmental and health and safety aspects.

Seen over the entire product life cycle, the largest environmental impact takes place during the use of Atlas Copco products. In designing its products Atlas Copco aims to reduce environmental impact and improve the performance of every product. Life cycle assessments show energy consumption has the most significant environmental impact. All new products are also assessed from a health and safety perspective. 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.

Atlas Copco 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 business area

In 2008, the Compressor Technique business area escalated the focus to continuously improve both products and services, designed to reduce customers' energy consumption and increase their capacity.

A record number of AirScan™ audits were performed, resulting in recommendations for how customers could reduce their energy costs and carbon footprints. These audits went beyond the installed Atlas Copco equipment by looking at other practical aspects of the system configuration, such as the management of air leaks in the hose/pipe connections to the compressors.

The expansion of the portfolio of equipment upgrade kits, allowing customers to benefit from service products such as AirOptimizer™, provides comprehensive control for the entire system installations or configurations for customers. This type of intelligent control system has been shown to produce energy savings of 25%.

Product improvements were realized for compressors of all brands owned by Atlas Copco. Examples include new refrigerant dryers that were introduced, providing an average reduction in energy consumption of 40%. The most energy-efficient oil-injected compressors ever produced, using an average of 13% less electricity and reducing energy requirements by 5–6% compared to previous models, were also launched.

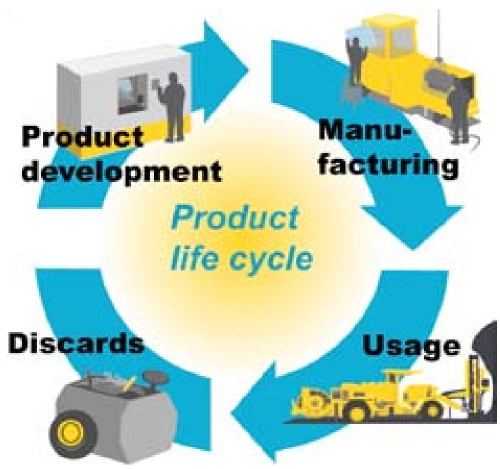
The introduction of near net-shaped rotors in cast iron, instead of starting with a steel bar and mill the shape of the rotors, resulted in financial savings, capacity increases and in a saving in the use of raw materials and energy.

In 2008, more variable speed drive compressors were sold than ever before, bringing energy consumption reductions and reduced carbon footprints to more customers around the globe.

Construction and Mining Technique business area

Part of the Construction and Mining Technique business area's strategy is to develop new products and offer services to improve customers' productivity and to ensure a safe working environment as well as reducing the impact on the environment.

Ground source heating utilizes recyclable energy stored in the constant temperature layer of the ground to realize heating in



winter and cooling in summer. Geothermal air conditioning is an environmentally friendly technology and Atlas Copco has a range of drill rigs suitable for drilling geothermal wells.

Atlas Copco has introduced a water well DTH (down-the-hole) hammer, which uses water as a lubricant instead of oil. The oil-free hammer saves 600–1 000 litres of oil compared to a conventional hammer during its life cycle. This means a cost saving for the customer and, at the same time, eliminates the risk of contaminated water.

The most important thing for keeping emissions low on an asphalt roller is to keep the number of passes at optimal level. Both too much and too little compaction will have a negative impact on the environment. A new tandem roller range has an analyzing tool to optimize the number of passes, the compaction and the temperature.

Energy efficiency and noise level are examples of focus areas in the development of hydraulic breakers, used for demolition within construction as well as within tunneling and mining applications. This has resulted in products featuring advanced energy-saving concepts and technologies. One example is the energy recovery technology breaker, which boosts the percussive output up to 46%, compared to other breakers in the same weight class, without using extra energy.

Industrial Technique business area

The Industrial Technique business area's product development activities focus on reducing energy consumption during the customer's use of the tools, from a life-cycle cost perspective. The business area supports the customer to find the 'green way' by demonstrating life-cycle costs and showing the lifetime savings for material use and energy costs. The product development teams work closely with the marketing people, who listen to the customers and identify common needs and new trends.

During 2008, products were launched that outperform their predecessors significantly in terms of energy consumption, ergonomics and total life-cycle costs. Some examples of improvements were: energy savings through higher speed and less air consumption per tightening cycle, fulfillment of a new EU directive regarding lithium-ion battery technology, improved ergonomics, higher durability translated into increased reliability in operation, longer service life and material use.

The development of energy-efficient tools drives the transformation from pneumatic to electric tools. An electric tools system offers a more advanced fastening process together with a lower energy consumption compared to a pneumatic tools system. In 2008, a transformation seminar was arranged for the off-road, appliance and heavy truck segments where a theoretical part was combined with a hands-on demonstration of pneumatic tools versus electric tools.

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 health and safety perspective, including ergonomics. Further, all Atlas Copco products come with relevant product, service and safety information.

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 (a few handheld electric tools and monitoring control instruments). For those products Atlas Copco has a producer responsibility for the disposed products.

The Atlas Copco Group strives to follow laws and regulations in regards to environmental, health and safety 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 health and safety or product information and labeling have occurred during 2008, hence no fines have been paid.

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 divisions are responsible for the marketing activities and for communications as well as training of personnel within the area of customer health and safety, product and service labeling, marketing communications, customer privacy and compliance. The Group has a sponsoring policy which is followed by the Group's companies.

Atlas Copco has 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 (e.g. ISO) and the Business Code of Practice.

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.

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 2008, Atlas Copco continued to focus on offering a safe, healthy and diverse working environment for all employees. To become more customer-centric, the Group has further increased the competence level for sales and service 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 themselves and their organizations. 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 2008, Atlas Copco employed 34 043 people around the world and 87.0% of its workforce was based outside of Sweden. In 2008, new acquisitions brought 323 new employees to the Group, and 95 left through divestments. The financial crisis has caused Atlas Copco to adjust its workforce to the current demand, which resulted in a reduction of the workforce of 1 365 people in the last quarter of 2008. The Group strives to support the people that have had to leave as much as possible in cooperation with unions and local authorities.

Employer/employee relations

All employees shall have access to information regarding the Group's people management processes, which includes guidance on recruitment, compensation, performance reviews, and people development.

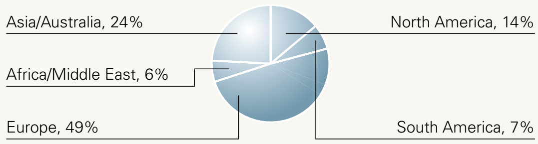
Atlas Copco has a non-discrimination policy covering all employees. All employees have the right to decide whether or not to be represented by a labor union. In 2008, 39 % (40) of all companies, which represents 56% of all employees, reported that the employees had union representatives that could support them.

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.

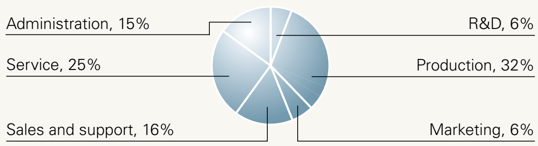
Atlas Copco complies with national laws and regulations regarding minimum notice period in cases of operational changes.

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.

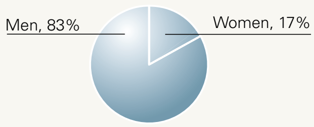
Proportion of employees by geographical spread



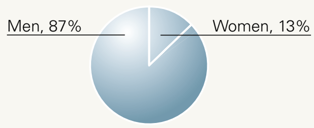
Proportion of employees by professional category



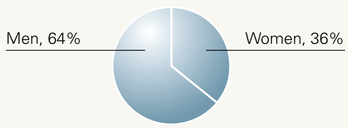
Proportion of male and female employees



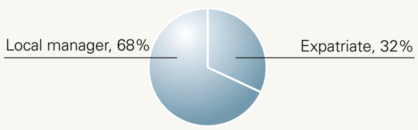
Proportion of male and female managers



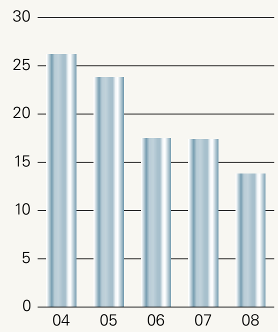
Proportion of male and female recent graduates recruited in the year



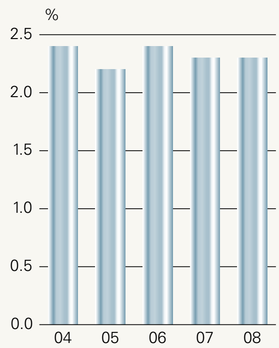
Proportion of locally employed senior managers and expatriate senior managers



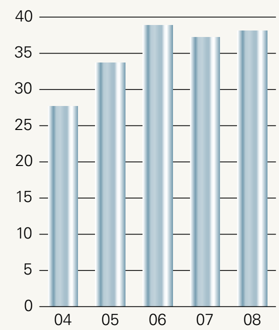
No. of accidents per million of hours worked



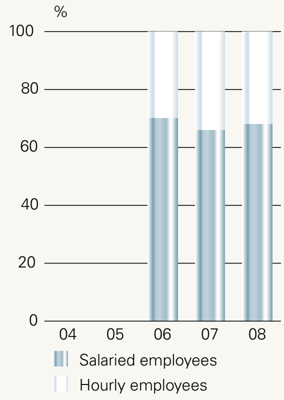
Percent of sick-leave days per year



Average hours of training per employee



Proportion of salaried and hourly employees



In 2008, internal mobility for salaried employees was 9.3%, which means that 2 132 people moved to new positions. Overall external recruitment for salaried employees reached 17.9% and has varied between 13.3% and 18.6% during the past five years. External recruitment totaled 4 178 people excluding acquisitions.

