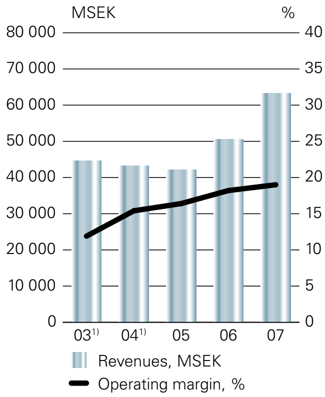
Atlas Copco
2007 – a very good year

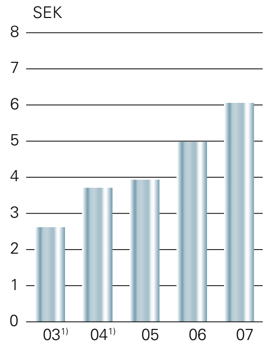
Annual Report
Sustainability Report
Corporate Governance Report
07

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.

The annual magazine Achieve presents how Atlas Copco works to reach the vision First in Mind—First in Choice®.

- Improved demand, increased market presence and penetration, and successful introductions of new products.
- Strong order growth in all regions continued.
- Revenues MSEK 63 355 (50 512), up 16% in volume.
- Operating profit MSEK 12 066 (9 203), corresponding to a record operating margin of 19.0% (18.2).
- Total capital distribution of MSEK 27 315 to shareholders.
- Strategic acquisition of road construction equipment business.
- Proposed dividend for 2007: SEK 3.00 (2.38) per share.

Copco 2007

2007 in figures

MSEK	2007	2006	Change, %
Orders received	69 059	55 239	+25
Revenues	63 355	50 512	+25
Operating profit	12 066	9 203	+31
– as a percentage of revenues	*19.0*	*18.2*	
Profit before tax	10 534	8 695	+21
– as a percentage of revenues	*16.6*	*17.2*	
Profit from continuing operations	7 416	6 260	+18
Basic earnings per share, continuing operations, SEK	6.05	4.98	+21
Diluted earnings per share, continuing operations, SEK	6.04	4.96	+22
Profit from discontinued operations, net of tax	53	9 113	
Profit for the year[1]	7 469	15 373	
Basic earnings per share, SEK[1] [3]	6.09	12.24	
Diluted earnings per share, SEK[1] [3]	6.09	12.22	
Dividend per share, SEK[3]	3.00[2]	2.38	+26
Mandatory redemption per share, SEK[3]	20		
Equity per share, SEK[1] [3]	12	27	
Operating cash flow	4 589	3 065	
Return on capital employed	29	36	
Return on equity, %[1]	34.7	54.8	
Average number of employees	29 522	24 378	

1) Including discontinued operations.
2) Proposed by the Board of Directors.
3) Recalculated for share split.

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 135 years of experience, Atlas Copco innovates for superior productivity. Headquartered in Stockholm, Sweden, the Group's global reach spans more than 160 markets. In 2007, Atlas Copco had revenues of BSEK 63 (BEUR 6.7) and 33 000 employees.

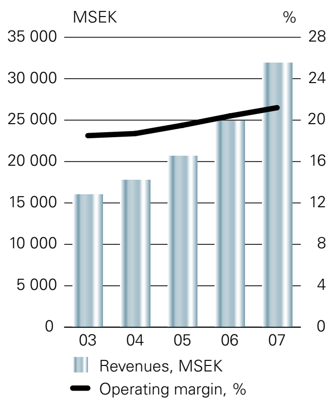
Compressor Technique

The Business

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, 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.

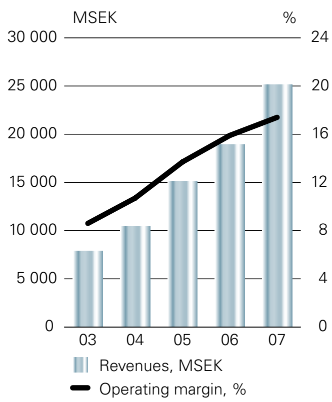
Revenues and operating margin



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.

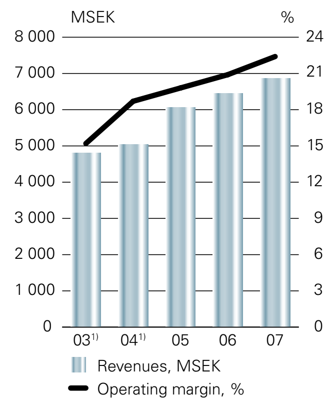
The business area has its principal product development and manufacturing units in Sweden, Germany, and the United States, with other units in Australia, Austria, Brazil, Bulgaria, Canada, Chile, China, Finland, India, Japan, and South Africa.



Industrial Technique

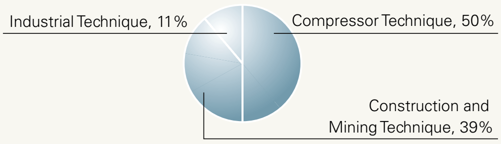
The Industrial Technique business area develops, manufactures, and markets industrial power tools, assembly systems, and aftermarket products and services. It serves the needs of industrial manufacturing, such as the automotive and aerospace industries, general industrial manufacturing, and maintenance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

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

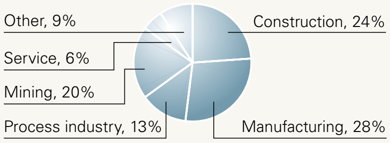


[1] Excluding the divested professional electric tools business.

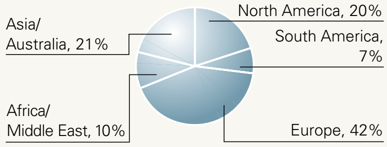
Revenues by business area

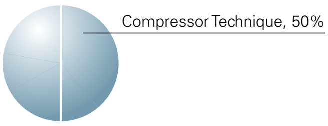


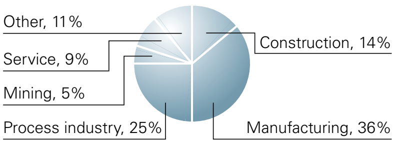
Revenues by customer category

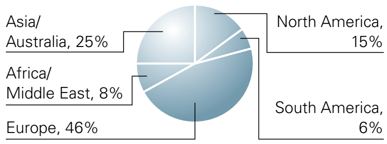


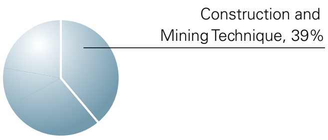
Revenues by geographic area

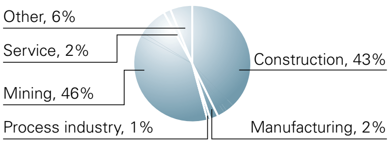


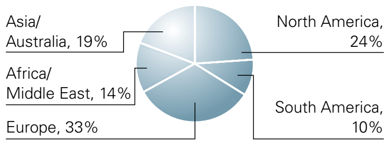


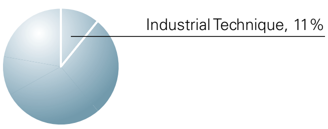


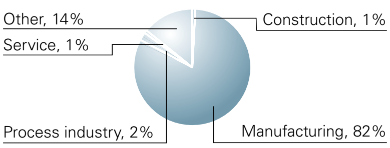


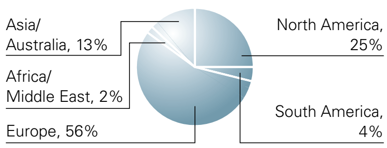












Breaking new records in 2007

We are pleased to report to our shareholders and employees that 2007 was Atlas Copco's fourth consecutive record year. We face the future with a solid structure and way of doing business with an aim to continue delivering sustainable growth and creating even more value.

Summary of 2007

The demand for our products and services was strong in all geographical regions, with 25% growth or more in orders on all continents. All customer segments were very active and the mining industry showed exceptional strength.

Investments to strengthen our sales and service organizations paid off with improvements in our already strong market positions, both in emerging markets as well as in Europe and North America.

We also carried out and decided on substantial investments to increase our production capacity and restructure our manufacturing operations to increase productivity and quality, and to be closer to our customers in the fastest-growing markets.

Gas and Process site in Cologne, Germany, will expand.

There is an enormous potential in these markets and their importance will most likely increase. In 2007, well over 40% of orders received came from emerging markets, and five of our 10 largest markets are developing countries. We are also affected indirectly through growing sales to customers that also are benefiting from the economic boom in Asia and elsewhere. Our truly global distribution of sales and service means we stand strong in the years to come.

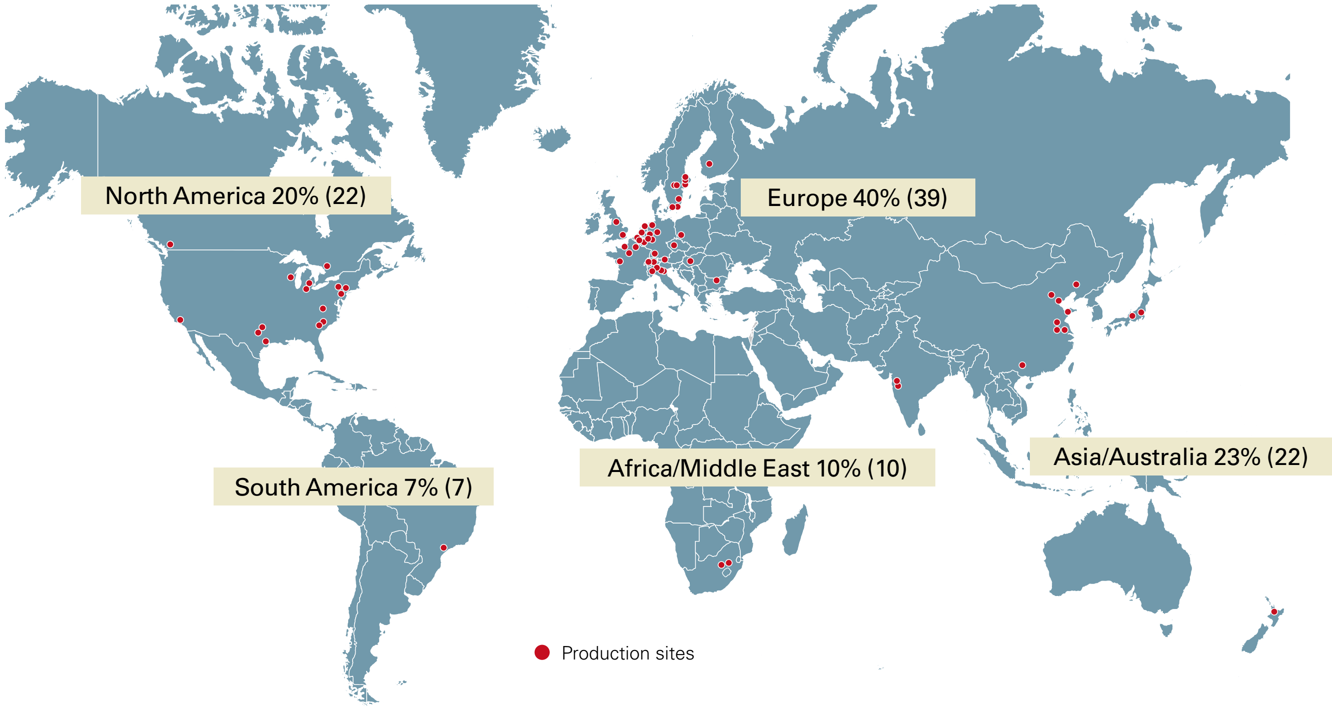
Our strong cash flow and new capital structure, following the divestment of the North American equipment rental business, allowed us to not only invest and make acquisitions, but also provide our shareholders with an extraordinary cash distribution of BSEK 24. In total, BSEK 27.3 was distributed through our annual dividend and a share redemption program.

Revenues in 2007 increased 25% to MSEK 63 355. Operating profit increased 31% to MSEK 12 066, corresponding to an operating margin of 19.0% (18.2).

The business areas

Our business areas share the ambition to be First in Mind—First in Choice®, a vision in which we believe so strongly that it is now a registered trademark.

The regions' portion of Group sales



If we want to achieve this vision, we must become an even more customer-centric organization, truly hearing the voice of the customer. To this end, we have started the rollout of customer loyalty measurements in all business areas. Strong brands must live up to high standards and results indicate we still have a way to go before we can claim to fully meet our customers' high expectations. We look forward to seeing the development as yearly surveys track our performance.

Compressor Technique

Compressor Technique is the world's leading supplier of compressed air products and solutions. It made strategic acquisitions to widen the scope of supply both for existing and new customers, but the main thrust is still the pursuit of organic growth.

Orders received grew 23%, to which volume and price contributed 16%. Most of the remainder came from the acquisition of ABAC, an Italian manufacturer and distributor of small and medium-sized piston and screw compressors. This purchase supports the business area's multi-brand strategy, which aims to achieve a wider sales presence and deeper market penetration. The integration of ABAC has proceeded well; if somewhat slower than anticipated because of the high capacity utilization at Compressor Technique's production facilities.

Other acquisitions during the year were GreenField of Switzerland, which adds a range of products for compressed natural gas, and Mafi-Trench in the United States, a supplier of turboexpanders for the oil and gas industry. Both acquisitions will help Compressor Technique meet increasing demand for energy saving and environmentally friendly solutions.

Compressor Technique's growth strategy also includes continuous product introductions and a strong focus on the aftermarket. In the beginning of 2008, the business area merged the service and spare parts operations of some divisions into a dedicated service division.

On January 1, 2007, the new Specialty Rental division was formed, with a focus on supplying oil-free and high pressure air for industrial applications. The division became the first rental company in the world to receive a triple certification for living up to international standards for quality, environmental and health and safety management systems.

Construction and Mining Technique

Demand from the construction and mining industries continued to be strong throughout the year, contributing to another record performance for the business area.

The most significant event in 2007 for Construction and Mining Technique was the acquisition of Dynapac, a leading maker of pavers and compactors for road development. This purchase, which served to form the new Road Construction Equipment division, is the largest in the history of the business area, with revenues in 2007 of almost BSEK 5. The strategic fit with Atlas Copco is excellent, with similar customers and distributors in the infrastructure industry. Orders received and sales of Dynapac equipment have progressed well after the acquisition. The financial performance is behind plans due to production disturbances and inefficiencies at some of its factories. These issues are being addressed with priority and the objective is to, in two to three years' time, have a result in line with the rest of the business area.

The aftermarket business has developed very well during the year and several large service contracts have been awarded to Atlas Copco. This will guarantee the highest productivity and quality of delivered equipment when in use.

Overall, Construction and Mining Technique performed extremely well. Revenues increased 33% to MSEK 25 140 and operating profit rose 46% to MSEK 4 384. This corresponds to an operating margin of 17.4% (15.9), which is a new record.

Industrial Technique

Industrial Technique continued the reorganization of its product development and production structure and increased the customer focus following the split of the business area into five separate divisions in 2006, compared to the previous two.

The changes have yielded results: Orders received increased 8% to MSEK 7 043 and revenues rose 7% to MSEK 6 871, despite weaker demand from the North American motor vehicle industry. The business area's operating profit increased 14% to MSEK 1 539, corresponding to a record operating margin of 22.4% (20.9).

The establishment of a General Industry division has given well-needed focus to these customer categories, which is demonstrated by a surge of 22% in orders organically.

We have now transferred some of Industrial Technique's assembly operations in Great Britain to a newly established factory in Hungary, which both lowers the cost base and brings us closer to our customers. Industrial Technique has also established a center in Poland for reconditioning activities of tools from the business area.

Organic growth remains the preferred mode of expansion also for Industrial Technique, but the business area's smallest division, CP Vehicle Service, carried out two acquisitions in 2007. The purchase of the Rodcraft Group gives an opportunity to expand with new products for both new and existing customers, while the smaller acquisition of KTS in Japan will facilitate growth in a market that has the second-largest amount of cars in the world. It will also serve as a component supply and assembly unit within the business area.

Environmental improvement and social commitment

In addition to creating value for our customers and shareholders, we strive for Atlas Copco to be a good citizen and employer in all countries where we operate. The most severe and pressing challenge we face in this respect is the environmental impact generated by our activities in trying to achieve growth. It is patently clear that economic development must be measured and weighted against its potentially negative consequences, such as environmental degradation and social injustice.

To ensure that we continuously reduce our environmental impact we have now defined even more concrete targets and requirements for the Group and all of its companies. As of 2008, we have added concrete targets to reduce CO_2 emissions from our sites and from transportation.

But our possibly biggest opportunity lies in taking a life-cycle approach to our operations' environmental impact, meaning our products and services shall have the best environmental performance and energy efficiency in the industry during their entire time of usage. This is not just good for nature, but good for business: As energy prices rise, our customers increasingly demand products to help them reduce costs.

We are proud of the cooperation between Atlas Copco and our employees around the world – from supporting orphanages in India to engaging in HIV/AIDS projects in southern Africa and donating money to the *Water for All* organization, which over the years has helped provide hundreds of thousands of people with clean drinking water.

It is also encouraging that our efforts in this area were recognized externally during 2007, when we were listed as one of the world's 100 most sustainable companies at the World Economic Forum and selected as a new member of the Dow Jones Sustainability Indexes.

Just riding a wave?

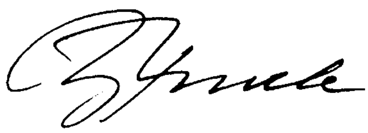
Looking back at 2007 and the preceding years of strong growth, it is worth considering: How much is a result of riding a wave of global economic growth, and how much has been a result of our own actions?

There is no doubt that we have benefited from the strong global economy, but it is also clear that our work with strengthening our sales organization and increasing the focus on the aftermarket has resulted in improved market positions. Furthermore, our results were achieved in a year which was also characterized by considerable headwind: rising raw material costs, negative currency effects, capacity constraints in our own organization and at suppliers, and a considerable effort to integrate some major acquisitions.

There are a number of internal and external factors that will support our ambition to grow: The economic development of China, India, Russia, Brazil and other emerging markets; continued investments in infrastructure and extraction of natural resources; our customers' drive to enhance productivity and improve energy efficiency; our continued focus on the aftermarket and increasing the scope of supply.

While we will continue making selective acquisitions, our vision and strategy is still based on growing from the core of the business, by leveraging our existing capabilities and building new ones.

We thank all our shareholders, employees and other stakeholders for your support and look forward to our cooperation in meeting the challenge of delivering yet another record year.



Gunnar Brock
President and CEO
Stockholm, February 4, 2008

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

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:

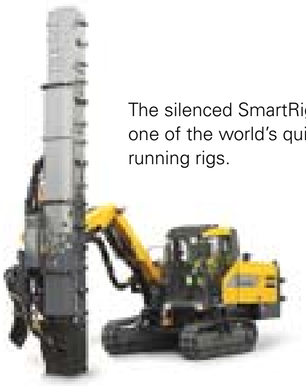
Organic and acquired growth

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 recruiting more 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.



The silenced SmartRig is one of the world's quietest running rigs.

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.

Atlas Copco opened a customer center in Tanzania during 2007.

In 2007, a dedicated service division was created within Compressor.

Targets

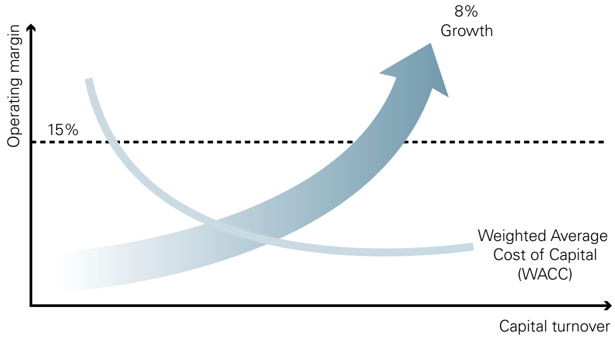
Financial targets

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 objectives and 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.
- Zero tolerance for work related accidents.

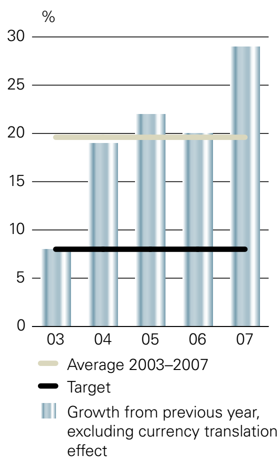
Environmental

- 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.

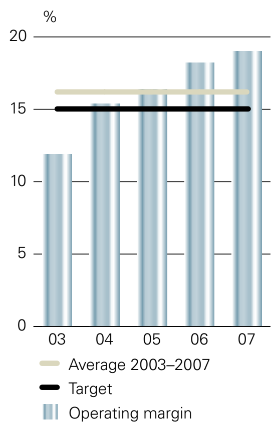
Business partners

- 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.

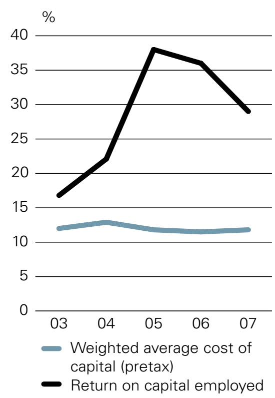
Revenue growth restated for continuing operations



Operating margin



Return on capital employed



Including discontinued operations 2003–2004.

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, consumables, 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 brand positioning, 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 2008

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 Industrial Chicago Pneumatic Vehicle Service 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 2007 Operations

Market Review and Sales Development

Atlas Copco recorded strong growth for most of its products and services in 2007. The demand from manufacturing and process industries for industrial equipment and related aftermarket products increased. The demand from the mining industry showed exceptional strength and the construction industry continued to demand equipment and services at a healthy level.

Sales benefited from increased market presence and penetration and successful introductions of new products, including aftermarket products and services. The sales growth was supported by capacity expansions at manufacturing sites.

Orders received increased 25%, to MSEK 69 059 (55 239). Volume increased 16% for comparable units attributable to all business areas; Compressor Technique +14%, Construction and Mining Technique +21%, and Industrial Technique +7%. Prices increased 2% and structural changes (acquisitions and divestments) added 11%.

See also business area sections on pages 24–35.

Orders received showed double-digit growth in all geographic regions.

North America

The demand for the Group's products and services in North America, which accounted for 20% (22) of Group sales, continued to grow in most product and customer segments. The investment activity within the manufacturing and process industries remained favorable and sales of industrial equipment and related aftermarket products increased. The motor vehicle industry was an exception, where demand for advanced assembly tools and systems decreased compared with the previous year. Investments in the most important segments of the mining industry continued on a high level throughout the year. The overall demand from the construction industry remained healthy. In total, orders received increased 25% in local currencies.

South America

South America represents 7% (7) of Group sales. Improved demand was recorded for compressors, mining and construction equipment and industrial tools. The strongest development was recorded in Brazil. In total, orders received increased 34% in local currencies.

Europe

Europe, representing 40% (39) of Group sales, recorded strong demand from most customer segments. Investments in compressed air equipment, construction and mining equipment, and industrial tools continued on a high level throughout the year. Demand for advanced assembly tools and systems from the motor vehicle industry, as well as tools for general industry applications increased in Western Europe, while the demand for construction equipment leveled off at the end of the year in some countries. Geographically, the highest growth rates were recorded in Eastern Europe, including Russia, but also countries like Germany and the Nordic countries showed good growth. In total, orders received increased 28% in local currencies.

Africa/Middle East

The Africa/Middle East region accounts for 10% (10) of Group sales. The region developed very favorably for most products and services and showed good growth. Demand for mining equipment was particularly strong in southern Africa. In total, orders received increased 41% in local currencies.

Asia/Australia

The demand in Asia/Australia, representing 23% (22) of Group sales, was very strong. Demand for industrial equipment was good throughout Asia and sales of mining and construction equipment grew considerably in both Asia and Australia. China, India and Australia had a very strong development and recorded higher than average growth in the region. In total, orders received increased by 33% in local currencies.

Significant events and structural changes

Acquisitions

The Group completed seven acquisitions during the year, which added annual revenues of MSEK 7 313 and 3 894 employees. The Compressor Technique business area completed three acquisitions, but also divested parts of its non-core rental assets and operations. The Construction and Mining Technique business area completed two acquisitions, including Dynapac AB. The Industrial Technique business area made two acquisitions. 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 divisions

Effective January 1, 2007, the new Specialty Rental division was created within the Compressor Technique business area. It is responsible for all specialty rental activities focusing primarily on industry and includes the Prime Energy operations in North America, which were previously part of the now divested Rental Service business area.

A new division, Road Construction Equipment, was formed within the Construction and Mining business area following the acquisition of Dynapac AB, which was finalized on May 31, 2007.

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.

Subsequent events

No events after December 31, 2007 have had any material effect on the structure or the financial position of the Group.

Geographic distribution of orders received, by business area, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
North America	15	23	25	20
South America	6	10	4	7
Europe	44	32	55	40
Africa/Middle East	8	15	2	10
Asia/Australia	27	20	14	23
Total	100	100	100	100

Distribution of orders received, by geographic region, %

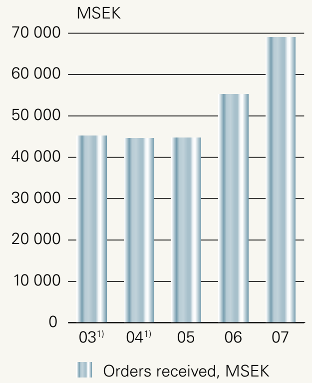
	Compressor Technique	Construction and Mining Technique	Industrial Technique	Total
North America	39	48	13	100
South America	42	52	6	100
Europe	55	32	13	100
Africa/Middle East	40	58	2	100
Asia/Australia	60	34	6	100

Orders received by customer category, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
Construction	14	43	1	24
Manufacturing	36	2	82	28
Process industry	25	1	2	13
Mining	5	46	0	20
Service	9	2	1	6
Other	11	6	14	9
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 demand for Atlas Copco's products and services from most customer segments and regions is expected to remain at the current high level.

The positive outlook includes the main part of the construction segment, while construction related to housing is expected to remain weak, primarily in North America.

Published February 4, 2008

Basis of information

In the Board of Directors report, continuing operations are presented as comparison figures from previous year, unless otherwise stated. The assets, related liabilities and cash flows of the divested equipment rental business have been excluded.

Financial Summary and Analysis

Revenues

The Group's revenues increased 25% to MSEK 63 355 (50 512). Volume increased 16% for comparable units attributable to all business areas; Construction and Mining Technique +20%, Compressor Technique +16%, and Industrial Technique +6%. Prices increased 2% and structural changes (acquisitions and divestments) added 11% while the negative currency translation effect was 4%. See also business area sections on pages 24–35 and notes 2 and 3.

Operating profit

Operating profit increased 31%, to MSEK 12 066 (9 203), corresponding to an operating profit margin of 19.0% (18.2), both records in the history of the company. Record profit margins were also achieved in each of the three business areas and resulted primarily from higher revenue volumes and price increases. The positive effects more than offset the effects of increased costs for marketing and sales activities, higher material costs, unfavorable changes in exchange rates as well as the effect of a lower margin in recently acquired companies. The negative impact from foreign exchange rate fluctuations was approximately MSEK 870 compared with previous year, and it affected the operating margin with close to one percentage point.

Operating profit for the Compressor Technique business area increased 27% to MSEK 6 749 (5 323), corresponding to a margin of 21.2% (20.9). Previous year's figures have been adjusted to include the specialty rental business in North America, which was integrated into the business area as from January 1, 2007. The margin benefited from increases in revenue volumes and prices and capital gains from the sale of rental operations in Australia and the Netherlands, but was negatively affected by currency effects and recent acquisitions. The net effect on the operating margin of the capital gains and currency and recent acquisitions was approximately one and a half percentage point negative. The return on capital employed was 65% (70).

Operating profit for the Construction and Mining Technique business area increased 46% to MSEK 4 384 (3 010), corresponding to a margin of 17.4% (15.9). The operating profit benefited strongly from higher revenue volume and price increases. The positive effects more than offset the negative effects from currency and recent acquisitions, which together affected the operating margin with about two percentage points. Return on capital employed was 32% (35).

Operating profit for the Industrial Technique business area increased 14% to MSEK 1 539 (1 346), corresponding to a margin of 22.4% (20.9). The operating margin benefited from increased prices, a favorable sales mix, and efficiency improvements, while changes in exchange rates and restructuring costs affected the margin negatively. Return on capital employed was 58% (63).

Depreciation and EBITDA

Depreciation and amortization totaled MSEK 1 800 (1 637), of which rental equipment accounted for MSEK 588 (634), property and machinery MSEK 731 (623), and amortization of intangible assets MSEK 481 (380). Earnings before depreciation and amortization, EBITDA, was MSEK 13 866 (10 840) corresponding to a margin of 21.9% (21.5).

Net financial items

The Group's net financial items totaled MSEK –1 532 (–508). The net interest cost decreased to MSEK –453 (–654). A net cash position in the beginning of the year, following the divestment of the construction rental business in November 2006, turned to a net borrowing position after the large capital distribution to shareholders in June. The increased borrowing in connection to the capital distribution resulted in a more efficient capital structure for the Group. Net financial items include an MSEK 134 capital gain from the divestment of some of the shares held in the divested rental business. They also include a write-down of MSEK 864 to reflect the fair market value of the right to notes, which was a conditional extra payment in the divestment of the rental business. Financial foreign exchange differences were MSEK –54 (257).

Other financial items were MSEK –295 (–111), 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 21% to MSEK 10 534 (8 695), corresponding to a margin of 16.6% (17.2).

Key figures by business area

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets[1]	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Compressor Technique	31 900	25 488	6 749	5 323	21.2	20.9	65	70	925	932
Construction and Mining Technique	25 140	18 914	4 384	3 010	17.4	15.9	32	35	1 074	969
Industrial Technique	6 871	6 440	1 539	1 346	22.4	20.9	58	63	159	83
Common Group functions/Eliminations	–556	–330	–606	–476					201	184
Total Group	63 355	50 512	12 066	9 203	19.0	18.2	29	36	2 359	2 168

[1] Excluding assets leased.

Taxes

Taxes for the year totaled MSEK 3 118 (2 435), corresponding to 29.6% (28.0) of profit before tax. See also note 10. Excluding the MSEK 864 charge for the write-down of the right to notes, for which no tax reduction has been recorded, the taxes corresponded to 27.4% of profit before tax. The tax rate was reduced through the capital restructuring, which was completed during the year.

Profit and earnings per share

Profit from continuing operations increased 18% to MSEK 7 416 (6 260). Basic earnings per share from continuing operations were SEK 6.05 (4.98), up 21%.

Profit for the year amounted to MSEK 7 469 (15 373), whereof MSEK 7 439 (15 349) and MSEK 30 (24) are attributable to equity holders and minority interests, respectively. The profit includes profit from discontinued operations, net of tax, of MSEK 53 (9 113). See also note 3. Basic earnings per share including discontinued operations were SEK 6.09 (12.24). Diluted earnings per share were SEK 6.09 (12.22).

Key figures

MSEK	2007	2006
Orders received	69 059	55 239
Revenues	63 355	50 512
Operating profit	12 066	9 203
– in % of revenues	19.0	18.2
Profit before tax	10 534	8 695
– in % of revenues	16.6	17.2
Profit from continuing operations	7 416	6 260
Basic earnings per share, SEK	6.05	4.98
Diluted earnings per share, SEK	6.04	4.96
Profit for the year[1]	7 469	15 373
Basic earnings per share, SEK[1] [2]	6.09	12.24
Diluted earnings per share, SEK[1] [2]	6.09	12.22

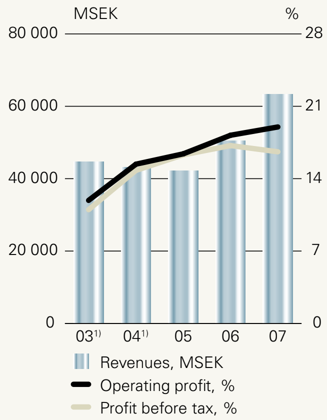
[1] Including discontinued operations.
[2] Recalculated for share split.

Sales bridge

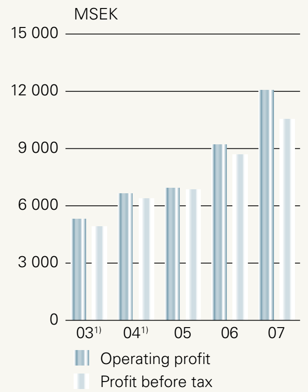
MSEK	Orders Received	Orders on hand, December 31	Revenues
2005	44 744	9 014	42 205
Structural change, %	+3		+3
Currency, %	0		0
Price, %	+2		+2
Volume, %	+18		+15
Total, %	+23		+20
2006	55 239	12 639	50 512
Structural change, %	+11		+11
Currency, %	–4		–4
Price, %	+2		+2
Volume, %	+16		+16
Total, %	+25		+25
2007	69 059	19 618	63 355

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

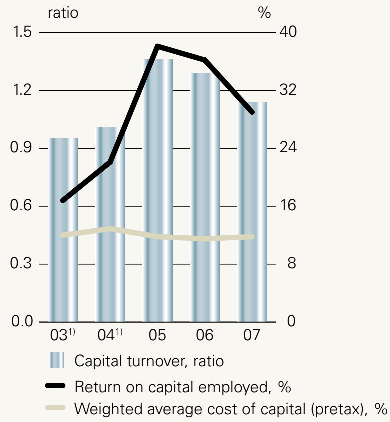
Revenues and margins



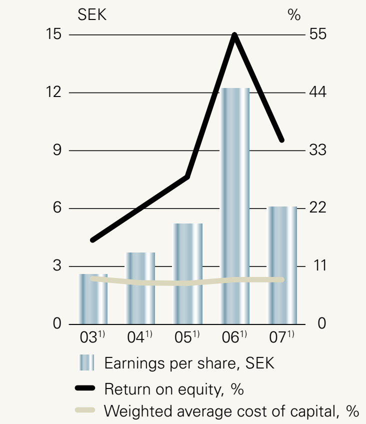
Operating profit and profit before tax



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 56 659 (55 255). At year end 2006, Group assets included a significant part of the proceeds from the divestment of the equipment rental business. Excluding cash and cash equivalents, assets increased approximately 17% in comparable units, reflecting the growth of the business with the corresponding increase in fixed assets and working capital. Acquisitions less divestments added about 33%, and currency translation effects approximately 1%.

