President and CEO of Atlas Copco Gunnar Brock's address to the shareholders on April 26, 2007

Translated from his speech

Dear shareholders and meeting participants! A year has passed since most of us met here last. Naturally, the topic of my address is the past year, but I would also like to share a few images from the past five years. The group has changed its structure a bit, so I would like to discuss how things look today and how we will work from now on.

If we take a quick look at the past year, we can see it was a very good year for Atlas Copco. Above all, we succeeded in further strengthening our market positions. We are now truly global. We are number one in most segments we operate in. The conditions are good for us to retain and strengthen these positions in the coming year. Earnings figures have also been good – I'll get back to that in a moment. We have also sold our equipment rental operation. It is this change that makes the group look a bit different today. If the general meeting approves, we will distribute a normal dividend. At the same time, an expanded redemption program will be implemented.

If we look at goal fulfillment, it is obvious that we have been able to grow. Our results have surpassed our goal by a wide margin and our return on capital well exceeds the cost of the capital used in the group.

It may be more interesting to look at the three remaining areas to see the status there. We have good margins in our three business areas. Growth has been quite good, except perhaps for Industrial Technique, since it attributes a great deal of its sales to the auto industry, which faced sluggish times during the year. But, things turned around during the first quarter and are looking brighter again.

Return on capital is high in our business areas. If you look at the group as a whole, it is a bit lower, since we have a large cash account and some other group-wide assets to take into consideration.

I promised that I would speak a bit about the last five years. We had a large operation for electric tools from the beginning of the 2000s up until 2003. We also had the business area Rental Service, which consumed a great deal of capital and energy. We have seen a great increase in earnings in 2006 compared to 2002. This also applies to return on capital. If we look at Atlas Copco as it stands today, that is to say without the equipment rental operation and electric tools and without the large cash account, which is the subject of a distribution proposal, return on capital totals about 42%.

Growth is the lifeblood of a company such as ours. In the five years currently in our sights, we have increased order intake by approximately 17%, which is a high number if put into a historical perspective.

How did things look just a few years ago – in 2002 to be exact? Then, approximately 40% of our sales were from the rental operation and electric tools, which consumed about 80% of our total capital. Nowadays, we have doubled our profitability in Swedish Crowns and have reduced our capital usage by 60%. And that is the change in the group in a nutshell.

If we look at the remaining operations, which will be the focus of the rest of my address, we can see how the company has grown during the corresponding period. The areas in question are Compressor Technique, Construction and Mining Technique and Industrial Technique.

Growth is a must. In recent years, the remaining operations have grown by 105% in North America, 159% in South America, 53% in Europe, 139% in Africa/the Middle East and 116% in Asia/Australia. There are a number of markets in which it is vital that we employ the resources and investments needed for growth. India, China, Russia and USA are extremely important growth markets. A look at USA shows that the dollar has dropped by about 30% during the period in question. This figure looks even better when converted to fixed currency. If we look at the sales and margins of the remaining operations, we can see that they have developed at a good pace.

Naturally, we hope that this development has affected share prices. Share prices rose 30% in five years and the annual total yield of the same period was 29%.

If we make sure that future growth integrates more and more knowledge in our products, it becomes harder for our competitors to imitate and access our aftermarket. Furthermore, it is often the areas of knowledge and software where efficiency gains can be made. Mechanics and electronics are important, but it is vital to increase the knowledge content.

We now have three strong business areas and we employ the same work method in all of them. We have strong market positions. We have an international presence – all of our products are found the world over. We are slave drivers when it comes to self-development, with a patented basic philosophy. It is extremely important to standardize products and processes. We customize very rarely since profitability lies in doing the same thing over and over. Profitability is to be found in maintaining high quality, and this is done by doing the same thing repeatedly.

Technology is important, but it is not the be all and end all. Application expertise rules and you can see that if you look at the history of Atlas Copco. We have seen our fair share of pneumatic equipment. When technology progressed towards electrical equipment, from pneumatic rigs to hydraulic rigs and from air tools to electrical tools, it was application expertise that was the driving force. The company never got mired in its old technology. The application will always exist. The question is: how do you put everything together?