Employee turnover for salaried employees was 10.9 % (9.4).

Employee surveys

Each year all employees in the Group are invited to participate in an employee survey. In 2008, 69% of the employees responded. The 2008 survey results show that the Group has a very strong business-oriented culture with clear strategies and job responsibilities, a high level of motivation, and a 'can-do' spirit within the teams. The survey also showed that women are in general more satisfied than men within the organization, although the differences were small. Men are more content, however, as regards on-the-job training and the clarity in career opportunities.

Atlas Copco is calculating the Employee Net Promoter Score as part of the survey and the result in 2008 showed improvements compared to the previous survey. The results are followed up by local management, who involve the employees in workshops to explore how they can best improve their weaknesses and capitalize on their strengths.

Health, safety and well-being

Atlas Copco aims to offer a safe and healthy working environment in all its operations. The Group has a target to reduce the number of accidents to zero and to take action when appropriate. In support of this, the Group measures numbers of accidents and sick-leave days and actively seeks to ensure that these numbers decline over time. The divisions are responsible for deciding on activities to achieve the target.

Based on more comprehensive information available in each business unit, local management can take appropriate measures to further improve the well-being of employees. Almost all Atlas Copco companies have reported that a health and safety policy is implemented in the company.

The number of accidents per million hours worked was 13.8 (17.4), in 2008. This corresponds to 881 (911) accidents during the year. The average during the past five years is 1 094 accidents. This substantial improvement is partly explained by increased awareness through the implementation of OHSAS 18001 in more companies in the Group and by achievements in the preventive work in production companies.

In 2008, there were no work-related fatalities in the Group's operations. The level of sick-leave is unchanged at 2.3% (2.3). During the period 2004–2008, the sick-leave percentage has varied between 2.2 and 2.4%.

Competence development

In 2008, the average number of training hours per employee was 38.1 (37.2). For salaried employees the average was 39.1 (39.0) and for hourly employees it was 35.9 (35.4).

Atlas Copco's training target is 40 hours on average per employee per year. Examples of training initiatives include local Academy training in 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 skills-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.

Certain training courses are mandatory to all employees; one is the induction course named Atlas Copco Circles, which comprises the Business Code of Practice, and another is the environmental training.

All business areas have comprehensive competence development programs in place; see also the business area section in the Annual Report.

A further measure of success of the focus on competence building within Atlas Copco is the percentage of employees with university or higher degrees. In 2008, 44.3% (42.1) of the salaried employees had a university degree or higher. The percentage has increased continuously since 2003.

In 2008, 74.0% (68.1) of all employees had an appraisal, an annual performance and career development review. The target is 100%.

Fairness and diversity

Equal opportunities, fairness, and diversity are fundamental pillars of Atlas Copco's people management process.

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.

Atlas Copco has stepped up its efforts within employer brand communications through focused teams. The Group is today considered more international and multi-cultural than in the past. These are two extremely important factors for students and potential employees today.

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 2008, a new high level mentorship program was launched. It is aimed at women with the ambition and potential to become general managers.

Atlas Copco companies report and comment on the relative number of males and females in their organizations. Since 2005, Atlas Copco has an internal mentorship program for female managers in place. The objective is to allow regular discussion forums on subjects chosen by the participants and to help encourage a stronger sense of belonging.

A female manager's network is being established to further enhance gender diversity.

In 2008, the proportion of women overall as well as women in management positions increased slightly. The ratio of female employees was 16.6% (16.4), and the proportion of female managers was 12.9% (12.0). During 2008, 36.4% (32.9) of the recent graduates recruited were female.

Atlas Copco Circles

First launched in 1996, the Atlas Copco Circles has become an established tool to increase new employees' understanding of the Group using the circle method: sitting together and talking.

All employees will get basic knowledge of the Group and its history, structure, workflow, products and solutions, strategies, visions, and results, as well as their own roles. The new Circle booklet supports an interactive discussion between employees to help them exchange experiences and see their role in the business and flow of processes.

Business Partners

Atlas Copco strives to be the preferred associate for its business partners – suppliers, sub-contractors, joint venture partners and agents – and is committed to working closely with them. Atlas Copco has only a few joint ventures.

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 units. 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.

Group companies select and evaluate business partners partly on the basis of their commitment to social and environmental performance and development. To reinforce the Business Code of Practice, a common ten-point checklist, based on the UN Global Compact and on the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, has been developed to clarify the Group's expectations on its business partners. Atlas Copco encourages all business partners to implement an environmental management system similar to Atlas Copco's. The checklist forms the basis of the supplier evaluation guideline. The supplier evaluation template has been adapted to the different businesses in the Group.

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. The reporting regarding suppliers is new and is continuously being improved.

Training is being given on a worldwide basis. In China, for example, a Supply Chain Seminar was conducted for the second time in 2008. Local purchasers and Swedish representatives discussed the importance of supplier evaluations to establish awareness and ownership of the procedure. One conclusion from the seminars was a need for training of both purchasers and suppliers in these aspects.

In certain markets it is necessary to work with suppliers that do not have the same standards as the Group. In such cases, Atlas Copco can contribute positively by providing experience and know-how.

In 2008, the reporting of business partners was restated to include a widened scope of suppliers. There was an increase in the reported number of suppliers and more than 20% of them are subject to an assessment in order to establish the potential risk.

In 2008, increased activities on supplier evaluations were conducted in the production units in Nasik, India, Sao Paolo, Brazil, and in Springs, South Africa, for example. In some places suppliers were invited to Suppliers' Day, during which they were informed and trained in the Atlas Copco supplier evaluation procedure. The activities have in many cases resulted in safety, health and environmental improvements. The supplier evaluations will continue to be a focused area.

In 2008, approximately 3 600 significant suppliers, representing 26% of the total number of suppliers, were evaluated by Atlas

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 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.

Copco teams directly at the suppliers' sites, or through verification of the suppliers' own reports. 90% of the suppliers evaluated from an environmental perspective were approved. They were rated average, good, or exceptional. 10% of the suppliers were conditionally approved and will be monitored by Atlas Copco. The same figures related to the social evaluations were 96% and 4% respectively.

In 2008, three suppliers were rejected for environmental reasons and one for social, health and safety 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.

Restricted or prohibited substances

Atlas Copco keeps a list of substances whose use are either prohibited or restricted due to their potential negative impact on health or the environment. Restricted substances should be replaced as soon as it is possible from a technical and financial perspective. 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.

Construction and mining supplier in South Africa

Atlas Copco Secoroc evaluated Perfection Tool and Die resulting in a number of environmental and social improvements.

Atlas Copco Secoroc, a product company in the Secoroc division, is located near Johannesburg. The company produces drilling consumables for the local and global market and hosts a distribution center for the supply of all Secoroc products to southern Africa customer centers. Its operations are both ISO 9001 and 14001 certified.

Perfection Tool and Die, a private, family-run business, performs turning and milling of tapered and threaded button bits for Atlas Copco Secoroc. It employs 76 people and operates in Boksburg North, South Africa. It has not yet implemented a quality or environmental management system, but plans to do so in the near future.

Atlas Copco Secoroc performed a full Safety Health Environmental Quality and Social assessment at Perfection Tool and Die. The evaluation identified eight non-compliances and 15 suggestions for improvements.

At the follow-up assessment the result was very positive; Perfection Tool and Die showed a high level of commitment and addressed all non-compliances and a number of improvement suggestions. The meeting also resulted in a report with some new findings, and a new date for a full-scope assessment was decided by the two parties.

Prior to the first evaluation the supplier had poor knowledge of the applicable laws and regulations, as well as of Atlas Copco's ten-point checklist. However, Perfection Tool and Die managers said they appreciated the assessments and the support received in addressing needed improvements.

In Atlas Copco's view, the company has remarkably improved its social and environmental performance. The managers have implemented the advice they received from Atlas Copco and in some cases customized their own solutions at low cost, of which they are very proud. Atlas Copco will continue to assess the supplier on an annual basis.

Shareholders

The Group has ambitious growth targets to create and continuously increase shareholder value. 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 non-financial 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.

Sustainability challenges and risks

Atlas Copco's approach to assessing and managing risks, including those related to the Group's sustainability performance, 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 carbon dioxide emissions from products and industrial processes. Atlas Copco has consistently developed products with improved energy efficiency and reduced emissions, and 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 Belgian 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 of Atlas Copco.

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.

Sustainability ratings

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.

In 2008, Atlas Copco was listed in:

- Dow Jones Sustainability Index
- FTSE4Goods Global Index
- Global 100 list by Innovest.
- Carbon Disclosure Project's (CDP) annual reporting of climate impact (www.cd-project.net)

An investor's perspective on the stakeholder dialogue

Swedbank Robur, one of Atlas Copco's largest owners, appreciates Atlas Copco's initiative to a stakeholder dialogue with owners regarding Atlas Copco's sustainability work, and would like to see that it continues in 2009.