Balance sheet in summary

MSEK	December 31, 2007		December 31, 2006	
Intangible assets	11 665	21%	4 299	8%
Rental equipment	1 906	3%	1 979	4%
Other property, plant and equipment	4 894	9%	3 777	7%
Other fixed assets	4 245	8%	3 161	6%
Inventories	12 725	22%	8 487	15%
Receivables	16 627	29%	12 401	22%
Current financial assets	1 124	2%	1 016	2%
Cash and cash equivalents	3 473	6%	20 135	36%
Total assets	56 659	100%	55 255	100%
Total equity	14 640	26%	32 708	59%
Interest-bearing liabilities	24 397	43%	8 787	16%
Non-interest-bearing liabilities	17 622	31%	13 760	25%
Total equity and liabilities	56 659	100%	55 255	100%

Fixed assets and investments

Fixed assets increased, primarily as a result of acquisitions and investments in other property, plant and equipment.

The Dynapac acquisition added MSEK 5 724 to intangible assets, primarily consisting of goodwill and the trademark. Other acquisitions added MSEK 1 653. Investments in intangible fixed assets, mainly related to capitalization of certain development costs, were MSEK 530 (524).

Gross investment in rental equipment amounted to MSEK 1 028 (1 133), while sales of used rental equipment totaled MSEK 586 (495). Consequently, net investments in rental equipment were MSEK 442 (638).

Investments in other property, plant and equipment totaled MSEK 1 331 (1 035), 82% above the annual depreciation. Significant investments to enhance production capacity were made at Compressor Technique's plants in Belgium, China, Germany, and India, at Construction and Mining Technique's plants in Sweden and Germany and at Industrial Technique's plant in Sweden.

Investments in financial assets, primarily finance leases related to equipment financing for customers, increased to MSEK 1 088 (986). The minority ownership stake in the equipment rental business is recorded as non-current financial assets. The potential earn-out notes were written down to zero at the end of the year, reflecting the fair market value. The total book value of these assets at year end was MSEK 957 (1 333).

Working capital

Inventories and trade receivables increased 50% and 31%, respectively, as a result of acquisitions and the strong sales growth. The average ratio of inventories to revenues increased to 17.3% (15.8), while the ratio of trade receivables to revenues decreased to 18.6% (19.1). At year-end, the corresponding ratios were 20.1% (16.8) and 20.7% (19.7) respectively.

Trade payables increased by 36%. Average trade payables in relation to revenues increased to 8.1% (7.6).

Cash and cash equivalents

Cash and cash equivalents were MSEK 3 473 (20 135). Previous year's figure was extraordinarily high as it included the cash proceeds received for the divested equipment rental business. The substantial decrease is due to the large capital distribution made to shareholders, in total MSEK 27 315.

Interest-bearing debt

The borrowings, excluding post-employment benefits, were MSEK 22 669 (7 140). The increase is primarily a result of the multi-currency bond issue program carried out in connection with the large capital distribution to shareholders. Post-employment benefits increased to MSEK 1 728 (1 647), primarily due to liabilities in acquired companies. See notes 21 and 23 for additional information.

Equity

Changes in equity in summary

MSEK	2007	2006
Opening balance	32 708	25 808
Net income and expense recognized directly in equity	1 791	–1 940
Profit for the year	7 469	15 373
Shareholders' transactions	–27 328	–6 533
Closing balance	14 640	32 708
Equity attributable to		
– equity holders of the parent	14 524	32 616
– minority interest	116	92

At year-end, Group equity including minority interests was MSEK 14 640 (32 708). Translation differences recognized in equity amounted to MSEK 1 899 (–1 739). There was a net effect after taxes of MSEK –108 related to hedging and fair value reserves. MSEK 2 899 (2 672) was distributed to shareholders of the parent through ordinary dividend and MSEK 24 416 through a mandatory share redemption, see page 23. During 2006, repurchase of shares totaled MSEK 3 776.

Equity per share was SEK 12 (27). Equity accounted for 26% (59) of total assets. Atlas Copco's total market capitalization on the Nordic Exchange at year-end was MSEK 114 630 (138 865), or 782% (425) of net book value.

Net cash position/net indebtedness

The Group's net indebtedness amounted to MSEK 19 800 (net cash position of MSEK 12 364) at year end.

The debt/equity ratio (defined as net cash/debt divided by equity) was 135% (–38). Previous year's ratio reflects the extraordinary capital structure, which followed after the divestment of the equipment rental business.

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 10 005 (8 197).

Working capital increased MSEK 2 326 (2 045) as trade receivables and inventory increased in line with the strong volume growth.

Net cash from operating activities increased to MSEK 7 679 (6 152). Net cash from investing activities was MSEK –8 808 (–4 419), reflecting 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 –5 718 (–1 332).

Operating cash flow before acquisitions, divestments and dividends was MSEK 4 589 (3 065), equal to 7% (6) of Group revenues.

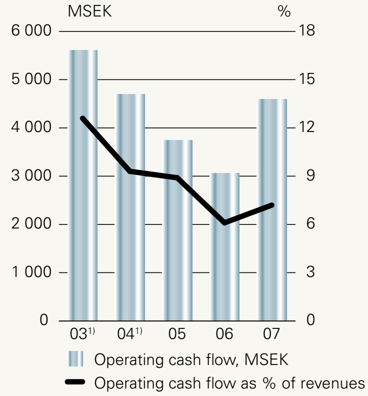
Capital turnover

The capital turnover ratio was 1.14 (1.29) and the capital employed turnover ratio was 1.60 (1.96). The turnover ratios decreased 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 year.

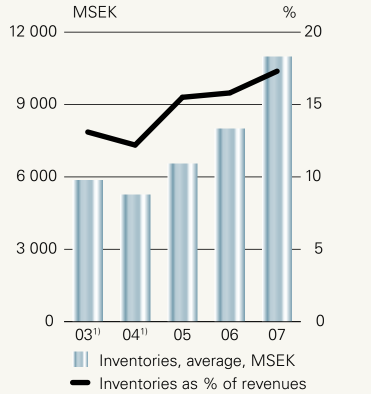
Return on capital employed and return on equity

Return on capital employed decreased to 29.3% (35.1) and the return on equity to 34.7% (54.8), including discontinued operations. The return on capital employed, excluding the non-recurring write-down of MSEK 864 was 31.4% and the return on equity 38.7%. The Group uses a weighted average cost of capital (WACC) of 8.5%, corresponding to a pre-tax cost of capital of approximately 11.8%, as an investment and overall performance benchmark.

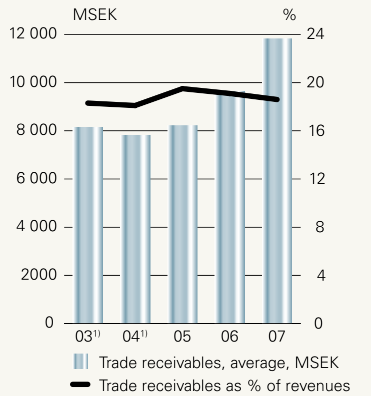
Operating cash flow



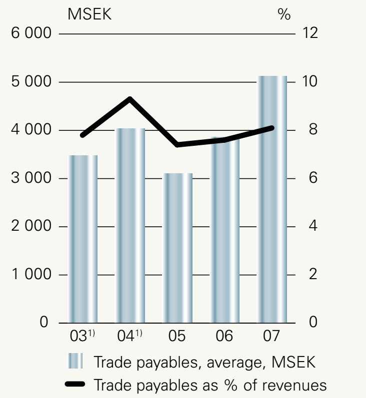
Inventories



Trade receivables



Trade payables



[1)] Including discontinued operations.

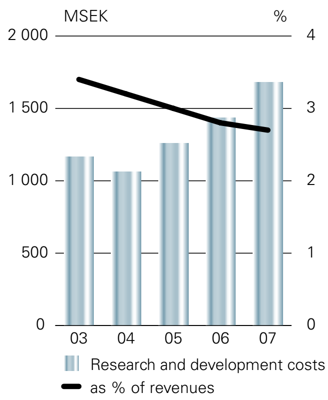
Product development

MSEK	2007	2006
Research and development costs		
– expensed during the year[1]	1 286	1 111
– capitalized during the year	394	325
Total	1 680	1 436
– as a percentage of revenues	2.7	2.8

[1] whereof amortization of capitalized costs MSEK 234 (220).

Continuous research and development to secure innovative products is critical for maintaining the competitiveness of Atlas Copco's divisions. The amount invested in these activities, including capitalized costs, increased 17% to MSEK 1 680 (1 436), corresponding to 2.7% (2.8) of revenues. For further information, see the description under each business area.

Research and development costs



Personnel

	2007	2006
Average number of employees, total	29 522	24 378
– Sweden	3 898	3 142
– Outside Sweden	25 624	21 236
Business areas		
– Compressor Technique	14 066	11 795
– Construction and Mining Technique	11 132	8 625
– Industrial Technique	3 386	3 103
– Common Group Functions	938	855

In 2007, the average number of employees in the Atlas Copco Group increased by 5 144 to 29 522 (24 378). At year-end, the number of employees was 32 947 (25 900). For comparable units, the number of employees increased by 3 236. Acquisitions, net of divestments, added 3 811 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.

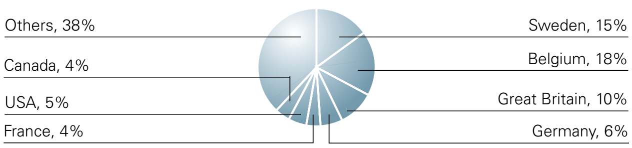
The goal is to have 85% of the managers internally recruited, and the outcome in 2007 was 80% (80).

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 2007, 3 019 (1 946) positions were advertised, whereof 533 (346) were international positions.

The Group employs 323 (275) expatriates from 45 countries working in 55 countries. The share of Swedish expatriates has decreased from 38% in 1997 to 15% in 2007. The role of the expatriate is to develop local managers and to get international professional experience for even more demanding positions within the Group.

External recruitment of young high potential employees is focused through active promotion of the Atlas Copco employer brand.

Expatriate nationality 2007



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 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 regular assessments, which are carried out in all business areas and divisions. These surveys are based on established tools for evaluating and ranking existing risks based on their potential financial impact and likelihood of materializing.

Business risks

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 where managers describe the development of their respective unit. In these monthly reports ”red flags” are raised if negative deviations or risks are identified. All operative units have business boards, which serve in an advisory and decision making capacity concerning operative issues in addition to the legal board. This process and structure is intended to ensure that well-founded and correct risk assessments are made, that risks are detected at an early stage and that appropriate decisions and corrective actions are taken without delay.

Market risks

The demand for Atlas Copco's products and services is affected by changes in the customers' investment plans and production levels. The customers' investments in equipment can change materially if the economic situation in an industry, in a country or in a region changes. Also changes in the political situation or political decisions affecting an industry or a country can have an impact on investments in equipment. The Group's sales are well diversified with customers in many industries and in more than 160 countries around the world. This diversification limits the total effect if the demand changes materially in a single industry, country or region. While a global economic slowdown would naturally affect the Group, its structure and historical record indicate that profit margins are likely to show resilience in such times. Changes in customers' production levels have an effect on sales of aftermarket products and services. These changes have, however, been relatively small in comparison to changes in investments, which means that the risk of sales deteriorating as a result of decreased production levels so far has been limited.

Atlas Copco has leading positions in most market segments where it is active and the number of competitors of a comparable size is limited. In developing markets new, smaller, competitors, continuously appear, which may affect Atlas Copco locally mainly through pricing. The technologies for compressors, 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.

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. If Atlas Copco is unable to successfully introduce new products in a timely fashion, it can affect revenues and profits negatively.

Production risks

Atlas Copco has a global manufacturing strategy based on manufacturing core components complemented with sourcing of other components from sub suppliers. 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 keep 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 etc.

The availability of non-core components is dependent on the sub suppliers and if they have interruptions or if they do not have enough 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.

As a result of its manufacturing strategy, Atlas Copco has a limited direct exposure to changes in raw material prices. The Group has in recent years been able to compensate for rising costs through higher prices.

Distribution risks

Atlas Copco distributes products and services primarily directly to the end customer, but also through distributors. All physical distribution of products is concentrated to a number of service centers and the delivery efficiency of these is continuously monitored in order to minimize interruptions. The distribution of services depends on the efficiency of the aftermarket organization and Atlas Copco 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 not one 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 supported by selected acquisitions. In order to ensure the success of acquisitions, the Group has established an Acquisitions Process Competence Group, which supports all business units during the acquisition and initiates a post-acquisition audit. Integration of acquired businesses is difficult and it is not certain that the integration will be successful. Therefore, costs related to acquisitions can be higher than anticipated. Also divestments of non-core assets can prove more costly than anticipated and affect the result of the Group.

Other business risks that are continuously monitored in all industries and countries where Atlas Copco is present include price and cost trends, behavior of the competition, technical development, patent and product liability claims, warranty-cost trends, insurance claims and attracting and retaining key personnel and skilled employees.

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, and return on capital, Atlas Copco has adopted a policy to control the financial risks to which the Group is exposed. The policy is designed to enhance stability in Group earnings and dividend growth while simultaneously protecting the interests of creditors. A financial risk management committee meets regularly to take decisions about how to manage currency risks, interest rate risks and other financial risks. See also note 27.

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 the potentially negative effect of these exposures, the Group's operations are continuously monitoring and adjusting sales-price levels and cost structures. Occasionally, Group management complements these measures through financial hedging in order to protect Group earnings. An adverse effect on Group earnings can also occur when earnings of foreign subsidiaries are translated into SEK (translation risk), and on the value of the Group equity when the net assets of foreign subsidiaries are translated into SEK (translation risk). These translation risks are partially hedged by borrowings in foreign currency and financial derivatives.

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.

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. To mitigate this risk, all customer centers apply credit policies. 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.

Other significant risks

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 strives to avoid actions that could pose a risk to the Group's good reputation, and takes numerous measures to ensure its reputation is maintained:

- Atlas Copco strives to be a good citizen of all communities in which it operates, and the Group encourages constructive dialogues with the stakeholders.
- To ensure good business practice in all markets, managers are continuously educated about Atlas Copco's Business Code of Practice. The Code consists of internal policy documents and guidelines that address business ethics as well as social and environmental aspects. Visit www.atlascopco.com/csr for the Business Code of Practice.

- Corruption, bribery and human rights crimes exist in markets where Atlas Copco conducts business. To increase employee awareness of such unacceptable behavior and thereby to help them learn to avoid it, the Group uses information from Transparency International to map countries with significant risks associated with corruption and bribery and Amnesty Business Group to identify the countries where human rights violations commonly occur. Atlas Copco has an internal routine for reporting violations.
- The Group recognizes the reputation risks related to the association with certain customers, and seeks to minimize these risks first and foremost by safeguarding that its own commitments are met regarding the safety of its products and services.

Environmental risks

While Atlas Copco affects the environment in the production process, through the use of natural resources and generation of emissions and waste, greater risks are related to the lifecycle use of products and external factors. A number of such risks have been identified and listed in the Sustainability Report.

Legal risks

Responsibility for monitoring and steering the legal risk management within the Group rests with the legal function, lead by the General Counsel located at Atlas Copco AB. In addition to a continuous follow-up of the legal risk exposure within the Group carried out within the operative and legal structures, a special annual review of all companies within the Group has been performed by the legal function for several years. With particular consideration to the trends within different risk areas, the result is compiled, analyzed, and reported to both the Board and the auditor.

The conclusion for the business year 2007 as reported to the Board and the auditor was that the potential legal risk exposure to the Atlas Copco Group has leveled out or even decreased during 2007 primarily reflecting a substantial decrease of respiratory cumulative trauma product liability plaintiffs in the United States. As of December 31, 2007, Atlas Copco had 127 (126) asbestos cases filed with a total of 1 282 (4 708) individual claimants. It is important to note that none of these cases have identified a specific Atlas Copco product as cause for impairment. The primary allegations stem from the sale of certain compressor products which may have contained gaskets that had an asbestos component. All such gaskets were manufactured by others. In each case there are several defendants, on average 105 (122) companies per case. Thus, considering the size of the world wide business operations of the Group and the fact that Group products have so far not been linked with an actual impairment in 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 immaterial property rights. This is normal for a business like Atlas Copco and the company is not dependent upon a single agreement or immaterial property right.

Fraud risks

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 ethical helpline/whistle blowing (see further Internal Control section in the Corporate Governance Report).

Insurable risks

Atlas Copco companies continuously identify, analyze, monitor and manage insurable risks and carry out preventive measures in order to reduce the risk for losses. Each company is responsible for managing and reporting its insurance related matters in accordance with guidelines of the Group's insurance program. This ensures that insurance coverage exists in accordance with the guidelines. The Group's insurance company is responsible for managing and coordinating the global insurable risk and provides insurance counseling to all Atlas Copco companies. Atlas Copco is purchasing insurance coverage from top rated internationally recognized insurance companies and is using world leading international brokering firms for consulting services within the area of risk management and insurance.

Environmental Impact

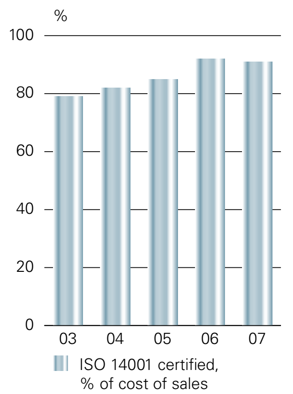
Atlas Copco endeavours to conduct its business so that the environment is preserved, complying with environmental legislation in its operations and processes world-wide. The Group conducts operations requiring permission based on Swedish environmental regulations in seven Swedish companies. These operations 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.

To support environmental efforts, Atlas Copco has a global Environmental Policy. The policy states that all product companies should be certified in accordance with the international standard ISO 14001 and that all other companies in the Atlas Copco Group must implement an Environmental Management System (EMS).

During the year, 13 new sites achieved ISO 14001 certification. Overall, the manufacturing sites with ISO 14001 certification represent 91% (92) of cost of sales.

Environmental and 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 become increasingly more energy efficient and ergonomic. See also the Sustainability Report.

Environmental performance



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 the Group internal bank.

Earnings

Profit after financial items totaled MSEK 198 (52 730). Profit for the previous year included very large dividends from subsidiaries and capital gains as a result of a significant capital restructuring within the Group. See also note A4. Profit for the period after appropriations and taxes amounted to MSEK 534 (52 689). Undistributed earnings totaled MSEK 28 638 (55 979).

Financing

The total assets of the Parent Company were MSEK 105 361 (88 602). At year-end 2007, cash and cash equivalents amounted to MSEK 89 (3 725) and interest-bearing liabilities to MSEK 69 238 (24 624). The increase in liabilities is primarily due to the large capital distribution made to shareholders, which is described below. Equity, including the equity portion of untaxed reserves, represented 34% (71) of total assets.

Personnel

The average number of employees in the Parent Company was 85 (77).

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 2007 are specified in note 5. The Board proposes to the Annual General Meeting 2008 that the guidelines shall be applied for another year, without any changes.

Shares and share capital

At year-end, Atlas Copco's share capital totaled MSEK 786 (786). 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 at year end. Net of shares held by Atlas Copco, 1 220 784 704 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 2007 Investor held a total of 189 629 826 shares, representing 21.2% of the votes and 15.4% 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.

In regards to termination of employment on other grounds, not related to a public take-over bid, the CEO is entitled to an initial 12 months of severance pay if his employment is terminated. Other members of Group Management are entitled to severance pay which varies based on the length of their employment but totals 12 months at a miniumum and not more than 24 months. See note 5 for additional information. Severance payment to other employees is generally based on the collective agreements and labor laws.

Share split and Redemption

In order to adjust the Group's balance sheet to a more efficient structure, the 2007 Annual General Meeting approved a redemption procedure that was carried out during the year. Every share was split into 2 ordinary shares and 1 redemption share. The redemption shares were automatically redeemed at SEK 40 per share. This corresponded to a total distribution of MSEK 24 416 to shareholders.

Share Repurchases during 2007

After the share split in May, 2007, Atlas Copco held 36 828 400 of its own B shares. 28 000 000 of these B shares were redeemed in July. The 2007 Annual General Meeting also approved a mandate to divest the remaining 8 828 400 B shares and purchase a maximum of 6 400 000 A shares to be delivered under the Company's personnel stock option programs. Proceeds can also be used to cover related costs for social security charges. The transactions were initiated on December 3 and at year-end 2007 Atlas Copco held 3 577 500 Class A shares and 5 250 900 Class B shares, corresponding to 0.7% of the total number of shares.

Appropriation of Profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 3.00 (2.38) per share, equal to MSEK 3 662 (2 899), be paid for the 2007 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described on page 91.

Share Repurchases, Proposal to the Annual General Meeting

In order to be able to continuously adapt the capital structure to the capital needs of the company and thus contribute to increased shareholder value the Board of Directors will propose to the Annual General Meeting that a mandate be approved for the repurchase of a maximum of 10% of the total number of shares issued by the company over the Nordic Exchange.

Compressor Technique

Compressor Technique is a world-leading provider of compressed air products and solutions. In 2007, the business area grew both organically and through strategic acquisitions.

- Strong order growth in most markets and product segments with organic growth of 16%.
- Record revenues and operating profit.
- Dedicated divisions for specialty rental and service created.

Significant events and structural changes

Effective January 1, 2007, the new Specialty Rental division was created, responsible for all specialty rental activities focusing primarily on industrial applications. In addition, it includes the Prime Energy operations in North America, which were previously reported in the Rental Service business area. To focus on its core business, the new division divested parts of its operations in Australia and the Netherlands during the year.

The business area completed three strategic acquisitions during 2007. The acquired businesses improve the presence and penetration in many markets and add products, services, and technical knowledge that will develop the existing business and help build new businesses close to the business area's core competencies. In addition, the business area acquired strategic distributors in Ireland and North America during the year.

The acquisition of the Industrial Division of ABAC Group S.p.A., Italy, which manufactures mainly piston compressors and smaller screw compressors, was finalized in April, subject to certain conditions by the German and Austrian anti-trust authorities. To comply with these conditions, parts of the Alup Kompressoren GmbH subsidiary in Germany were divested in July.

In March, GreenField, a Swiss based company engaged in high pressure gas applications, mainly compressed natural gas (CNG) for natural gas vehicles, was acquired.

The assets of Mafi-Trench Corporation were acquired in August. Mafi-Trench is a leading supplier of hydrocarbon turboexpanders mainly for the oil and gas industry and is headquartered in California, the United States.

See also note 2.

In India, the business area finalized the concentration of its manufacturing to one location in Pune. An investment for capacity expansion at its German turbomachinery production plant was also announced during the year. These investments were made to further support the growth in important markets and customer segments. The manufacturing capacity of core compressor components has been extended, mainly in Belgium and China.

A new customer center was established in Pakistan during the year. The customer center operates as a part of Compressor Technique but represents all three of Atlas Copco's business areas.

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

Business development

Sales of stationary industrial compressors and related aftermarket products and services were very strong during the year, supported by favorable demand and further strengthening of presence and penetration in new and existing market segments. Industry investments for capacity increases and for energy savings were important drivers for equipment sales. Demand for large oil-free screw and turbo compressors, utilized in specialized applications within, for example, the electronics, pharmaceutical, textile, and food industries continued on a very high level. Standard oil-injected machines for a wide variety of industrial applications also developed very well. Sales of Variable Speed Drive (VSD) compressors showed continued strength, reflecting the high demand for energy efficient products. Low noise levels and integrated air treatment capabilities were also in high demand, benefiting quiet workplace compressors. The strong volume growth was well spread geographically with double digit growth in all regions. The aftermarket business also recorded healthy growth in all regions.

Orders for gas and process compressors and expanders showed exceptional strength. Large orders were won for natural gas reliquefaction and transportation, natural gas power generation, and the chemical and petrochemical industry.

Demand for portable compressors from the construction industry and construction-related customers, such as equipment rental companies, was strong in Asia, South America and Eastern Europe while demand in North America and Western Europe flattened out. The specialty rental business, primarily rental of portable oil-free air compressors, recorded healthy growth in all major markets.

Revenues totaled MSEK 31 900 (25 488), up 16% in volume. Operating profit increased to a record of MSEK 6 749 (5 323), corresponding to a margin of 21.2% (20.9). The operating profit includes MSEK 115 in capital gains from the divestments of rental operations. The previous year's figures have been adjusted to include the specialty rental business in North America, which was integrated into the business area as from January 1, 2007. The return on capital employed was 65% (70).

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. A structured training and development program, known under the name AIR Academy and especially aimed at sales and service engineers, was rolled out in all major markets. Annual training hours per employee reached 40 hours.

Key figures

	2007	2006
Orders received	35 005	28 491
Revenues	31 900	25 488
Operating profit	6 749	5 323
Operating margin, %	21.2	20.9
Return on capital employed, %	65	70
Investments	925	932
Average number of employees	14 066	11 795

Sales bridge

	Orders Received	Revenues
2005	21 770	20 672
Structural change, %	+4	+4
Currency, %	–1	–1
Price, %	+2	+2
Volume, %	+23	+15
Total, %	+28	+20
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

Rotary screw compressors are available as oil-injected and oil-free

Product development

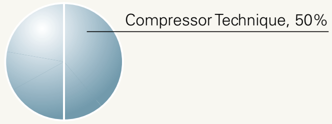
The business area continuously develops machines, aftermarket products and services that provide cost-effective solutions for the customers' compressed air and gas needs, including considerable savings on energy costs and reduced environmental impact.

Several new products and solutions were introduced during 2007. Many of the newly introduced products and models have in common that they are smaller in size, have lower noise levels and are more environmentally friendly in terms of energy efficiency and the risk for spillage, than their predecessors of the same power and air pressure. A range of smaller water-injected stationary compressors was completed with new air-cooled units. Another range of small stationary compressors saw the launch of a new improved generation.

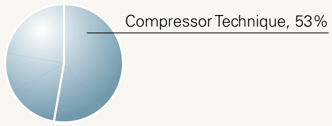
A number of aftermarket products and services were introduced or enhanced. An example is a full connectivity program, allowing all installations to be connected and optimized from a distance.

The portable compressor range was updated with a new version of the successful HardHat™ canopy compressor with a built-in generator to meet the demand for both air and electric power at construction sites. Portable generator sets with the HardHat™ canopy were also introduced during the year.

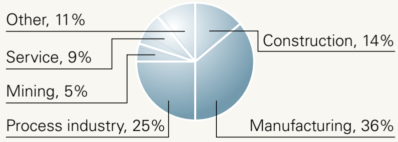
Share of Group revenues



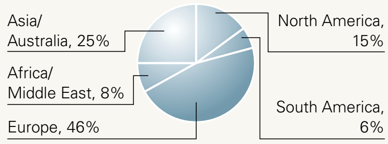
Share of Group operating profit



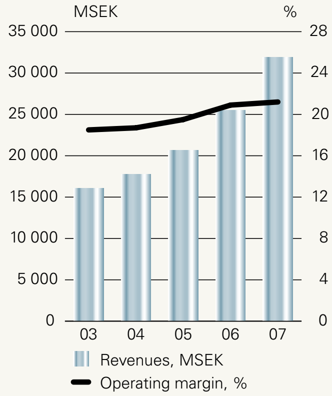
Revenues by customer category



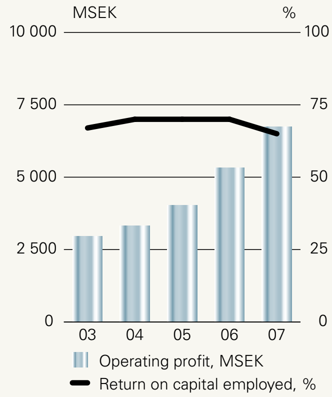
Revenues by geographic area



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 4, 2008

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

Several design improvements were made for the large gas and process compressor and expander range, resulting in more energy efficient and compact machines. During the year, the largest gas and process compressor ever built by Atlas Copco was delivered.

In 2006, Atlas Copco set a new standard for compressed air purity, when the oil-free rotary screw air compressors became the first in the world to be certified to be 100% oil-free. During 2007 the number of compressors carrying this "Class Zero" standard was increased with ranges of piston, centrifugal, tooth, scroll and water-injected compressors.

The operations

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, 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 business area aims to be First in Mind—First in Choice® as 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 multi-brand 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
- 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 aftermarket is characterized by a diversified customer base and the products are used in a wide spectrum of applications in which compressed air is either used as a source of power in manufacturing or in the construction industry, or as an integrated part of the industrial processes - active air. An important application is assembly, where compressed air is used to power assembly tools. In industrial processes, clean, dry, oil-free quality air is needed for applications in which compressed air comes into direct contact with the end product (e.g., in the food, pharmaceutical, electronics, and textile industries). 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 are supplied to various process industries, such as air separation plants, power utilities, and liquefied natural gas applications.

The most important customer segments are the manufacturing and process industries, which together represent almost 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 about 10% and the balance is represented by portable compressors, generators and specialty rental, some 20–25% of sales. The aftermarket represented about 26% of total sales in 2007.

Market trends

- Energy efficiency – focus on life cycle cost of compressed air equipment
- 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 cost

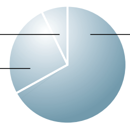
Market position

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, CompAir, Sullair, Parker Hannifin and regional and local competitors. Aggreko is the main competitor for specialty rental. In the market for compressors for process gas applications, 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 1.5–15 000 kW engine size.

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 are available as WorkPlace AirSystem with integrated dryers, as well as with the energy efficient Variable Speed Drive (VSD).

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 with a demand for 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 turboexpanders.

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.

Portable generator

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-free water injected rotary screw compressor

Scroll compressor with integrated dryer

Construction and Mining Technique

During 2007 demand continued to be strong for both mining and construction equipment. The business area strengthened its position in many areas and increased the product offering. Volume growth was strong, supported by continued investments in people and production capacity.

- Continued strong development, both within mining and construction.
- Acquisition of Dynapac, expanding presence in the road development market.
- Record revenues and improved operating margin.

Significant events and structural changes

The business area completed one major strategic acquisition during 2007 and also acquired distributors in the Balkans and in the United States. In addition, it acquired full ownership in two companies from previous joint venture-partners. The acquired businesses improve the presence and penetration in key markets and add products, services and technical knowledge to help build new businesses.

In February 2007, an agreement was reached to acquire Dynapac, a leading supplier of compaction and paving equipment for the road construction market. The acquisition was consolidated as from June and operates as a separate division, Road Construction Equipment, within the business area.

The remaining 40% of shares in Wuxi-Hobic Diamond Bit Co Ltd, China, were acquired in June. The company manufactures diamond drilling tools for the mineral exploration market.

In November, the remaining 75% of shares in the joint venture company Shenyang Ruifeng Machinery Ltd, were acquired. Ruifeng, based in Shenyang, China, produces core components for construction tools.

See also note 2.

A new customer center was established in Tanzania in February. It belongs operationally to the Construction and Mining Technique business area and offers mining and construction equipment but also compressors and generators.

In October, the business area opened up two new customer centers in Croatia and Bosnia-Herzegovina through the acquisition of distributors in the region.

An investment of MSEK 140 in an expansion at the Swedish factory for rock drilling tools in Fagersta was completed during the year and an additional investment of MSEK 224 was approved for the same factory.

In India, the business area finalized its work with concentrating its manufacturing to one location and increasing the capacity. An additional investment will be made at the site to start production of pavers and soil and asphalt rollers.

Investments for capacity increases continued for rig mounted and handheld hydraulic breakers at the construction tools facilities in Germany, Sweden, and Bulgaria.

Business development

The demand for drilling equipment from underground and open pit mines continued to be very strong throughout the year, reflecting the good demand for raw material and the high metal prices. Order intake for underground drilling and loading equipment improved significantly. Sales of large surface drill rigs for open pit applications also increased with the exception of large rotary drill rigs used for coal and gas extraction where demand softened, particularly in North America. Demand for exploration equipment was very strong as a result of the high mineral prices. The aftermarket business and sales of consumables continued to develop well, reflecting the high activity level in mines around the world. All mining markets developed well with the highest growth rates recorded in Australia, Asia and Eastern Europe.

The demand from the construction industry improved and sales were boosted by the acquisition of Dynapac. Sales of crawler rigs for surface applications, such as quarries and road construction, continued to grow steadily. 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, developed favorably in most emerging markets but stayed flat overall compared to the previous year. Demand for road construction equipment showed healthy growth. Also the aftermarket business continued to develop strongly. The best development for construction equipment was achieved in Asia, Australia, and the Middle East.

Revenues increased 33% to a record MSEK 25 140 (18 914), up 20% in volume. Operating profit increased to a record MSEK 4 384 (3 010), corresponding to a margin of 17.4% (15.9). Return on capital employed was 32% (35).

Competence development

More than 4 000 employees have been added to the business area during 2007. Competence development is a high priority and annual training hours per employee was 37 hours. A key activity, primarily for the new employees, has been internal training in The Way We Do Things, the Group's single most important management tool. Product and sales training for customers and employees has also been conducted. The CMT academy in Sweden continued its training in mining and construction applications for general managers and sales managers. The academy was started during the second half of 2005.

Product development

An important activity for the business area is to continuously introduce new and improved products that increase customers' productivity and efficiency. During 2007, a number of new machines and aftermarket products were introduced.

A small face drilling rig was launched for mining applications. Other introductions for mining applications include a 10 ton low profile loader, a line of loaders for coal applications and a mine truck for low seam mining. New and upgraded versions of a number of surface drill rigs were also introduced as well as an improved and faster rock drill used in both mining and construction applications.