Our production and logistics structure is set up like a streamline. There is a pattern to the way we do things, which naturally makes costs fall. We deliver equipment. But, that equipment also requires service. The aftermarket is significantly more profitable than product manufacture and sale and is important to our future business dealings. Aftermarket currently makes up about one-third of our sales. When put all together, this means that we have good growth. We have good margins. We turn our capital pretty quickly.

We’re the biggest when it comes to compressors. Biggest doesn't always mean the best, but we have leading positions in the segments we consider relevant. In the area

Construction and Mining Technique, another Swedish company is proving to be stiff competition, but we feel that we have moved our positions forward so that we can now say we are the leaders in many of the subsegments. In Industrial Technique, we are definitively in the forefront of system development and, when it comes to having large customer shares, we sell a lot to each customer.

Growth is a vital tool that enables the group to create value. There are many factors that facilitate growth. All of our business areas and our 16 business-driving divisions exhibit such. We have a good platform for growth.

Over time, we will try to grow approximately 70% organically, that is to say we want to sell more of what we have. We will expand our market presence and sell more to the same customers. We must also supplement our product portfolio through the acquisition of other technologies and other equipment or expand as regards geography or distribution. We might not achieve this exact figure in a given year, but it can become so over time. In general, growth has had this composition over the past five years.

When it comes to organic growth, we want approximately 60% to be related to equipment and 40% to aftermarket. Currently, the figures are about 70-30. This is because of the upswing in the market and because we sell a lot more equipment than we are able to follow up in aftermarket. But, over time, 60-40 is a reasonable split with fluctuations in the market balanced out by aftermarket. Profitability will be kept up.

Arguably, the most important factor to maintaining high profitability and growth is product development. Today, we invest about 3-5.5% of our sales in product development. Industrial Technique is far head. It invests about 5.5% of its sales into developing new products. The knowledge content is very high and there is a lot of software controlling development. The key is to have a constant stream of products. They don’t need to be revolutionary, but we must always develop products that are better than the ones we have and, of course, better than those of the competition. But, even small improvements generate possibilities of price increases and can take customer shares.

Let me name a few examples. Energy consumption is currently an issue under great scrutiny in the industrial world. This regards both productivity and energy costs. A great deal of our development efforts in all areas are geared towards more energy-efficient products. During the year, we launched an interesting series of oil-injected compressors, where energy savings was a focus.

When it comes to drilling rigs, we currently have the world’s fastest monster – as I like to call it – when it comes to quickly drilling through hard rock with high range and high productivity. The rig has enjoyed great success. Naturally, there are many variants of the same system.

What you see here is no tea trolley, even if it looks like one. It is a tool cart for analyzing joints and simulating tightenings – a good example how of you can sell knowledge by simulating and calculating processes and production lines in the auto industry, for example. It is about contributing our knowledge as early as the project stage, which gives us a greater chance to get the order afterwards.

We have a strong international presence. We currently have a very favorable geographic spread compared to many other companies in the same type of business. You could say that our resources, production, sales and service span the globe. Europe, currently 39%, is setting the tone to a lesser degree. It is only natural that we are pulled more and more to the east. At the current pace, Asia and Australia will soon stand for 25%. USA and South America, which currently stand at 29%, are also important. Although there is talk of a possible weakening in the American market, events in the East more than make up for it.

I mentioned earlier that there are four markets that are receiving extra attention. Three of them are developing markets: India, China and Russia. We are also focusing on USA, since we think we haven't been as good there as we should be. For the past three years, we have had a conscious strategy to become better. In USA, we have grown 26% per year over the past three years, but there is still more to do. In China, we currently have over 130 local offices across the country, with Chinese personnel that know our products and both sell and service them. Very few companies, if any, have such penetration.