Swedbank Robur has performed a sustainability performance review of Atlas Copco for more than a decade, and appreciates to discuss the issues with Group Management, and also to share other stakeholder views on the Group.

The meeting concerned for example that Atlas Copco should better communicate its Group environmental strategy and report more clearly on the performance versus the non-financial targets and performance in the Sustainability Report.

Since Atlas Copco has its own operations, which to a major part consist of assembly, it is important that the Group reports on its supplier evaluation model regarding environmental, social and ethical aspects. This regards both targets and performance of the evaluations, supplier activities and training initiatives.

Since Atlas Copco's environmental impact from a life-cycle perspective is during the use of the product, it is important that the Group reports on how the environmental concerns are taken into account in product development and to better report the existing products' environmental advantages. Swedbank Robur would appreciate a more detailed reporting on customer risk within the sustainability area.

Anna Nilsson, Manager Ethical and Environmental Analysis, Swedbank Robur, Sweden

Sustainability recognitions

Atlas Copco has been recognized for its sustainability work by a number of rating companies. The Group received its most recent recognition in January 2009 from Innovest, Global 100. Further information about Atlas Copco's participation in external sustainability ratings is available upon request.

MOST SUSTAINABLE CORPORATIONS GLOBAL 100

FTSE4Good

Dow Jones Sustainability Indexes
Member 2008/09

Performance Summary 2008[1)]

GRI indicator	Economic[2)]	2006	2007	2008
EC1	*Direct economic value*			
EC1	Revenues	60 430	64 391	77 370
EC1	*Economic value distributed*			
EC1	Operating costs[3)]	30 483	38 888	46 084
EC1	Employee wages and benefits	10 965	12 696	14 555
EC1	Payments to providers of capital[4)]	3 846	5 119	7 097
EC1	Payments to governments (tax)	2 690	3 434	3 194
EC1	Community investments	0	0	0
EC1	*Economic value retained*	12 446	4 254	6 440
EC1	– Redemption of shares	0	24 416	0
	– Repurchase of own shares	3 776	0	0

GRI indicator	Social – employees[5)]	2004	2005	2006	2007	2008
LA7	Number of accidents per million hours worked	26.2	23.8	17.5	17.4	13.8
LA7	Absolute numbers of accidents				911	881
LA7	Sick-leave, %	2.4	2.2	2.4	2.3	2.3
LA10	Average training hours per employee	27.7	33.7	38.9	37.2	38.1
LA10	Average training hours per salaried employee				39.0	39.1
LA10	Average training hours per hourly employee				35.4	35.9
LA12	Proportion of appraisals, % employees	66.6	69.0	71.0	68.1	74.0
LA13	Proportion of women, % employees	16.0	14.5	16.2	16.4	16.6
LA13	Proportion of women in management positions, % managers	10.0	9.0	11.7	12.0	12.9

GRI indicator	Environmental (production units)[5)]	2004	2005	2006	2007	2008
EN1	Material use in ’000 tons (iron and steel)	52	82	85	143	138
EN1	Packaging material in ’000 tons	24	26	31	35	44
EN3[6)]	Direct energy use in GWh				122	140
EN4[6)]	Indirect energy use in GWh				258	276
EN3+EN4	Energy use in GWh	274	311	321	380	416
EN8	Use of water in ’000 m^3	508	476	523	497	547
EN16	CO_2 emissions in ’000 tons (energy)	69	86	89	105	120
EN17	CO_2 emissions in ’000 tons (transports)	169	175	198	312	305
EN19	Cooling agents in tons	82	67	73	84	86
EN22	Waste in ’000 tons	23	23	27	35	38

GRI indicator	Environmental (specialty rental)[5)]	2006	2007	2008
EN3 + EN4	Energy use in GWh	40	65	27
EN8	Use of water in ’000 m^3	25	18.8	23
EN16	CO_2 emissions in ’000 tons (energy)	24	16.7	7.5
EN17	CO_2 emissions in ’000 tons (transports)	2.3	8.7	4.2

1) Changes reflect both changes in volume, consumption and an increase in the number of reporting units.

2) EC1 is restated to follow GRI guidelines.

3) In operating costs, cost of sales also includes taxes paid to local governments.

4) Payments to providers of capital includes financial costs and dividend, but excludes redemption of shares and repurchase of own shares.

5) Reported values are not corrected retroactively.

6) All direct and indirect energy is reported as non-renewable energy.

Sustainability and Reporting Definitions

Carbon dioxide (CO_2)
The most common greenhouse gas found in the atmosphere. It is generated in various processes in nature as well as in the combustion of most fuels.

Carbon Disclosure Project (CDP)
Independent organization that encourages corporations to disclose their greenhouse gas emissions.

Cooling agents
Different cooling agents added to on-site equipment (including refrigerators and air conditioners) and/or finished products leaving the site during the year is reported.

Core indicator
Key Performance Indicators defined in the Global Reporting Initiative guidelines to be of interest to most stakeholders and deemed to be material to the organization.

Corporate Responsibility (CR)
Concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment.

Corruption
OECD's guidelines define corruption as when a civil servant or other person with influence unfairly or illegally takes advantage of his position to achieve benefits for himself or another person.

Cost of sales
Costs incurred to manufacture goods (and provide services) to be sold, including costs for material, salaries, and depreciation of equipment, but excluding costs for marketing, administration, and product development.

Employee turnover salaried
Calculated as external resignations of salaried employees/average salaried employees.

Energy consumption
Energy consumed for production includes production, heating, cooling, ventilation, as well as fuel delivered with rental products. Energy consumed during transport is measured from all inbound and outbound transports in cubic meters of fuel.

Environmental Management System (EMS)
The part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing, and maintaining the organization's environmental policy. An EMS involves a systematic and documented approach to environmental management.

Fossil fuels
Fuels originating from organisms of an earlier geological age, including coal, oil, natural gas, and peat.

Global Compact
UN initiative with ten principles on corporations' activities focusing on human rights, labor practices, environmental, and corruption considerations.

Global Reporting Initiative (GRI)
Independent international organization working to develop guidelines for sustainability reporting. Read more at www.globalreporting.org.

GHG Protocol
GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (green house gas) emissions inventory. Through the use of the standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Governmental Organization (GO)
Legally constituted organization created by government, such as the OECD.

Influencer
Individual or group who is expected to have an indirect impact on an organization, company or its stakeholders through influence.

ISO 9001
International standard developed by the International Organisation for Standardization (ISO), for setting up and certifying quality management systems.

ISO 14001
International standard developed by the International Organisation for Standardization (ISO), for setting up and certifying environmental management systems.

ISO 26000
International standard providing guidelines for social responsibility (SR).The guidance standard will be published in 2010 as ISO 26000 and compliance will be voluntary. It will not include requirements and will thus not be a certification standard.

Life Cycle Assessment (LCA)
Method for assessing the total environmental impact of a product or service "from cradle to grave", including all phases of production, use, and final disposal.

Megawatt hour (MWh)
Measure of electrical energy consumption equal to the energy provided by a one megawatt power source in one hour. Mega is the metric prefix for one million. In the report, gigawatt hour (GWh) is also used as a measurement unit. Giga is the prefix for one billion.

Non Governmental Organization (NGO)
Legally constituted organization created by private persons or organizations with no participation or representation of any government, e.g. Amnesty International and Greenpeace.

OHSAS 18001
International standard, developed by the International Organisation for Standardization (ISO), for setting up and certifying occupational health and safety management systems.

Ozone Depleting Potential (ODP)
ODP indicates the ozone-depleting potential of a chemical substance i.e. a substance that has a negative impact on the earth's protective ozone layer.

Packaging material
Measured as the consumption of outbound packaging materials, i.e. materials used for packing Atlas Copco original products and parts such as paper/cardboard, plastic, wood, packing chips (foam) and iron/steel.

Rating institutes
Provide indices based on companies' financial performance as well as their sustainability performance (ethical indexes), e.g. Dow Jones.

REACH
European Community regulation on chemicals, deals with the Registration, Evaluation, Authorization and Restriction of Chemical substances.

Sick leave
Calculated as absence from work due to the employee's own illness, and does not include absence due to childcare or care of relatives and next-of-kin. The sick leave indicator used in the Atlas Copco Group is measured as the number of sick-leave days in relation to total number of working days.

Stakeholder
Individual or group that is expected to significantly affect or to be significantly affected by a company's activities, products, and solutions.

Sustainability
Meeting the needs of the present without compromising the ability of future generations to meet their own needs. It is also improving quality of life for everyone, now and for generations to come and it has three dimensions: economic, environmental, and social sustainability.

Waste
Reported in tons and in the following categories: metal scrap from production, plastic, paper, oils and solvents, paint, rocks and concrete, contaminated soil and mixed waste. The waste is classified as: reusable, recyclable, recoverable, landfill, and regulated waste. Regulated waste requires special treatment and disposal methods.

Water
Water consumption in m^3, own and purchased, is measured at internal water meters or by water utility companies.