A number of both pneumatic and hydraulic breakers of varying sizes were introduced, including a 10 ton hydraulic breaker. It is the largest volume-produced hydraulic breaker in the world. A new type of demolition pulverizer was another construction tool brought to market.

For the road development segment soil compactors and a new generation of tandem rollers were launched.

New aftermarket products, consumables, and service products were also launched during the year.

Many of the new products are automated to a higher degree than their predecessors. An example of this is the new automated rod handling system introduced for underground drill rigs. Another trend in the product development is the introduction of more energy efficient and in other ways environmentally friendly products. The new hammer used in water well drilling that uses water instead of oil as a lubricant is a good example of this.

A three boom tunneling drill rig with a mechanized rod handling system for improved safety

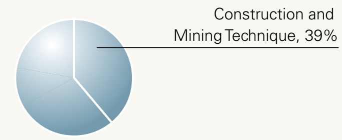
Key figures

	2007	2006
Orders received	27 447	20 563
Revenues	25 140	18 914
Operating profit	4 384	3 010
Operating margin, %	17.4	15.9
Return on capital employed, %	32	35
Investments	1 074	969
Average number of employees	11 132	8 625

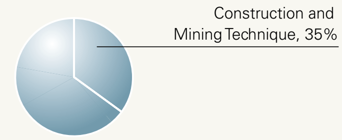
Sales bridge

	Orders Received	Revenues
2005	**16 581**	**15 154**
Structural change, %	+1	+1
Currency, %	0	0
Price, %	+3	+3
Volume, %	+20	+21
Total, %	+24	+25
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**

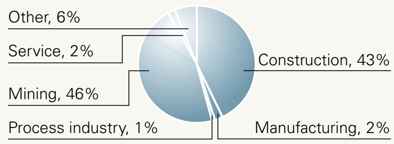
Share of Group revenues



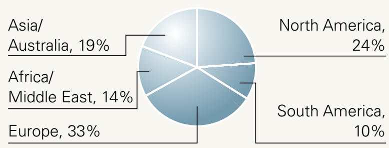
Share of Group operating profit



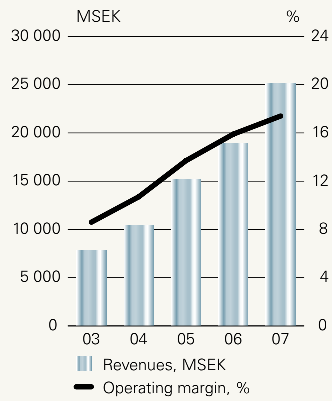
Revenues by customer category



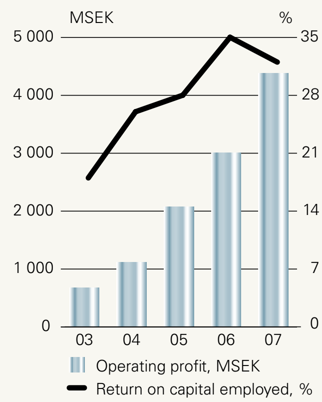
Revenues by geographic area



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.


Björn Rosengren


Patrik Nolåker


Stephan Kuhn


Robert Fassl


Claes Ahrengart


Johan Halling


Henk Brouwer


Hans Lidén


Roger Sandström

Business area management

On February 4, 2008

Business Area President:
Björn Rosengren

Construction and Mining Technique's divisions are:

- Underground Rock Excavation, President Patrik Nolåker
- Surface Drilling Equipment, President Stephan Kuhn
- 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 Hans Lidén
- Rocktec, President Roger Sandström

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, with other units in Australia, Austria, Brazil, Bulgaria, Canada, Chile, China, Finland, India, Japan, and South Africa.

Vision and strategy

The business area aims 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 drilling and loading equipment for the mining and construction industries, by developing its positions in 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 – special attention is given to focused growth markets
- Develop new products and solutions offering enhanced productivity
- Extend product offering based on modular design and computerized control systems
- Develop the global service concept/competence and extend the offering on aftermarket products
- Provide increased support to key customers, take more responsibility for service and aftermarket and offer global contracts
- Acquisitions of complementary operations

The market

The market for mining and construction equipment in general is very large and it also 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 in mining and construction.

The mining sector is a key customer segment and represents about half of 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 close to half of 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, are continuously growing and represented about 45% of sales in 2007.

Market trends
- More productive equipment
- More intelligent products and remote control
- 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

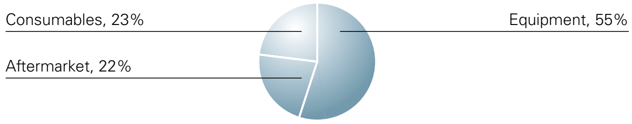
Market position

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, 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, etc.

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.

Tandem asphalt roller

Low profile mine truck

Surface drill rig

Pulverizer, hydraulic attachment

Industrial Technique

In 2007, the business area further strengthened its position as a world leader in industrial tools and assembly systems. The refined structure, set up in the beginning of 2006, resulted in further increased focus on the markets where the business area is active.

- Strong sales to customers within the general industry, while demand from the motor vehicle industry was on the same level as the previous year.
- Strategic acquisitions extending the offer to customers within vehicle service.
- Record operating profit and margin.

Significant events and structural changes

In January 2007, a new techno center was opened in Nantes, France. The center is the headquarters of the CP Industrial and the CP Vehicle Service divisions and it will focus on marketing, research and development of new tools for the manufacturing and vehicle service industries.

The business area completed two acquisitions during 2007. The acquisition of the German Rodcraft Group of companies was finalized in March. Rodcraft is a supplier of pneumatic tools and workshop equipment to the automotive aftermarket industry and gives an opportunity for the CP Vehicle Service division to expand with new products to both new and existing customers. In December the Japanese company KTS Co. Ltd. was acquired. The company produces handheld air tools for the vehicle service market.

See also note 2.

The business area established a factory for assembly of pneumatic power tools in Hungary during the year and moved assembly from Great Britain to the Hungarian factory. Restructuring costs related to the move were approximately MSEK 45 during the year. The Hungarian factory will be fully operational during the first quarter of 2008.

Business development

Sales of industrial tools to the general manufacturing industry (e.g., electrical appliances, aerospace, and ship yards) improved significantly in all regions reflecting increased marketing and sales activities, a strong product offering and a generally healthy demand in all major markets.

Demand for advanced industrial tools and assembly systems from the motor vehicle industry was healthy in many markets but continued to be weak in North America, where sales declined compared with the previous year. The aftermarket business developed favorably and showed healthy growth. The vehicle service business, providing large fleet operators and specialized repair shops with tools, grew moderately for comparable units compared to the previous year.

The business area's organic order growth was 8%. Geographically the growth was very strong in Eastern Europe and Asia. Growth was healthy in Western Europe whereas North America did not reach previous year's levels.

Revenues totaled MSEK 6 871 (6 440), up 6% in volume. Operating profit increased 14% to a record MSEK 1 539 (1 346), corresponding to a record operating profit margin of 22.4% (20.9). Return on capital employed was 58% (63).

Competence development

Each manager has a mission statement to ensure that the strategic content of his or her assignment is defined and understood. Every employee has an annual performance appraisal during a meeting with his or her manager. At this meeting a competence review takes place and the development plan for the employee is assessed and discussed. Gap analysis is used as a tool for competence development in the customer centers linked to the internal training organization.

Training plans are worked out based on the needs of the employee or group of employees. Training hours per employee averaged 40 hours during the year. The divisions emphasized value-based sales training, SAP training, leadership skills for shop floor supervisors, quality-function deployment programs, and product training programs. The business area also offers financial training to people in managerial positions without a financial background. A large part of the training consists of remote learning, interactive computer-based training that can easily be adapted to the needs and skill level of each participant. The business area also supports initiatives for management training, personal and group development, language training, etc.

Product development

The business area invests a lot of resources in product and process development in order to continuously be able to offer its customers new innovative and productivity enhancing products and services.

A number of tools, systems and aftermarket services were introduced during the year.

A new generation of the successful Tensor series of electric nutrunners was added to the range of advanced assembly tools offering full traceability. Also, a range of battery tools was introduced under the same name. The new range offers superior performance and reliability compared to other alternatives on the market and has all the advantages of cordless tools.

The assortment of industrial tools for general industry was extended with many new pneumatic assembly and abrasive tools, including impact wrenches and new series of grinders. For the vehicle service customers a new small ergonomic impact wrench was introduced with excellent power/weight ratio, as well as a range of palm sanders and a line of cordless tools including impact wrenches and drills. The aftermarket offer including services was further improved and introduced to more customers.

Key figures

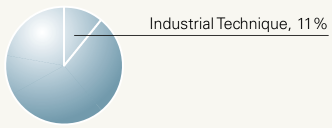
	2007	2006
Orders received	7 043	6 533
Revenues	6 871	6 440
Operating profit	1 539	1 346
Operating margin, %	22.4	20.9
Return on capital employed, %	58	63
Investments	159	83
Average number of employees	3 386	3 103

Sales bridge

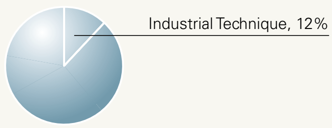
	Orders Received	Revenues
2005	6 086	6 064
Structural change, %	+4	+3
Currency, %	0	0
Price, %	+1	+2
Volume, %	+2	+1
Total, %	+7	+6
2006	6 533	6 440
Structural change, %	+3	+3
Currency, %	–3	–3
Price, %	+1	+1
Volume, %	+7	+6
Total, %	+8	+7
2007	7 043	6 871

Battery nutrunner

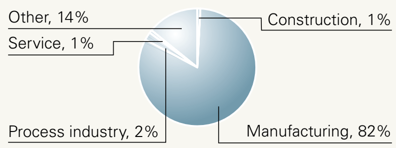
Share of Group revenues



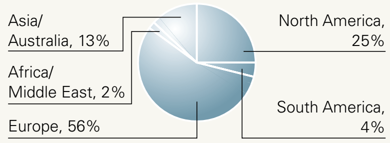
Share of Group operating profit



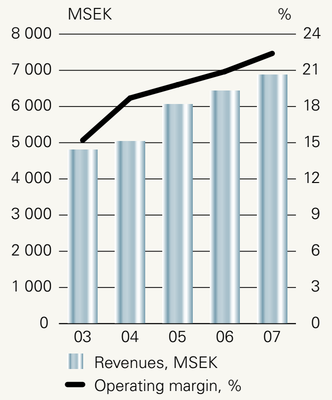
Revenues by customer category



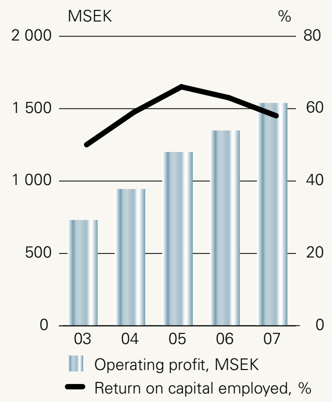
Revenues by geographic area



Revenues and operating margin



Earnings and return



Industrial Technique, excluding the divested professional electric tools business in 2003 and 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 4, 2008

Business Area President: Fredrik Möller

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 Mats Rahmström
- Chicago Pneumatic Industrial, President Norbert Paprocki
- Chicago Pneumatic Vehicle Service, President Yves Antier
- Tooltec, President Håkan Söderström

Fredrik Möller

Anders Lindquist

Mats Rahmström

Norbert Paprocki

Yves Antier

Håkan Söderström

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, Great Britain, 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, CP Chicago Pneumatic, Desoutter, Fuji Air Tools, 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. To extend the offer, particularly with the motor vehicle industry and to provide additional services, know-how, and training, are important activities. 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
- Extend product offering, including electric tools for general industrial manufacturing
- Extend aftermarket offering, including service and consulting activities

The market

The global market for industrial power tools, in the product categories offered by Atlas Copco, is estimated to be well over BSEK 15. The motor vehicle industry including sub-suppliers is a key customer segment, representing about half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been in the forefront in demanding more accurate fastening tools that minimize the errors in production and enable recording and traceability of operations. The business area has successfully developed electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors 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 (e.g., maintenance contracts and calibration services) that improve customers' productivity. The aftermarket represented approximately 23% of total sales in 2007.

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
- Productivity and ergonomics

Demand drivers

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

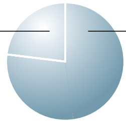
Market position

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 or regional competitors.

Share of revenues



Customer groups, products, and applications

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

Motor vehicle industry

The motor vehicle industry primarily demands advanced assembly tools and assembly systems and is offered a broad range of electric assembly tools, control systems and associated software packages for their 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.

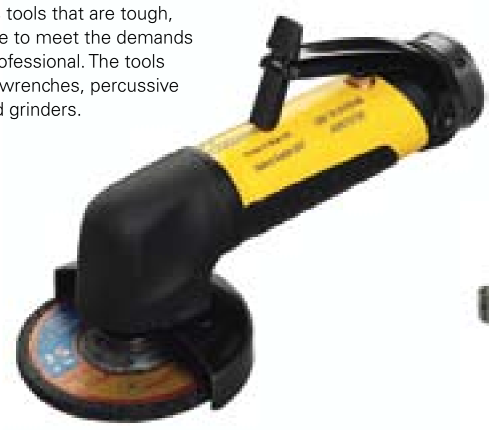
Vehicle service

The business area offers tools that are tough, powerful and dependable to meet the demands of the vehicle service professional. The tools supplied include 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.

Electric nutrunner with controller unit



Pneumatic angle grinder

Impact wrench offered to vehicle service customers

Consolidated Income Statement

For the year ended December 31, Amounts in MSEK	Note	2007	2006
Revenues	4	63 355	50 512
Cost of sales	7	–39 896	–31 516
Gross profit		**23 459**	**18 996**
Marketing expenses		–6 549	–5 560
Administrative expenses		–3 518	–2 970
Research and development costs		–1 286	–1 111
Other operating income	8	292	122
Other operating expenses	8	–335	–291
Share of profit in associated companies	14	3	17
Operating profit	4, 5, 6, 7	**12 066**	**9 203**
Financial income	9	688	666
Financial expense	9	–2 220	–1 174
Net financial items		**–1 532**	**–508**
Profit before tax		**10 534**	**8 695**
Income tax expense	10	–3 118	–2 435
Profit from continuing operations		**7 416**	**6 260**
Profit from discontinued operations, net of tax	3	53	9 113
Profit for the year		**7 469**	**15 373**
Attributable to:			
Equity holders of the parent		7 439	15 349
Minority interest		30	24
Basic earnings per share, SEK	11	6.09	12.24
–of which continuing operations		*6.05*	*4.98*
Diluted earnings per share, SEK	11	6.09	12.22
–of which continuing operations		*6.04*	*4.96*

Consolidated Balance Sheet

As at December 31, Amounts in MSEK	Note	2007	2006
ASSETS			
Non-current assets			
Intangible assets	12	11 665	4 299
Rental equipment	13	1 906	1 979
Other property, plant and equipment	13	4 894	3 777
Investments in associated companies	14	71	77
Other financial assets	15	3 331	2 459
Other receivables		11	6
Deferred tax assets	10	832	619
Total non-current assets		**22 710**	**13 216**
Current assets			
Inventories	16	12 725	8 487
Trade receivables	17	13 116	9 976
Income tax receivables		578	135
Other receivables	18	2 933	2 290
Other financial assets	15	1 124	1 016
Cash and cash equivalents	19	3 473	20 135
Total current assets		**33 949**	**42 039**
TOTAL ASSETS		**56 659**	**55 255**
EQUITY	Page 38		
Share capital		786	786
Other paid-in capital		5 075	4 999
Reserves		1 534	–253
Retained earnings		7 129	27 084
Total equity attributable to equity holders of the parent		**14 524**	**32 616**
Minority interest		116	92
TOTAL EQUITY		**14 640**	**32 708**
LIABILITIES			
Non-current liabilities			
Borrowings	21, 22	19 926	1 163
Post-employment benefits	23	1 728	1 647
Other liabilities		63	149
Provisions	25	505	443
Deferred tax liabilities	10	823	648
Total non-current liabilities		**23 045**	**4 050**
Current liabilities			
Borrowings	21, 22	2 743	5 977
Trade payables		5 591	4 108
Income tax liabilities		1 189	1 541
Other liabilities	24	8 523	6 155
Provisions	25	928	716
Total current liabilities		**18 974**	**18 497**
TOTAL EQUITY AND LIABILITIES		**56 659**	**55 255**

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

Consolidated Statement of Changes in Equity

2006 Amounts in MSEK	Share capital	Other paid-in capital	Reserves: Hedging reserve	Reserves: Fair value reserve	Reserves: Translation reserve	Retained earnings	Total	Minority interest	Total equity
Opening balance, Jan. 1	786	4 999	–	–	1 675	18 256	25 716	92	25 808
Translation differences					–1 727		–1 727	–12	–1 739
Realized on divestment of subsidiaries					–199		–199		–199
Hedge of net investments in foreign subsidiaries					–3		–3		–3
Tax on items transferred to/from equity					1		1		1
Net income and expense recognized directly in equity	**–**	**–**	**–**	**–**	**–1 928**	**–**	**–1 928**	**–12**	**–1 940**
Profit for the year						15 349	15 349	24	15 373
Total recognized income and expense for the year excl. shareholders' transactions	**–**	**–**	**–**	**–**	**–1 928**	**15 349**	**13 421**	**12**	**13 433**
Dividends						–2 672	–2 672	–4	–2 676
Repurchase of own shares						–3 776	–3 776		–3 776
Share-based payment, equity settled									
–Expense during the year						13	13		13
–Exercise of options						–86	–86		–86
Acquisition of minority shares in subsidiaries							–	–8	–8
Closing balance, Dec. 31	**786**	**4 999**	**–**	**–**	**–253**	**27 084**	**32 616**	**92**	**32 708**

2007 Amounts in MSEK	Share capital	Other paid-in capital	Reserves: Hedging reserve	Reserves: Fair value reserve	Reserves: 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					1 895		1 895	4	1 899
Hedge of net investments in foreign subsidiaries					–824		–824		–824
Change in fair values									
–Cash flow hedge			–86				–86		–86
–Available-for-sale				562			562		562
Realized on divestments, available-for-sale				–15			–15		–15
Tax on items transferred to/from 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**

See note 20 for additional information.

Consolidated Statement of Cash Flows

Including discontinued operations

For the year ended December 31, Amounts in MSEK	Note	2007	2006
Cash flows from operating activities			
Operating profit		12 066	13 581
Adjustments for:			
Depreciation, amortization and impairment	7	1 800	2 142
Capital gain/loss and other non-cash items		–136	–374
Operating cash surplus		13 730	15 349
Net financial items received/paid		–379	–12
Cash flow from other items		–	–4
Taxes paid		–3 346	–3 775
Cash flow before change in working capital		**10 005**	**11 558**
Change in:			
Inventories		–2 332	–1 870
Operating receivables		–1 417	–1 803
Operating liabilities		1 423	1 320
Change in working capital		**–2 326**	**–2 353**
Net cash from operating activities		**7 679**	**9 205**
Cash flows from investing activities			
Investments in rental equipment		–1 028	–6 357
Investments in other property, plant and equipment		–1 331	–1 198
Sale of rental equipment		586	1 763
Sale of other property, plant and equipment		126	200
Investments in intangible assets		–530	–524
Sale of intangible assets		3	4
Sale of investments		172	7
Acquisition of subsidiaries	2	–6 139	–1 333
Divestment of subsidiaries	3	–475	22 969
Other investments, net		–1 088	–994
Net cash from investing activities		**–9 704**	**14 537**
Cash flows from financing activities			
Dividends paid		–2 903	–2 676
Redemption of shares		–24 416	–
Repurchase of own shares		–25	–3 776
Borrowings		19 804	30
Repayment of borrowings		–7 340	–766
Payment of finance lease liabilities		–63	–309
Net cash from financing activities		**–14 943**	**–7 497**
Net cash flow for the year		**–16 968**	**16 245**
Cash and cash equivalents, Jan. 1		20 135	3 727
Net cash flow for the year		–16 968	16 245
Exchange-rate difference in cash and cash equivalents		306	163
Cash and cash equivalents, Dec. 31	19	**3 473**	**20 135**

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 RR 30:06 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, were issued by the Board of Directors on February 15, 2008 and balance sheets and income statements are subject to the approval of the Annual Meeting of the shareholders to be held on April 24, 2008.

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 Groups 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, financial instruments classified as available-for-sale and liabilities for cash-settled share-based payment arrangements.

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

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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. 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

No changes in accounting principles have been implemented during 2007 apart from the change in disclosures due to the implementation of new standards mentioned in the following section.

New standards and interpretations of significance to the Group implemented in 2007

IFRS 7 Financial Instruments: Disclosures and Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures has been implemented. This has increased the disclosures related to the significance of financial instruments for financial position and performance, as well as qualitative and quantitative disclosures on the nature and extent of risks.

The implementation of other new IFRIC interpretations (IFRIC 7–10) has not had any 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. 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 investment is initially recognized at cost and subsequently the carrying amount is adjusted for the investor's share of profit or loss, dividends received and depreciation on differences between fair value and the associates' carrying value of assets, when acquired.

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.

1. Continued

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 business segments are 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 for 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 cash flow hedges, which are recognized directly in equity. 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 generally 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. On divestment of foreign entities, 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, discounts and other similar deductions. No revenue is recognized if recovery of the consideration is not considered probable or the revenue and associated costs can not be measured reliably.

Goods sold and services rendered
Revenue from sale of goods is recognized when delivery has occurred and 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.

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.

Rental operations
Revenues are derived and recognized from the rental of equipment on a daily, weekly or monthly basis, as well as from sales of parts, supplies and new and used equipment. Rental income is recognized on a straight-line basis.

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. Grants that compensate the Group for the cost of an asset are recognized in the income statement on a systematic basis over the useful life of the assets.

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 profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

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 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.

Trademark
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 life while others are amortized based on their estimated useful lives.

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

Prior to the divestment of the equipment rental operations in 2006, the rental fleet included a broad selection of equipment ranging from small items such as pumps, generators and electric hand tools to larger equipment such as air compressors, drilling rigs, dirt equipment, aerial manlifts, skid-steer loaders and backhoes. 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 normally used for depreciation and amortization:

	Years
Technology-based intangible assets	3–15
Trademark 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. 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. 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 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.

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.

1. Continued

Employee benefits

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 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.

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 they are due. 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.

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.

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 appreciations rights is 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 or to the rights. 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 of a financial asset (or part 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 a financial liability (or a part of 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 cost 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 profit or loss.
- *Financial liabilities* are initially measured at fair value less attributable transaction cost and subsequently at amortized cost, using the effective interest rate method. Borrowing costs are recognized as an expense in the period in which they are incurred 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 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.

Cash and cash equivalents

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

Hedge accounting

In order to qualify for hedge accounting according to IAS 39, the hedging relationship must be designated, the hedge expected to be highly effective and the hedge relationship documented. The Group assesses, evaluates and documents effectiveness both at hedge inception and on an ongoing basis. The method of recognizing a gain or loss resulting from hedging instruments is dependent on the type of hedge relationship, i.e. which type of risk exposure that is 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 accounts. 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's policy is generally not to hedge the exchange-rate risks related to net investments in foreign operations. In case net investments are hedged, 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 asset, 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. Other financial assets 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, is net of any tax effects, and 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 reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

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

1. Continued

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 brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, noncurrent assets and disposal groups are generally 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 represented 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.

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 effects of all dilutive potential shares, which comprise stock options granted to employees.

New IFRS standards and IFRIC interpretations
The following standards, interpretations and amendments to standards have been issued but have not become effective before December 31, 2007 and have not been applied by the Group:

- 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. It is not anticipated that the adoption of this standard will require any change in the presentation of the segments.
- 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.
- 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 will become mandatory for the Group’s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group’s 2008 financial statements, will not have any effect on the consolidated financial statements.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group’s 2009 financial statements, will not have any impact 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 will become mandatory for the Group’s 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

The following standards have been issued by the International Accounting Standards Board but have not been endorsed by the EU. The Company has not yet determined the effect of these on the consolidated financial statements:

- Revised 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, with earlier application permitted.
- Revised IFRS 3 Business Combinations and related revisions to IAS 27 Consolidated and Separate Financial Statements requires changes in consolidated financial statements and accounting for business combinations. The revised standards are effective for annual periods beginning on or after January 1, 2010. Early adoption is permitted.
- 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. Early adoption is permitted.

2. Acquisitions

The following summarizes the significant acquisitions during 2007 and 2006:

Closing date		Country	Business area	Revenues[1]	Number of employees[1]
2007 Dec. 12	KTS	Japan	Industrial Technique	75	46
2007 Nov. 1	Shenyang Ruifeng	China	Construction & Mining	100	700
2007 Aug. 1	Mafi-Trench	U.S.A.	Compressor Technique	360	120
2007 May 31	Dynapac	Sweden and others	Construction & 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
2006 Oct. 31	Technisches Büro Böhm	Germany	Industrial Technique	54	30
2006 Oct. 2	Bolaite	China	Compressor Technique	137	309
2006 Aug. 28	Microtec Systems	Germany	Industrial Technique	18	18
2006 Aug. 25	BeaconMedaes	U.S.A./Great Britain	Compressor Technique	720	386
2006 July 13	BEMT Tryckluft	Sweden/Latvia/Lithuania	Compressor Technique	50	40
2006 May 8	Thiessen Team	Canada and others	Construction & Mining	160	142
2006 Feb. 24	Fuji Air Tools	Japan/Brazil	Industrial Technique	190	120
2006 Jan. 3	Consolidated Rock Machinery	South Africa	Construction & Mining	160	50
2006 Jan. 2	BLM	Italy	Industrial Technique	59	44

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

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

The amounts presented in the following tables detail the carrying amounts and fair value adjustments aggregated by business areas, as the relative amounts of the individual acquisitions are not considered material. Since the Dynapac acquisition is relatively significant, additional detail as to the carrying amounts and fair values is presented on the following page. 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 companies but any adjustments are not expected to be material. Similar adjustments from 2006 acquisitions are not material.

Compressor Technique

	Carrying amounts	Fair value adjust-ments	Recognized values	
			2007	2006
Intangible assets	7	498	505	241
Property, plant and equipment	82	–4	78	53
Assets held for sale	111	12	123	–
Other assets	1 081		1 081	435
Cash and cash equivalents	88		88	26
Interest-bearing loans and borrowings	–302		–302	–117
Other liabilities and provisions	–677	–132	–809	–246
Net identifiable assets	**390**	**374**	**764**	**392**
Minority interest			2	9
Goodwill			843	525
Consideration paid			**1 609**	**926**

The Compressor Technique business area made three acquisitions in 2007. The most significant acquisition was the ABAC group which is headquartered in Italy. ABAC is a manufacturer of piston compressors for the industrial markets. It also has a solid presence in the screw compressor market under various brand names. Customers are mainly in the small and medium sized industries and the automotive aftermarket. In connection with the acquisition, certain operations in Germany were required to be divested in accordance with anti-trust regulation. The consideration paid was 1178 and goodwill of 733 was recorded on the purchase.

The other acquisitions included GreenField, a business which manufactures and markets products in the high pressure gas applications, mainly compressed natural gas for natural gas vehicles, and the Mafi-Trench Corporation, a leading U.S.-based supplier of turbo expanders for the oil and gas industry. Intangible assets acquired primarily included customer relations, trademarks and other technology-based intangible assets.

Construction and Mining Technique

	Carrying amounts	Fair value adjust-ments	Recognized values	
			2007	2006
Goodwill	1 363	–1 363	–	–
Intangible assets	84	1 244	1 328	47
Property, plant and equipment	343	60	403	26
Other assets	2 718		2 718	105
Cash and cash equivalents	322		322	1
Interest-bearing loans and borrowings	–2 796		–2 796	–3
Other liabilities and provisions	–1 367	–297	–1 664	–37
Net identifiable assets	**667**	**–356**	**311**	**139**
Minority interest			4	–
Goodwill			4 463	22
Consideration paid			**4 778**	**161**

The Construction and Mining Technique business area completed two acquisitions during 2007 including the Dynapac group which is described in more detail in the following sections and the acquisition of the remaining 75% of share in the joint venture company Shenyang Ruifeng Machinery Ltd. This acquisition strengthened Atlas Copco production of core components for construction tools in China and gave the Group full control over the production of parts and components for pneumatic rock drills, pneumatic breakers and hydraulic breakers.

The acquisition of the Dynapac group in May 2007 provided Atlas Copco with a leading supplier of compaction and paving equipment for the road construction market. The Dynapac group is headquartered in Sweden and has production sites in six countries and sales in over 115 countries.

2. Continued

Industrial Technique	Carrying amounts	Fair value adjustments	Recognized values 2007	Recognized values 2006
Intangible assets	2	157	159	36
Property, plant and equipment	40		40	50
Other assets	97		97	198
Cash and cash equivalents	19		19	127
Interest-bearing loans and borrowings	–43		–43	–37
Other liabilities and provisions	–89	–63	–152	–108
Net identifiable assets	**26**	**94**	**120**	**266**
Goodwill			61	134
Consideration paid			**181**	**400**

The Industrial Technique business area acquired two businesses in 2007. A German group of companies, Rodcraft, was acquired in March 2007. The Rodcraft group is a supplier of pneumatic tools and workshop equipment to the automotive aftermarket industry. It has a wide distribution network in over 50 countries around the world. The Group also acquired KTS Co. Ltd., a leading Japanese maker of handheld pneumatic tools for the vehicle service market. This acquisition further strengthened the CP Vehicle Service division's position as a leading supplier of tools and associated products to the automotive industry.

Total fair value of assets and liabilities for acquisitions	Group Carrying amounts	Group Fair value adjust-ments	Group Recognized values 2007	Group Recognized values 2006	of which Dynapac Carrying amounts	of which Dynapac Fair value adjust-ments	of which Dynapac Recognized values
Goodwill	1 363	–1 363	–	–	1 363	–1 363	–
Intangible assets	93	1 899	1 992	324	83	1 204	1 287
Property, plant and equipment	465	56	521	129	320	65	385
Assets held for sale	111	12	123	–			–
Other non-current assets	12		12	9	1		1
Inventories	1 832		1 832	363	1 422		1 422
Receivables	2 052		2 052	366	1 260		1 260
Cash and cash equivalents	429		429	154	300		300
Interest-bearing loans and borrowings	–3 141		–3 141	–157	–2 753		–2 753
Other liabilities and provisions	–2 189	94	–2 095	–385	–1 412	94	–1 318
Deferred tax liabilities, net	56	–586	–530	–6	40	–385	–345
Net identifiable assets	**1 083**	**112**	**1 195**	**797**	**624**	**–385**	**239**
Minority interest			6	9			
Goodwill			5 367	681			4 437
Consideration paid			**6 568**	**1 487**			**4 676**
Cash and cash equivalents acquired			–429	–154			–300
Net cash outflow			**6 139**	**1 333**			**4 376**

The most significant intangible asset recognized was for the trade name for Dynapac as it is well-known in the market place and brand loyalty is generally considered high in this sector. The trade name is expected to contribute positively to the cash flows of the Group and was valued based on the royalty payments avoided, using a discount rate of 10%. This trade name is considered to have an indefinite life and is not amortized. The goodwill for Dynapac is primarily related to ongoing programs to improve the efficiencies in the operations as well as the synergies to be attained upon the integration the Dynapac operations into the Group's marketing organization. The goodwill recognized on other acquisitions is primarily related to the synergies expected to be achieved from integrating these companies into the Groups existing structure.

The total consideration paid amounted to 6 568 including directly related costs of 62 (of which 5 are related to Dynapac). For all acquisitions, the outflow totaled 6 139 excluding cash and cash equivalents acquired of 429.

Contribution from companies acquired in 2007 and 2006 by Business Area	Compressor Technique 2007	Compressor Technique 2006	Construction and Mining Technique 2007	Construction and Mining Technique 2006	of which Dynapac 2007	IndustrialTechnique 2007	IndustrialTechnique 2006	Group 2007	Group 2006
Contribution from date of control									
Revenues	1 708	533	2 754	141	2 737	188	279	4 650	953
Operating profit	121	18	149	1	151	34	57	304	76
Profit for the year								168	49
Contribution if the acquisition had ocurred on Jan. 1									
Revenues	2 444	1 195	4 984	211	4 920	319	376	7 747	1 782
Operating profit	198	64	381	1	379	42	70	621	135
Profit for the year								269	91

3. Assets held for sale and discontinued operations

The following summarizes the significant divestments during 2007 and 2006:

Closing date		Country	Business Area	Revenues[1]	Number of employees[1]
2007 Dec. 17	ABIRD	Netherlands	Compressor Technique	94	31
2007 Aug. 29	Prime Industrial Rentals	Australia	Compressor Technique	112	52
2006 Nov. 27	Rental Service Corporation	U.S.A./Canada	Rental Service	11 958	5 100

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

In order to focus on the core operations of the Specialty Rental division within the Compressor Technique Business Area, the Group 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 Group completed the sale of the equipment rental operations in North America in November 2006. The divestment included all operations of the Rental Service business area with the exception of the specialty rental operations which were integrated into the Compressor Technique business area. The results of the divested equipment rental operations 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. Note that the consolidated cash flow statement for the year ending December 31, 2006 does not separately report the cash flows from discontinued operations.

The components of profit from discontinued operations are as follows:

Income statement discontinued operations	2007	2006
Revenues		10 740
Cost of sales		–5 559
Gross profit		**5 181**
Marketing expenses		–522
Administrative expenses		–319
Other operating income		38
Operating profit		**4 378**
Financial income		–
Financial expense		–628
Net financial items		**–628**
Profit before tax		**3 750**
Income tax expense		–1 537
Profit from operations		**2 213**
Gain on sale of discontinued operations	53	7 525
Income tax on gain on sale of discontinued operations		–625
Profit for the year	**53**	**9 113**
Basic earnings per share, SEK	0.04	7.26
Diluted earnings per share, SEK	0.04	7.25

The 53 gain in 2007 relates to the final settlement received on the sale of the equipment rental business.

