

## Atlas Copco AB

**The complete proposal from the Board regarding Item 16:**

- a) principles for remuneration and other employment conditions for Group Management, and**
- b) a performance related personnel option program for 2006**

### **Item 16 a) principles for remuneration and other employment conditions for Group Management**

The term “Group Management” covers the Group President and the other eight members of the management committee.

The proposal of the Board for 2006, which is in compliance with remuneration principles of previous years and is based upon contract already entered into between Atlas Copco and the respective employee, is as follows.

The remuneration to the Group Management shall consist of base salary, variable compensation, possible long term incentive (personnel options), pension premium and other benefits.

Base salary is determined by position, qualification and individual performance. The size of the variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 70% of base salary for the Group President, 50% for Business Area Presidents and 40% for other members of Group Management.

The Board now proposes a performance related personnel option program for 2006 in accordance with b) below.

Pension premium is paid in compliance with a contribution based 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, according to normal standard, and health insurance.

A mutual termination period of six months shall apply. Termination compensation can maximum amount to 24 months base salary.

## **Item 16b) a performance related personnel option program for 2006**

### Background and reasons for the proposal

The Board considers it to be important, and it is in the interest of the shareholders, that key personnel in Atlas Copco have a long term interest in a good development of the value of the shares of the company and that they align their work efforts to foster such a development. In addition, it is the opinion of the Board that a share related option program increases Atlas Copco's attractiveness as employer on the global market and enhances the possibility to recruit and keep key personnel in the Group

During 2004 and 2005 some 250 key persons have had a performance based variable compensation program linked with the profit development of Atlas Copco. Reflecting the strong profit development of the Group, this program has provided a maximum gain of 20% of the base salary for the participants. The intention is that this variable compensation program is replaced with the proposed personnel option program for - in principle - the same group of key persons.

The Board's proposal has been prepared by the remuneration committee prior to the decision by the Board and has been discussed with some of the major shareholders. The Group President has not participated in the Board's preparations and decision regarding the proposal.

**Reflecting this, the Board proposes that the annual General Meeting approves the scope and main principles for a performance related personnel option program regarding Atlas Copco series A-shares as follows.**

### Scope and main principles

#### *Granting*

The Board has the right to decide on the granting of personnel options that can give maximum 220 key personnel in the Group the possibility to acquire maximum 1 600 000 Atlas Copco series A-shares.

The granting of options depends on the development of the value growth of the Group, expressed as Economic Value Added (EVA), during 2006. In an interval of MSEK 600 the granting varies linear from zero to 100% of the maximum grant. The size and span of the interval are established by the Board and are in compliance with the long range plan goals of the Group. The Board can decide on an adjustment of the EVA-target for 2006 to maintain the ambition level of the performance requirement in cases of major result affecting occurrences.

The granting of personnel options is maximized to the following number of persons within the different key groups:

Category 1 – the Group President - 50 000 personnel options

Category 2 – business area Presidents (3) – 25 000 personnel options

Category 3 – other members of the Group Management and division Presidents (approx 25) – 12 500 personnel options

Category 4 – other key persons (approx 175) – 6 250 personnel options

The Board will make a decision regarding the persons that shall be included in the above stated categories based upon position, qualification and individual performance. The granting of personnel options will take place not later than during March 2007.

The Board has the right to decide to implement an alternative incentive solution for key persons in such countries where the granting of personnel options is not feasible. Such an alternative incentive solution shall, to the extent practically possible, be established on terms corresponding to those of the personnel option programme.

#### *Term of the personnel options*

The term of the personnel options shall be five years from the date of granting. The personnel options are non-transferable and vesting requires continued employment.

#### *Exercise periods*

The personnel options can only be used for the purpose of acquiring shares as follows:

one third earliest one year after the granting

two thirds earliest two years after the granting

all options earliest three years after the granting.

#### *Exercise price*

The exercise price shall be established to an amount corresponding to 110% of the average of the closing prices at the Stockholm stock exchange for series A-shares during a period of 10 trading days next following the date of the publishing of the year end communiqué for the business year 2006.

#### *Re-calculation*

In case a General Meeting, during the term of the personnel options, should decide on an increase or decrease of issued shares or on a dividend over and above the dividend policy of the company, a re-calculation can be made to preserve the value of the personnel options. A decision regarding re-calculation is taken by the Board.

*Theoretical value for the recipient*

A theoretical value for a personnel option has been calculated based on Black & Scholes option value model. As base for the calculation, among other parameters, a traded share price of SEK 200 and expected volatility of 23% have been used. The theoretical value is calculated to amount to SEK 30 per personnel option or in aggregate maximum MSEK 48 for the whole program.

*Delivery of shares and costs*

The personnel options shall give the right to acquire issued shares. The personnel option program will thus not result in any dilution of the number of shares or votes in the company. In order to reduce the economic risk in connection with an increase of the share value during the term of the personnel options and in order to secure the delivery of shares in accordance with the personnel option agreements to be entered into, the Board intends to secure this undertaking through one or more financial institutions.

In addition to costs relating to the securing of the undertakings of the company in accordance with the above, the granting of personnel options will result in accounting effects in compliance with IFRS 2. The personnel options will be cost accounted as a personnel cost (exclusive of social charges) over the vesting period and will be recorded directly against equity. The amount that is recorded will be tested continuously over the vesting period of the personnel options.

Other

For a decision in compliance with the proposal of the Board, supporting votes from shareholders representing more than half of the votes cast are required.