WEEE
EU Waste Electrical and Electronic Equipment Directive imposes responsibility for the disposal of waste electrical and electronic equipment on the manufacturers.

Work-related accident
Includes illness or injury resulting in loss of consciousness, restriction of work or motion, or transfer to another job, and requiring medical treatment beyond first aid, not including accidents occurring when traveling to or from work.

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 rules of OMX Stockholm, the new version of the Swedish Code of Corporate Governance, the Articles of Association and other relevant rules. This Corporate Governance Report has not been reviewed by the company's auditor.

Atlas Copco's Articles of Association, as well as an item-by-item report on Atlas Copco´s compliance with the Swedish Code of Corporate Governance, are available on the Group's website www.atlascopco.com/ir.

The Swedish Code of Corporate Governance is available in English on www.bolagsstyrning.se/en.

Shareholders

In the Atlas Copco Share section, pages 130–133, 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 share holdings. Shareholders who cannot participate personally may be represented by proxy and a proxy form is made available for the shareholders. A shareholder or a proxy holder may be accompanied by two assistants.

Shareholders representing 50.0% of the total number of votes in the company and 47.5% of the shares attended the Annual General Meeting held in April 2008 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 (re-)election at the 2009 Annual General Meeting has been performed in accordance with the nomination process and the criteria adopted at the 2008 Annual General Meeting.

As prescribed by this process and criteria, during October 2008 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, 2008. A way to contact the Nomination Committee directly was also provided. The Committee members represented some 28% of all votes in the company. Late 2008 the Committee began preparing a proposal to be submitted to the 2009 Annual General Meeting covering the issues specified at the 2008 Annual General Meeting and the Code of Corporate Governance.

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 2009 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 Code of Corporate Governance.

In the notice to the 2009 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 2010 as well as a list of decision points for this Annual General Meeting, including election of auditor.

Neither Sune Carlsson nor the other members of the Nomination Committee received any compensation for their work in the committee.

Auditor

At the 2006 Annual General Meeting the audit firm KPMG AB (KPMG), Sweden, was re-elected until the 2010 Annual General Meeting in compliance with a proposal from the Nomination Committee.

Board of Directors

At the 2008 Annual General Meeting, nine Board members were elected, one of which is the President and Chief Executive Officer (CEO). The Board also has two members, with personal deputies, that are appointed by the labor unions.

The Board had eight meetings in 2008, six times at Atlas Copco AB in Nacka, Sweden and twice per capsulam. A planned field trip in November to South Africa was cancelled due to the economic situation. 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 was 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 and Hans Ola Meyer, CFO, have been present at all meetings. The three business area presidents, Ronnie Leten, Mats Rahmström and Björn Rosengren (in February 2009) 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, and the Group Treasurer, Ken Lagerborg, presented the situation in their areas of responsibility at the February and July Board meetings respectively.

At the February meeting, the main responsible external auditor, Thomas Thiel, KPMG, reported his observations from the annual audit; 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 readopted 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 the management in the implementation of the share repurchase program authorized 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 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 also fact box on page 122.)
- 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. 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, primarily during the first half of the year, include the approval of a number of acquisitions and investments in increased production capacity. Further, the capital structure has been discussed in depth.

During the year, primarily in the second half, the Board has continuously addressed the economic development, the strategic direction, contingency plans, the financial performance, and the methods to maintain sustainable profitability of the Atlas Copco Group.

Remuneration to the Board members

The 2008 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. The amount of SEK 170 000 was granted to the Chair of the Audit Committee and SEK 110 000 to each of the other two members of this committee. The 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, a certain part could be received in the form of synthetic shares as follows: Chair SEK 825 000, Vice Chair SEK 300 000 and the other Board members SEK 250 000 each. All Board members accepted this.

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 2008. 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 245 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 (age of retirement, notice period, and severance pay). The base salary is determined by position and performance and the variable compensation is for the achievement of specific results.

The Remuneration Policy is reviewed every year and was presented to the 2008 Annual General Meeting for approval. The current Remuneration Policy is included in the Annual Report.

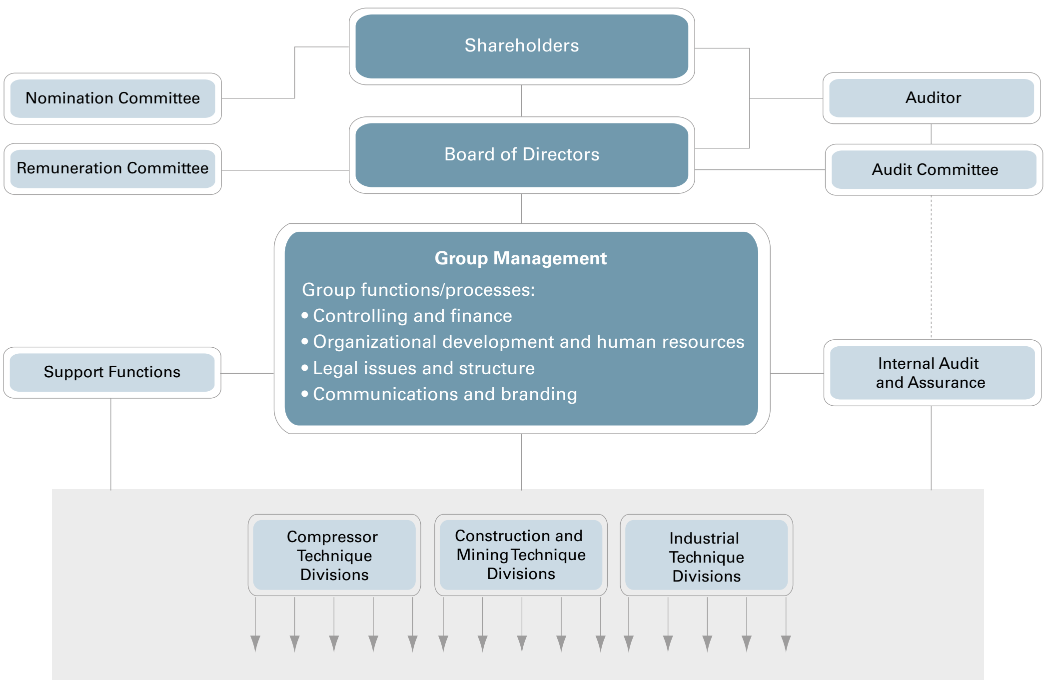
During the year, the Remuneration Committee had one meeting where all members were present.

Audit Committee

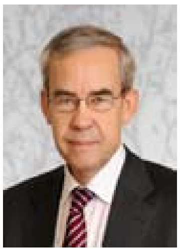
In 2008, the committee consisted of Board Members Ulla Litzén (Chair), Sune Carlsson, and Staffan Bohman and convened five times. All members were present at all meetings, which were also attended by the responsible auditor, Thomas Thiel, KPMG, Atlas Copco's President and CEO, Gunnar Brock, CFO, Hans Ola Meyer, and Vice President Group Internal Audit & Assurance, Anders Björkdahl.

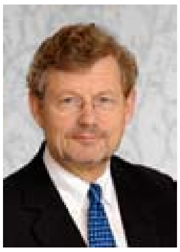
The work of the Audit Committee is directed by the Audit Committee Charter, adopted by the Board in 2003 and reviewed and approved each year, latest in April 2008. The committee's primary task is to support the Board in fulfilling its responsibilities in the areas of audit and internal control, accounting, and financial reporting. Work in 2008 focused on follow-up of the 2007 audit, the auditors review of the half-year report according to agreed upon procedures and the hard close audit carried out as of September 30. Further, each quarterly interim report was reviewed by the committee, an evaluation was made of the Group's internal control procedures, and certain risk areas were monitored.

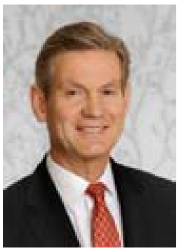
Governance structure

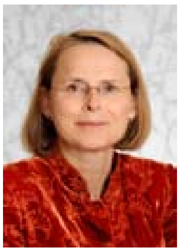


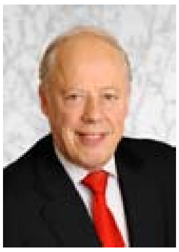
Board of Directors

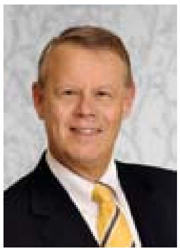

Sune Carlsson


Jacob Wallenberg


Gunnar Brock


Ulla Litzén


Anders Ullberg


Staffan Bohman

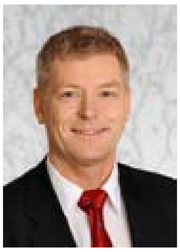

Margareth Øvrum

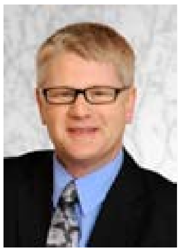

Christel Bories


Johan Forssell

Union Representatives


Bengt Lindgren


Ulf Ström


Mikael Bergstedt


Kristina Kanestad

Honorary Chair


Peter Wallenberg

Board of Directors

The Board of Directors consists of nine elected Board members, including the President and CEO. The Board also has two union members, each with one personal deputy. In addition to the President and CEO and the union representatives, three of the Board members are not independent; two are members of the Board of Investor AB, Sweden and one is employed by Investor AB, which is the single largest shareholder in Atlas Copco. 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.