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. The values for 2006 include the carrying value of the divested operations for the equipment rental operations on November 27, 2006.

Carrying value of assets and liabilities for divestments	2007	2006
Rental equipment	162	13 441
Other property, plant and equipment	6	1 318
Assets held for sale	105	–
Other non-current assets	–	–1 323
Inventories	–	116
Receivables	19	1 765
Cash and cash equivalents	–	–17
Borrowings	–3	–876
Other liabilities and provisions	–959	–1 595
Deferred tax liabilities, net	–25	–2 791
Net identifiable assets	**–695**	**10 038**
Capital gain	168	6 901
Hedging gain and translation differences	–	–199
Goodwill	52	6 212
Consideration received	**–475**	**22 952**
Cash and cash equivalents divested	–	17
Net cash received	**–475**	**22 969**

The consideration received for the divested operations, including ABAC and the Australian rental operations, totaled 421 in 2007. 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 results in a net cash effect in 2007 of –475.

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

Cash flows from continuing and discontinued operations	2007			2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flows from:						
operating activities	7 679	–	7 679	6 152	3 053	9 205
investing activities	–8 808	–896	–9 704	–4 419	18 956	14 537
financing activities	–14 943	–	–14 943	–7 973	476	–7 497
Net cash flow for the year	**–16 072**	**–896**	**–16 968**	**–6 240**	**22 485**	**16 245**
Cash and cash equivalents, Jan. 1			20 135			3 727
Exchange-rate difference in cash and cash equivalents			306			163
Cash and cash equivalents, Dec. 31			**3 473**			**20 135**

4. Segment information

2007	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common Group Functions	Elimina-tions	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

2006	Compressor Technique	Construction and Mining Technique	Industrial Technique	Common Group Functions	Elimina-tions	Group
Revenues from external customers	25 396	18 587	6 423	106		50 512
Inter-segment revenues	92	327	17		–436	–
Total revenues	**25 488**	**18 914**	**6 440**	**106**	**–436**	**50 512**
Operating profit	**5 323**	**3 010**	**1 346**	**–407**	**–69**	**9 203**
– of which share of profit in associated companies	*7*	*3*	*7*			*17*
Net financial items						–508
Income tax expense						–2 435
Profit from discontinued operations, net of tax[1)]						9 113
Profit for the year						**15 373**
Non-cash expenses						
Depreciation/amortization/impairment	813	589	144	153	–62	1 637
Other non-cash expenses	53	28	16	–45		52
Segment assets	14 833	11 608	3 342	2 606	–1 568	30 821
– of which goodwill	*1 051*	*1 099*	*421*			*2 571*
Investments in associated companies		14	63			77
Unallocated assets						24 357
Total assets						**55 255**
Segment liabilities	6 105	2 959	1 196	2 265	–955	11 570
Unallocated liabilities						10 977
Total liabilities						**22 547**
Capital expenditures						
Property, plant and equipment	991	984	89	303	–116	2 251
– of which assets leased	*59*	*15*	*6*	*3*		*83*
Intangible assets	264	167	75	18		524
Total capital expenditures	**1 255**	**1 151**	**164**	**321**	**–116**	**2 775**
Goodwill acquired	525	22	134			681

1) See note 3 for information on discontinued operations.

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, gas and process compressors, turbo expanders, electric power generators, air treatment equipment and air management systems for applications in manufacturing, construction and process industry worldwide. It also offers specialty rental services of chiefly compressors and generators. The remaining portion of the prior equipment rental operations have been integrated into this business area.
- The Construction and Mining Technique business area develops, manufactures, markets and services rock drilling tools, construction and demolition tools, drill rigs and loading equipment within the areas of surface and underground excavation, exploration drilling, rock reinforcement, ground engineering, water well, oil and gas drilling worldwide. 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, aftermarket products, and service. It serves the need of industrial manufacturing, like the automotive and the aerospace industry, 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:	2007	2006
Sale of equipment	40 284	30 068
Service (incl. spare parts, consumables and accessories)	20 493	17 771
Rental	2 578	2 673
	63 355	**50 512**

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[1]		Segment assets		Capital expenditures[1]	
	2007	2006	2007	2006	2007	2006
North America	12 418	11 229	7 951	6 770	563	578
South America	4 690	3 474	1 772	1 086	138	112
Europe	26 324	20 190	29 228	16 679	1 750	1 551
–of which Sweden	*1 545*	*1 185*	*12 773*	*4 997*	*532*	*658*
Africa/Middle East	6 391	4 591	1 674	1 206	110	142
Asia/Australia	13 532	11 028	6 955	5 080	389	392
	63 355	**50 512**	**47 580**	**30 821**	**2 950**	**2 775**

[1] Revenues and capital expenditures include only continuing operations.

5. Employees and personnel expenses

Average number of employees	2007			2006		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	46	39	85	44	33	77
Subsidiaries						
North America	678	3 563	4 241	562	3 030	3 592
South America	266	1 738	2 004	222	1 446	1 668
Europe	2 701	12 372	15 073	1 955	10 463	12 418
–of which Sweden	*622*	*3 191*	*3 813*	*505*	*2 560*	*3 065*
Africa/Middle East	245	1 863	2 108	272	1 432	1 704
Asia/Australia	1 145	4 866	6 011	901	4 018	4 919
Total in subsidiaries	**5 035**	**24 402**	**29 437**	**3 912**	**20 389**	**24 301**
	5 081	**24 441**	**29 522**	**3 956**	**20 422**	**24 378**

Women in Atlas Copco Board and Management, %	2007	2006
Parent Company		
Board of Directors excl. union representatives	29	25
Group Management	25	25

Absence due to illness, %	2007	2006
Parent Company	2.1	2.7
Swedish companies	3.6	3.7
Long-term absence due to illness, in % of total absence	*31.8*	*32.4*
Group	2.3	2.4

Remuneration and other benefits	Group		Parent Company	
	2007	2006	2007	2006
Salaries and other remuneration	10 670	8 387	108	80
Contractual pension benefits	473	612	21	16
Other social costs	2 253	1 966	45	42
	13 396	**10 965**	**174**	**138**
Pension obligations to Board members and Group Management[1]	27	28	27	28

[1] Refers to former members of Group management.

Remuneration and other benefits to Board and Group Management

KSEK	Fee	Base salary	Variable compensation[1]	Recognized costs for stock options[5]	Other benefits[3]	Pension fees[1]	Other fees[4]	Total 2007	Total 2006
Chair of the Board:									
Sune Carlsson	1 350						150	1 500	1 534
Vice Chair:									
Jacob Wallenberg	500						50	550	569
Other members of the Board:									
Staffan Bohman	400						100	500	
Thomas Leysen	75							75	
Ulla Litzén	400						200	600	
Grace Reksten Skaugen	400							400	
Anders Ullberg	400						100	500	
Other members of the Board previous year									2 579
Union representatives	57							57	
Group Management:									
Gunnar Brock, President and CEO		8 652	6 056	2 932	402	3 610		21 652	18 482
Other members of Group Management (7 positions)		18 848	8 293	6 987	1 120	11 145[2]		46 393	33 845
Total	**3 582**	**27 500**	**14 349**	**9 919**	**1 522**	**14 755**	**600**	**72 227**	**57 009**

[1] The CEO has exercised the option to have his compensation for 2007 as an additional pension contribution.
[2] Including pension severance agreements.
[3] Refers to vacation pay, company car, medical insurance and disability pension.
[4] Refers to fees for membership in audit and remuneration committees.
[5] For information on share based payments, see note 23.

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 2007 meeting are described in the following paragraphs.

Board members
Remuneration and fees are based on the work performed by the Board and are approved by the Annual General Meeting. The fees approved for 2007 are detailed in the table on the previous page with the exception of the President and CEO which as a member of Group Management is described in the following sections.

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 2007 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 subsidiary 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 profit before tax 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. Resultingly, the Company has purchased endowment insurance of 22 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 member of stock options/share appreciations rights holdings as at December 31, are detailed below:

Stock options/Share appreciation rights holdings as at Dec. 31, 2007

Grant year	2002	2003	2006	2007[1]	Total
CEO	165 814	165 814	117 500	117 500	566 628
Other members of Group Management	41 454	82 892	293 750	264 375	682 471

[1] Estimated grants for the 2007 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.

A member of the management left the company during 2007. In addition to the severance pay stated in the employment contract, the company has agreed to pay pension costs for additional 3 years (from the age of 62–65). All costs related to the severance and pension agreements have been included in the 2007 earnings.

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 2007, 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.

6. Remuneration to auditors

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

	2007	2006
KPMG		
–Audit fee	55	37
–Other	14	10
Other audit firms		
–Audit fee	5	3
	74	**50**

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	2007	2006
Product development	241	223
Trademark	43	16
Marketing and customer related assets	94	60
Other technology and contract based assets	103	81
Buildings	88	73
Machinery and equipment	643	550
Rental equipment	588	634
	1 800	**1 637**

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

	2007		2006	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	20	11	19	8
Marketing expenses	3	140	1	74
Administrative expenses	22	10	12	15
Research and development costs	232	43	219	32
	277	**204**	**251**	**129**

Impairment charges for 2006 totaled 5 of which 2 were recorded as cost of sales and 3 as development costs. No impairment charges for non-financial assets have been recorded for 2007.

Cost of sales
The amount of inventories recognized as expense amounted to 30 002 (25 360).

8. Other operating income and expense

	2007	2006
Other operating income		
Commissions received	38	19
Income from insurance operations	58	60
Capital gain on sale of fixed assets	46	23
Capital gain on divestment of business	115	1
Other operating income	35	19
	292	**122**

	2007	2006
Other operating expenses		
Capital loss on sale of fixed assets	–10	–7
Exchange-rate differences	–229	–275
Other operating expenses	–96	–9
	–335	**–291**

The gains on divestment of business are related to the sale of the ABIRD operations in the Netherlands and part of the Australian rental operations. See note 3 for more information. 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

	2007	2006
Interest income		
– held-to-maturity investments	11	9
– bank deposits	154	131
– loans and receivables	356	115
Dividend income		
– other financial assets	1	1
Change in fair value		
– financial assets held for trading	25	151
Capital gain		
– disposal of available-for-sale financial assets	134	–
– other financial assets	7	2
Net foreign exchange gains	–	257
Financial income	**688**	**666**
Interest expense		
– financial liabilities measured at amortized cost	–907	–620
– liabilities held for trading	1	–239
– derivatives for fair value hedge	3	12
– pension provision, net	–71	–62
Net foreign exchange loss	–54	–
Change in fair value		
– financial assets held for trading	–285	–91
– ineffective part of fair value hedge	–4	–6
– related to other liabilities	–20	–168
Impairment loss		
– loans and receivables	–19	–
– financial assets available-for-sale	–864	–
Financial expense	**–2 220**	**–1 174**
Net finance costs	–1 532	–508

The change in fair value from financial instruments held for trading include 25 (151) related to the financial instruments entered into in connection with the employee stock option program. The gain on sale of disposal of available-for-sale assets was from the sale of shares in the divested rental business operations. The gain on disposal included 15 previously recognized in equity.

The interest expense for 2006 was affected negatively from the closing of certain derivative instruments at the end of 2005 which were related to the extension of the Group's average interest rate period. The losses from financial instruments in 2006 include –137 in provision related to repurchase of bonds in January 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:

	2007	2006
Total interest income on financial assets	521	255
Total interest expense on financial liabilities	–907	–620

The following table presents the net gain or loss by the financial instrument category. It excludes interest expense on pension obligations but does include the effect of foreign exchange gains and losses by category.

	2007	2006
Net gain/loss on		
– financial assets held for trading	–478	221
– loans and receivables, incl. bank deposits	549	–809
– available-for-sale financial assets	–730	–4
– held-to-maturity investments	11	9
– other liabilities	–812	131
– fair value hedge	–1	6
	–1 461	**–446**

The operating profit includes –107 of realized and 1 of unrealized foreign exchange hedging result.

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

10. Taxes

Income tax expense	2007			2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current taxes	–3 434	–	–3 434	–2 690	–637	–3 327
Deferred taxes	316	–	316	255	–900	–645
	–3 118	**–**	**–3 118**	**–2 435**	**–1 537**	**–3 972**

The 2006 taxes do not include taxes recorded on the gain on sale of the equipment rental business which were classified as discontinued operations. Taxes on the gain on the sale of discontinued operations total 0 (625). See note 3 for additional information on discontinued operations.

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:

	2007	2006
Profit before tax, continuing operations	10 534	8 695
Profit before tax, discontinued operations	–	3 750
Profit before tax	10 534	12 445
Weighted average tax based on national rates	–3 371	–4 253
– In %	32.0	34.2
Tax effect of:		
Non-deductible expenses	–90	–118
Imputed interest on tax allocation reserve	–13	–13
Withholding tax on dividends	–30	–13
Tax-exempt income	611	243
Adjustments from prior years:		
– Current taxes	19	17
– Deferred taxes	107	37
Effects of tax losses/credits utilized	17	125
Change in tax rate, deferred tax	25	–1
Tax losses not valued	–384	–10
Other items	–9	14
Income tax expense	**–3 118**	**–3 972**
Effective tax in %	29.6	31.9

The effective tax rate amounted to 29.6% (31.9). It was affected positively by the capital restructuring carried out at the end of 2006 increasing the tax exempt income in the Group. This was partly offset by the impairment losses for which no tax benefits have been recognized as of December 31, 2007 .

Previously unrecognized tax losses/credits and deductible temporary differences which have been recognized against current tax expense amounted to 17 (125). 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 book 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	2007	2006
Net balance, Jan. 1	–29	–2 489
Business acquisitions	–530	–6
Divestment, discontinued operations	25	2 791
Charges to profit of the year	316	–645
Tax on amounts recorded to equity	228	1
Translation differences	–1	319
Net balance, Dec. 31	**9**	**–29**

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

Deferred tax assets and liabilities	2007			2006		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	124	473	–349	226	330	–104
Property, plant and equipment	240	707	–467	178	285	–107
Other financial assets	3	147	–144	14	60	–46
Inventories	679	6	673	489	4	485
Current receivables	128	117	11	78	191	–113
Cash and cash equivalents					8	–8
Operating liabilities	210	3	207	231	1	230
Provisions	161	12	149	125	6	119
Post-employment benefits	205	13	192	222	11	211
Borrowings	48	1	47	25		25
Loss/credit carry forwards	51		51	7		7
Other items	237	598	–361	2	730	–728
Deferred tax assets/liabilities	**2 086**	**2 077**	**9**	**1 597**	**1 626**	**–29**
Netting of assets/liabilities	–1 254	–1 254	–	–978	–978	–
Net deferred tax balances	**832**	**823**	**9**	**619**	**648**	**–29**

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

At December 31, 2007, the Group had total tax loss carry-forwards of 1 483 (63) of which no deferred tax assets had been recognized for 1 307 (37) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiry date for utilization of the tax loss carry-forwards 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:

	2007	2006
Intangible assets	–36	–146
Property, plant and equipment	41	–788
Other financial assets	–102	–35
Inventories	140	111
Current receivables	190	13
Cash and cash equivalents	8	–8
Operating liabilities	–50	120
Provisions	24	2
Post-employment benefits	–33	39
Borrowings	–134	10
Asset held for sale	11	–
Other items	224	43
Changes due to temporary differences	**283**	**–639**
Loss/credit carry-forward	33	–6
	316	**–645**

11. Earnings per share

	Basic earnings per share		Diluted earnings per share	
Amounts in SEK	**2007**	**2006**	**2007**	**2006**
Earnings per share	6.09	12.24	6.09	12.22
– of which continuing operations	*6.05*	*4.98*	*6.04*	*4.96*
– of which discontinued operations	*0.04*	*7.26*	*0.04*	*7.25*

The calculation of earnings per share presented above is based on profits and number of shares as detailed below. Following the split 3:1 with automatic redemption of every third share during the second quarter 2007, previous periods' earnings per share and numbers of shares have been adjusted with the factor 2, reflecting the economic essence of the transaction being a split 2:1 combined with an extra dividend.

Profit for the year attributable to the equity holders of the parent	2007	2006
Profit for the year	7 439	15 349
– of which continuing operations	*7 386*	*6 236*
– of which discontinued operations	*53*	*9 113*

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.

Average number of shares outstanding	2007	2006[1)]
Basic weighted average number of shares outstanding	1 220 784 704	1 254 210 894
Effect of employee stock options	1 520 569	1 814 760
Diluted weighted average number of shares outstanding	**1 222 305 273**	**1 256 025 654**

[1)] The 2006 number of shares has been adjusted with factor 2 as described above.

Potentially dilutive instruments

Atlas Copco has outstanding employee stock option programs where the exercise price exceeded the average share price for ordinary shares (SEK 106 per share, including adjustment for redemption of shares). These options 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

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

2006	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	1 040	134	3	134	339	427	9 250	11 327
Less: discontinued operations							–7 161	–7 161
Continuing operations, Jan. 1	1 040	134	3	134	339	427	2 089	4 166
Investments	325	87				112		524
Business acquisitions				115	185	24	681	1 005
Disposals	–9	–1				–5		–15
Reclassifications	–1	–3						–4
Translation differences	–34	–5		–20	–39	–45	–187	–330
Closing balance, Dec. 31	**1 321**	**212**	**3**	**229**	**485**	**513**	**2 583**	**5 346**
Amortization and impairment losses								
Opening balance, Jan. 1	437	31	1	39	74	125	13	720
Amortization for the period	220	28		14	60	53		375
Impairment charge	3			2				5
Business acquisitions						1		1
Disposals	–6					–5		–11
Reclassifications		–1	1					
Translation differences	–18	–1		–5	–8	–10	–1	–43
Closing balance, Dec. 31	**636**	**57**	**2**	**50**	**126**	**164**	**12**	**1 047**
Carrying amounts								
At Jan. 1	603	103	2	95	265	302	9 237	10 607
Less: discontinued operations							–7 161	–7 161
Continuing operations, Jan. 1	603	103	2	95	265	302	2 076	3 446
At Dec. 31	685	155	1	179	359	349	2 571	4 299

Other technology and contract-based intangible assets include computer software, patents and contract-based rights such as licenses and franchise agreements. All intangible assets other than goodwill and trademark with indefinite lives are amortized. For information regarding amortization, 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
The accompanying table presents the carrying value of goodwill 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 have 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 average forecasted five-year growth rates are within a range of 0–14%, which on average, is in line with the Group's target growth. The growth rate after the forecast period is 0–3%. The operating profit margins are forecasted to be in line with the 2007 levels. The Group's 2007 weighted average cost of capital of 8.5% (approximately 11.8% pretax) has been used in discounting the cash flows to determine the recoverable amounts.

The major changes to the carrying value of goodwill during 2007 result from the acquisitions of Dynapac, incorporated into the recently formed Road Construction Equipment division, and ABAC, incorporated into the Industrial Air division. For these two acquisitions completed in 2007, valuations were prepared in advance of the acquisitions. These valuations, including the most significant assumptions, have been reviewed at year end and do not indicate any need for impairment charges.

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 which also noted all amounts to be in excess of their carrying amounts.

Carrying value of goodwill by cash-generating unit

	2007	2006
Compressor Technique		
Oil-free Air	263	232
Industrial Air	1 320	657
Specialty Rental	68	118
Portable Air	13	12
Gas and Process	137	–
Business area level	34	32
	1 835	**1 051**
Construction and Mining Technique		
Underground Rock Excavation	44	44
Surface Drilling Equipment	93	93
Drilling Solutions	208	200
Road Construction Equipment	4 437	–
Secoroc	106	111
Construction Tools	517	467
Geotechnical Drilling and Exploration	174	171
Business area level	13	13
	5 592	**1 099**
Industrial Technique		
Tools and Assembly Systems Motor Vehicle Industry	101	100
Tools and Assembly Systems General Industry	27	26
Chicago Pneumatic Industrial	265	278
Chicago Pneumatic Vehicle Service	75	11
Tooltec	2	2
Business area level	5	4
	475	**421**
Total	**7 902**	**2 571**

13. Property, plant and equipment

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 acquistions	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 acquistions	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

2006	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	2 690	7 979	301	10 970	20 111
Less: discontinued operations[1]	–266	–1 797	–38	–2 101	–16 437
Continuing operations, Jan. 1	2 424	6 182	263	8 869	3 674
Investments	164	843	108	1 115	1 136
Business acquistions	71	189		260	1
Disposals	–53	–297		–350	–722
Reclassifications		1		1	1
Translation differences	–164	–373	–18	–555	–363
Closing balance, Dec. 31	**2 442**	**6 545**	**353**	**9 340**	**3 727**
Depreciation and impairment losses					
Opening balance, Jan. 1	1 298	5 169		6 467	6 655
Less: discontinued operations[1]	–186	–880		–1 066	–4 981
Continuing operations, Jan. 1	1 112	4 289		5 401	1 674
Depreciation for the period	73	550		623	634
Business acquistions	23	108		131	
Disposals	–16	–259		–275	–395
Reclassifications	–5	3		–2	
Translation differences	–66	–249		–315	–165
Closing balance, Dec. 31	**1 121**	**4 442**		**5 563**	**1 748**
Carrying amounts					
At Jan. 1	1 392	2 810	301	4 503	13 456
Less: discontinued operations[1]	–80	–917	–38	–1 035	–11 456
Continuing operations, Jan. 1	1 312	1 893	263	3 468	2 000
At Dec. 31	1 321	2 103	353	3 777	1 979

[1] In accordance with IFRS 5, fixed assets related to the equipment rental operations were reclassified as assets held for sale at the end of the first quarter and were subsequently divested in the fourth quarter. See note 3 for additional information.

The tax assessment values for Group properties in Sweden amount to 268 (153) and pertain exclusively to buildings and land. The corresponding net book value of these is 240 (167). 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	2007	2006
Opening balance, Jan. 1	77	83
Acquisitions of associated companies	3	1
Acquisition of subsidiary	–9	–2
Dividends	–1	–3
Profit for the year after income tax	3	7
Translation differences	–2	–9
Closing balance, Dec. 31	**71**	**77**

Summary of financial information for associated companies	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Percentage of capital
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**	
2006							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	11	2	9	8	–1	25
Shenyang Rui Feng Machinery Ltd.	China	26	12	14	22	–	25
Shanghai Toku International Co. Ltd.	China	6	5	1	20	1	50
Toku-Hanbai KK	Japan	100	48	52	312	7	50
Others				1			
				77		**7**	

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

The 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.

The acquisition in 2006 relates to interest in a company acquired in connection with the Fuji investment. The Group also acquired the full interest in a former associated company in South Africa whereby it became a wholly owned subsidiary.

Income from the share of profits in associated companies as reported in the income statement 2006 also includes 10 related to the gain of the sale of Pneumatic Equipment Corporation in the Philippines which was sold during 2006 (previously included in others in the above table).

15. Other financial assets

	2007	2006
Non-current		
Pension and other similar benefit assets (note 23)	423	294
Derivatives		
– not designated for hedge accounting	6	4
– designated for hedge accounting	341	62
Available-for-sale investments	957	1 333
Held-to-maturity securities	59	–
Other shares and investments	12	10
Finance lease receivables	1 052	544
Other non-current receivables	481	212
	3 331	**2 459**
Current		
Held-to-maturity investments		
– government bonds	281	269
Finance lease receivables	546	459
Other financial receivables	297	288
	1 124	**1 016**

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% during 2007 due to the sale of a portion of the shares. The shares have a value of 957 as of December 31, 2007. 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.

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

16. Inventories

	2007	2006
Raw materials	458	348
Work in progress	2 783	2 028
Semi-finished goods	3 188	2 118
Finished goods	6 296	3 993
	12 725	**8 487**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 263 (360). Reversals of write-downs which were recognized in earnings totaled 86 (67).

17. Trade receivables

Trade receivables are reported net of provisions for doubtful accounts and other impairments totaling 346 (278). Provisions for doubtful accounts and impairment losses recognized in current earnings totaled 118 (104). For credit risk information see note 27.

18. Other receivables

	2007	2006
Derivatives		
– not designated for hedge accounting	292	492
– designated for hedge accounting	351	–
Financial assets classified as loans and receivables		
– other receivables	1 683	1 290
– prepaid expenses and accrued income	607	508
	2 933	**2 290**

Other receivables consists 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 22 for information on finance leases and note 27 for additional information on fair value derivatives.

19. Cash and cash equivalents

	2007	2006
Cash	3 247	2 057
Cash equivalents	226	18 078
	3 473	**20 135**

Cash and cash equivalents totaled 3 473 (20 135) at December 31. Before the payments of dividends and redemption of shares in the second quarter of 2007, the management of approximately 15 000 for Cash and Cash Equivalents were outsourced to five banks who invested it in highly rated securities governed by mandates defined by Atlas Copco. Under the first six months of 2007, these investments had an average effective interest rate of 3.72% (3.77). These investments were classified as fair value through profit and loss.

Guaranteed, but unutilized, credit lines equaled 6 451 (4 903). See note 27 for additional information.

20. Equity

Shares outstanding	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	**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	**835 816 596**	**384 968 108**	**1 220 784 704**

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 (1.25). 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 Groups´s balance sheet to a more efficient structure, the Annual General Meeting approved a redemption procedure that was carried out during the year. The following transactions were recorded:

- Split of each series A and series B shares into two ordinary shares and one redemption share.
- Repayment to shareholders by way of redemption of 628 806 552 redemption shares at SEK 40 per share. This corresponded to a total distribution of 24 416 to the shareholders, taking into account that 18 414 200 shares were held by Atlas Copco AB and thus not eligible for repayment.
- Increase of share capital by 262 by way of bonus issue which was made from the retained earnings.
- Redemption of 28 000 000 shares series B which were held by Atlas Copco.
- Increase of share capital by 18 by way of bonus issue which was made from the retained earnings.

Repurchases of shares	Number of shares		Carrying amount	
	2007	2006	2007	2006
Opening balance, Jan. 1	18 414 200		3 776	
Repurchase of B shares		18 414 200		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	– 3 577 500		– 246	
Repurchase of A shares	3 577 500		347	
Closing balance, Dec. 31	**8 828 400**	**18 414 200**	**704**	**3 776**
Percentage of total number of shares	0.7%	2.9%		

After the redemption of 28 000 000 of the B shares held by Atlas Copco on July 4, 2007, the company held 8 828 400 of its own B shares. In accordance with the resolution by the AGM 2007, the remaining B shares held by the company can be divested and 6 400 000 A shares can be purchased.

The objective is to use proceeds from the B shares primarily to acquire own shares of series A, which can, subsequently, be delivered under the Company's personnel stock option programs.

20. Continued

Proceeds can also be used to cover related costs for social security charges.

Trading in own shares were initiated on December 13, 2007 and on December 31, 2007 3 577 500 B shares had been sold and the same amount of A shares purchased. Holdings at the end of the year appear in the previous table.

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 (2.38) totaling SEK 3 662 354 112 (2 899 363 672). For further information see appropriation of profit on page 91.

21. Borrowings

	2007		2006	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Non-current				
Medium Term Note Program	10 572	10 681	–	–
Other bond loans	6 212	6 084	5 287	5 277
Other bank loans	3 466	3 466	668	668
Less: Current portion of bank loans	–408	–408	–4 883	–4 883
Total non-current loans	19 842	19 823	1 072	1 062
Finance lease liabilities	84	84	91	91
	19 926	**19 907**	**1 163**	**1 153**
Current				
Current portion of bank loans	408	408	4 883	4 883
Short-term loans	2 280	2 280	1 046	1 046
Finance lease liabilities	55	55	48	48
	2 743	**2 743**	**5 977**	**5 977**
	22 669	**22 650**	**7 140**	**7 130**

See note 22 for information on finance leases.

21. Continued

During the second quarter 2007, Atlas Copco carried out a funding plan to finance the redemption and dividend, the acquisitions of Dynapac and ABAC as well as to be used for general corporate purposes. The funding plan and the distribution to the shareholders provided Atlas Copco with a more efficient capital structure.

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 15 683). As of December 31, 855 (–) was outstanding under these programs. These programs have a K1 rating in Sweden and an A2/P2 rating internationally.

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

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

The Atlas Copco Group's short-term and long-term loans are distributed among the following currencies. The table also reflects the effect of derivatives at year end.

Distribution of current and non-current borrowings

	2007			2006
Currency	Local currency (millions)	MSEK	%	%
EUR	967	9 160	40	1
SEK	5 859	5 859	26	1
USD	1 005	6 486	29	82
Others		1 164	5	16
		22 669	**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 415 (394). Future payments for non-cancelable leasing contracts amounted to 1 389 (1 046). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2007	2006
Less than one year	391	331
Between one and five years	798	670
More than five years	200	45
	1 389	**1 046**

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:

	2007	2006
Less than one year	115	115
Between one and five years	169	159
More than five years	17	24
	301	**298**

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2007	121	9
Carrying amounts, Dec. 31, 2007	131	7
Carrying amounts, Jan. 1, 2006	893	13
Carrying amounts, Dec. 31, 2006	121	9

Future payments will fall due as follows:

	2007			2006		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	64	9	55	57	9	48
Between one and five years	91	11	80	97	7	90
More than five years	4	–	4	1	–	1
	159	**20**	**139**	**155**	**16**	**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:

	2007		2006	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	619	546	482	459
Between one and five years	1 149	1 002	565	520
More than five years	34	30	14	10
	1 802	**1 578**	**1 061**	**989**
Unearned finance income		204		58
Unguaranteed residual value		20		14
	1 802	**1 802**	**1 061**	**1 061**

23. Employee benefits

Post-employment benefits

2007	Funded pension	Unfunded pension	Other unfunded	Total
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**

2006	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	4 745	1 460	211	6 416
Fair value of plan assets	–4 739			–4 739
Present value of net obligations	**6**	**1 460**	**211**	**1 677**
Unrecognized actuarial gains (+) / losses (–)	–298	6	3	–289
Recognized liability for defined benefit obligations	**–292**	**1 466**	**214**	**1 388**
Other long-term service liabilities			14	14
Net amount recognized in balance sheet	**–292**	**1 466**	**228**	**1 402**

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 plan are Belgium, Canada, France, 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.

During 2007, major acquisitions have been done by the group, which have resulted in an increase of the present value of the net obligations by 101, including 51 for Dynapac, 49 for ABAC and 1 for GreenField.

Two major special events have been recorded in 2007 resulting in a one-time income in the United States of 53 and Italy of 5.

In the United States, a soft freeze for non-grandfathered employees in the US pension plan as of December 31, 2007 has resulted in a curtailment, giving rise to a net income impact of 43. Additionally, a gain of 10 was recorded related to the 2006 close down of one of the U.S. facilities.

In Italy, after the 2007 reform, the TFR plan was converted from defined benefit plan to defined contribution for future service. The transition to the reform was recorded as an IAS 19 curtailment and reported as a one-time income on the pension cost of 5.

Excluding the 135 one-time adjustment in actuarial valuation methodology for Belgium in 2006 and the total 2007 curtailment/settlement of 56, pension expense has increased from 2006 to 2007 by 5%.

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.

In France, the companies offer retirement indemnities. These benefits are unfunded for most companies. A new plan was added in 2007 due to the acquisition of ABAC.

The German plans include those for pensions, early retirements, jubilee and death benefits. All plans are unfunded. Additional plans have been included following the acquisition of Dynapac and ABAC.

There is a final salary pension plan in Great Britain and the plan is funded. The plan has still the largest defined benefit obligation of all plans and represents 29% 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. One plan was added related to the acquisition of ABAC.

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

There are three defined benefit pension plans in Sweden. 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.

In 2007, Dynapac Sweden's plan was added, however the plan is not yet part of the pension foundation.

Atlas Copco has also obligations for family pensions for salaried employees, which are funded through a third-party insurer. This plan is accounted for as a defined contribution plan as insufficient information is available for calculating the net pension obligation. The other plan relates to a group of employees earning more that 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. In 2007, a further plan was added following the acquisition of GreenField. 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.

The actual return on plan assets totaled 177 (238). Of the total benefit expense of 214 (392), 143 (328) has been charged to operating expense and 71 (62) to financial expense.

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

	2007	2006
Financial assets (note 15)	–423	–294
Post-employment benefits	1 728	1 647
Other provisions (note 25)	58	49
Total, net	**1 363**	**1 402**

Movement in plan assets	2007	2006
Fair value of plan assets at Jan. 1	4 739	4 445
Plan amendments	–	76
Expected return on plan assets	243	227
Difference between expected and actual return on plan assets	–66	11
Business acquisitions	69	31
Settlements	–32	–9
Employer contributions	419	554
Plan members contributions	18	17
Benfits paid by the plan	–366	–368
Translation differences	–88	–245
Fair value of plan assets at Dec. 31	**4 936**	**4 739**

Plan assets consist of the following:	2007	2006
Equity securities	1 159	1 178
Bonds	3 277	3 261
Others	424	266
Cash	76	34
	4 936	**4 739**

The plan assets are allocated among the following geographic areas	2007	2006
Europe	3 641	3 532
North America	1 245	1 160
Rest of the world	50	47
	4 936	**4 739**

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	2007	2006
Defined benefit obligations at Jan. 1	6 416	6 656
Service cost	196	192
Interest expense	314	291
Actuarial experience gains (–) / losses (+)	–16	51
Actuarial assumptions gains (–) / losses (+)	–319	–287
Business acquisitions	170	37
Settlements	–89	–9
Benefits paid from plan or company assets	–366	–369
Effect of change in estimates	–	135
Other	5	85
Translation differences	–23	–366
Defined benefit obligations at Dec. 31	**6 288**	**6 416**

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas	2007	2006
Europe	4 785	4 903
North America	1 444	1 441
Rest of the world	59	72
	6 288	**6 416**

Expenses recognized in the income statement	2007	2006
Service cost	196	192
Interest expense	314	291
Expected return on plan assets	–243	–227
Employee contribution	–18	–17
Past service cost	6	5
Amortization of unrecognized actuarial loss	15	12
Settlement loss	–56	1
Effect of change in estimates	–	135
	214	**392**

The expenses are recognized in the following line items in the income statement	2007	2006
Cost of sales	44	155
Marketing expenses	33	69
Administrative expenses	56	85
Research and development costs	10	19
Financial expense (note 9)	71	62
Discontinued operations	–	2
	214	**392**

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	2007	2006
Discount rate		
Europe	5.15	4.54
North America	5.83	5.66
Rest of the world	3.79	3.97
Expected return on plan assets		
Europe	3.60	3.61
North America	4.83	5.42
Rest of the world	2.65	2.52
Future salary increases		
Europe	3.39	3.37
North America	3.51	0.94
Rest of the world	3.34	3.36
Medical cost trend rate		
North America	9.0	9.5
Future pension increases		
Europe	2.12	2.16
North America	0.40	0.35
Rest of the world	n/a	n/a

The expected return on 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 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	9.2%	–9.1%
Effect on defined benefit obligation	9.0%	–8.0%

Historical information	2007	2006	2005	2004	2003
Present value of defined benefit obligations	6 288	6 416	6 656	6 201	5 907
Fair value of plan assets	4 936	4 739	4 445	3 234	3 025
Present value of net obligations	**1 352**	**1 677**	**2 211**	**2 967**	**2 882**

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

The Group expects to pay 333 in contributions to defined benefit plans in 2008.