This achievement can be attributed to more and more resources being laid out to reach the customer. We have increased the number of sales representatives and aftermarket engineers. It is these people who come into contact with customers and generate revenue. Previously, approximately 25-26% of the total number of division employees worked in these areas. That number is now about 35%. This can be a little more or a little less depending on the division in question.

Acquisitions make up 30% of our growth philosophy. It is a matter of continuously finding what is feasible, what is in harmony with our operations, how to identify companies as well as not missing out on opportunities we have. During the year, we made some interesting acquisitions in Compressor Technique, such as Beacon Medaes, which offers medical air, respiration air, respiration gases and air for surgical tools. This is a large and sophisticated market – a very interesting growth market.

We have acquired our second company in China – Bolaite. This gives China the most advanced marketing philosophy within our group. We have three brands, each with a specific distinct position. The Atlas Copco brand stands for quality and performance and we have two additional brands as well. This is really unique.

We recently annexed a large Italian compressor company called ABAC. They are big when it comes to piston compressors and certain screw compressors – areas where we have been weak.

Within Construction and Mining Technique, Dynapac will be a very interesting building block for our strategy. We have not yet received permission to integrate, but that should come in May. A deal of this size always has an anti-trust spotlight cast upon it, but it should be part of our group starting in June. This is not a footing in the general construction industry for excavators, trucks and such. It is instead a very specified area dealing with compacting and paving. Historically, the margins have been extremely good and growth is significantly better than in the general construction market. We feel that this gives us many interesting opportunities for growth. Many Dynapac distributors are already distributors for several of our divisions, so there are good opportunities for further growth here.

In Industrial Technique, we have also acquired some different products, with the brands Microtec and Rodcraft. The general industry, that is to say electronics, appliances, airplanes, clocks, etc., use electrical tools to an increasingly greater degree. This product area has very fine tools with torques that differ from that of our normal tools. Here, we have a very interesting product group to expand upon. We have also taken steps to become more specialized in what we call the service market for cars and trucks. In this area, we already have a product exchange and product area that is of great interest.

Atlas Copco is also part of a greater social responsibility. There is no denying that there is an awareness that is growing stronger within the company. The good thing about this is that few instructions and ideas are needed from management. I dare to say it is from our organizations around the world that there is a growing interest and demand that our company commits itself in this manner. We have become involved in many areas and feel this will grow in importance in the future.

Another issue that has been brought up at many of the year's shareholders' meetings is diversity, the number of female managers, etc. We are no better than any other company, but we try to work actively with this issue and always ensure that there are both male and female applicants when filling a position. Furthermore, a large percentage of recent university graduates that we hire are women – approximately 25% of all are women. There is much more to do and we are putting forth conscious efforts in this matter.

The second part of our social responsibility lies in the environmental impact of our activities. Even though it is sometimes difficult, we try to follow a lifecycle way of thinking. This means that we ask ourselves how much we impact the environment, not only when we produce and distribute our products, but also when the products are used – all the way up until the time they are discarded. It is important to measure the entire impact of air emission, water contaminates or any other factor during the entire life cycle. It is not always necessary to optimize each component to obtain an optimal overall result. I feel that this is extremely important. Almost all of our production facilities are currently environmentally certified. This gives us a strong foundation on which we can build further. This is measured and followed up. In general, environmental impact has been markedly reduced per produced unit. But, since our total volume production is growing, environmental impact will also increase in some cases. There are, however, also cases in which we can manage a total reduction.

Let me conclude with two images from the quarter that just ended. We have continued to accelerate our growth. Organic growth for the fourth quarter of last year was 21%. During the first quarter of this year, we achieved 24%. Adding in acquisitions and deducting exchange rate changes make this figure 27%. This is incredibly strong growth. We must also remember that the first quarter of last year was also incredibly strong.

I would like to assure you that I feel we are stronger than ever when it comes to meeting the year to come. I would like to thank you all for your interest in Atlas Copco.

I hope that this interest remains alive along with your support as shareholders. Thank you!