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 nonprofit Knut and Alice Wallenberg Foundation, Sweden, the power and automation company ABB Ltd, Switzerland, Stockholm School of Economics, Sweden, the Nobel Foundation, Sweden, and the Coca-Cola Company, the United States.

Gunnar Brock, President and CEO. M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Chair of the Board of the single-use surgical and wound care products company Mölnlycke Health Care Group, Sweden, Board Member of the forest products company Stora Enso Oyj, Finland, and the trade and employers' organization the Association of Swedish Engineering Industries, Sweden. Member of the Royal Swedish Academy of Engineering Sciences (IVA), Sweden.

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 the hotel management company Rezidor Hotel Group, all based in 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, the technical services company Studsvik AB, Sweden, and the IT services company TietoEnator, Finland. Member of the Board of the aluminum profile company Sapa Holding 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.

Staffan Bohman, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and Stanford Executive Program, the United States. Vice Chair of the IT group EDB Business Partner ASA, Norway, and the truck manufacturer Scania AB, Sweden. Member of the Board of the industrial group Trelleborg AB, Sweden, the holding company Inter-IKEA, the Netherlands, the private equity company Ratos AB, Sweden and the mining company Boliden AB, 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 StatoilHydro, as well as various other areas of responsibility within Statoil. Member of the Board of metals and materials producer Elkem, Norway, and of the Norwegian Research Council.

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. Chair of the European Aluminium Association (EAA), Belgium.

Johan Forssell, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. He is a member of the management team of investment company Investor AB, Sweden, and Managing Director and Head of Core Investments. Board Member of Foundation SSE-MBA, Sweden.

Union representatives (local union branches)
Bengt Lindgren, Chair of IF Metall, Atlas Copco Secoroc AB, Fagersta, Sweden.

Deputy **Ulf Ström,** Vice 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.

The Board of Directors and holdings[1] in Atlas Copco

Name	Title	Nationality	Elected	Board Particip-ation (8)	Audit Committee	Remuner-ation Committee	Inde-pen-dent	Class A shares	Class B shares	Synthetic shares/ employee stock options
Sune Carlsson	Chair of the Board	Swedish	1997	8	Member	Chair	No	20 000	34 284	8 144
Jacob Wallenberg[2]	Vice Chair	Swedish	1998	8		Member	No	234 790	15 960	2 962
Gunnar Brock	President and CEO	Swedish	2002	8			No	46 200	132 000	518 314[3]
Ulla Litzén		Swedish	1999	8	Chair		Yes	75 800	3 000	2 468
Anders Ullberg		Swedish	2003	8		Member	Yes	14 000	10 000	2 468
Staffan Bohman		Swedish	2003	8	Member		Yes	10 000	30 000	2 468
Margareth Øvrum[4]		Norwegian	2008	5			Yes			2 468
Christel Bories[4]		French	2008	4			Yes			2 468
Johan Forssell[4]		Swedish	2008	5			No		2 000	2 468
Bengt Lindgren	Union representative	Swedish	1990	8			No			
Ulf Ström				7						
Mikael Bergstedt	Union representative	Swedish	2004	8			No			
Kristina Kanestad				8						

1) Holdings as per end of 2008, including those of close relatives or legal entities.
2) Jacob Wallenberg was also a Board Member of Atlas Copco AB between 1985–1994.
3) The number refers to employee stock options.
4) Elected at the 2008 Annual General Meeting.

Auditor

At the 2006 Annual General Meeting the audit firm KPMG AB (KPMG), Sweden, was re-elected auditor for the period until the 2010 Annual General Meeting with Authorized Public Accountant Thomas Thiel appointed main responsible auditor. KPMG has the necessary expertise and a global network that coincides with Atlas Copco's demands.

The responsible auditor personally reported his observations and presented his views on the quality of internal control in the Group at the February 2008 and 2009 Board meetings. He 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 20 (19) divisions. On January 1, 2008, the Compressor Technique business area established a new division focusing on service. 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 three-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 always 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.

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
- Communications and branding
- Crisis management
- Environmental management
- Finance/control/accounting
- Group standards
- Information technology
- Insurance
- Legal issues
- 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*.

Vision

The Atlas Copco Group's vision is to be First in Mind—First in Choice® for its customers and other principal stakeholders. The operative units adopt objectives modified to suit their respective business operations. The set objectives reflect the ambition to realize the vision; therefore, objectives are followed up carefully.

The Board has adopted a limited number of financial and non-financial objectives at Group level. Each business area and division respectively gets objectives for its operations within the framework of these Group level objectives.

Financial targets

The Atlas Copco Group has defined financial targets that will create and continuously increase shareholder value. The overall objective is to grow while achieving a return on capital employed that always exceeds the Group's average total cost of capital.

The financial targets are

- to have an annual revenue growth of 8%,
- to reach an operating margin of 15%, and
- to challenge and continuously improve the efficiency of operating capital in terms of fixed assets, inventories, receivables, and rental-fleet utilization.

To reach these objectives, all operative units within the Group follow a proven development process: stability first, then profitability, and finally growth.

Non-financial targets

Atlas Copco Group has defined non-financial targets for advancement within environmental and social areas.

General

- All employees shall receive appropriate training in the Business Code of Practice, including human rights aspects.

Social

- Each employee shall be provided with an average of 40 hours competence development per year.
- Each employee shall receive an annual personal performance appraisal.
- Internal mobility is encouraged with the aim to recruite 85% of managers internally.
- No work related accidents.

Environmental

- All product companies/production sites shall be ISO 14001 certified.
- All employees shall work in an Environmental Management System (EMS) certified environment.
- All divisions shall have measurable targets for main product categories to increase energy efficiency.
- All product companies/production sites aim to reduce their CO_2 emissions, including transports to and from production sites.

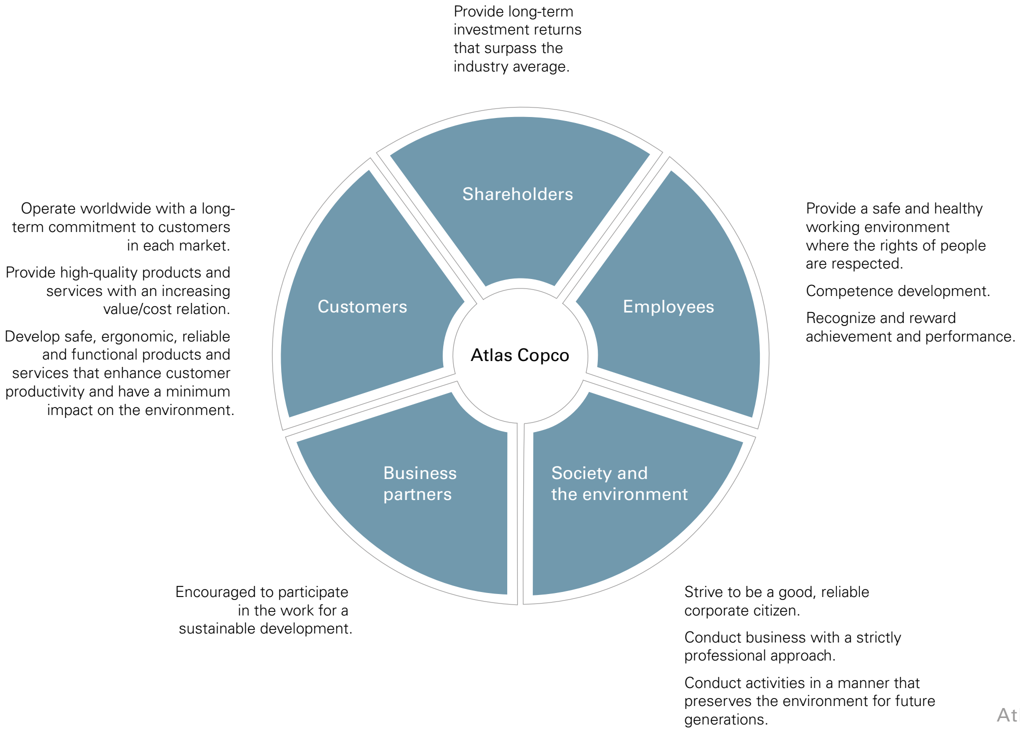
Business partners

- Business partners shall be evaluated from an environmental and social performance point of view in addition to general business objectives.
- Business partners shall be encouraged to implement an environmental system similar to Atlas Copco's system.

Risk management

See Board of Directors' report, page 19–21.

Atlas Copco's stakeholder model



Group Management

From left to right, top row: Gunnar Brock*, Annika Berglund, Ronnie Leten**, Björn Rosengren. Bottom row: Hans Ola Meyer, Hans Sandberg, Mats Rahmström, Jeanette Livijn.

* Gunnar Brock leaves his position as President and CEO on June 1, 2009.

** Ronnie Leten is appointed President and CEO of Atlas Copco, effective June 1, 2009.

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 Communication and Branding.

President and Chief Executive Officer

Gunnar Brock received his M.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden, in 1974. He assumed his position as President and Chief Executive Officer of Atlas Copco in 2002.