Defined contribution plans

In addition to the defined benefit plans, the Group also provides post-employment pensions and other benefits through defined contribution schemes. The expense for defined contribution plans was 304 (284).

Share value based incentive programs

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

Option plan 2000–2003

The 2000–2003 plan 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 (the United States, Belgium, Brazil, Canada, India, Malaysia and the Philippines) 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 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 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 plan 2006–2008

Program 2006

At the Annual General Meeting 2006, it was decided to implement a performance related personnel option program that entitled a maximum of 220 key employees in the Group the possibility to acquire a total of 3 760 000 Atlas Copco series A shares, adjusted for the effect of the share split in June 2007.

The grant of options is dependent on the development of the value growth within the Group, expressed as Economic Value Added (EVA), during 2006 and took place in March 2007. The personnel stock options are issued based on the achieved performance of the Group and are granted without compensation paid by the employee. They have a term of five years from grant date. They are not transferable. At the Annual General meeting in April 2007, it was decided that the right to the options shall remain also if the employment is terminated. As a result, the total calculated vesting costs attributable to the 2006 option program have been recognized in full as of December 31, 2007. The options become exercisable at a rate of one third per year after March 2008. In some countries (Australia, China, India, Malaysia, Philippines, South Africa, Switzerland and the United States) 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 A share at exercise and a fixed price, corresponding to the exercise price of the stock options.

The grant of personnel options/SARs was maximized to the following number per person within the different key groups after recalculation reflecting the 2007 share split:

– Category 1 – the Group President – 117 500 personnel options
– Category 2 – Business Area Presidents – 58 750 personnel options
– Category 3 – other members of Group Management and Division Presidents – 29 375 personnel options
– Category 4 – other key persons – 14 687 personnel options

Due to the fact that the options/SARs were promised in May 2006 depending on EVA for 2006, an estimated grant date fair value for options/SARs was calculated as per that date. The estimated grant value forms the basis for the accounting for vesting costs in accordance wih IFRS2. The actual exercise price for the program was established at the grant date in March 2007.

The Black-Scholes model has been used for the calculation. The estimated grant date fair value of the options/SARs is based on the following assumptions:

– Exercise price	SEK 103.6
– Expected volatility	25%
– Expected option life	3.88–4.88 years
– Expected/estimated share price	SEK 92.34
– Expected dividend (growth per year)	SEK 1.81 (10%)
– Risk free interest rate	3.49%–3.62%

The calculation resulted in an average grant value of SEK 15.86 per option. The fair value of the SARs is remeasured at each reporting date.

Program 2007

At the Annual General Meeting 2007, it was decided to implement a performance related personnel option program with terms and conditions corresponding to the 2006 program. The decision entitled a maximum of 220 key persons in the Group to acquire a total of 3 760 000 Atlas Copco series A shares. The grant of options is dependent on the development of the value growth within the Group, expressed as Economic Value Added (EVA), during 2007. The options will be granted during March 2008, and become excersisable at a rate of one third per year after March 2009. They will be granted without compensation paid by the employee. They have a term of five years from grant date. At the Annual General Meeting 2007, it was decided that the right to the options shall remain also if the employment is terminated. They are not transferable. The Board has the right to decide to implement an alternative incentive solution for key persons in such countries where the grant of personnel options is not feasible.

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

– Category 1 – the Group President – 117 500 personnel options
– Category 2 – Business Area Presidents – 58 750 personnel options
– Category 3 – other members of Group Management and Division Presidents – 29 375 personnel options
– Category 4 – other key persons – 14 687 personnel options

Due to the fact that the grant is dependent on EVA for 2007, an estimate of what the fair value will be at grant date has been calculated and accounted for in accordance with IFRS 2 from the time of notice to the individuals of the option program, May 2007, and with the assumption that only stock options will be issued. A recalculation of estimated figures will be performed when the factual grant in February/March 2008 is known.

The Black-Scholes model has been used for the calculation of the estimated grant date fair value based on the following assumptions:

– Exercise price	SEK 132.50
– Expected volatility	25%
– Expected option life	3.85–4.85 years
– Expected/estimated share price	SEK 117.50
– Expected dividend (growth)	SEK 4.75 (10%)
– Risk free interest rate	4.15%–4.17%

The calculation resulted in an average grant value of SEK 21.78 per option. In total, approximately 3 760 000 options and SARs equivalents to options are expected to be issued to 220 individuals under the program during February/March 2008.

Summary of share value based incentive programs[1)]

	Stock options					Share appreciation rights				
Program	**2000**	**2001**	**2002**	**2003**	**2006**	**2000**	**2001**	**2002**	**2003**	**2006**
Initial number of employees	120	142	145	138	182	28	118	125	127	33
Initial number of options	3 005 389	3 316 292	3 378 473	3 337 019	3 187 108	704 711	2 735 941	2 963 935	2 901 754	499 360
Expiration date	April 26, 06	May 13, 07	May 12, 08	May 11, 09	Mar 30, 12	April 26, 06	May 13, 07	May 12, 08	May 11, 09	Mar 30, 12
Exercise price, SEK	30.68	32.41	36.41	28.81	111.06	30.68	32.41	36.41	28.81	111.06
Type of share	A	A	A	A	A	A	A	A	A	A
Number of options/rights 2007										
Outstanding Jan. 1	–	359 270	889 717	1 279 110	–	–	106 041	285 511	784 815	–
Granted					3 187 108					499 360
Exercised	–	–317 816	–234 009	–345 101	–	–	–106 041	–218 339	–335 091	–
Forfeited	–	–41 454			–	–				–
Outstanding Dec. 31	**–**	**–**	**655 708**	**934 009**	**3 187 108**	**–**	**–**	**67 172**	**449 724**	**499 360**
– of which vested	–	–	655 708	934 009	3 187 108	–	–	67 172	449 724	499 360
Remaining exercise period, months	–	–	5	17	51	–	–	5	17	51
Average stock price for exercised options, SEK	–	107	108	107	–	–	101	103	104	–
Number of options/rights 2006										
Outstanding Jan. 1	351 172	607 670	1 313 086	2 072 376	–	21 206	245 610	843 965	1 629 358	–
Exercised	–330 445	–248 400	–423 369	–793 266	–	–21 206	–139 569	–558 454	–844 543	–
Forfeited	–20 727	–	–	–	–	–	–	–	–	–
Outstanding Dec. 31	**–**	**359 270**	**889 717**	**1 279 110**	**–**	**–**	**106 041**	**285 511**	**784 815**	**–**
– of which vested	–	359 270	889 717	1 279 110	–	–	106 041	285 511	784 815	–
Remaining exercise period, months	–	–	17	29	63	–	–	17	29	63
Average stock price for exercised options, SEK	84	85	84	86	–	82	89	85	87	–

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

Provisions for social costs are recorded for both types of instruments and are classified as personnel costs. In accordance with IFRS 2, the net expense in 2007 for the share-based incentive programs amounted to 93 (66) excluding social costs. Provisions for share appreciation rights as per December 31, 2007 amounted to 51 (78).

24. Other liabilities

	2007	2006
Advances from customers	1 936	1 135
Derivatives		
– not designated for hedge accounting	108	64
– designated for hedge accounting	674	3
Other operating liabilities	1 929	1 906
Accrued expenses and prepaid income	3 876	3 047
	8 523	**6 155**

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

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 for the period	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**

2006	Product warranty	Restructuring	Service contract	Other	Total
Opening balance, Jan. 1	483	63	143	476	1 165
Less: discontinued operations		–10		–16	–26
Continuing operations, Jan. 1	483	53	143	460	1 139
During the year					
– provisions made	561	23	223	233	1 040
– provisions used	–477	–21	–181	–223	–902
– provisions reversed	–17	–13	–11	–44	–85
Business acquisitions	17			23	40
Translation differences	–41	–5	–8	–19	–73
Closing balance, Dec. 31	**526**	**37**	**166**	**430**	**1 159**
Non-current	108	25	65	245	443
Current	418	12	101	185	716
	526	**37**	**166**	**430**	**1 159**

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. Provisions for service contracts relate primarily to amounts which have been invoiced but service has not yet been performed. Other provisions consist of amounts related to share-based payments including social fees, jubilee benefits (see note 23) and environmental remediation obligations.

26. Assets pledged and contingent liabilities

	2007	2006
Assets pledged for debts to credit institutions		
Real estate mortgages	61	42
Chattel mortgages	40	7
	101	**49**
Contingent liabilities		
Notes discounted	30	39
Sureties and other contingent liabilities	636	1 974
	666	**2 013**

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

The Financial Risk Management Committee (FRMC) is responsible for ensuring that the Group has policies and systems for monitoring and management of the Group's financial risks which can impact the Group. These 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 buys and sells 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.

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 approximately once per quarter, or more often if circumstances require.

Funding risk

Funding risk is the risk that the Group and its subsidiaries at any given point in time do not have access to adequate financing on acceptable terms.

Group Funding Risk Policy

- The Group should maintain minimum 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) should be at least 3 years.
- No more than MSEK 5 000 may mature within the next 12 months.

The following table shows the maturity structure of the Group's borrowings including the effect of interest rate swaps:

Atlas Copco Group Maturity	Fixed	Float	2007 Total
2008	–	463	463
2009	–	101	101
2010	–	2 056	2 056
2011	–	6	6
2012	–	2 973	2 973
Later years	1 566	13 224	14 790
Total	**1 566**	**18 823**	**20 389**

At year end 2007, 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 SEK, EUR and USD totaling 15 683 (MSEK equivalent). At year end 2007, an amount of 855 was utilized. 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 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 may result in more volatility in net interest cost 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, the Group's effective interest rate is 5.2% (7.3) and the average duration was 4.6 (2.7) years.

To convert fixed to floating interest on EUR, SEK and USD denominated loans, Atlas Copco has entered into interest rate swaps designated as hedging instruments, with notional amounts of MEUR 600, MUSD 700 and MSEK 3 000, respectively. The fair value of the interest rate swaps on December 31, 2007 was 214 (–). Including the effect of the derivatives, the effective interest rate and duration of the Group's borrowings at year end 2007 was 5.1% (6.9) and 1.0 (0.7) year, respectively.

The following table shows the amounts of the fair value adjustments included in net income during the year:

Fair value hedge accounting	Net Income 2007	Net Income 2006
Financial liabilities	–25	29
Interest rate-related derivatives	14	–35
	–11	**–6**

27. Continued

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 about 188 (41) as at December 31, 2007.

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 151 (58).

Group Currency Risk Policy

a) Transaction Exposure

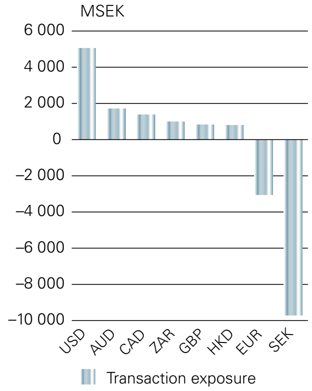
Due to Atlas Copco presence in various markets, there are inflows and outflows in different currencies. If these flows aren't equal, a net surplus or deficit in the specific currency is created. The value of this net position fluctuates with the currency rates and thus, a transaction exposure is created. 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 as much as possible to reduce the net position.
- Business Area and Divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements. Business Area and Divisions should normally not hedge currency risks. Financial 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 a continual basis. The FRMC decides from time to time if the transaction exposure should be hedged, fully or partly.

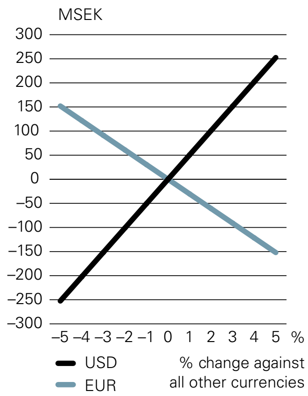
In accordance with the above and after approval by the FRMC, late in 2007 Atlas Copco entered into foreign currency forwards which are designated as hedging instruments in a cash flow hedge. As a part of the normal business operations, the hedged cash flows are received and the currency effects recorded 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 foreign currency forwards at December 31, 2007 was 39. A net realized result for currency hedging of –107 was included in earnings during 2007.

Atlas Copco AB also entered into MUSD 1 200 of foreign currency forward contracts which are also designated to hedge the cash flow risk arising from certain intercompany loans. The fair value of these forward contracts was 435 (64) at balance date. The cash flows related to these loans will occur with MUSD 500 in 2008 and with MUSD 700 in 2013; with the net effects of the foreign currency being included in profits on an ongoing basis.

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



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



The largest surplus and deficit currencies are shown in graph 1. Graph 2 indicates the effect on Group pre-tax earnings of one-sided variations in USD and EUR if no hedging transactions have been undertaken and before any impact of offsetting price adjustments or similar measures. The transaction exposure is 9 407 (8 170) and the hedge ratio on balance day was 15% (50).

b) Translation Exposure

Atlas Copco 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 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 as much as possible.
- The FRMC may decide to hedge the remaining translation exposure.

The value of the net assets of foreign subsidiaries at year end 2007 was approximately 64 600 (43 500) and is shown in graph 4. To reduce the translation exposure on net investments in the consolidated accounts and the exchange rate risk related to shares in subsidiaries, Atlas Copco uses loans and forward contracts which are designated as net investment hedges in the consolidated financial statements. The hedged amount as per balance date was 55 073 (3 187).

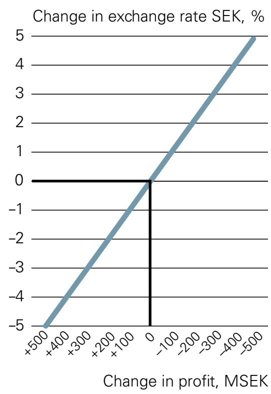
The Group has hedged two net investments; one in EUR and one in USD. The hedging instruments used to hedge the EUR shares in subsidiaries are loans and derivatives and total MEUR 1 851 (352). As of December 31, 2007, the fair value of the hedging instruments was 946, of which currency effect was 612. Atlas Copco also uses loans and derivatives totaling MUSD 253 (450) to hedge the equity positions in USD. The fair value of the hedging instruments as of December 31, 2007 was 83.

The following table shows the amounts of the fair value adjustments included in net income during the year:

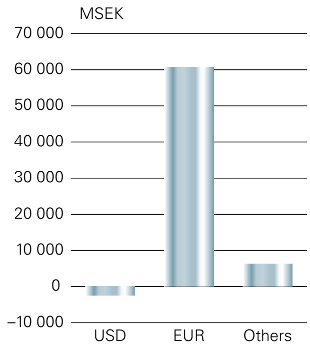
Net investment hedge accounting	Net Income 2007	Net Income 2006
Equity	441	+3
Loans	–441	–3
	0	**0**

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

Graph 3



Graph 4



Credit risk

Credit risk can be divided into commercial, political and financial credit risk. These risks are described further in the following sections.

Group Credit Risk Policy

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).

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 2007, the provision for bad debt amounted to 2.6 % (2.7) 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.

	2007		2006	
Trade receivables	**Gross**	**Impairment**	**Gross**	**Impairment**
Not past due	9 183	2	8 059	–
Past due but not impaired				
0–30 days	2 147	–	1 092	–
31–60 days	836	–	392	–
61–90 days	383	–	208	–
More than 90 days	609	–	350	–
Past due and individually impaired				
0–30 days	72	21	26	10
31–60 days	25	7	11	6
61–90 days	22	8	9	4
More than 90 days	196	178	113	113
Collective impairment		130		145
Total	**13 473**	**346**	**10 260**	**278**

27. Continued

Finance lease receivables	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	1 581	2	1 000	–
Past due but not impaired				
0–30 days	13	–	1	–
31–60 days	2	–	1	–
61–90 days	2	–	1	–
More than 90 days	2	–	–	–
Total	**1 600**	**2**	**1 003**	**–**

Other financial receivables	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	791	13	500	–
Total	**791**	**13**	**500**	**–**

Provision for bad debts, trade	2007	2006
Provisions at Jan. 1	278	284
Business acquisitions	41	10
Divestments	–1	–
Provisions recognized for potential losses	118	104
Amounts used for established losses	–52	–55
Release of unnecessary provisions	–40	–39
Foreign currency differences	2	–26
Provisions at Dec. 31	**346**	**278**

Financial credit risk

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 derivatives transactions.

Group Credit Risk Policy for Financial 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 A3/A- as rated by Moody's or Standard & Poor'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 2007 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 3 468 (2 439).

Derivative transactions should only be entered into by Group Treasury or, in rare cases by another entity, but only after the approval of Group Treasury.

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, 2007:

- The Group held 11 816 575 shares in RSC Holdings Inc. representing approximately 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 2007, was approximately 957, which exceeds the historic cost value by approximately 569. These shares are classified as available-for-sale. A one-percentage change in the share price gives a change of MUSD 1.5 for Atlas Copco.
- Pension fund investments. The Group had funded defined pension benefit plan assets totaling 4 936 at yearend 2007. 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 an initial 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.

Guarantees

As of December 31, 2007, the Group had approximately 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, 2007 totaled 37 309 (39 848). 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.

Following the decision to sell the North American rental operation in 2006 the Group took significant capital management actions including:

- Repurchase of shares Q4 2006 totaling 3 776.
- Repurchase of MUSD 625 nominated bonds maturing in 2008 and 2009.
- Issuing approximately 19 024 (at start rates) of new and less expensive debt with longer maturities in Q2 2007.
- Mandatory redemption of shares (June 2007) of 24 416.

The objective of these interrelated actions was to create a long-term capital structure that is more efficient and has lower risk.

The Group's long-term interest-bearing debt has had the same A3/A- -ratings from Moody's and Standard & Poor's respectively since 1999. The short-term debt is rated P2/A2. 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 on December 31 2007 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, FRAs and interest rate swaptions are calculated based on quoted market rates.

Barrier swaps

Fair value is based on the implicit volatility surface of SEK caps/floors and the SEK swap rate curve

Cancellable swaps

Fair value is based on SEK interest rate swaptions and the SEK swap rate curve.

Interest Rate Swaps and Cross Currency Swaps

These are valued by using discounted cash flows.

Foreign exchange contracts

Valued with the forward exchange rate.

Standard currency options

Calculated by using 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 2007 was approximately –18.

Exchange rates used in the year end accounts

			Year End rate		Average rate	
	Value	Currency Code	2007	2006	2007	2006
Australia	1	AUD	5.65	5.43	5.65	5.57
Canada	1	CAD	6.59	5.92	6.30	6.52
EU	1	EUR	9.47	9.05	9.25	9.26
Great Britain	1	GBP	12.90	13.49	13.49	13.58
Hong Kong	100	HKD	82.76	88.44	86.50	95.02
United States	1	USD	6.46	6.88	6.75	7.38

27. Continued

The Group's financial instruments per category

The following tables show the Group's financial instruments per category as of December 31, 2007 and 2006:

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	Notional amount
Financial assets			1 545	59	957	2 561	2 508	2 561
Other receivables			11			11	11	11
Derivatives	341	6				347	347	19 711
Total non-current financial assets	**341**	**6**	**1 556**	**59**	**957**	**2 919**	**2 866**	**22 283**
Trade receivables			13 116			13 116	13 116	13 116
Financial assets			843	281		1 124	1 124	1 124
Other receivables			1 382			1 382	1 382	1 382
Derivatives	351	292				643	643	15 775
Other accrued income			141			141	141	141
Cash and cash equivalents			3 473			3 473	3 473	3 473
Total Current financial receivables	**351**	**292**	**18 955**	**281**	**–**	**19 879**	**19 879**	**35 011**
Total financial assets	**692**	**298**	**20 511**	**340**	**957**	**22 798**	**22 745**	**57 294**

2006 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	Notional amount
Financial assets			766		1 333	2 099	2 110	2 110
Other receivables			6			6	6	6
Derivatives	62	4				66	66	1 031
Total non-current financial assets	**62**	**4**	**772**	**–**	**1 333**	**2 171**	**2 182**	**3 147**
Trade receivables			9 976			9 976	9 976	9 976
Financial assets			747	269		1 016	1 016	1 016
Other receivables			1 203			1 203	1 203	1 203
Derivatives		492				492	492	18 908
Other accrued income			99			99	99	99
Cash and cash equivalents			20 135			20 135	20 135	20 135
Total Current financial receivables	**–**	**492**	**32 160**	**269**	**–**	**32 921**	**32 921**	**51 337**
Total financial assets	**62**	**496**	**32 932**	**269**	**1 333**	**35 092**	**35 103**	**54 484**

2007 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value	Notional amount
Liabilities to credit institutions			19 926	19 926	20 004	19 907
Derivatives	7			7	7	1 788
Other liabilities			50	50	50	50
Total non-current financial liabilities	**7**	**–**	**19 976**	**19 983**	**20 061**	**21 745**
Liabilities to credit institutions			2 280	2 280	2 280	2 280
Current portion of interest-bearing liabilities			463	463	463	463
Current financial interest-bearing liabilities	**–**	**–**	**2 743**	**2 743**	**2 743**	**2 743**
Derivatives	674	108		782	782	18 586
Other accrued expenses			3 476	3 476	3 476	3 476
Trade payables			5 591	5 591	5 591	5 591
Other liabilities			1 929	1 929	1 929	1 929
Current financial operating liabilities	**674**	**108**	**10 996**	**11 778**	**11 778**	**29 582**
Total financial liabilities	**681**	**108**	**33 715**	**34 504**	**34 582**	**54 070**

2006 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value	Notional amount
Liabilities to credit institutions			1 163	1 163	1 370	1 072
Derivatives	8	99		107	107	3 043
Other liabilities			41	41	41	41
Total non-current financial liabilities	**8**	**99**	**1 204**	**1 311**	**1 518**	**4 156**
Liabilities to credit institutions			1 046	1 046	1 046	1 046
Current portion of interest-bearing liabilities			4 931	4 931	5 072	4 916
Current financial interest-bearing liabilities	**–**	**–**	**5 977**	**5 977**	**6 118**	**5 962**
Derivatives	3	64		67	67	7 547
Other accrued expenses			2 788	2 788	2 788	2 788
Trade payables			4 108	4 108	4 108	4 108
Other liabilities			1 906	1 906	1 906	1 906
Current financial operating liabilities	**3**	**64**	**8 802**	**8 869**	**8 869**	**16 349**
Total financial liabilities	**11**	**163**	**15 983**	**16 157**	**16 505**	**26 467**

28. Related parties

Relationships
The Group has related party relationships with the Company's largest shareholder, its subsidiaries, its associates and with its Board Members and Group Management. The Company's largest shareholder, the Investor Group, controls approximately 21% 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 on pages 134–135. Information about associated companies is found in note 14. Information about Board Members and Group Management is presented on pages 118–119 and pages 122–123.

Transactions and outstanding balances
The Group has not had any transactions with Investor during the year other than dividends declared and redemption of shares 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 non-consolidated associates:

	2007	2006
Revenues	47	16
Goods purchased	193	201
Service purchased	21	26
At Dec. 31:		
Trade receivables	4	3
Trade payables	14	29
Guarantees	10	11

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

29. Subsequent events

There have been no events subsequent to the balance sheet date which require adjustment of, or disclosure in, the financial statements or notes.

30. Accounting estimates and judgments

The preparation of financial reports requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates and judgments which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which 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 is 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 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 judgement 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 our 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.

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.

Credit loss reserves
The Group provides for credit losses based on specific provisions for known cases and general 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.

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.

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	2007	2006
Administrative expenses		–379	–305
Other operating income	A3	171	146
Other operating expenses	A3	–1	–1
Operating loss		**–209**	**–160**
Financial income	A4	3 211	54 067
Financial expense	A4	–2 804	–1 177
Profit after financial items		**198**	**52 730**
Appropriations	A5	393	325
Profit before tax		**591**	**53 055**
Income tax expense	A6	–57	–366
Profit for the year		**534**	**52 689**

Statement of Cash Flows

For the year ended December 31, Amounts in MSEK	2007	2006
Cash flows from operating activities		
Operating loss	–209	–160
Adjustments for:		
Depreciation	3	2
Capital gain/loss and other non-cash items	399	–116
Operating cash surplus	193	–274
Net financial items received/paid	–1 170	3 099
Taxes paid	–344	–991
Cash flow before change in working capital	**–1 321**	**1 834**
Change in		
Operating receivables	701	122
Operating liabilities	–86	76
Change in working capital	**615**	**198**
Net cash from operating activities	**–706**	**2 032**
Cash flow from investing activities		
Investments in intangible assets	–8	–4
Investments in tangible assets	–2	–3
Investments in subsidiaries	–5 679	–1 238
Investments in financial assets	–3 581	–
Net cash from investing activities	**–9 270**	**–1 245**
Cash flow from financing activities		
Dividends paid	–2 899	–2 672
Redemption of shares	–24 415	–
Repurchase of own shares	–26	–3 776
Change in interest-bearing liabilities	33 680	7 487
Net cash from financing activities	**6 340**	**1 039**
Net cash flow for the year	**–3 636**	**1 826**
Cash and cash equivalents, Jan. 1	3 725	1 899
Net cash flow for the year	–3 636	1 826
Cash and cash equivalents, Dec. 31	**89**	**3 725**

Balance Sheet

As at December 31, Amounts in MSEK	Note	2007	2006
ASSETS			
Non-current assets			
Intangible assets	A7	12	4
Tangible assets	A8	8	9
Financial assets			
Deferred tax assets	A9	132	–
Shares in Group companies	A10	95 065	79 718
Other financial assets	A11	1 420	302
Total non-current assets		**96 637**	**80 033**
Current assets			
Income tax receivables		320	206
Other receivables	A12	8 315	4 638
Cash and cash equivalents	A13	89	3 725
Total current assets		**8 724**	**8 569**
TOTAL ASSETS		**105 361**	**88 602**
EQUITY	Page 78		
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		–557	–
Retained earnings		28 661	3 290
Profit for the year		534	52 689
Total non-restricted equity		**28 638**	**55 979**
TOTAL EQUITY		**34 423**	**61 764**
Untaxed reserves	A15	**1 178**	**1 571**
PROVISIONS			
Post-employment benefits	A16	52	48
Other provisions	A17	86	110
Deferred tax liabilities	A9	–	41
Total provisions		**138**	**199**
LIABILITIES			
Non-current liabilities			
Borrowings	A18	43 654	9 816
Other liabilities		7	107
Total non-current liabilities		**43 661**	**9 923**
Current liabilities			
Borrowings	A18	24 817	14 760
Other liabilities	A19	1 144	385
Total current liabilities		**25 961**	**15 145**
TOTAL EQUITY AND LIABILITIES		**105 361**	**88 602**
Assets pledged	A21	**23**	**17**
Contingent liabilities	A21	**5 654**	**5 447**

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, 2006	**628 806 552**	**786**	**4 999**	**–**	**9 811**	**15 596**
Dividend					–2 672	–2 672
Repurchase of own shares	–18 414 200				–3 776	–3 776
Share-based payment, equity settled						
– Expense during the year					13	13
– Exercise of options					–86	–86
Profit for the year					52 689	52 689
Closing balance, Dec. 31, 2006	**610 392 352**	**786**	**4 999**	**–**	**55 979**	**61 764**
Opening balance, Jan. 1, 2007	**610 392 352**	**786**	**4 999**	**–**	**55 979**	**61 764**
Dividend					–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					534	534
Closing balance, Dec. 31, 2007	**1 220 784 704**	**786**	**4 999**	**–557**	**29 195**	**34 423**

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 holding company functions as well as the Group internal bank. The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the accounting standard RR 32:06, "Accounting for Legal Entities", hereafter referred to as "RR 32", issued by the Swedish Financial Accounting Standards Council. In accordance with RR 32, 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 RR 32 due to Swedish tax legislation. The Parent Company has also applied two exemptions introduced in RR 32:06.

The financial statements are presented in Swedish kronor (SEK), rounded to the nearest million. 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.

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 43 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 guaranteess

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 made.

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 consolidation, 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

	2007			2006		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Sweden	46	39	85	44	33	77

Women in Atlas Copco Board and Management, %

	2007	2006
Board of Directors excl. union representatives	29	25
Group Management	25	25

Salaries and other remuneration

	2007		2006	
	Board members & Group Management[1]	**Other employees**	**Board members & Group Management[1]**	**Other employees**
Sweden	50	58	38	42
of which variable compensation	*21*		*12*	

[1] Includes 8 (7) 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	2007	2006
Contractual pension benefits for Board members and Group Management	14	7
Contractual pension benefits for other employees	20	6
Other social costs	45	42
	79	**55**
Capitalized pension obligations to Board members and Group Management	26	26

A2. Continued

Absence due to illness, %

	2007	2006
Total	2.1	2.7
for men	0.6	0.8
for women	3.2	4.1
long-term absence due to illness, in percent of total absence	71.7	66.9
Absence due to illness, men		
employees under 30 years old	0.4	0.3
employees 30-49 years old	0.8	1.5
employees 50 and older	0.3	0.1
Absence due to illness, women		
employees under 30 years old	0.8	0.1
employees 30-49 years old	1.5	3.1
employees 50 and older	6.8	7.2

Remunerations to auditors

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

	2007	2006
KPMG Bohlins AB		
Audit fee	7	4
Other	4	3
	11	**7**

A3. Other operating income and expenses

	2007	2006
Commissions received	160	137
Other	11	9
Total other operating income	**171**	**146**
Total other operating expenses	**–1**	**–1**

A4. Financial income and expense

	2007	2006
Financial income		
Interest Income		
– bank deposits	66	24
– from Group Companies	606	1 001
Dividend income	690	45 904
Group Contribution	1 577	1 241
Reversed write-down of shares	–	710
Capital gain on divestment of shares	–	5 036
Change in Fair value		
– financial assets held for trading	26	151
Foreign exchange gain	246	–
Financial income	**3 211**	**54 067**
Financial expense		
Interest Expense		
– financial liabilities measured at amortised cost	–726	–507
– financial assets held for trading	1	–193
– Group Companies	–1 132	–126
– derivatives on fair value hedge	2	12
Foreign exchange loss	–117	–98
Change in Fair value		
– financial assets held for trading	–411	–92
– ineffective part of fair value hedge	–4	–6
Change in loss from other liabilities	–20	–167
Impairment loss		
– financial assets	–397	–
Financial expense	**–2 804**	**–1 177**
Net finance costs	**407**	**52 890**

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

	2007	2006
Total interest income on financial assets	672	1 025
Total interest expense on financial liabilities	–1 858	–633

	2007	2006
Net gain/loss on		
– assets held for trading	–501	326
– assets loans and receivables, incl bank deposits	423	–801
– other liabilities	–1 780	468
– fair value hedge	–2	6

The substantial cash position during the first five months of 2007 resulted in a high interest income. After the redemption and dividend in May, the Parent Company substantially increased its debts. This is the reason for the substantial increase in both internal and external interest costs during the last six months of 2007. The Parent Company also hedged a substantial part of the debts, which increases the amount of assets to fair value. For further information on the hedges, see note 27 of the consolidated statements, chapter Hedge Accounting.

In 2006, an intra-group restructuring gave rise to a substantial capital gain (which is exempt from tax) in a wholly owned subsidiary.

The capital gain was distributed and recorded by the Parent Company as a dividend received in the amount of 44 901.

Also, in 2006 a capital gain of 5 035 was recognized on the intra-group sale on the holdings of 40 percent in Atlas Copco North America Inc.

The interest portion of provision for pensions is not classified as operating expense but is shown as interest expense. The amount is based on the average of the opening and closing pension provisions. The interest portion for 2007 amounted to 1 (1).

A5. Appropriations

	2007	2006
Appropriations	393	325
	393	**325**

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 110 (91).

A6. Income tax expense

	2007	2006
Current tax	–230	–400
Deferred tax	173	34
	–57	**–366**
The Swedish corporate tax rate, %	28.0	28.0
Profit before taxes	591	53 055
National tax based on profit before taxes (28 %)	–165	–14 855
Tax effects of:		
Non-deductible expenses	–198	–30
Tax exempt income	250	14 522
Prior year adjustment, deferred tax	89	–
Imputed interest on tax allocation reserve	–11	–12
Controlled Foreign Company taxation	–18	–13
Adjustments from prior years	–4	22
	–57	**–366**
Effective tax in %	**9.7**	**0.7**

The Parent Company's effective tax rate of 9.7% is primarily affected by non-taxable dividends. The corresponding figure for 2006, 0.7%, was primarily affected by non-taxable dividends and capital gains.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2007	2006
Accumulated cost		
Opening balance, Jan. 1	4	–
Investments	8	4
Closing balance, Dec. 31	**12**	**4**

The computer programs have not yet been taken into use and thus the amortization period has not yet started.

