

## ATLAS COPCO AB - ANNUAL GENERAL MEETING 2007

### **Item 13 The Board's proposal for a decision regarding:**

- a) guiding principles for remuneration for senior executives, and**
- b) a performance related personnel option program for 2007**
- c) amendment of terms for performance related personnel option program for 2006**

#### **a) guiding principles for remuneration for senior executives**

The term "senior executives" covers the President and the other seven members in the Group management team.

The proposal of the Board for 2007, which is in compliance with the principles of previous years and are based on agreements already entered into between Atlas Copco and respective employee, is as follows.

The Remuneration to the senior executives shall consist of a base salary, variable compensation, long term incentive (personnel options), pension premium and additional benefits.

The base salary is reflects the position, qualification and individual performance. The size of the variable compensation depends on the extent to which predetermined quantitative and qualitative goals are met. The variable compensation is limited to maximum 70% of the base salary for the President, to 50% for the Business Area Executives and to 40% for the other senior executives. The Board is now proposing a performance related personnel option program for 2007 as outlined in b) below.

Pension premiums are paid in accordance with a premium based plan within a range of 25-35% of the base salary depending on age. In addition, the President is entitled to pension in case of illness corresponding to 50% of the base salary.

Additional benefits consist of company car and private health insurance.

A mutual term of notice of six months applies. The maximum compensation in case of termination of employment is 24 months base salary.

The Board reserves the right to deviate from these guiding principles if special reasons for such a deviation exist in any individual case.

#### **b) a performance related personnel option program for 2007**

The Board have established that the performance target for granting of the maximum number of personnel options in the 2006 personnel option program have been met. Granting of personnel options will take place no later than during March 2007.

In order to implement the proposed personnel option program for 2007, the Board proposes that the annual General meeting makes the decisions regarding re-purchase and transfer of shares that are separately presented.

#### **Background and reasons for the proposal**

In the opinion of the Board, it is important, and it is also in the best interest of the shareholders, that key personnel in Atlas Copco have a long term interest in a good value development of the shares of the company and align their performance in a manner that enhances such a development. It is also the assessment of the Board that a share related option program increases the attractiveness of Atlas Copco on the global market and enhances the possibility to recruit and keep key personnel in the Group.

The proposal of the Board has been prepared by the Remuneration Committee of the company. The President has not participated in the preparation or the decision regarding the proposal.

**The complete proposal below refers to conditions before the proposed resolution on the share split and automatic redemption procedure.**

#### **The complete proposal**

##### *Granting*

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

The granting is dependent on the value increase of the Group expressed as Economic Value Added (EVA) during 2007. In an interval of 700 MSEK the granting varies linear from zero to 100% of the maximum grant. The size and the limits of the interval have been established by the Board and is in full compliance with the goals for the Group set in the long range plan.

The Granting of personnel options is maximized to the following number per person within the respective key groups:

category 1 – the President – 50.000 personnel options

category 2 – Business Area Executives (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 personnel (approx 175) – 6.250 personnel options.

The board shall decide which persons shall be included in the categories above based on position, qualification and individual performance. The granting of personnel options will take place not later than during March 2008.

The Board shall have the right to introduce an alternative incentive program for key personnel in such countries where the granting of personnel options is not feasible. Such alternative incentive solutions shall, to the extent possible, have terms and conditions corresponding to the ones applicable to the personnel option programme.

#### *The term of the personnel options*

The term of the personnel options shall be five years from the date of the grant. The personnel options are not transferable.

#### *Exercise periods*

The personnel options can be used for the purchase of shares as follows:

one third not earlier than one year from the grant

two thirds not earlier than two years after the grant

all not earlier than three years after the grant.

#### *Exercise price*

The exercise price shall be set to an amount corresponding to 110 percent of the average of the closing rates at the Stockholm Stock Exchange of the Series A shares during a period of 10 business days next following the date of the publishing of the annual accounts (fourth quarter press release) for the year 2007 operations.

#### *Re-calculation*

In case – during the term of the personnel options – a meeting of shareholders should decide, for example, on an increase or reduction of the issued shares or dividend over and above the dividend policy of the company a recalculation can take place in order to preserve the value of the personnel options. The decision regarding a recalculation shall be taken by the Board.

#### *Theoretical value for the recipient*

A theoretical value of a personnel option has been calculated based on Black & Scholes model for evaluating options. As a base for the calculation a share rate of 220 SEK and an expected volatility of 25% have been used among other parameters. The theoretical value has been calculated to 34.30 SEK per personnel option or altogether maximum 54.9 million SEK for the whole program.

*Delivery of shares and costs*

Personnel options shall give the right to purchase already issued shares.

To limit the economic risk in case of 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 agreements regarding personnel options the company has the intention, subject to approval of the Annual General Meeting, to transfer and acquire own shares.

In addition of the costs in order to secure the company's commitments, the granting of personnel options will result in accounting effects in accordance with IFRS 2. The personnel options shall be booked as personnel cost (excluding social charges) over the vesting period and be recorded directly against equity. The recorded amount shall continuously be re-evaluated during the vesting period of the personnel options.

**c) amendment of terms for performance related personnel option program for 2006**

At the adoption of the 2006 year performance related personnel option program it was stated that the vesting of the personnel options require continued employment. The Board have in the above proposal for a performance related personnel option program for 2007 relinquished this requirement. The Board proposes the Annual General Meeting, in order to gain similarity between the 2006 and 2007 personnel option programs, resolves that the 2006 personnel option program is amended meaning that the vesting of the personnel options do not require continued employment since the options are a compensation for a well defined and executed performance.

Miscellaneous

Decisions in accordance with the proposal from the Board on a), b) and c), require that shareholders representing more than half of the votes cast support the proposals.