Between 1974 and 1992, Gunnar Brock held various positions within the packaging systems company Tetra Pak, including Managing Director in Europe and Asia and Executive Vice President of the Tetra Pak Group. Between 1992 and 1994, he was President and Chief Executive Officer of the industrial company Alfa Laval Group, Sweden, and held the same position for the Tetra Pak Group between 1994 and 2000. Before assuming his current position, he was Chief Executive Officer for the load carrier company Thule International, Sweden.

Besides his holdings in Atlas Copco, neither Gunnar Brock nor any member of his immediate family have shares/partnerships in companies with which the Atlas Copco Group has significant business connections.

External directorships: Chair of the Board of the single use surgical and wound care products company Mölnlycke Health Care Group, Board Member of the forest products company Stora Enso Oyj, Finland, and the trade and employers' organization the Association of Swedish Engineering Industries, Sweden. Member of the Royal Swedish Academy of Engineering Sciences (IVA), Sweden.

Business Area Presidents

Ronnie Leten, Business Area President for Compressor Technique. 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 subsupplier 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 and in 2001, President of the Industrial Air division. All positions based in Belgium. He assumed his present position in July 2006.

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.

External directorship: HTC AB, professional floor grinding systems, Sweden.

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 started at 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 the President of the Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique. Mats Rahmström holds his current position as from June 1, 2008.

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 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 since 2007 a member of Group Management.

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 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.

Group Management

Name	Born	Nationality	Employed	Function	Class A shares	Class B shares	Employee stock options
Gunnar Brock	1950	Swedish	2002	President and CEO	46 200	132 000	518 314
Ronnie Leten	1956	Belgian	1997	Compressor Technique	10 000	2 000	176 250
Björn Rosengren	1959	Swedish	1998	Construction and Mining Technique			176 250
Mats Rahmström	1965	Swedish	1988	Industrial Technique			117 500
Hans Ola Meyer	1955	Swedish	1991	Controlling and Finance	3 426	24 993	129 578
Jeanette Livijn	1963	Swedish	1987	Organizational Development and Human Resources			58 749
Hans Sandberg	1946	Swedish	1975	Legal	10 000	14 000	88 125
Annika Berglund	1954	Swedish	1979	Communications and Branding	7 515	5 795	88 125

Holdings as per Dec 31, 2008, including those of close relatives or legal entities, including grant for the 2008 program. See note 23 for additional information.

Remuneration to Group Management

Remuneration covers an annual base salary, variable compensation, pension premiums, 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.

President and Chief Executive Officer: The variable compensation can give a maximum of 70% of the base salary paid, broken down into a maximum of 50% based on the Group's EVA (Economic Value Added) and a maximum of 20% for various projects. The variable compensation is not included in the basis for pension benefits.

The President and CEO is a member of the Atlas Copco Group 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. In addition, he is entitled to a disability pension corresponding to 50% of his base salary. It has been agreed with the CEO to freeze the premium for the disability pension at the 2005 level and instead increase the premium for the retirement pension. This is cost neutral for the company. The pension premium is therefore somewhat higher than 35% and the disability pension somewhat lower than 50%. These pension plans are vested and pension payments are planned to be for lifetime. See also note 5 in the Annual Report.

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 the 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 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 concerning events that may, to a not insignificant extent, have an effect on the share price
- 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.

Internal Control over Financial Reporting

This is a description of the internal control regarding financial reporting, established in accordance with the Swedish Code of Corporate Governance.

The base for the internal control over the financial reporting consists of the overall *control environment* that the Board of Directors and the 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, page 19–21. The risk assessment process is continuously 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.

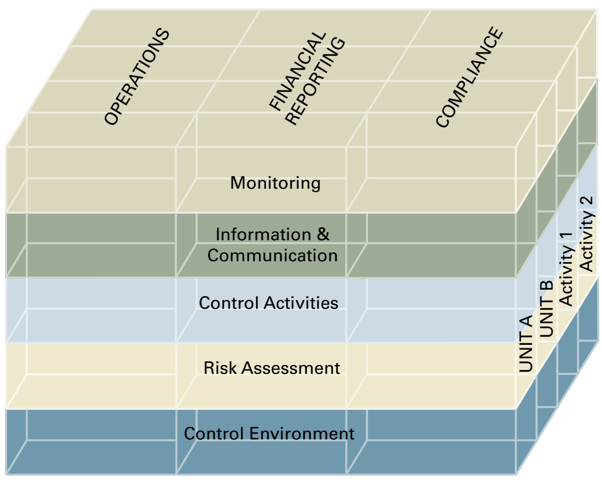
Business control: Each unit has a business controller responsible for ensuring that, among other things, there are adequate internal control processes, the Group's control processes are implemented, and that any risk exposures are reported. The controller is also responsible for ensuring that *The Way 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 company, business line, division, and business area. Each division consolidates its units and reports division adjustments and eliminations to Atlas Copco AB. All legal entities submit quarterly reports in accordance with a standardized reporting routine. These reports, which are reconciled with the operative reports, constitute the basis for the Group's quarterly and annual consolidated reports.

The Group uses a common system for consolidation of both legal and operative reports. Information is stored in a central database from which it can be retrieved for analysis and follow-up at Group, business area, division, business line, country and unit levels. The analysis package includes a series of standardized scorecards used to follow up key indicators in relation to historic trends and to the set targets. A project is ongoing to replace the present reporting and consolidation system and to further improve the financial reporting process.

To ensure the proper application of IFRS and the quality of the financial reporting, the Group has during the year maintained and trained an internal international network of qualified accountants to provide regional and local support and act as ambassadors of the Group accounting function.

Internal Control Framework



Source: Committee of Sponsoring Organizations of the Treadway Commissions (COSO), USA.

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 audit: 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, and serve as a tool for employee professional development.

Internal audits are mainly initiated by the division in charge of operations or the responsible holding company, but can also be initiated by other parties. An internal audit is routinely performed each time a unit changes manager, but an audit may be carried out for other reasons, for instance after major negative events or structural changes, comments from external auditors, 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 checklists and forms for reports and follow-ups.

The internal audit function has been further strengthened during 2008. A new function, Group Internal Audit & Assurance, has been created in order to ensure compliance with the Group's corporate governance, internal control and risk management policies. A dedicated team will add a more professional and proactive approach to the internal audit process, as a complement to the project-based process. The Vice President Group Internal Audit & Assurance participated in all meetings of the Audit Committee during the year.

Post-acquisition audits are conducted approximately 18 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 consisting of at least two persons, of which at least one should have practical acquisition experience. The audits are initiated by and reported to a competence group for the acquisition process chaired by the General Counsel. 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 in a standardized format. Examples of such identified areas are specific countries/regions, structural changes, certain accounting principles, business processes and information technology systems.

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 (operative) Quarterly, annually (legal)
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, internal control and risk management policies.	All units at least once during four years
Post-acquisition audits	To follow up synergies, integration activities and the acquisition process as such	18 months after acquisition
Special risk areas	To identify, assess and control major risks and monitor actions taken	Quarterly
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

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, branding, and Business Code of Practice are also included in the assessment. Unit managers annually review extensive questionnaires to personally measure 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 on Group and business area level as a base for improvement of Group processes, clarification of instructions etc. As an integrated part of the internal audits, the audit teams are asked to verify the answers in the Control Self Assessment questionnaires to be rectified when necessary, in order to improve the quality and accuracy of the assessments.

Ethical helpline: The Group has a process where employees can report on behavior or actions that are, or for good reasons may be perceived as, violations of laws or of Group policies. This process serves as a complement to similar processes that may exist on a country level. The reports are treated confidentially and the person who is reporting is given anonymity.

In 2008, efforts have been made to increase the awareness of this process among all employees, also in acquired companies.

Internal control statistics

	2008	2007
Operative units in the Group	395	350
Internal audits conducted (incl post-acquisition audits)	86	60
Control self assessments completed	250	204

Training of Internal Audit Leaders

In 2008 a training program for educating internal audit team leaders and to develop future team leaders was carried out. The training was conducted in seven different locations around the world and in total, 142 persons have been trained.

The purpose of the training was to strengthen the internal audit process and the project-based teams, with improved quality in the internal audit process and an increase in the number of internal audits performed. The ultimate goal is to ensure compliance within corporate governance, internal control procedures, risk management policies and laws and regulations.

With the project-based audit teams, composed primarily of people from the operations, it is a prerequisite that all audit teams "speak the same language" and have a similar way of grading the importance of their observations. The training, in combination with support from the dedicated internal auditors in the Group Internal Audit & Assurance function, is a way to achieve this.

Participants at the Training session in Shanghai October, 2008.

The Atlas Copco Share

At December 31, 2008, the price of the Atlas Copco A share was SEK 66.75. During 2008, the price of the A share decreased 31%. The Industrial Index and General Index on NASDAQ OMX Stockholm decreased 47% and 42%, respectively. The annual total return on the Atlas Copco A share, equal to dividend plus the appreciation of the share price, averaged 14.0% for the past 10 years and 16.9% for the past 5 years. The corresponding total return for NASDAQ OMX Stockholm was 3.3% (1999–2008) and 4.6% (2004–2008).