A8. Tangible assets

	2007			2006		
	Land improvements	Equipment, etc.	Total	Land improvements	Equipment, etc.	Total
Accumulated cost						
Opening balance, Jan. 1	4	26	30	4	23	27
Investments	–	2	2	–	3	3
Closing balance, Dec. 31	**4**	**28**	**32**	**4**	**26**	**30**
Accumulated depreciation						
Opening balance, Jan. 1	1	20	21	1	18	19
Depreciation for the year	–	3	3	–	2	2
Closing balance, Dec. 31	**1**	**23**	**24**	**1**	**20**	**21**
Carrying amount						
Closing balance, Dec. 31	3	5	8	3	6	9
Opening balance, Jan. 1	3	6	9	3	5	8

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 12 (11). Future payments for non-cancelable leasing contracts amounted to 36 (40). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2007	2006
Less than one year	11	10
Between one and five years	21	27
More than five years	4	3
	36	**40**

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

A9. Deferred tax assets and liabilites

	2007			2006		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Financial assets	93	1	92	–	13	–13
Other receivables	–	–	–	–	137	–137
Post-employment benefits	16	–	16	14	–	14
Other provisions	14	–	14	22	–	22
Non-current liabilities	10	–	10	4	–	4
Current liabilities	–	–	–	69	–	69
	133	**1**	**132**	**109**	**150**	**–41**

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

	2007	2006
Net balance, Jan. 1	–41	–75
Charges to profit of the year	173	34
Net balance, Dec. 31	**132**	**–41**

A10. Shares in Group companies

	2007	2006
Accumulated cost		
Opening balance, Jan. 1	79 721	8 887
Investments	17 874	47 190
Shareholders' contribution	481	25 833
Disposals	0	–2 189
Capital repayment	–2 607	–
Closing balance, Dec. 31	**95 469**	**79 721**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–603	–1 403
Disposals	–	90
Reversed write-down	–	710
Write-down	–401	–
Closing balance, Dec. 31	**–1 004**	**–603**
	95 065	**79 718**

For further information about Group companies, see note A22.

A11. Other financial assets

	2007	2006
Receivables from Group companies	1 037	206
Shares and participations in associated companies	–	–
Other long-term securities	5	5
Derivatives		
–not designated for hedge accounting	130	4
–designated for hedge accounting	217	62
Endowment insurances	23	17
Other long-term receivables	8	8
	1 420	**302**

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

Shares and participations in associated companies	2007	2006
Accumulated cost		
Opening balance, Jan. 1	–	72
Disposals	–	–72
Closing balance, Dec. 31	**–**	**–**
Accumulated write-down		
Opening balance, Jan. 1	–	–72
Disposals	–	72
Closing balance, Dec. 31	**–**	**–**
Carrying amount, Dec. 31	**–**	**–**

A12. Other receivables

	2007	2006
Receivables from Group companies	7 643	4 092
Derivatives		
– not designated for hedge accounting	614	479
Other receivables	15	32
Prepaid expenses and accrued income	43	35
	8 315	**4 638**

A13. Cash and cash equivalents

	2007	2006
Cash	74	205
Cash equivalents	15	3 520
	89	**3 725**

The Parent Company's guaranteed, but unutilized, credit lines equalled 6 455 (4 126).

A14. Equity

	A shares	B shares	Total
Opening balance	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	**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**

The Parent Company, Atlas Copco AB, 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 (1.25). 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 Groups´s balance sheet to a more efficient structure, the Annual General Meeting approved a redemtion procedure that was carried out during the year. The following transactions were recorded:

- Split of each series A and series B shares into two ordinary shares and one redemption share.
- Repayment to shareholders by way of redemption of 628 806 552 redemption shares at SEK 40 per share. This corresponded to a total distribution of 24 416 to the shareholders, taking into account that 18 414 200 shares were held by Atlas Copco AB and thus not eligible for repayment.
- Increase of share capital by 262 by way of bonus issue which was made from the retained earnings.
- Redemption of 28 000 000 shares series B which were held by Atlas Copco AB.
- Increase of share capital by 18 by way of bonus issue which was made from the retained earnings.

Repurchases of own shares	Number of shares		Carrying amount	
	2007	2006	2007	2006
Opening balance, Jan. 1	18 414 200		3 776	
Repurchase of B shares		18 414 200		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	–3 577 500		–246	
Repurchase of A shares	3 577 500		347	
Closing balance, Dec. 31	**8 828 400**	**18 414 200**	**704**	**3 776**
Precentage of total number of shares	0,7%	2,9%		

A14. Continued

After the redemption of 28 000 000 of the B shares held by Atlas Copco AB on July 4, 2007, the Parent Company held 8 828 400 of its own B shares. In accordance with the resolution by the annual general meeting 2007, the remaining B shares held by the company can be divested and 6 400 000 A shares can be purchased.

The objective is to use proceeds from the B shares primarily to acquire own shares of series A, which can, subsequently, be delivered under the Parent Company's personnel stock option programs. Proceeds can also be used to cover related costs for social security charges.

Trading in own shares were initiated on December 13, 2007 and on December 31, 2007 3 577 500 B shares had been sold and the same amount of A shares purchased. Holdings at the end of the year appear in the table above.

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 fluctuation relating to net investments in foreign subsidiaries.

Appropriation of profit
The Board of Directors proposes a dividend of SEK 3.00 (2.38) totaling SEK 3 662 354 112 (2 899 363 672). For further information see appropriation of profit on page 91.

A15. Untaxed reserves

	2007	2006
Additional tax depreciation equipment	2	2
Tax allocation reserves	1 176	1 569
	1 178	**1 571**

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

Year	2007	2006
2001	–	393
2002	419	419
2003	321	321
2004	436	436
	1 176	**1 569**

A16. Post-employment benefits

	2007			2006		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	17	31	48	10	35	45
Provision made	6	–	6	7	–	7
Provision used	–	–2	–2	–	–4	–4
Closing balance, Dec. 31	**23**	**29**	**52**	**17**	**31**	**48**

Pension expenses for the year, which are included within administrative expenses, amounted to 34 (10). In 2006, Atlas Copco AB received compensation from the Atlas Copco pension foundation of 18. No such compensation was received in 2007. Excluding compensation from the pension foundation, the pension expenses amount to 34 (28), of which the Board of Directors and the President 6 (5) and others 28 (23).

The Parent Company has endowment insurances of 23 (17) relating to defined contribution pension plans. The insurances are recognised 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 foundation. 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 former senior employees now retired. These pension arrangements are provided for.

A16. Continued

	2007			2006		
	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Defined benefit obligations	145	31	176	152	31	183
Fair value of plan assets	–187	–	–187	–190	–	–190
Present value of net obligations	**–42**	**31**	**–11**	**–38**	**31**	**–7**
Not recognized surplus	42	–	42	38	–	38
Net amount recognised in balance sheet	**–**	**31**	**31**	**–**	**31**	**31**

Reconciliation of defined benefit obligations	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Defined benefit obligations at Jan. 1	152	31	183	160	35	195
Service cost	2	–	2	1	–	1
Interest expense	4	1	5	5	1	6
Benefits paid from plan	–13	–2	–15	–14	–5	–19
Defined benefit obligations at Dec. 31	**145**	**30**	**175**	**152**	**31**	**183**

Reconciliation of plan assets	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Fair value of plan assets at Jan. 1	190	–	190	200	–	200
Return on plan assets	3	–	3	8	–	8
Payments	–6	–	–6	–18	–	–18
Fair value of plan assets at Dec. 31	**187**	–	**187**	**190**	**–**	**190**

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.

	2007	2006
Pension commitments accounted for in the balance sheet		
Costs excluding interest	16	15
Interest expense	1	1
	17	**16**
Pension commitments provided for through insurance contracts		
Service cost	20	13
	20	13
Special employer's contribution	10	4
Credit insurance costs	0	0
Cost for pensions	**47**	**33**
Costs covered by the Atlas Copco pension foundation	–	–18
Net cost for pensions	**47**	**15**

The Parent Company's share in plan assets fair value in the Atlas Copco pension foundation amount to 187 (190) according to the following.

	2007	2006
Equity securities	52	66
Bonds	119	120
Other financial assets	14	3
Cash and cash equivalents	2	1
	187	**190**

The plan assets of the Atlas Copco pension foundation are not included in the financial assets of the Atlas Copco Group.

The return on plan assets in the Atlas Copco pension foundation amounted to 4.2% (4.0).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 4.4% (4.2).

The Parent Company estimates 17 will be paid to defined benefit pension plans during 2008.

A17. Other provisions

	2007	2006
Opening balance, Jan. 1	110	144
Provisions made	10	65
Provisions used	–34	–99
Closing balance, Dec. 31	**86**	**110**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and URA 46.

A18. Borrowings

	2007	Notional amount	2006	Notional amount
Non-current borrowings				
Medium Term Note Program	10 404	10 513	–	–
Other bond loans	6 264	6 137	5 263	5 263
Other bank loans	2 951	2 951	516	516
Non-current borrowings from Group companies	24 035	24 035	8 850	8 850
Less: current portion	–	–	–4 813	–4 813
	43 654	**43 636**	**9 816**	**9 816**
Current borrowings				
Current portion of bank loans	–	–	4 813	4 813
Short-term loans	896	896	35	–
Current borrowings from Group companies	23 921	23 921	9 912	9 912
	24 817	**24 817**	**14 760**	**14 725**
Total interest-bearing loans and borrowings	**68 471**	**68 453**	**24 576**	**24 541**

A19. Other liabilities

	2007	2006
Accounts payable	12	16
Derivatives		
– not designated for hedge accounting	354	47
– designated for hedge accounting	413	–
Other liabilities	5	15
Accrued expenses and prepaid income	360	307
	1 144	**385**

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 Debt

Atlas Copco AB had MSEK 19 747 (5 814) of external debt and MSEK 47 585 (18 762) of internal debt at December 31, 2007. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Committee, see note 27 in the consolidated statements.

MSEK Maturity	Fixed	Float	2007 Total
2008			
2009			
2010		2 000	2 000
2011			
2012		2 961	2 961
Later years	1 566	13 220	14 786
Total	**1 566**	**18 181**	**19 747**

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 589 and MUSD 75. The deferred hedge accounting is based on a RR32 exemption and deferred currency effect is MSEK 763 by balance date.

These hedges are designated as net investment hedges in the consolidated statements.

The interest rate risk is managed with interest rate swaps, designated as fair value hedges. Note 27 of the consolidated statements includes fair value and notional amounts of these swaps. Further details in note 27 of the consolidated statements.

Internal loans of MEUR 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 –557 net of tax, has been recognized in equity.

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, 2007 and 2006:

2007 **Financial Instruments – Assets**	**Derivatives used for hedge accounting**	**Financial assets held for trading**	**Loans and receivables**	**Total carrying value**	**Fair value**	**Notional amount**
Financial assets			28	28	28	28
Derivatives	217	130		347	347	19 711
Long-term receivables from Group companies			1 037	1 037	1 037	1 037
Total non-current financial assets	**217**	**130**	**1 065**	**1 412**	**1 412**	**20 776**
Other receivables			15	15	15	15
Derivatives		614		614	614	15 720
Cash and cash equivalents		89		89	89	89
Short-term receivables from Group companies			7 643	7 643	7 643	7 643
Total Current financial receivables	**–**	**703**	**7 658**	**8 361**	**8 361**	**23 467**
Total financial assets, continuing operations	**217**	**833**	**8 723**	**9 773**	**9 773**	**44 243**

2006 **Financial Instruments – Assets**	**Derivatives used for hedge accounting**	**Financial assets held for trading**	**Loans and receivables**	**Total carrying value**	**Fair value**	**Notional amount**
Financial assets			22	22	22	22
Derivatives	62	4		66	66	1 031
Long-term receivables from Group companies			206	206	206	206
Total non-current financial assets	**62**	**4**	**228**	**294**	**294**	**1 259**
Trade receivables			3	3	3	3
Financial assets			13	13	13	13
Other receivables			16	16	16	16
Derivatives		479		479	479	18 908
Cash and cash equivalents		3 725		3 725	3 725	3 725
Short-term receivables from Group companies			4 092	4 092	4 092	4 092
Total current financial receivables	**–**	**4 204**	**4 124**	**8 328**	**8 328**	**26 757**
Total financial assets	**62**	**4 208**	**4 352**	**8 622**	**8 622**	**28 016**

A20. Continued

2007 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value	Notional amount
Liabilities to credit institutions			19 619	19 619	19 824	19 907
Derivatives		7		7	7	1 788
Long-term liabilities to Group companies			24 035	24 035	24 035	24 035
Total non-current financial liabilities	**–**	**7**	**43 654**	**43 661**	**43 866**	**45 730**
Liabilities to credit institutions			896	896	896	896
Short-term liabilities to Group companies			23 921	23 921	23 921	23 921
Current financial interest-bearing liabilities	**–**	**–**	**24 817**	**24 817**	**24 817**	**24 817**
Derivatives	413	354		767	767	18 586
Other accrued expenses			360	360	360	360
Trade payables			12	12	12	12
Other liabilities			5	5	5	5
Current financial operating liabilities	**413**	**354**	**377**	**1 144**	**1 144**	**18 963**
Total financial liabilities	**413**	**361**	**68 848**	**69 622**	**69 827**	**89 510**

2006 Financial Instruments – Liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value	Notional amount
Liabilities to credit institutions			966	966	1 028	1 028
Derivatives	8	99		107	107	3 043
Long-term liabilities to Group companies			8 850	8 850	8 850	8 850
Total non-current financial liabilities	**8**	**99**	**9 816**	**9 923**	**9 985**	**12 921**
Liabilities to credit institutions			35	35	35	35
Current portion of interest-bearing liabilities			4 813	4 813	5 123	4 916
Short-term liabilities to Group companies			9 912	9 912	9 912	9 912
Current financial interest-bearing liabilities	**–**	**–**	**14 760**	**14 760**	**15 070**	**14 863**
Derivatives		47		47	47	7 546
Other accrued expenses			307	307	307	307
Trade payables			16	16	16	16
Other liabilities			15	15	15	15
Current financial operating liabilities	**–**	**47**	**338**	**385**	**385**	**7 884**
Total financial liabilities	**8**	**146**	**24 914**	**25 068**	**25 440**	**35 668**

A21. Assets pledged and contingent liabilities

	2007	2006
Assets pledged for pension commitments		
Endowment insurances	23	17
	23	**17**
Contingent liabilities		
Sureties and other contingent liabilities		
for external parties	3	3
for group companies	5 651	5 444
	5 654	**5 447**

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 (5 140) relates to a letter of guarantee issued to a Group company with no liability to a third party.

A22. Directly owned companies

	2007			2006
	Number of shares	Percent held	Book value	Book value
Directly owned product companies				
Atlas Copco Airpower N.V. Wilrijk, Belgium	76 415	100	58 428	58 428
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	100	100
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	20	20
Atlas Copco MAI GmbH, Feistritz an der Drau	1	100	129	124
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	352	352
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	139	139
Directly owned customer centers				
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	0
Atlas Copco Argentina S.A.C.I, Buenos Aires	525 000	75	10	10
Atlas Copco (India) Ltd., Mumbai	18 899 360	84	593	593
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	36	36
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	12	12
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	3	3
Atlas Copco (Schweiz) AG., Studen/Biel	7 997	100	12	12
GreenField Brazil Ltda	5 997	100	1	–
Rodcraft Sarl, Switzerland	1	100	1	–
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	4	8
Atlas Copco Brasil Ltda., Sao Paulo	22 909 089	100	65	65
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	6	6
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	10	10
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	10	10
Atlas Copco Customer Finance Chile Ltd., Santiago de Chile	6 317 500	95/100[1)]	0	0
GreenField AG, Studen/Biel	5 997	100	37	37
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/80[1)]	0	0
Atlas Copco Ges.m.b.H., Vienna	1	100	7	7
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	0	0
Atlas Copco Eastern Africa Ltd., Nairobi	482 999	100	5	5
Atlas Copco KK, Tokyo	375 001	100	23	23
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	2	2
Atlas Copco Maroc SA., Casablanca	3 852	96	1	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	1	1
Atlas Copco Venezuela S.A., Caracas	38 000	100	14	14
BEMT Tryckluft AB, 556273-1801 Staffanstorp	1 500	100	37	37
BIAB Tryckluft AB, 556439-1208, Ludvika	5 000	100	6	6
CP Scanrotor Aktiebolag, 556103-0080 Tanum	1 500	100	1	1
Servatechnik AG., Oftringen	3 500	100	28	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	22	22

A22. Continued

	2007			2006
	Number of shares	Percent held	Book value	Book value
Directly owned holding companies and others				
Atlas Copco A/S, Langhus	2 498	100	15	15
Atlas Copco Dynapac AB, Stockholm	86 993 823	100	4 676	–
Atlas Copco Finance Europe n.v., Belgium	4 200 000	100	12 675	–
Gulf Turbomachinery, Dubai	12	50	2	–
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	604	604
Atlas Copco France Holding S.A., St. Ouen lÁumône	221 112	100	118	118
Atlas Copco Holding GmbH, Essen	1	99/100[1)]	444	258
Atlas Copco Industrial Technique AB, 556207-8898, Nacka	40 000	100	5	5
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	10 402	10 402
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	717	717
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	12	2 692
Atlas Copco PAIR Ltd., London	3	100	0	10
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	8	8
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	994	994
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	294	294
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 335	3 335
CP Scanrotor Global AB, 556337-5897, Hamburgsund	1 000	100	21	40
Econus S A, Montevideo	21 582 605	100	63	63
Industria Försäkrings AB, 516401-7930, Nacka	50 000	100	30	5
Oy Atlas Copco Ab, Vantaa	150	100	30	30
Power Tools Distribution n.v., Hoeselt	1	0/100	0	0
14 dormant companies		100	16	16
Translation difference			489	–
Carrying amount, Dec. 31			**95 065**	**79 718**

[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 21% of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A22 and other indirectly owned subsidiaries are listed on pages 134–135.

Information about associated companies is found in note A10.

Information about Board Members and Group Management is presented on pages 118–119 and 122–123.

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:

	2007	2006
Revenues		
Dividends	690	45 904
Group contribution	1 577	1 241
Interest income	606	1 002
Expenses		
Interest expenses	1 132	126
Receivables	8 405	4 298
Liabilities	47 956	18 762
Guarantees		
Group companies	5 649	5 442

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	28 103 624 712
Profit for the year	SEK	534 444 531
	SEK	**28 638 069 243**

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

To the shareholders, a dividend of SEK 3.00 per share	SEK	3 662 354 112
To be retained in the business	SEK	24 975 715 131
	SEK	**28 638 069 243**

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 15, 2008

Sune Carlsson
Chair

Jacob Wallenberg
Vice Chair

Ulla Litzén
Board member

Grace Reksten Skaugen
Board member

Anders Ullberg
Board member

Staffan Bohman
Board member

Gunnar Brock
President and CEO

Bengt Lindgren
Union representative

Mikael Bergstedt
Union representative

Our Audit Report was submitted on February 18, 2008.
KPMG Bohlins 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 25, 2008.

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 2007. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 12–91. 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 18, 2008
KPMG Bohlins 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.

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)

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

i: The Swedish risk-free interest rate (10-year government bonds) plus 0.5 percentage points to compensate for the premium Atlas Copco pays on borrowings compared to that of the Swedish state, and adjusted for the standard tax rate.
r: The Swedish risk-free interest rate, plus a 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 on 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 over the Group's values.

Important events during the year

- Atlas Copco has received recognition for its sustainability work by a number of independent rating organizations.
- Atlas Copco has further enhanced its environmental work by establishing revised environmental targets and through enhanced training.
- 91% of all product companies are now ISO 14001 certified.
- Atlas Copco's largest business area, Compressor Technique, has achieved a triple certification (ISO 9001, ISO 14001, and OHSAS 18001) for the Specialty Rental division and for a number of customer centers.
- The number of work-related accidents in the Group has decreased further.

GRI content index

Atlas Copco's Sustainability report is since 2001 prepared in accordance with the Global Reporting Initiative (GRI) guidelines. This report is the second following the updated GRI 3.0 version guidelines.

Below is a brief GRI content index showing where the main GRI sections are found in this report. A more comprehensive version with additional comments is available on the Group's website: www.atlascopco.com/csr.

GRI Content Index

	GRI Section	Page(s)
1	Strategy and Analysis	4–7, 94–97
2	Organizational Profile	8–11, 94–97
3	Report Parameters	94–95
4	Governance, Commitments and Engagement	114–127
5	Management Approach and Performance Indicators	
	– Economic	98, 109–110
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	– Labor Practices and Decent Work	107–109
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	– Society	98–100, 111

Stakeholder engagement

Atlas Copco has regular dialogues with a number of stakeholders regarding its sustainability work. The discussions are conducted 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.

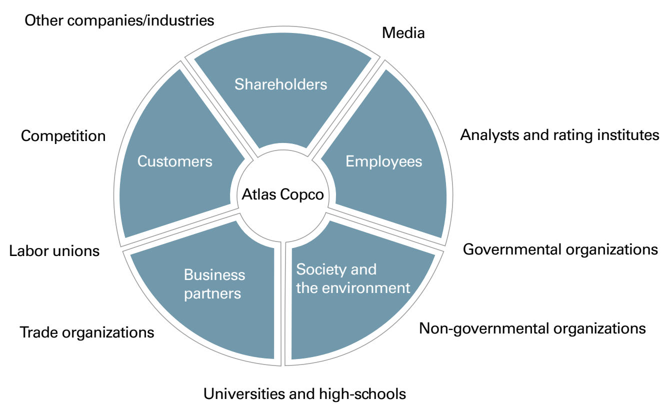
Atlas Copco promotes learning and development through cooperation with local communities, stakeholders that may provide important contributions towards the development of the Group's sustainability performance. Atlas Copco encourages its local companies to engage in constructive dialogues with local stakeholders, such as local authorities, health authorities, schools, universities, and others where such dialogues can add value.

Atlas Copco values discussions with influencers, and takes advice based on their knowledge and experience or learns from listening to their views. Regular meetings are held with the following:

- Amnesty Business Group (member since 2005)
- Transparency International
- Rating institutes
- Students
- CSR focused networks, mainly in the Nordic countries
- Discussion groups sponsored by trade organizations, where Atlas Copco is a member

In 2008, Atlas Copco will further develop its stakeholder dialogues and establish an even more proactive approach to collect views from stakeholders and learn more about their expectations and concerns.

Stakeholders and influencers



See Sustainability Definitions on page 113 for explanations of stakeholder and influencer

Main issues from stakeholder/influencer discussions

Stakeholders	Stakeholder views	Achievements 2007
Society and the environment	Showing continued progress in regards to environmental aspects.	ISO 14001 certification reached 91% of Atlas Copco's product companies.
	Continue to develop community engagement projects.	Another 100 000 people provided with clean drinking water through the *Water for All* organization.
Customers	Increase further the energy efficiency of products and solutions.	More products and solutions meet sustainable development requirements, for example through decreased energy consumption and improved ergonomics.
Employees	Continue to offer a safe and healthy work place world wide.	A new target of zero tolerance to prevent work-related accidents and to put more focus on health and safety.
	Employee surveys are conducted every second year to evaluate the Group's relative attractiveness as an employer.	The result is used to further improve employee relations and loyalty.
Business partners	Provide more information on implementation of supplier evaluations and result of such evaluations.	More and new suppliers have been evaluated, both from environmental and a social perspective.
Shareholders	Continue to improve sustainability reporting and follow-up on set targets on key performance indicators.	Inform about risks from an owner perspective.

About this report

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 its employees are proud to present.

The report covers all of Atlas Copco's operations for the fiscal year 2007, unless otherwise stated. Operations divested during the year are excluded, whilst units that have been acquired are included (see Annual Report for details). Limitations and reporting principles that apply specifically to certain aspects of the Group's sustainability performance are mentioned in the appropriate section of the report.

The Sustainability Report and the Corporate Governance Report are both included in the 2007 Annual Report. To avoid duplication of information, references are, at times, made to these reports, including the statement from the President and CEO. Atlas Copco's most recent Sustainability Report and Corporate Governance Report were published in March 2007, as part of the 2006 Annual Report.

The 2007 Sustainability Report has been developed, applying the most recent version (3.0) of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. The GRI core indicators reported and analyzed are those that are understood to be relevant and material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense. The report has been structured in accordance with Atlas Copco's stakeholder model.

GRI REPORT
GRI CHECKED

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. It has not been audited by external auditors.

Business Code of Practice

Atlas Copco's Business Code of Practice details the values and policies that underpin the Group's corporate social responsibilities and commitments, both within its own global organization and in its interaction with external stakeholders.

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,* which shall be available to all employees, to help Group companies and individuals to interpret and implement the Business Code of Practice. New employees are routinely introduced to these standards and expectations. See also page 120.

Group companies have established routines to share the Group's views with business partners and customers. Business partners, including suppliers, agents, and joint venture companies, are encouraged to comply with the Atlas Copco standards.

The Business Code of Practice is available in 11 languages both in electronic and printed format. It can be downloaded from the Group's website: www.atlascopco.com/csr.

For information regarding Atlas Copco's governance structure, see the Corporate Governance Report, pages 114–127.

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
- 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 established in *The Way We Do Things*, as well as on the voluntary international ethical guidelines that the Group supports. The sustainability targets were most recently updated by Atlas Copco's Group Management in January 2008.

Group Management is responsible for the policies in the Business Code of Practice, 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. It provides support functions for sustainability work through the "Organizational Development and Human Resources department", and "Public Affairs and Environment", including the "Group's Environmental Council".

"Organizational Development and Human Resources" guides, supports and follows-up on personnel issues including competence development, appraisals, diversity, health, and safety.

"Public Affairs and Environment" guides, supports and follows-up on issues related to environmental and social performance, as well as on business integrity. The function also coordinates and advises Group Management and divisions on sustainability issues.

The "Group Environmental Council" guides, supports and follows-up mainly on issues related to environmental performance.

Divisions are in charge of the implementation of the Business Code of Practice, the principles, guidelines, processes and instructions in *The Way We Do Things*, and to follow-up and report on achievements.

Targets for sustainability work

Based on the Business Code of Practice and associated sustainability policies, Atlas Copco has established a number of qualitative and quantitative strategies and targets regarding the Group's economic (financial), environmental and social performance. Whereas the financial targets are described in the Annual Report, the following environmental and social targets apply to all Atlas Copco companies and performance is monitored on a regular basis.

In 2007, the Group established a zero tolerance target for work-related accidents. In addition, in January 2008, Atlas Copco revised its environmental targets to get even more focus in this area. Targets are described below.

Non-financial objectives and 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.
- Zero tolerance for 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.

The performance in relation to the targets is reported under the sections Society and the Environment, Customers, Employees, Business Partners and Shareholders. Key performance indicators for five years are reported on page 112.

Tools and training

In recognition of the fact that environmental or social considerations may, at times, override purely commercial considerations, guidance documents and training materials are available to assist operations with the implementation of sustainability policies, within the context of their commercial responsibilities.

Since the initial introduction of the Business Code of Practice in 2003, around 70% of Atlas Copco employees have received training on the Business Code of Practice, mainly via the Group's internal training program at the local company level. This is somewhat lower than in 2006, the reason being the many acquired units in 2007.

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

In addition, Al Gore's film "An inconvenient truth" has been used in training sessions in all major markets to further increase the awareness.

All Sustainability training modules are available in *The Way We Do Things.*

Reporting of violations

Since 2005, Atlas Copco has a whistle blowing process 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 who is reporting is given anonymity.

In 2007, a total of five possible violations of the Business Code of Practice were reported to Group Management, through the ethical helpline, hotline@se.atlascopco.com. In four of the cases a special internal audit was conducted to investigate and assess the circumstances of the reported cases. In two of the cases, actions were taken as a result.

In 2008, additional efforts will be made to make sure that the existance of the ethical helpline is known by all employees, also in acquired companies.

The Business Code of Practice is available in 11 languages.

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 22 countries on five continents. Its global reach spans customers in the manufacturing, process, mining, construction and services sectors in more than 160 countries. As such, 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.

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.

Atlas Copco assesses its economic sustainability in terms of the value added concept, defined as the economic value created 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 value added

Over the past few years the value added has steadily increased, thus permitting progressively larger payments to most Atlas Copco stakeholders. In 2007, the value added increased by 23% to MSEK 25 819 (20 939), largely as a result of increased growth generated by the business as well as acquisitions. The value added per employee increased to KSEK 875 (808).

In 2007, Atlas Copco had an average of 29 522 (24 378) employees. Salaries and other monetary remuneration paid by the Group increased 19% to MSEK 9 700 (8 133).

The Group contributes to economic development within the regions where it operates, for example to pension funds and social security, through payments of taxes, social costs and other duties. In 2007, taxes and social costs were up 22% to MSEK 5 371 (4 401).

Through subcontracting manufacturing and other activities, Atlas Copco generated further employment and financial growth. Payments to suppliers for goods and services amounted to MSEK 37 536 (29 573), an increase of 27%.

Atlas Copco's shareholders and creditors provide funds to finance the asset base that is used to create added value. In turn, these stakeholders receive interest payments and annual dividends. In 2007, net interest cost was MSEK 453 (654). Dividend payments increased 8% to MSEK 2 899 (2 672). In 2006, MSEK 3 776 was spent on repurchasing of own shares. In 2007, MSEK 24 416 was distributed to the shareholders through a mandatory redemption of shares, hence the value retained in the business decreased by MSEK 17 020 (+1 303).

Environment

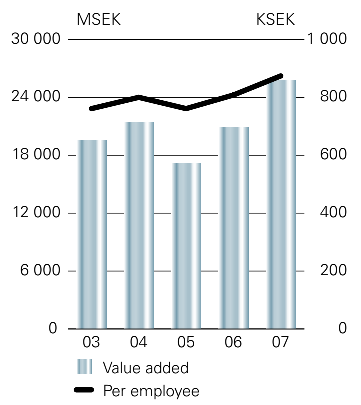
Like most industrial companies, Atlas Copco operations affects the environment in the production process, through the use of natural resources, and the generation of emissions and wastes, in the distribution of, as well as in the use and final disposal of its products. The Group works to reduce these impacts both in the design of new products, in the continuous product development, and through the ongoing improvements of the manufacturing plants where environmental considerations are integral parts. For this purpose, a number of key performance indicators are monitored, and some are reported here.

In 2007, Atlas Copco's revenues increased in volume by 27% (including acquisitions). At the same time, through efficiency improvements and a greater focus on environmental issues, the use of natural resources has increased at a lower pace except for transport related fuel consumption. For example, in absolute figures, energy use increased 18%, water use has increased with 3%, CO_2 emissions from energy 19%, cooling agents 20%, and transport fuel and CO_2 emissions from transport both increased 55%.

Core environmental indicators

Key performance indicator	Change 2007/2006 in absolute figures, %
Revenues in volume (including acquisitions)	+27
Energy use	+18
Water use	+3
Transport fuel	+55
Cooling agents	+20
CO_2 emissions from energy	+19
CO_2 emissions from transports	+55

Development of value added



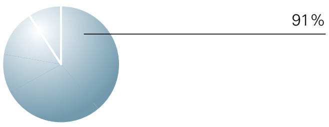
2003 and 2004 includes the electric tools business.

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 impacts. In 2007, 44% of Atlas Copco's employees worked in an EMS environment. The objective is to reach 100%.

All product companies shall be certified according to the international standard ISO 14001. This process has to date been successful, and the proportion of product companies attaining ISO 14001-certification has grown continuously in the past few years. In 2007, an additional 13 reporting product companies were ISO 14001 certified, representing 91% (92) of cost of sales.

ISO 14001 certification



Use of resources

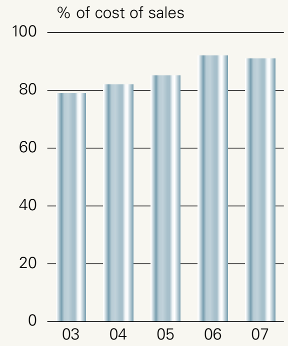
The transformation of raw materials and purchased components into finished products is a fundamental part of the Atlas Copco business, and substantial amounts of materials, energy and water are annually consumed in this process. In recognition of this environmental impact, the Group works constantly to improve the efficient use of resources in the manufacturing process, and has, for instance, achieved noticeable reductions of both energy and water use in recent years. Measured in relation to cost of sales, the use of energy was reduced by 12% and the use of water reduced by 23% in 2007.

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

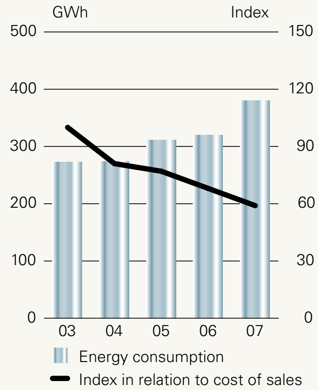
The by far most significant material used in the production process is steel, either in a raw form, or as part of components that are machined in-house or by sub-suppliers. In terms of weight, steel, which represents more than 95% of the materials used in production, has increased in the past few years due to the expanding Atlas Copco business. The main portion consists of recycled materials. Other materials used in the production process include: aluminum, copper and brass, plastics, rubber, oils and greases, and natural gas.

Considerable efforts have been made over the years to cut down on unnecessary packaging materials, for instance by optimizing packing solutions and reusing packaging materials. For example in the Atlas Copco product company for construction tools in China, the reduction of packing material was 38% in relation to cost of sales in 2007.