Dividend and dividend policy

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 3.00 (3.00) per share be paid for the 2008 fiscal year. This corresponds to a total of MSEK 3 648 (3 662).

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 40–50% of earnings per share. If the shareholders approve the Board of Directors' proposal for a dividend of SEK 3.00 per share, the annual dividend growth for the five-year period 2004–2008 will equal 19%. During the same period, the dividend has averaged 33.7% of basic earnings per share. The dividend has averaged 45.0% of basic earnings per share if the effect from profit from discontinued operations is excluded.

Transactions in own shares

At year end 2007 Atlas Copco held 3 577 500 of its own Class A shares and 5 250 900 of its own Class B shares, corresponding to 0.7% of the total number of shares. The 2007 Annual General Meeting approved a mandate to divest B shares held and purchase a maximum of 6 400 000 A shares for possible delivery under the company's personnel option programs. The final transactions under this mandate were made in February 2008 when 6 400 000 A shares and 2 428 400 B shares were held.

The 2008 Annual General Meeting approved a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the Company over NASDAQ OMX Stockholm. This mandate is valid up until the Annual General Meeting in 2009 and includes repurchases of shares to cover the commitments under the 2008 personnel stock option plan and in relation to the synthetic shares offered as part of the Board remuneration. Share repurchases for the specific purpose of covering the personnel stock option plan and the synthetic shares were initiated in August. As per December 31, 2008 Atlas Copco held 11 275 000 A shares and 2 428 400 B shares, corresponding to 1.1% of the total number of shares. The A shares are held to fulfil the obligation to provide shares under the personnel stock option program and the B shares are held for the purpose of being divested over time to cover costs related to the personnel stock option program.

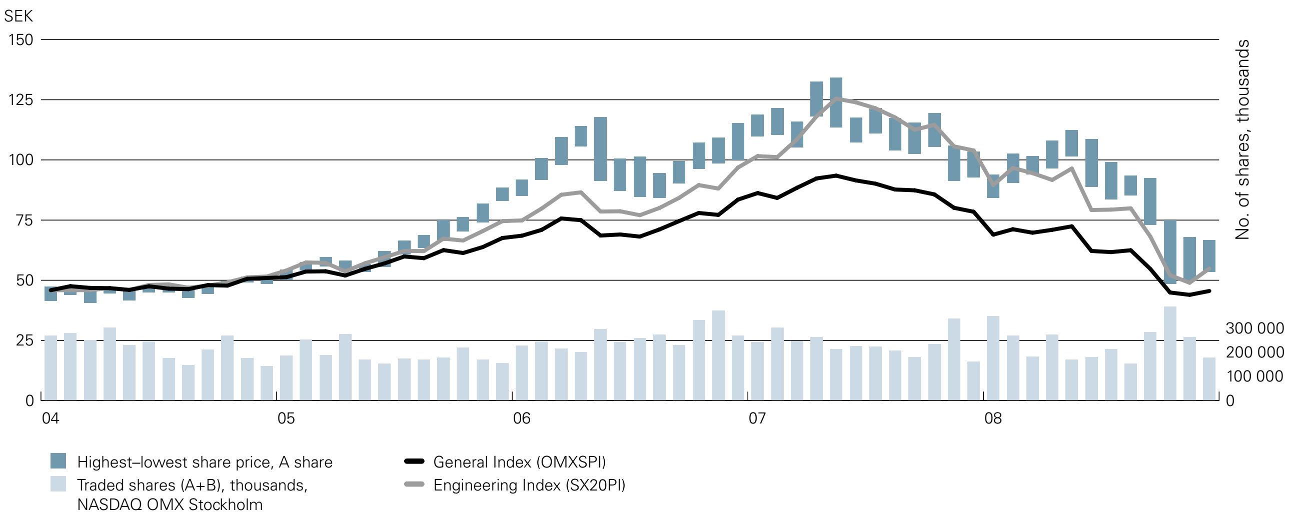
Symbols and tickers

	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

Atlas Copco's share capital at year end 2008 amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of SEK approximately 0.64. Class A shares entitle the holder to one vote, and class B shares entitle the holder to one tenth of a vote.

Share price



Distribution of shares, December 31, 2008

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	*11 275 000*	*1.3*	*0.9*
– of which B-shares held by Atlas Copco	*2 428 400*	*0.0*	*0.2*
Total, net of shares held by Atlas Copco	1 215 909 704		

Statutory limitations on coupon shares

Non-VPC registered shares from 1974 have been sold and the right to these shares has been transformed to a right to receive the proceeds. These rights will expire in 2010.

Market capitalization

Atlas Copco's market capitalization at December 31, 2008 was MSEK 78 350 (114 630), excluding shares held by Atlas Copco. This corresponds to 3.5% (2.9) of the total market value of NASDAQ OMX Stockholm.

Trading

Trading of the Atlas Copco AB shares takes place on NASDAQ OMX Stockholm. In 2008, Atlas Copco shares were the 5th (3rd) most actively traded shares in Stockholm. A total of 2 897 077 141 shares were traded, whereof 2 375 717 474 A shares and 521 359 667 B shares, corresponding to a value of MSEK 238 857 (316 670). On average, 11 496 338 (11 398 372) were traded each business day, corresponding to a value of MSEK 948 (1 267). The turnover rate was 236% (232), compared with the stock market average of 152% (139). Foreign trading in the Atlas Copco shares showed a net import of MSEK 1 437 (net import of 1 444).

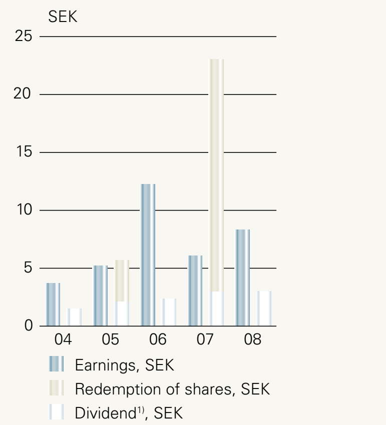
Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A-shares, are listed on NASDAQ OMX Stockholm. In 2008, 504 852 (569 748) 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

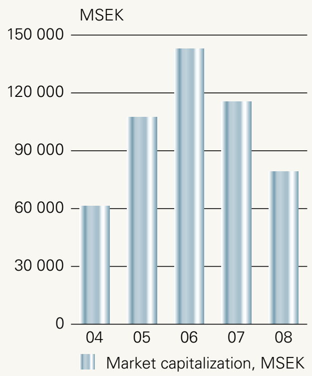
A program for American Depositary Receipts (ADRs) was established in the United States in 1990. Since then, both A and B shares are available as ADRs in the United States without being formally registered on a United States stock exchange. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year end 2008, there were 16 956 680 (9 856 680) ADRs outstanding, of which 14 458 932 represented A shares and 2 497 748 B shares.

Earnings and dividend per share

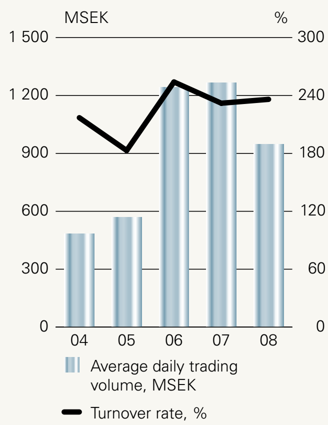


[1] For 2008 proposed by the Board of Directors.

Market capitalization



Liquidity



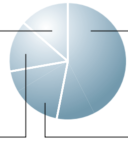
Ownership structure

At year end 2008, Atlas Copco had 55 976 shareholders (50 825). The 10 largest shareholders registered directly or as a group with VPC, the Swedish Central Securities Depository, by voting rights, accounted for 36% (34) of the voting rights and 34% (31) of the number of shares. Non-Swedish investors held 43% (47) of the shares and represented 47% (51) of the voting rights.