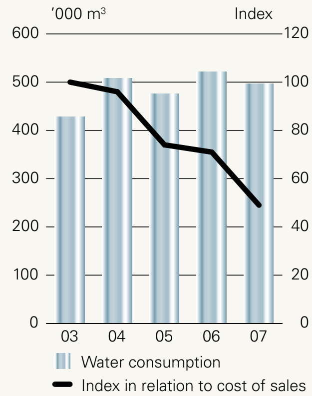
ISO 14001 certification



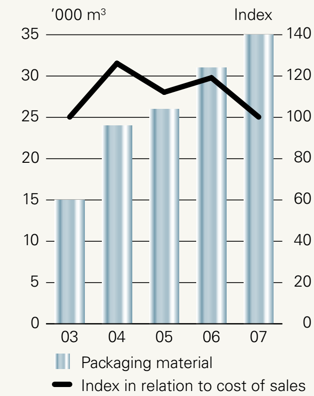
Energy consumption



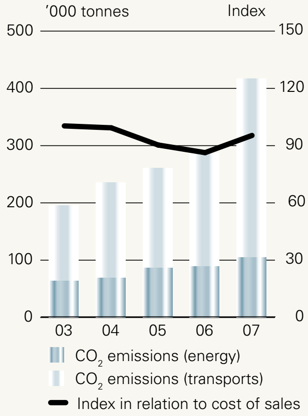
Water consumption



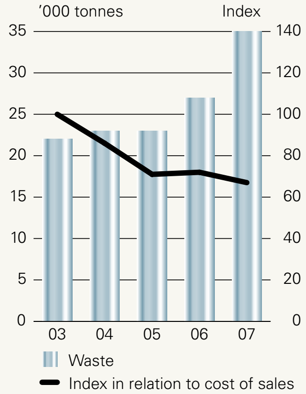
Packaging material



CO_2 emissions



Waste



Measures are taken to reduce the water usage, for example the Atlas Copco production unit for construction tools in Germany, has reduced its water consumption by 50% by evaporating the process water in a vaporizer.

The majority of the Group's plants are connected to municipal waste water treatment plants and a few have their own treatment plants.

Emissions and waste

Climate change is today 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 to 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 estimates and reports CO_2 emissions from direct and indirect energy used in production, transportation to and from production sites, and from cooling agents (standardized conversion factors published by the Greenhouse Gas Protocol Initiative are used to calculate CO_2 emissions, see also www.ghgprotocol.org).

In 2007, the decrease of CO_2 emissions from energy at production sites was 11% in relation to cost of sales, due to investments in more energy efficient production, for example upgrade of air conditioning system, change into variable speed drive (VSD) compressors and change of production area lighting.

In 2007, the increase of CO_2 emissions in transport was 16% in relation to cost of sales. The high market demand and corresponding volume growth were challenging for the product companies. They have strived to satisfy customers' needs, and at the same time tried to keep energy consumption in transports at a decent level. However, to keep the delivery commitments to customers a higher level of deliveries has been made by air freight than in 2006.

Atlas Copco does not monitor emissions caused by business travel, but actively promotes alternatives such as interactive internet-based conferences, telephones and video conferences.

Atlas Copco is using cooling agents in some products (air driers) and processes (cooling installations). In 2007, the amount of cooling agents in relation to cost of sales decreased with 11%. The Group acknowledges that some cooling agents have an ozone depleting impact (ODP), and therefore offers products with zero impact (0 ODP) and strives to use this for all products. The majority of the reported cooling agents are in closed-loop systems in Atlas Copco's products and therefore not released during the operational life of the products.

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 2007, the amount of waste in relation to cost of sales decreased 6%.

Of the total waste produced by the Group less than 6% is classified as regulated waste requiring special treatment and disposal methods. All other waste tends to be reused on site, recycled by waste handling companies or burned to produce energy in municipal heat and power plants.

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 2007.

Human Rights

Atlas Copco's Business Code of Practice supports fundamental human rights and respects those rights in the Group's operations throughout the world. Atlas Copco does not accept any forms of child or forced labor, actively discourages discrimination, and encourages equality and diversity. The Group recognizes that employees have the right to decide whether to be organized or not in all of its operations. Freedom of association and the right to collective bargaining and agreements shall be respected in all Atlas Copco Group operations. These basic principles are also promoted to business partners around the world.

Human rights abuse exists on 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 and receives training 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, wherever possible.

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.

Through the Control Self Assessment routine (see also page 126), 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 reputation risks by association with customers. Approximately half of Atlas Copco's units have to date established this routine.

Society

Atlas Copco is truly global, with ambitious business growth targets also in regions where social standards and cultures vary significantly. The Business Code of Practice is therefore an important tool in the implementation of the Group's social responsibility.

Atlas Copco recognizes that its social responsibility extends beyond its own work place and evaluates the social, environmental, political and reputation risks it faces when operating globally. Whilst striving to be a good and reliable corporate citizen, and as one of its three core values, the Group considers interaction to be an important success factor and therefore wants constructive dialogues with its key stakeholders in society.

The Group encourages learning and development through cooperation with local communities. This involves active participation in local environmental networks and engaging in environmental activities where this is seen to add value both to the community at large and to local companies.

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 lead 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.

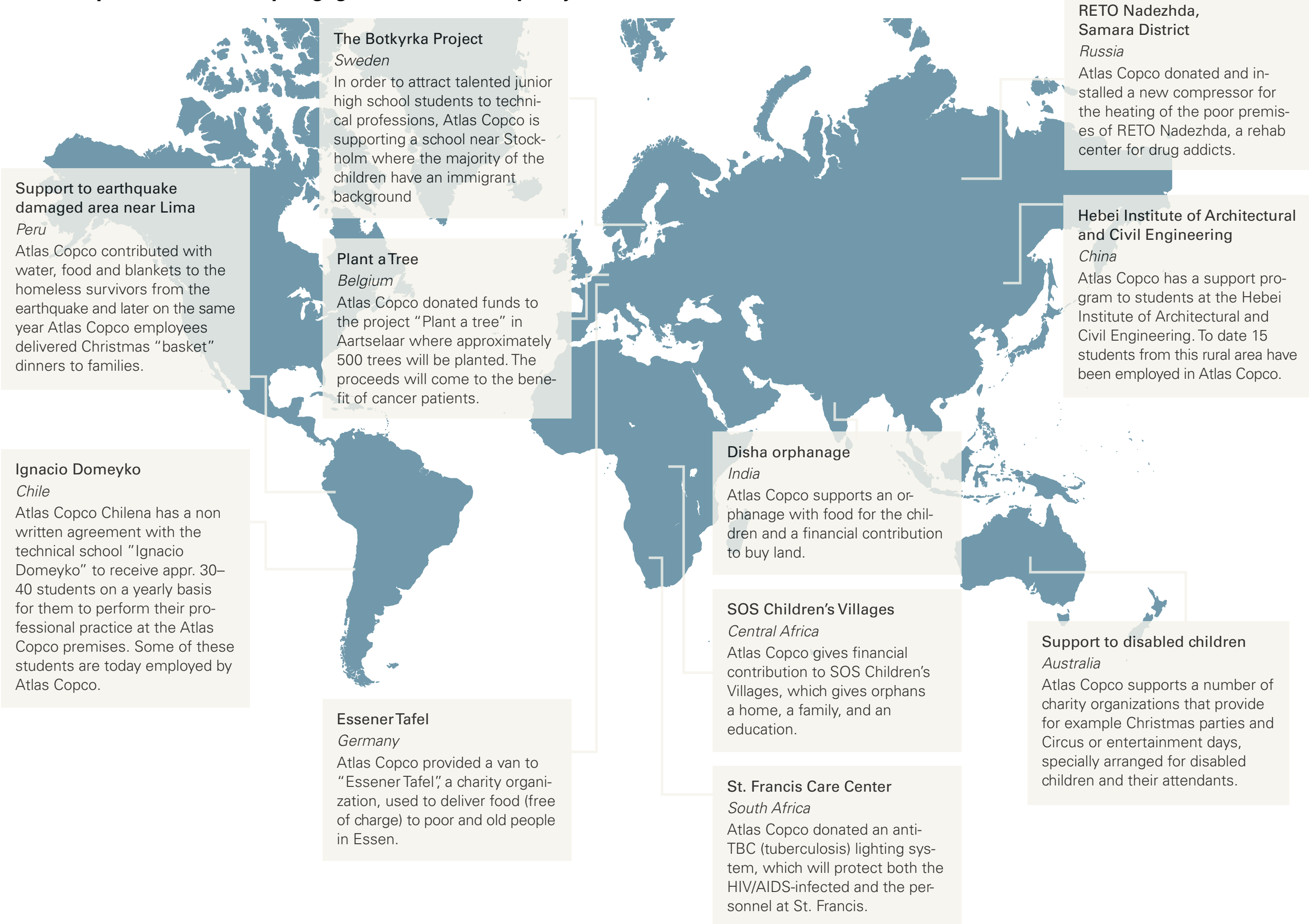
Since 1984, Atlas Copco has supported the employee managed organization *Water for All*, which raises funds to finance water well drilling activities and equipment in order to supply clean drinking water to needy villages and communities. The water supply is normally achieved through drilling or digging and installing hand pumps or through protection of natural springs. The *Water for All* association has over the years given more than 800 000 people access to clean water from water wells, which can last for up to 30 years. More than 2 500 water wells have been installed with the support of the organization.

During 2007, *Water for All* reported that another 100 000 people were provided with a sustainable source of clean drinking water, as a result of financial contributions.

Six years ago, Atlas Copco introduced an HIV/AIDS program in its operations in South Africa, including testing, awareness training, and – for those who are diagnosed HIV positive – consultation and treatment. Today, Atlas Copco's HIV/AIDS program also spans Zambia and Zimbabwe and it will expand to other countries in the region. For the awareness training, Atlas Copco is cooperating with Reality Training, a consulting company employing approximately 25 females, of which the majority is HIV positive. The Group has received acknowledgements for performing well in this work.

Atlas Copco's local charity initiatives – selected and supported by local companies – are chiefly focusing on three areas: providing education, give children a safe childhood, or fighting deceases. In line with this, Atlas Copco companies are supporting schools or universities to raise the educational level and helping orphanages to give the children living there a safe environment to grow up in.

Examples of Community Engagement and Charity Projects around the world



All local charity has in common that the support should be given during either a medium or long-term period. However, support to natural and humanitarian disasters, which is of a completely different character, can be provided on a short-term basis.

Anti-competitive behavior

As a global citizen with valuable brands, Atlas Copco is mindful of the importance of working actively to build awareness for, 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.

Training packages covering anti-corruption procedures and behavior are used in the Group. 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 specifically 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 2007 and there are no pending legal actions in this area.

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.

In 2000, Atlas Copco became 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 machinery.

Atlas Copco is participating in the ongoing development of the ISO 26000 standard on Social Responsibility.

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.

Teaming up for clean drinking water

The Atlas Copco Group is a main supporter of *Water for All* in its aim to provide clean drinking water for people in need.

Water for All is an employee-managed organization devoted to fund raising amongst Atlas Copco's employees to support the digging or drilling for fresh drinking water. It operates with the motto that "Clean drinking water is a basic human right". Since its start in 1984, more than 800 000 people have received sustainable water in countries where fresh water is scarce.

Water for All projects currently under way includes:

- Wardak Province, Afghanistan
- Burkina Faso, Mali, and Senegal
- Indapur, India (City and municipal council in Pune District, Maharashtra State of India).

The Atlas Copco Group encourages learning and development through engagement in the community and considers the development of *Water for All* as one of its key long-term projects, because of the commitment made by its own employees. The Group supports the employees in establishing and growing the organization and, financially, it matches employee donations.

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 csr@se.atlascopco.com.

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 in order to sustain competitiveness.

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 measure of how customers value the products and services offered by the Group. Furthermore, in accordance with the Group's Quality Policy, all divisions conduct customer surveys to measure how satisfied customers are with Atlas Copco. They are implementing the 'Net Promoter Score' concept to measure customer loyalty and to improve performance as required. The overall objective is to achieve long-term profitable growth.

The Group recognizes its 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 first and foremost safeguarding that the Group's own commitments are met regarding the safety and technological leadership of its products and services, and regarding its business practices, and secondly, by building awareness for the ethical guidelines supported by the Group. 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

Seen over the entire product life cycle, the largest environmental impact does not take place in the production process, but during the use of Atlas Copco products. In designing its products Atlas Copco aims to reduce environmental impacts by improving the performance of every product design. Life cycle assessments show energy consumption, oil leakage, noise and dust emissions to be the most significant environmental impacts. Atlas Copco also covers relevant aspects of ergonomics, safety and health in its product development process.

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, when each business area manufactures a wide variety of products and solutions. However, all divisions specify and report these impacts on an annual basis for their main product groups.

During 2007, Atlas Copco business areas conducted a number of product improvements. Some examples of these are given below.

The **Compressor Technique** business area has continued to develop energy efficient products. Products with better performances and applications with variable speed drives (VSD), which can save up to 35% energy, and an extensive use of Air*Scan*™ surveys in order to upgrade the installations, are available in a broad power range. On average, the energy consumption of the compressors sold decrease with 1% per year. Noise emissions for smaller diesel-driven compressors have decreased significantly; since 2001, the average noise level has been reduced by 30%. Compressor Technique also offers a monitoring service intended to identify leaks in compressed air systems, helping customers save energy.

In the **Construction and Mining Technique** business area the environmental focus areas are the design of more energy efficient products, the further reduction of oil leakage due to damaged hoses during operations in mines, the reduction of dust and noise emissions, and the replacement of substances of concern.

Construction and Mining Technique continues to introduce new low emission engines in all divisions. Distance maintenance (remote control) of the rock drills is available for 10 product types, meaning reduced service travelling to the drill rigs.

To improve the air quality in the mines, the business area has designed a rock drill with reduced oil leakage, as the lubrication oil is directed to one outlet nipple, to which the customer can choose to connect a hose to collect the oil.

To further reduce the risk of oil leakage, the underground rock excavation division has an ongoing project to use more resistant hoses.

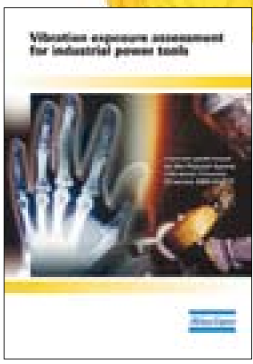
The business area has a target to reduce all lead (Pb) material to a minimum. In rock drills, bronze amalgamated with lead has been replaced by an environmental friendly material in 80% of defined products. The new generation of electronic modules and computers used in the drill rigs are now Restriction of Hazardous Substances (RoHS) compliant.

In the **Industrial Technique** business area, products have been launched with improved energy efficiency, replacement of substances of concern, a cutting-edge ergonomics including noise and vibration reductions, longer operational life together with improved dismantling and recovery of materials. An example of replacement of substances of concern, is the launching of a new generation of advanced tightening system, which is RoHS compliant. Electric assembly tools system provides a source for energy savings due to the lower consumption of energy, compared to pneumatic systems. This continuous change is driven by a new and more comprehensive product portfolio of electric tools, which replaces gradually pneumatic tools.

In 2007, the business area has introduced the Walk-the-Line concept, where its engineers physically walk along the assembly line in order to learn what tools are currently used at customers' sites. This concept creates an opportunity to discuss energy reduction, improved ergonomics, and safety.

As a leading supplier of hand-held power tools, Industrial Technique has long been aware of the importance of ergonomics in design. A pocket guide, "Vibration exposure assessment for industrial power tools" has been developed for employers who have employees using vibrating hand-held tools. It is based on the Physical Agents (Vibration) Directive (EU 2002/44/EC) regarding employees' health and safety when exposed to risks in connection with vibrations at work.

In 2007, the second edition of Power Tools Ergonomic book was published. It's a book evaluating power tools from an ergonomic standpoint.



A pocket guide has been developed for employers who have employees using vibrating hand-held 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.

Recently, steps have also been taken to develop a second lifecycle for older products. Focus for these products are quality, health, and safety aspects.

No significant cases of non-compliance with regulations concerning health and safety or product information and labeling have occurred during 2007.

Marketing Communication

Atlas Copco has established clear communications policies published in *The Way We Do Things* where it is stated how to communicate to different stakeholders whilst adhering to applicable laws, standards and voluntary codes.

Communications managers and professionals are increasingly being employed in the local markets. In addition to the competence that they bring, they are also offered internal training for example on legal aspects of communication or on how to write for the web-site.

Doing business for a cleaner world

Concern about the effects of global warming has led to mounting pressure on companies like Atlas Copco to reduce pollution and increase their focus on sustainable development. But Atlas Copco's possibly biggest contribution to a cleaner world is actually being driven by a business opportunity – growing demand for more energy-efficient compressors.

Faced with rising electricity costs, customers are turning to Atlas Copco to help reduce the energy consumption of their compressors, which on average stand for about 10% of their power bill and sometimes as much as 40%. In the best case scenario, Atlas Copco can cut the energy consumption of a compressed air installation by as much as 50%.

The most dramatic improvement became possible about 10 years ago with the introduction of the variable speed drive (VSD), a technology for running the compressor at minimum power at any given moment. This alone can reduce energy consumption by as much as 35%, but there are many other improvements to be had.

Do you think air is free? Think again. Leaks can waste as much as 30% of a compressor's output. With that in mind, Atlas Copco offers Air*Scan*™, an audit of the customer's compressed air system that identifies opportunities for savings. Customers can also sign up for the Air*Optimizer*™ service agreement, providing a continuous control that the system is as efficient as possible.

In addition to the reduction in energy consumption, Atlas Copco offers energy recovery systems, which help customers reuse excess heat from the compressors to heat their factories. At the Group's own plant in Tierp, Sweden, this has reduced the water-heating costs by two thirds.

What does this development mean for the bigger picture? Thanks to continuous product development and an increasing share of sales of VSD compressors, Atlas Copco's compressors are on average becoming 1% more energy efficient each year. That may not sound like a lot, but looking over the past 10 years, it adds up. If there had been no improvements in energy efficiency over that time period, the stationary compressors Atlas Copco sold in 2007 would have used around 2 000 gigawatt hours more of electricity than they actually did.

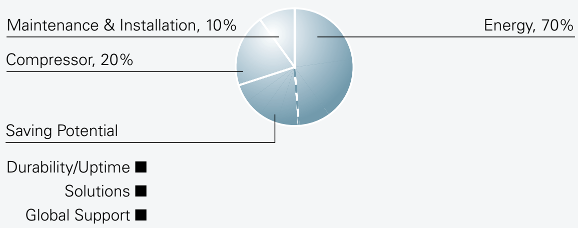
The market potential, and the opportunity to help the environment, is even greater. VSD compressors account for less than a quarter of total amount of sales, whereas customer audits show it would be justified from a cost perspective to use them in 70% of all applications. The challenge is to educate purchasers on the benefit of considering the entire life-cycle cost of the compressor, rather than just the initial investment. Replacing an old compressor can reduce the share of energy in the life-cycle cost from 70% to 50%.

Despite the improvements, one might still think that manufacturers would simply try and find other solutions, considering the rising energy prices, rather than spending their cash on air. Indeed there has been a shift away from using pneumatic tools in factories, but many distinct advantages remain, such as power in relation to size, which sustains that market. Also, the shift has been more than offset by increasing use of air as a part of production processes. Nine tenths of all beer brewed in the world is produced with the help of Atlas Copco's oil-free air compressors, the textiles industry has multiplied its productivity by introducing compressed air in the process, and in the ever-growing production of PET bottles, compressed air is essential.

What does the future hold, if energy prices keep rising? Increasing interest in the emerging markets, both for energy efficiency and for environmental issues in their own right, indicate this will remain a growth industry.

Atlas Copco is poised to take advantage of this, and doing a great deal of good for the environment in the process!

Potential savings with VSD



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 2007, Atlas Copco has continued to focus on offering a safe, healthy and diversified working environment for all employees.

Labor Practices and Decent Work

At year end 2007 Atlas Copco employed 32 947 people around the world and 86.6% of its workforce was based outside Sweden. In 2007, new acquisitions brought 3 894 new employees to the Group, and through divestments 83 left.

Atlas Copco's people management strategy is to attract, develop and keep motivated people, whilst expecting managers to take responsibility for developing themselves and their organizations for new positions. 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.

Employer/employee relations

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

Atlas Copco's policy is that all employees should have the right to decide whether or not to be represented by a labor union. In 2007, 40% of all employees had a union representative to support them, which means that they were part of collective bargaining agreements. Regarding minimum notice period of operational changes Atlas Copco complies with national laws and regulations.

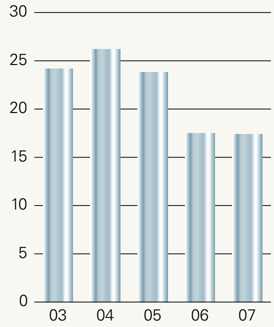
Wages and benefits are determined in accordance with market forces. The goal is to be fair, consistent and competitive, and to remain in line with the industry standards, in order to attract and retain the best people.

Atlas Copco Specialty Rental receives triple certification

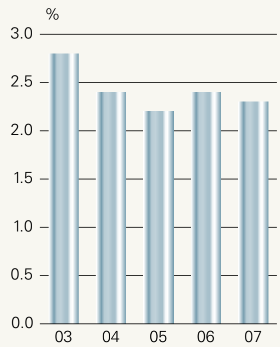
Atlas Copco's Specialty Rental division has been granted the triple certification for quality, environmental and occupational health and safety management by Lloyd's Register Quality Assurance. It is the first rental company to be granted the triple certification for multiple sites, encompassing the standards ISO 9001, ISO 14001 and OHSAS 18001, setting the standard for the industry worldwide.

The triple certificate has a fundamental place in supporting the Specialty Rental division's mission to become and remain the market leader worldwide in oil-free, high pressure and compressed air applications rental. Showing the division's commitment to the quality of its services, the care for the environmental impact of its operations and the health of its employees and customers, it will serve as a door opener to new customer segments and applications.

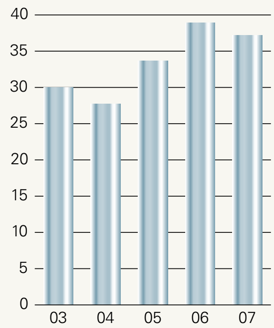
No of accidents per millions of hours worked



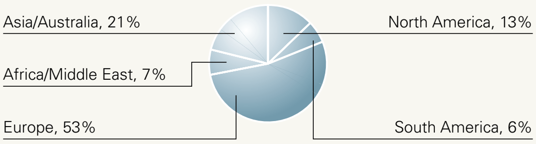
Sick-leave



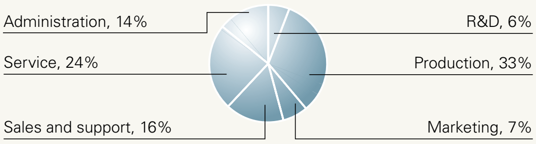
Average hour of training per employee



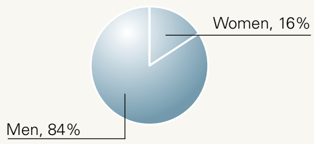
Proportion of employees geographical spread



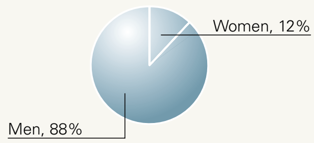
Proportion of employees per professional category



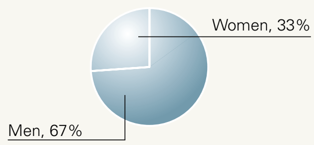
Proportion of men and women



Proportion of men and women managers



Proportion of men and women recent graduates recruited in the year



One example regarding personnel benefits is in India where Atlas Copco has introduced an accident insurance covering all employees, as well as a new medical insurance which also covers all their family members.

Atlas Copco encourages mobility across geographical, organizational and cultural boundaries. This is important for competence development, but also for successful integration of newly acquired companies. Experienced Atlas Copco managers in senior positions lead the integration process and make it possible to establish the Group's business code, values and vision in an efficient and pragmatic manner. In 2007, internal mobility for salaried employees was 8.6%, which means that 1 888 people moved to new positions. Overall external recruitment for the same category reached 18.6% and has varied between 13.3% and 18.6% during the past five years. External recruitment totaled 4 116 people excluding acquisitions.

Employee surveys

Employee surveys are conducted every second year to evaluate the Group's relative attractiveness as an employer. To gauge the efficiency of the companies' performance, the Group calculates an Employee Net Promoter Score to understand to what extent Atlas Copco is a preferred employer. The result from the 2006 survey was used to further improve employee relations and commitment. In some cases, also local surveys were performed.

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 actions when appropriate. In support of this, the Group measures numbers of accidents and sick leave days and seeks actively to ensure that these numbers reduce over time.

The number of accidents was 17.4 (17.5) accidents per million hours worked, in 2007.

In 2007, there were no work related fatalities in the Group's operations.

The level of sick-leave has decreased slightly, to 2.3% (2.4). During the period 2003–2007, the sick leave percentage has varied between 2.2–2.5.

Competence development

In 2007, the average number of training hours per employee was 37.2 (38.9). The decrease is a result of newly acquired companies who have not yet had training programs to the same extent as other Atlas Copco companies. Atlas Copco's training target is 40 hours on average per employee per year.

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. Whilst training seminars and workshops remained the most popular way of offering training within Atlas Copco, e-learning has been developed as a complementary tool for disseminating and sharing knowledge, both within the Group and between product experts and customers.

All business areas have their own competence development programs, with well-defined seminars, for example the AIR Academy for people within the Compressor Technique business area.

Atlas Copco companies have established a competence development program, the Academy, in some countries such as China, India and South Africa. This training program covers a curriculum of some 20–30 courses per year in for example Business Code of Practice, language and presentation skills, as well as Atlas Copco related processes.

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 2007, 42.1% (40.5) of the salaried employees had university degree or higher. The percentage has increased continuously since 2003.

In 2007, 68.1% (71.0) of all employees had an appraisal, an annual performance and career development review. The decrease in appraisals is explained by newly acquired units which have not been in the Group for a full year. The target is 100%.

Fairness and diversity

Equal opportunities, fairness, and diversity are fundamental pillars of Atlas Copco's People Development policy. 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. However, 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.

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.

In 2007, the proportion of women overall as well as women in management positions increased slightly. The ratio of female employees was 16.4% (16.2), and the proportion of female managers was 12.0% (11.8). During 2007, 32.9% (26.0) of the recent graduates recruited were female.

Lisa Zettlin, Business Line Manager, ZAO Atlas Copco, Russia, started her career in Atlas Copco Tools, Sweden. Here she conducts a training session with her Russian colleagues.

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. The ultimate aim is that through such close working relationships, the Group shall be able to deliver high quality products and services, whilst meeting its commitments to environmentally and socially sound business practices.

Atlas Copco recognizes an increasing need to take a more active role in dialogues and assessments of business partners from a sustainability perspective. 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, has been developed to clarify the Group's expectations on its business partners and sub-suppliers.

Atlas Copco's reporting units provide quantitative data of evaluated, approved and rejected suppliers and those requiring development, based on sustainability expectations and/or business expectations. 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. An example of this was in 2007, when Atlas Copco Drilling Solutions division invited business partners and held training sessions.

Atlas Copco encourages all business partners to implement an environmental management system similar to Atlas Copco's.

In 2007, 1 270 significant suppliers were evaluated by Atlas Copco teams directly at the suppliers' sites, through certification, or through verification of the suppliers' own reports. While all audits included evaluation from an environmental perspective, approximately 63% of the evaluations included social aspects (including human rights issues). 89% of the suppliers evaluated from an environmental perspective were rated average, good, or exceptional. 11% of the suppliers required development and will be monitored by Atlas Copco. The same figures related to the social evaluations were 85% and 15% respectively.

In 2007, two suppliers were rejected because they were deemed as not living up to Atlas Copco requirements.

Atlas Copco lists substances that might be harmful to the health and to the environment. Substances that are going to be replaced when technically and economically feasible can be used restrictively. There is another list with substances that are prohibited. Suppliers' use of such substances are regularly checked, and if prohibited substances should be found, it is required that these are immediately replaced with approved alternatives.

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. For various reasons, approximately 11% of the Group's 7 000 significant suppliers are currently rated as risk suppliers.

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 sustainability corporations will create significant long-term value through innovation, attracting and keeping the best people, and through being the customers' first choice.

Atlas Copco aims at open, truthful, and accurate communication within the limits of commercial confidentiality. Since 2002, Atlas Copco publishes a Sustainability Report to give shareholders and other stakeholders an insight in the Group's strategies and achievements.

Sustainability challenges and risks

Assessing significant strategic, operational, financial, legal, and reputation risks is an integral part of conducting good, sensible business. Atlas Copco's approach to assessing and managing risks, including risks related to the Group's sustainability performance, is described in the Annual Report.

Atlas Copco has decided to put more attention to the following areas regarding sustainability:

1. Reputation risk within the mining industry: of those countries that have this type of industry have problems with regards to environmental issues and human rights aspects.
2. Corruption: Transparency International's Corruption Perception Index shows that the business integrity trends in many countries move in the wrong direction.
3. Energy consumption during the life-cycle of a product: Besides the challenge of reducing the consumption, energy is a scarce resource.
4. Business Partners: Many business partners are acting in countries where ethical, social and environmental standards are different from those referred to in voluntary international ethical guidelines.

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 Flemish Authorities.

Atlas Copco is a minor consumer of energy in its own operations and as such only to a small degree subject to changes in energy costs. However, extreme weather conditions, natural disasters, or other events could cause a shortage of resources such as water and energy, and thus affect the operations 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.

Sustainability ratings

Besides the reporting on its key performance indicators, which have been defined based on the GRI's indicator protocols, Atlas Copco each year report on its sustainability performance to a number of companies involved in sustainability ratings.

In 2007, Atlas Copco was listed in:

- Dow Jones Sustainability Index
- FTSE4Goods Global Index
- Global 100 list by Corporate Knights Inc.
- Amnesty Business Rating

Atlas Copco participates in the Carbon Disclosure Project's (CDP) annual reporting of the climate impact since 2007 (www.cd-project.net). On an ad hoc basis, Atlas Copco also responds to other questionnaires.

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 2008. 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 2007/08

Performance Summary 2007

GRI indicator	Economic	2003	2004[2]	2005[1]	2006[1]	2007
EC1	*Economic value generated*					
EC1	Revenues	44 619	48 654	42 205	50 512	63 355
EC1	*Economic value distributed*					
EC1	Cost of goods and services	25 048	27 188	25 245	29 573	37 536
EC1	Value added (Revenues – cost of goods and services)	19 571	21 466	16 960	20 939	25 819
EC1	Wages and remuneration (monetary)	8 537	8 821	6 858	8 133	9 700
EC1	Taxes & social costs	4 030	4 558	3 646	4 401	5 371
EC1	Interest payments (net)	386	225	469	654	453
EC1	Dividends	1 219	1 575	1 890	2 672	2 899
EC1	Redemption/repurchase of shares	–	–	4 192	3 776	24 416
EC1	*Economic value retained*	5 399	6 287	–95	1 303	–17 020

GRI indicator	Social	2003	2004	2005	2006	2007
LA7	Number of accidents per million hours worked	24.2	26.2	23.8	17.5	17.4
LA7	Sick-leave %	2.8	2.4	2.2	2.4	2.3
LA10	Average training hours per employee	30.0	27.7	33.7	38.9	37.2
LA12	Proportion of appraisals, % employees	67.4	66.6	69.0	71.0	68.1
LA13	Proportion of women, % employees	17.0	16.0	14.5	16.2	16.4
LA13	Proportion of women in management positions, % managers	10.0	10.0	9.0	11.7	12.0

GRI indicator	Environmental (production units)[3]	2003	2004	2005	2006	2007
EN1	Material use in ’000 tonnes (iron and steel)	30	52	82	85	143
EN1	Packaging material in ’000 tonnes	15	24	26	31	35
EN3 + EN4	Energy use in GWh	273	274	311	321	380
EN8	Use of water in ’000 m^3	428	508	476	523	497
EN16	CO_2 emissions ’000 tonnes (energy)	64	69	86	89	105
EN16	CO_2 emissions ’000 tonnes (transports)	131	169	175	198	312
EN19	Cooling agents in tonnes	52	82	67	73	84
EN22	Waste ’000 tonnes	22	23	23	27	35
EN29	Transports ’000 m^3 fuel	50	65	67	76	120

GRI indicator	Environmental (specialty rental)	2003	2004	2005	2006	2007
EN3 + EN4	Energy use in GWh				40	65
EN8	Use of water in ’000 m^3				25	18.8
EN16	CO_2 emissions ’000 tonnes (energy)				24	16.7
EN16	CO_2 emissions ’000 tonnes (transports)				2.3	8.7

1) Excludes the equipment rental operation in North America, which was divested in 2006.
2) Includes the electric tool business, which was divested in 2004.
3) Changes reflect both changes in volume, consumption and an increase in the number of reporting units.

Sustainability and Reporting Definitions

Carbon dioxide (CO_2)
Carbon dioxide is the most common greenhouse gas found in the atmosphere.

Cooling agents
The total amount of 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
Core indicators are those defined in the GRI (Global Reporting Initiative) Guidelines to be of interest to most stakeholders and deemed to be material to the organization.

Cost of sales
Cost of sales are all 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.

Energy consumption
Energy consumed for production includes production, heating, cooling, ventilation, as well as fuel delivered with rental products. Energy consumed from transports is measured from all inbound and outbound transports in cubic meters of fuel.

Environmental Management Systems (EMS)
EMS is 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 environmental policy. An EMS involves a systematic and documented approach to environmental management.

Fossil fuels
Fossil fuels are fuels originating from organisms of an earlier geological age, including coal, oil, natural gas, and peat.

Global Reporting Initiative (GRI)
GRI is an independent international organization working to develop guidelines for sustainability reporting. Read more at www.globalreporting.org.

Influencer
An influencer is an individual or group who is expected to have an indirect impact on Atlas Copco or its stakeholders through influence.