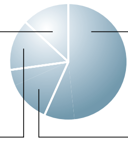
Ownership structure, December 31, 2008

Number of shares	% of shareholders	% of capital
1–500	45.2	0.4
501–2 000	33.8	1.7
2 001–10 000	16.1	3.2
10 001–50 000	3.3	3.1
50 001–100 000	0.5	1.6
>100 000	1.1	90.0
	100.0	100.0

Shareholders by country, December 31, 2008
% of votes



Shareholders by country, December 31, 2008
% of capital



Share issues 1973–2008

			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, 2008

	Number of shares	A-shares	B-shares	% of votes	% of capital
Investor	204 244 326	194 663 726	9 580 600	22.27	16.61
Alecta	52 420 000	27 432 000	24 988 000	3.41	4.26
Swedbank Robur	47 416 281	17 773 210	29 643 071	2.36	3.86
Handelsbanken funds	22 265 560	13 095 464	9 170 096	1.60	1.81
AP 4	16 107 419	13 524 224	2 583 195	1.57	1.31
AP 1	12 472 892	8 564 292	3 908 600	1.02	1.01
AP 2	11 443 411	7 606 113	3 837 298	0.91	0.93
Folksam – KPA	14 919 352	7 095 674	7 823 678	0.90	1.21
Nordea funds	16 247 291	6 474 270	9 773 021	0.85	1.32
SEB	23 377 968	4 133 256	19 244 712	0.69	1.90
Others	808 698 604	539 031 867	269 666 737	64.42	65.78
	1 229 613 104	839 394 096	390 219 008	100.00	100.00
– of which shares held by Atlas Copco	*13 703 400*	*11 275 000*	*2 428 400*	*1.31*	*1.11*
Total, net of shares held by Atlas Copco	1 215 909 704	828 119 096	387 790 608		

Key figures per share[1)]

SEK	2004	2005	2006	2007	2008	Average growth 5 years, %
Basic earnings	3.71	5.22	12.24	6.09	8.33	26.2
Diluted earnings	3.70	5.21	12.22	6.09	8.33	
Dividend	1.50	2.13	2.38	3.00	3.00[2)]	19.1
– in % of basic earnings	40.5%	40.7%	19.4%	49.3%	36.0%	
Dividend yield, %	3.3%	3.3%	2.4%	2.7%	3.5%	
Redemption of shares		3.34		20.00		
Operating cash flow	3.74	2.98[3)]	2.45[3)]	3.76	3.91	
Equity	18	21	27	12	20	
Share price, December 31, A	50	89	115	97	67	9.3
Share price, December 31 B	47	80	111	88	60	9.0
Highest share price quoted, A	52	89	118	134	113	
Lowest share price quoted, A	41	50	85	91	49	
Average price quoted, A	46	64	99	113	86	
Market capitalization, December 31, MSEK	61 312	107 430	138 865	114 630	78 350	
Average number of shares	1 257 613 104	1 257 613 104	1 254 210 894	1 220 784 704	1 219 099 275	
Diluted number of shares	1 259 024 322	1 259 882 976	1 256 025 654	1 222 305 273	1 219 815 398	

1) Earnings per share and other per share figures have been adjusted for share split 2:1 and 3:1 in 2007 and 2005, respectively. No adjustment has been made for the redemption of shares in accordance with the recommendation from The Swedish Society of Financial Analysts. To adjust historical figures also for the redemption of shares, use factor 0.85 for years prior to 2007 and factor 0.798 for years prior to 2005.

2) Proposed by the Board of Directors.

3) Continuing operations.

Analysts following Atlas Copco

ABG Sundal Collier . . . . . Erik Ejerhed
Cazenove . . . . . Glen Liddy
Cheuvreux . . . . . Johan Eliason
Citigroup . . . . . Natalia Mamaeva
CSFB . . . . . Simon Smith
Danske Bank . . . . . Carl Holmquist
Deutsche Bank . . . . . Johan Wettergren
Dresdner Kleinwort . . . . . Colin Grant
Enskilda Securities . . . . . Anders Eriksson
Evli Bank . . . . . Magnus Axén
Exane BNP Paribas . . . . . Arnaud Brossard
Handelsbanken . . . . . Peder Frölén
HQ Bank . . . . . Andreas Koski
HSBC . . . . . Edward Stacey
JP Morgan . . . . . Nico Dil
Merrill Lynch . . . . . Ben Maslen
Morgan Stanley . . . . . Guillermo Peigneux
Nordea . . . . . Ann-Sofie Nordh and Johan Trocmé
The Royal Bank of Scotland . . . . . Klas Bergelind
Societe Generale . . . . . Roderick Bridge
Swedbank . . . . . Mats Liss
UBS . . . . . Fredric Stahl
Öhman . . . . . Anders Roslund

Five Years in Summary

MSEK	2004[1]	2005	2006	2007	2008
Orders received	**44 659**	**44 744**	**55 239**	**69 059**	**73 572**
Revenues and profit					
Revenues	43 192	42 205	50 512	63 355	74 177
Change, %	9	25	20	25	17
Change, excluding currency, %	14	22	20	29	17
Change, organic from volume and price, %	10	15	17	18	12
EBITDA	9 567	8 355	10 840	13 866	15 886
EBITDA margin, %	22.1	19.8	21.5	21.9	21.4
Operating profit	6 651	6 938	9 203	12 066	13 806
Operating profit margin, %	15.4	16.4	18.2	19.0	18.6
Net interest expense	–374	–469	–654	–453	–1 243
as a percentage of revenues	*–0.9*	*–1.1*	*–1.3*	*–0.7*	*–1.7*
Interest coverage ratio	9.1	11.7	14.3	11.2	8.5
Profit before tax	6 382	6 863	8 695	10 534	13 112
Profit margin, %	14.8	16.3	17.2	16.6	17.7
Profit from continuing operations	4 430	4 964	6 260	7 416	10 006
Profit for the year	4 671	6 581	15 373	7 469	10 190
Employees					
Average number of employees	23 849	21 431	24 378	29 522	34 119
Revenues per employee, SEK thousands	1 811	1 969	2 072	2 146	2 174
Cash flow[2]					
Operating cash surplus	9 816	12 084	10 722	13 730	15 805
Cash flow before change in working capital	8 305	10 230	8 197	10 005	11 874
Change in working capital	–445	–231	–2 045	–2 326	–2 291
Cash flow from investing activities	–5 568	–1 996	–4 419	–8 808	–4 352
Gross investments in other property, plant and equipment	–841	–840	–1 035	–1 331	–1 741
as a percentage of revenues	*–1.9*	*–2.0*	*–2.0*	*–2.1*	*–2.3*
Gross investments in rental equipment	–3 991	–6 396	–1 133	–1 028	–1 158
Net investments in rental equipment	–2 050	–4 032	–638	–442	–739
as a percentage of revenues	*–4.7*	*–9.6*	*–1.3*	*–0.7*	*–1.0*
Cash flow from financing activities	–3 490	–7 521	–7 973	–14 943	–2 706
of which dividends paid[3]	–1 575	–6 082	–6 452	–27 344	–4 120
Operating cash flow	4 697	4 521	3 065	4 589	4 751
Financial position and return[2]					
Total assets	48 168	54 955	55 255	56 659	75 394
Capital turnover ratio	0.99	1.02	1.29	1.14	1.16
Capital employed	33 174	34 970	25 797	39 512	44 372
Capital employed turnover ratio	1.41	1.51	1.96	1.60	1.67
Return on capital employed, %	22.1	28.5	36.2	29.3	33.5
Net indebtedness	7 860	7 229	–12 364	19 775	21 686
Net debt/EBITDA	0.82	0.87	–1.14	1.43	1.37
Equity	22 601	25 808	32 708	14 640	23 768
Debt/equity ratio, %	34.8	28.0	–37.8	135.1	91.2
Equity/assets ratio, %	46.9	47.0	59.2	25.8	31.5
Return on equity, %	21.6	27.8	54.8	34.7	57.7

For definitions see page 97.

Per share data, see page 133.

Key financial data in USD and EUR is published on www.atlascopco.com

[1] Including discontinued operations.

[2] Including discontinued operations in 2005.

[3] Includes share redemption in 2005 and 2007 and repurchases of own shares in 2006, 2007 and 2008.

Quarterly Data

Revenues by business area

MSEK	1	2	3	2007 4	1	2	3	2008 4
Compressor Technique	6 794	8 126	8 304	8 676	8 053	8 640	9 028	9 866
Construction and Mining Technique	5 093	6 292	6 634	7 121	7 344	8 567	7 742	8 007
Industrial Technique	1 591	1 714	1 646	1 920	1 825	1 836	1 788	2 001
Eliminations	–88	–147	–153	–168	–100	–159	–118	–143
Atlas Copco Group	13 390	15 985	16 431	17 549	17 112	18 884	18 440	19 731

Operating profit by business area

MSEK	1	2	3	2007 4	1	2	3	2008 4
Compressor Technique	1 440	1 622	1 801	1 886	1 643	1 711	1 921	2 016
as a percentage of revenues	*21.2*	*20.0*	*21.7*	*21.7*	*20.4*	*19.8*	*21.3*	*20.4*
Construction and Mining Technique	912	1 125	1 119	1 228	1 252	1 615	1 455	1 280
as a percentage of revenues	*17.9*	*17.9*	*16.9*	*17.2*	*17.0*	*18.9*	*18.8*	*16.0*
Industrial Technique	378	392	343	426	412	318	337	261
as a percentage of revenues	*23.8*	*22.9*	*20.8*	*22.2*	*22.6*	*17.3*	*18.8*	*13.0*
Common Group functions/eliminations	–189	–102	–136	–179	–59	–14	–73	–269
Operating profit	2 541	3 037	3 127	3 361	3 248	3 630	3 640	3 288
as a percentage of revenues	*19.0*	*19.0*	*19.0*	*19.2*	*19.0*	*19.2*	*19.7*	*16.7*
Net financial items	–64	178	–419	–1 227	–222	–276	–416	220
Profit before tax	2 477	3 215	2 708	2 134	3 026	3 354	3 224	3 508
as a percentage of revenues	*18.5*	*20.1*	*16.5*	*12.2*	*17.7*	*17.8*	*17.5*	*17.8*

Financial Information

Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Monday, April 27, 2009, 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 27, 2009	Q1 – first quarter results
July 17, 2009	Q2 – second quarter results
October 22, 2009	Q3 – third quarter results
February 2, 2010	Q4 – fourth quarter results
March, 2010	Annual Report 2009

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).

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