ISO 9001
ISO 9001 is an international standard, developed by the International Organisation for Standardization (ISO), for setting up and certifying quality management systems.

ISO 14001
ISO 14001 is an international standard, developed by the International Organisation for Standardization (ISO), for setting up and certifying environmental management systems.

Life Cycle Assessment (LCA)
Life Cycle Assessment is a 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)
A Megawatt hour is a measure of electrical energy 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.

OHSAS 18001
OHSAS 18001 is an 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.

Packing material
Packing material is 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.

Restriction of Hazardous Substances (RoHS)
RoHS is an EU-directive prohibiting or curtailing the use of lead, mercury, cadmium, Cr6, and the polybrominated flameretardants PBB and PBDEs in new electric and electronic products.

Sick leave
Sick leave is 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
A stakeholder is an individual or group who is expected to significantly affect or to be significantly affected by Atlas Copco's activities, products, and solutions.

Sustainability
Sustainability is 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. Sustainability has three dimensions: economic, environmental, and social sustainability.

Value added
Value added is a measure of the company's productive contribution; that is, the value added through processing and other activities. Value added is calculated by deducting costs for the purchase of raw materials, wholly and semi-finished goods, and services from revenues.

Waste
Waste is reported in tonnes 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: the waste material is reused in its present form.
Recycable: the waste is treated/transformed to a usable state.
Recoverable: the waste is incinerated to produce energy.
Landfill: all other waste not classified as above.
Regulated waste: the amount of the particular waste fraction that is regulated according to the definition and classification of regulated waste, applied in the companies' particular country or region, or the definition in the Basel convention.

Water
Water consumption in m^3, own and purchased, is measured at internal water meters or by water utility companies.

Work-related accident
Work-related accidents include 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. This does not include accidents occurring when traveling to or from work.

Sustainability information
As an extension to the regular dialogues, Atlas Copco encourages contacts by stakeholders through its website. Learn more about Atlas Copco and the Group's sustainability progress on www.atlascopco.com/csr.

All stakeholders and influencers are invited to e-mail comments and questions to:

Jo Cronstedt, Vice President Public Affairs and Environment Phone +46 8 743 8000 or mail to jo.cronstedt@se.atlascopco.com

Karin Holmquist, Sustainability Controller Phone +46 8 743 8000 or mail to karin.holmquist@se.atlascopco.com

Corporate Governance Report

Atlas Copco AB is incorporated under the laws of Sweden with a public listing at OMX Nordic Exchange Stockholm AB (the Nordic Exchange). Reflecting this, the corporate governance of Atlas Copco is based on Swedish legislation and regulations: primarily the Swedish Companies Act, but also the Listing Agreement with the Nordic Exchange, 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 its compliance with the Swedish Code of Corporate Governance, are available on the Group's website www.atlascopco.com/ir.

Shareholders

Atlas Copco had 50 825 shareholders according to the 2007 year-end shareholders register published by VPC AB, the Swedish Central Securities Depository. Foreign investors held about 46.5% of the shares, representing 50.6% of the voting rights. The 10 largest shareholders, by voting rights, registered directly or as a group with VPC AB accounted for 33.7% of the voting rights and 30.8% of the share capital.

10 largest shareholders, December 31, 2007

	33.7% of votes	30.8% of capital
Investor	21.21	15.42
Alecta	3.11	4.02
Swedbank Robur	1.91	3.25
Handelsbanken funds	1.74	2.11
AP 4	1.52	1.13
Folksam KPA	1.01	1.26
AP 1	0.90	0.96
Nordea funds	0.83	1.28
AP 2	0.80	0.88
Länsförsäkringar funds	0.62	0.52
Others	66.35	69.17
	100.0	**100.0**
– of which shares held by Atlas Copco	0.47	0.72

The table shows the largest shareholders, by voting rights, registered directly or as a group with VPC AB, the Swedish Central Securities Depository.

Share capital, voting rights, and dividend policy

In order to adjust the Group's balance sheet to a more efficient capital structure, the 2007 Annual General Meeting resolved to carry out a share split 3:1 combined with a redemption procedure whereby every third share was redeemed in June 2007.

The number of shares in Atlas Copco at year-end 2007 amounted to 1 229 613 104 shares distributed among 839 394 096 Class A shares and 390 219 008 Class B shares. Class A shares entitle the holder to one vote, while Class B shares entitle the holder to one tenth of a vote. One trading lot on the stock exchange consists of 200 shares.

During 2006 Atlas Copco bought back a number of its own Class B shares. The majority of these shares were redeemed in 2007, but 8 828 400 Class B shares were kept. The 2007 Annual General Meeting resolved to give a mandate to sell the remaining Class B shares and purchase a maximum of 6 400 000 Class A shares to be delivered under the Company's 2006 and 2007 personnel option programs. At year-end 2007 Atlas Copco held 5 250 900 Class A shares and 3 577 500 Class B shares. The total number of shares outstanding, net after shares held by Atlas Copco, was 1 220 784 704.

All shares carry the same rights to the company's assets and profits and entitle the holders to equal dividends. The Atlas Copco Group's dividend policy states that the dividend is to reflect the company's profit and cash flow trend as well as future growth potential. The Board of Directors' opinion is that the dividend should correspond to 40–50% of earnings per share.

Trading and market capitalization

Trading of Atlas Copco shares takes place on the Nordic Exchange. The shares are also available as American Depository Receipts (ADR) without being formally listed on a United States stock exchange.

Atlas Copco's market capitalization as of December 31, 2007, was MSEK 114 630 (138 865), excluding shares held by Atlas Copco.

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. A shareholder or a proxy holder may be accompanied by two assistants.

Shareholders representing 39.3% of the total number of votes in the company and 37.1% of the shares attended the Annual General Meeting held in April 2007 in Stockholm, Sweden.

Among other matters 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 2008 Annual General Meeting has been performed in accordance with the nomination process and the criteria adopted at the 2007 Annual General Meeting.

As prescribed by this process and criteria, during October 2007 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, KG Lindvall, Swedbank Robur Fonder, Ramsay Brufer, Alecta Pension Insurance, Mutual, and Patrik Hertsberg, Handelsbanken Funds. The names of the Committee members were made public on October 23, 2007. A way to contact the Nomination Committee directly was also provided. The Committee members represented some 26% of all votes in the company. Late 2007 the Committee began preparing a proposal to be submitted to the 2008 Annual General Meeting covering the issues specified at the 2007 Annual General Meeting and by law.

In line with the formal evaluation process adopted by the Committee, Sune Carlsson carried out individual discussions with each Board Member based upon which he evaluated 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.

In the notice to the 2008 Annual General Meeting, the Committee presents 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 2009.

Neither Sune Carlsson nor the other members of the Nomination Committee received any compensation for their work in the committee.

Auditor

At the Annual General Meeting 2006 the audit firm KPMG Bohlins AB (KPMG), Sweden, was re-elected external auditor until the 2010 Annual General Meeting in compliance with a proposal from the Nomination Committee.

Board of Directors

At the 2007 Annual General Meeting, seven 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 ten meetings in 2007, six times at Atlas Copco AB in Nacka, Sweden, once in Mumbai, India, twice per capsulam and once by telephone. The primary objective of the field trip to India was to give the Board Members the opportunity to visit the two major Atlas Copco factories in Pune and Nasik. 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, Björn Rosengren, and Fredrik Möller, have been present at one meeting each when they presented in-depth reviews of their respective business area. The business area presidents have also presented major acquisition projects to the Board during the year. In addition, the group treasurer, Ken Lagerborg, presented the situation in his area of responsibility at the July Board meeting.

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 have been updated and readopted by the Board at each statutory meeting since 1999. In addition to the task to prepare 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, three, and four.
- 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 120.)
- 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. The Board Members have commented on the market/economic development from their perspective at the Board meetings.

Major initiatives taken by the Board during the year include the approval of a number of acquisitions and investments in increased production capacity. Further, the capital structure was discussed in depth.

During the year, the Board has continuously addressed the strategic direction, the financial performance, and the methods to maintain a sustainable profitable growth of the Atlas Copco Group.

Remuneration to the Board Members

The 2007 Annual General Meeting decided on the following (unchanged) fees: the Chair received SEK 1 350 000, the Vice Chair SEK 500 000, and each of the other Board Members not employed by the company SEK 400 000. The amount of SEK 150 000 was granted to the Chair of the Audit Committee and SEK 100 000 to each of the other two members of this committee. The amount of SEK 50 000 was granted to each one of the three members of the Remuneration Committee and SEK 50 000 to two Board Member who participated in additional committee work decided upon by the Board. The Board adopted a policy for the investment of part of their fees in shares of the company at the statutory meeting.

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 2007. 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 220 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 (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 2007 Annual General Meeting for approval. The current Remuneration Policy is included in the Annual Report.

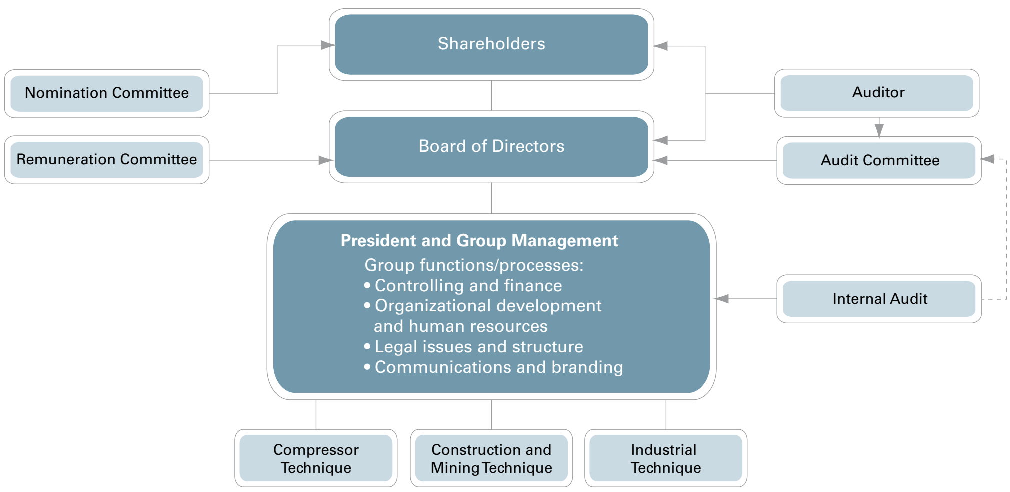
During the year, the Remuneration Committee had one meeting where all members were present.

Audit Committee

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 2007. 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 2007 focused on follow-up of the 2006 audit 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. In addition, the committee reviewed the major change of the Group's capital structure carried out during the year.

In 2007, 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 Group internal auditor, Anders Björkdahl.

Governance structure



Board of Directors


Sune Carlsson


Jacob Wallenberg


Gunnar Brock


Ulla Litzén


Anders Ullberg


Staffan Bohman


Grace Reksten Skaugen

Union representatives


Bengt Lindgren


Ulf Ström


Mikael Bergstedt


Kristina Kanestad

Honorary Chair


Peter Wallenberg

Board of Directors

The Board of Directors consists of seven 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; they are all members of the Board of Investor AB, Sweden, which is the single largest shareholder.

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 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 medical device company Mölnlycke Health Care Group, Board Member of the toy manufacturer Lego A/S, Denmark, 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 pharmaceutical company Karo Bio AB, the mining company Boliden AB, the industrial company Alfa Laval 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 Vice Chair of the IT company TietoEnator, Finland. Member of the Board of the aluminum profile company Sapa Holding AB, Sweden, the investment company Beijer Alma, Sweden, 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 of the risk-capital company Swedfund International AB, Sweden. Member of the Board of the industrial group Trelleborg AB, Sweden, the truck manufacturer Scania AB, Sweden, the holding company Inter-IKEA, Holland, the private equity company Ratos AB, Sweden and the mining company Boliden AB, Sweden.

Grace Reksten Skaugen, MBA BI, Norwegian School of Management, PhD Laser Physics Imperial College of Science and Technology London University, the United Kingdom. Chair of the Board of the state-owned real estate company Entra Eiendom and of the investment company Ferd Holding AS, and member of the Board of the oil company StatoilHydro ASA, all based in Norway. Member of the Board of the investment company Investor AB, 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**, 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 Knut and Alice Wallenberg Foundation, Sweden.

The Board of Directors and holdings[1] in Atlas Copco

Name	Title	Born	Nationality	Elected	Board Particip- ation (10)	Audit Committee	Remuner- ation Committee	Indepen- dent	Class A shares	Class B shares	Employee stock options
Sune Carlsson	Chair of the Board	1941	Swedish	1997	10	Member	Chair	No	20 000	34 284	
Jacob Wallenberg*)	Vice Chair	1956	Swedish	1998	10		Member	No	234 790	15 960	
Gunnar Brock	President and CEO	1950	Swedish	2002	10			No	46 200	87 000	449 128
Ulla Litzén		1956	Swedish	1999	10	Chair		Yes	75 800		
Anders Ullberg		1946	Swedish	2003	9		Member	Yes	14 000		
Staffan Bohman		1949	Swedish	2003	9	Member		Yes	5 000	15 000	
Grace Reksten Skaugen		1953	Norwegian	2004	8			No	940		
Bengt Lindgren	Union representative	1957	Swedish	1990	9			No			
Ulf Ström***)					7						
Mikael Bergstedt**)	Union representative	1960	Swedish	2004	10			No			
Kristina Kanestad***)					7						

[1] Holdings as per end of 2007, including those to close relatives or legal entities.
*) Jacob Wallenberg was also a Board Member of Atlas Copco AB between 1985–1994.
**) Ordinary member since the 2007 AGM.
***) Deputy since the 2007 AGM.

Auditor

At the 2006 Annual General Meeting the audit firm KPMG Bohlins 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 demand for geographical coverage.

The responsible auditor personally reported his observations and presented his views on the quality of internal control in the Group at the February 2007 and 2008 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 19 (18) divisions through the addition of the Road Construction Equipment division within the Construction and Mining Technique business area. As of January 1, 2008, the number of divisions is 20 as 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 business 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, banking 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, called Business Boards, reflecting the operational structure of the Group. The duty of the 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. The company's policy is to have 100% ownership in all its holdings. 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.

With respect to the Group's long-term business sustainability, highest priority is given to Atlas Copco's 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 nonfinancial (sustainable development) 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

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.
- Zero tolerance for 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.

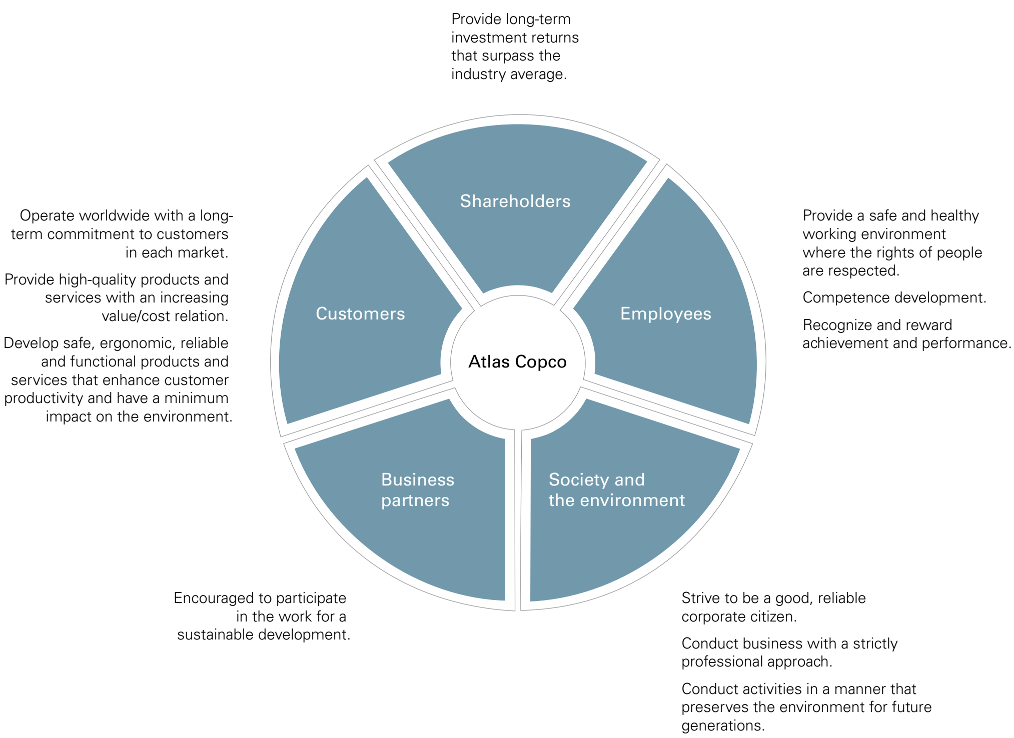
Business partners

- 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 Administration Report, page 19.

Atlas Copco and its principal stakeholders



Group Management

From left to right, back row: Hans Ola Meyer and Annika Berglund. Front row: Hans Sandberg, Fredrik Möller, Ronnie Leten, Gunnar Brock, Jeanette Livijn, and Björn Rosengren.

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, Sweden, 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 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 medical device company Mölnlycke Health Care Group, Board Member of the forest products company Stora Enso Oyj, Finland, the toy manufacturer Lego A/S, Denmark, 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, Ronnie Leten 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, President of the Rock Drilling Equipment division.

External directorship: HTC AB, professional floor grinding systems, Sweden.

Fredrik Möller, Senior Executive Vice President for Atlas Copco AB and Business Area President for Industrial Technique. Fredrik Möller earned a Master's of Science degree from Linköping Institute of Technology, Sweden, in 1988, and an MBA from Weatherhead School of Management, Case Western Reserve University, the United States, in 1990. He joined Atlas Copco in 1990 and has held managerial positions in sales, marketing, and product development in Sweden and has been General Manager of a Customer Center in the United States. Between 2003 and 2005, Fredrik Möller was President of the Atlas Copco Tools and Assembly Systems division. Fredrik Möller assumed his present position in 2005.

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.

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 sales company, product companies, divisions, and business area. Since 10 years Jeanette Livijn has held managerial positions within human resource management. Before she took up this 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. Hans Sandberg 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 with Atlas Copco in 1979. Since then, she has had 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 1999.

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	87 000	449 128
Ronnie Leten	1956	Belgian	1997	President Compressor Technique	8 000		72 562
Björn Rosengren	1959	Swedish	1998	President Construction and Mining Technique			58 750
Fredrik Möller	1963	Swedish	1990	President Industrial Technique			58 750
Hans Ola Meyer	1955	Swedish	1991	Controlling and Finance	1 713	19 800	112 281
Jeanette Livijn	1963	Swedish	1987	Organizational Development and Human Resources			49 225
Hans Sandberg	1946	Swedish	1975	General Counsel	10 000	10 000	29 375
Annika Berglund	1954	Swedish	1979	Corporate Communications	7 515	3 695	70 812

[1] Holdings as per Dec 31, 2007, including those of close relatives or legal entities, including grant for the 2007 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 profit before tax 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 2005 level and instead increase the premium för 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 the Nordic Exchange. 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 affect 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 dealing with financial reporting. As last year and with reference to 'Instructions for Application of the Code's Rules on Internal Control Reporting,' issued by the Swedish Corporate Governance Board on September 5, 2006, it does not include a statement by the Board as to how well the internal control has functioned during the year.

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 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.

The company applies different processes for risk assessment and identification of the main risks. 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 attesting instructions 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 through the Intranet, supported by, for example, management training programs.

The company 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 has established the following main internal control processes related to financial reporting:

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, 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 presented to the capital market.

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, 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 further developed and trained an internal international network of qualified accountants to provide regional support and act as ambassadors of the Group accounting function.

Business Boards: An internal board structure (Business Boards), 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. There are standardized tools for planning and risk assessment before an audit, as well as checklists and forms for reports and follow-ups.

The Group Internal Auditor with overall responsibility for the Group internal audit function, reporting to the Chief Financial Oficer, participated in all meetings of the Audit Committee during the year. The intention is to further strengthen this function during 2008. To support in maintaining and developing the process, an Internal Audit Council is installed with representatives from Group functions and holding companies in North America, Europe and Asia. Internal audits are performed by a team of people appointed from various parts of the organization with suitable competence for the audit to be conducted.

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 audit is initiated by and reported to a competence group for the acquisition process appointed by Group Management.

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.

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 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/whistle blowing: Since a few years 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, additional efforts will be made to make sure that this process is known by all employees, also in acquired companies.

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	Continuous
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	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/Whistle blowing	To high-light possible violations through anonymous reporting	As required

The Atlas Copco Share

At December 31, 2007, the price of the Atlas Copco A share was SEK 96.50. During 2007, the price of the A share decreased 16%. Adjusted for the share redemption made during the year, the share price decreased 1%. The Industrial Index and General Index on the Nordic Exchange Stockholm gained 7% and decreased 6%, respectively. The annual total return on the Atlas Copco A share, equal to dividend plus the appreciation of the share price, averaged 14.8% for the past 10 years and 36.7% for the past 5 years. The corresponding total return for the Nordic Exchange Stockholm was 9.9% (1998–2007) and 22.5% (2003–2007).

Dividend and dividend policy

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 3.00 (2.38) per share be paid for the 2007 fiscal year. This corresponds to a total of MSEK 3 662 (2 899).

The dividends to shareholders shall reflect the company's profit and cash flow development as well as growth targets.

The Board of director's 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 2003–2007 will equal 26%. During the same period, the dividend has averaged 34.3% of basic earnings per share. The dividend has averaged 48.6% of basic earnings per share if the effect from profit from discontinued operations is excluded.

Proposed mandate for repurchase of own shares

The Board of Directors has decided to propose that the Annual General Meeting approves a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the company over the Nordic Exchange. This authorization would cover the period up to the Annual General Meeting in 2009.

The intention with the proposal is to continously be able to adapt the capital structure to the capital needs of the company and thus contribute to increased shareholder value.

Share split and mandatory redemption of shares

A share split and a mandatory redemption of shares was carried out during 2007. Every share was split into 2 ordinary shares and 1 redemption share. The redemption share was then redeemed at SEK 40.00 per share (SEK 20.00 recalculated for share split). The redemption corresponded to a total payment of MSEK 24 416. Combined with the ordinary dividend shareholders received MSEK 27 315.

Tax issues for shareholders in Sweden

The Swedish Tax Agency has published information about the redemption and general advice on allocation of acquisition costs for the taxation year 2008. Redemption of shares is considered a disposal of the redeemed shares. A capital gain or capital loss should be computed and the acquisition cost of the shares redeemed deducted from the redemption amount, which is considered the sales price.

The general advice from the Swedish Tax Agency:

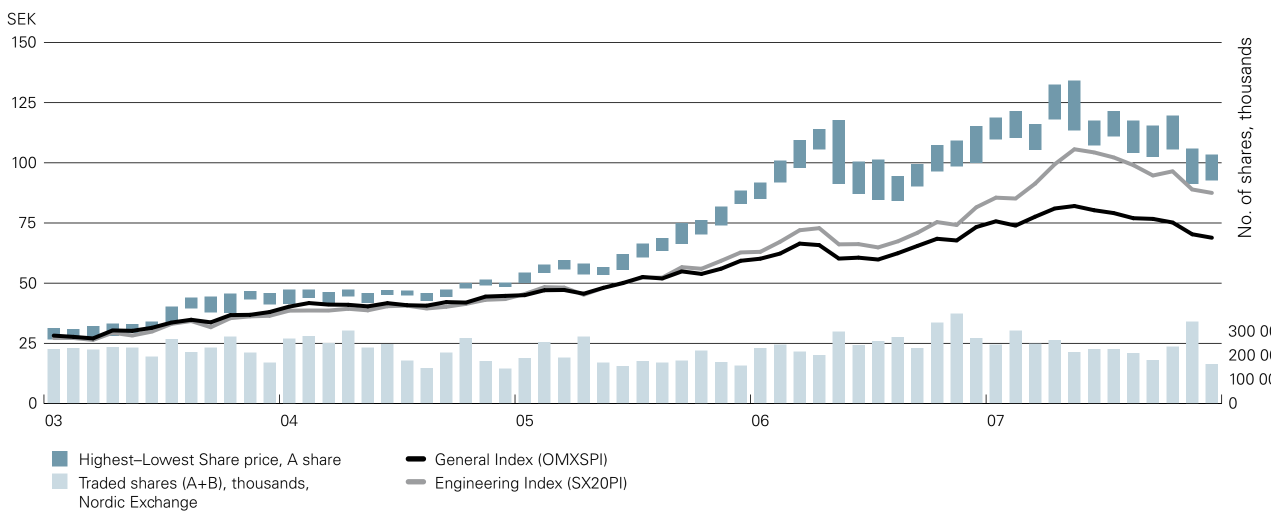
- Of the acquisition cost of an original Class A share, 85% should be allocated to the remaining shares of the same class and 15% to the redemption share.
- Of the acquisition cost of an original Class B share, 84% should be allocated to the remaining shares of the same class and 16% to the redemption share.

For more information, please turn to the Swedish Tax Agency, www.skatteverket.se.

Transactions in own shares

The 2006 Annual General Meeting approved a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the Company as proposed by the Board of Directors. Repurchases were initiated in October 2006 and after the share split in May 2007, Atlas Copco owned 36 828 400 of its own Class B shares. 28 000 000 of the B shares held by Atlas Copco were redeemed on July 4, 2007. The 2007 Annual General Meeting approved a mandate to divest the remaining B shares and purchase a

Share price



maximum of 6 400 000 A shares for possible delivery under the Company's personnel option programs. This mandate is valid up until the Annual General Meeting in 2008. Transactions in own shares were initiated on December 3, 2007 and as per December 31, 2007 Atlas Copco held 3 577 500 A shares and 5 250 900 B shares, corresponding to 0.7% of the total number of shares.

Symbols and tickers

	A share	B share
Nordic Exchange	ATCO A	ATCO B
Round lot	200 shares	200 shares
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 2007 amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of SEK 0.64. Class A shares entitle the holder to one vote, and class B shares entitle the holder to one tenth of a vote. Each round lot consists of 200 shares.

Distribution of shares, December 31, 2007

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	*3 577 500*	*0.4*	*0.3*
– of which B shares held by Atlas Copco	*5 250 900*	*0.1*	*0.4*
Total, net of shares held by Atlas Copco	1 220 784 704		

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.

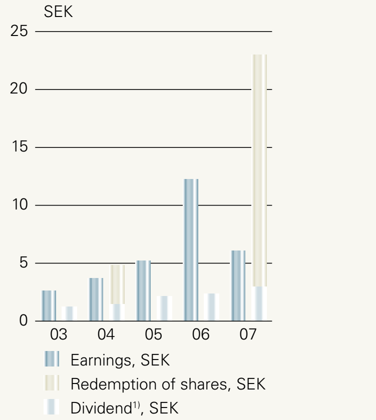
Market capitalization

Atlas Copco's market capitalization at December 31, 2007 was MSEK 114 630 (138 865), excluding shares held by Atlas Copco. This corresponds to 2.9% (3.3) of the total market value of the Nordic Exchange Stockholm.

Trading

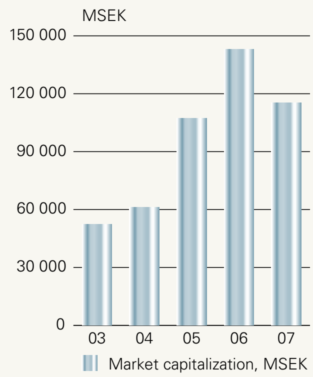
Trading of the Atlas Copco AB shares takes place on the Nordic Exchange. In 2007, Atlas Copco shares were the 3rd (2nd) most actively traded shares in Stockholm. A total of 2 849 593 068 shares were traded, whereof 2 359 191 217 A shares and 490 401 851 B shares, corresponding to a value of MSEK 316 670 (311 682). On average, 11 398 372 shares (12 735 654) were traded each business day, corresponding to a value of MSEK 1 267 (1 242). The turnover rate was 232% (254), compared with the stock market average of 139% (147). Foreign trading in the Atlas Copco shares showed a net import of MSEK 1 444 (net export of 1 123).

Earnings and dividend per share

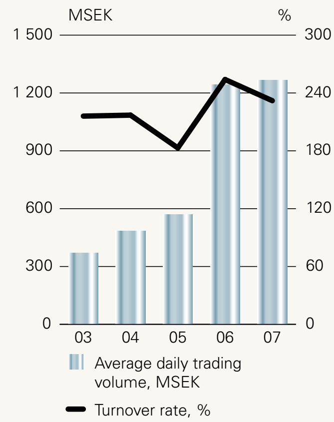


1) For 2007 proposed by the Board of Directors.

Market capitalization



Liquidity



Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A-shares, are listed on the Nordic Exchange. In 2007, 569 748 (531 330) option contracts were traded. Since the options grant the holder the right to buy or sell existing shares only, they have no dilution effect.

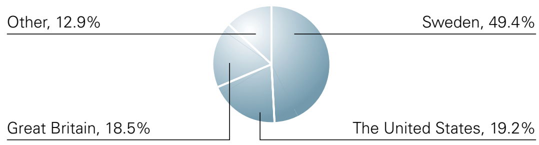
ADRs in the United States

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 2007, there were 9 856 680 (6 543 816) ADRs outstanding, of which 7 858 932 represented A shares and 1 997 748 B shares.

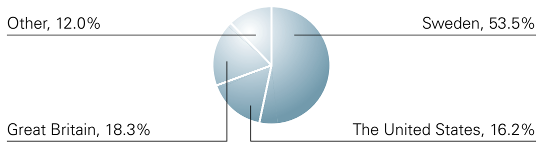
Ownership structure

At year-end 2007, Atlas Copco had 50 825 shareholders (40 260). The 10 largest shareholders registered directly or as a group with VPC, the Swedish Central Securities Depository, by voting rights, accounted for 34% (33) of the voting rights and 31% (30) of the number of shares. Non-Swedish investors held 47% (48) of the shares and represented 51% (52) of the voting rights.

Shareholders by country, December 31, 2007
% of votes



Shareholders by country, December 31, 2007
% of capital



Ownership structure, December 31, 2007

Number of shares	% of shareholders	% of capital
1–500	40.8	0.4
501–2 000	36.2	1.6
2 001–10 000	17.7	3.2
10 001–50 000	3.6	3.0
50 001–100 000	0.5	1.5
>100 000	1.2	90.3
	100.0	**100.0**

Share issues 1973–2007

			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, 2007

	Number of shares	A shares	B shares	% of votes	% of capital
Investor	189 629 826	185 943 226	3 686 600	21.21	15.42
Alecta	49 420 000	24 900 000	24 520 000	3.11	4.02
Swedbank Robur	40 001 456	14 195 920	25 805 536	1.91	3.25
Handelsbanken funds	25 902 449	14 062 124	11 840 325	1.74	2.11
AP 4	13 902 500	13 302 500	600 000	1.52	1.13
Folksam KPA	15 446 995	8 096 641	7 350 354	1.01	1.26
AP 1	11 786 092	7 475 692	4 310 400	0.90	0.96
Nordea funds	15 748 781	6 396 384	9 352 397	0.83	1.28
AP 2	10 809 025	6 596 911	4 212 114	0.80	0.88
Länsförsäkringar funds	6 419 128	5 326 227	1 092 901	0.62	0.52
Others	850 546 852	553 098 471	297 448 381	66.35	69.17
	1 229 613 104	839 394 096	390 219 008	100.00	100.00
–of which shares held by Atlas Copco	*8 828 400*	*3 577 500*	*5 250 900*	*0.47*	*0.72*
Total, net of shares held by Atlas Copco	1 220 784 704	835 816 596	384 968 108		

Key figures per share[1)]

SEK	2003	2004	2005	2006	2007	Average growth 5 years, %
Basic earnings	2.61	3.71	5.22	12.24	6.09	21.3
Diluted earnings		3.70	5.21	12.22	6.09	
Dividend	1.25	1.50	2.13	2.38	3.00[2)]	25.6
– in % of basic earnings	48.0%	40.5%	40.7%	19.4%	49.3%	
Dividend yield, %	3.4%	3.3%	3.3%	2.4%	2.7%	
Redemption of shares			3.34		20.00	
Operating cash flow	4.46	3.74	2.98[3)]	2.45[3)]	3.76	
Equity	17	18	21	27	12	
Share price, December 31, A	43	50	89	115	97	27.8
Share price, December 31 B	39	47	80	111	88	27.9
Highest share price quoted, A	47	52	89	118	134	
Lowest share price quoted, A	26	41	50	85	91	
Average price quoted, A	37	46	64	99	113	
Market capitalization, December 31, MSEK	52 369	61 312	107 430	138 865	114 630	
Average number of shares	1 257 613 104	1 257 613 104	1 257 613 104	1 254 210 894	1 220 784 704	
Diluted number of shares	1 257 613 104	1 259 024 322	1 259 882 976	1 256 025 654	1 222 305 273	

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
ABN Amro . . . . . Lars Glemstedt
Carnegie . . . . . Anders Idborg
Cazenove . . . . . Glen Liddy
Cheuvreux . . . . . Johan Eliason
Citigroup . . . . . Tim Adams
CSFB . . . . . Patrick Marshall
Danske Bank . . . . . Henrik Breum
Deutsche Bank . . . . . Johan Wettergren
Dresdner Kleinwort Wasserstein . . . . . Colin Grant
Enskilda Securities . . . . . Anders Eriksson
Evli Bank . . . . . Magnus Axén
Exane BNP Paribas . . . . . Olivier Esnou
Glitnir . . . . . Ola Asplund
Goldman Sachs . . . . . James Moore
Handelsbanken . . . . . Peder Frölén
Hagströmer & Qviberg . . . . . Hans-Olov Öberg
HSBC . . . . . Edward Stacey
JP Morgan . . . . . Nick Paton
Kaupthing Bank . . . . . Joakim Höglund
Merrill Lynch . . . . . Ben Maslen
Nordea . . . . . Ann-Sofie Nordh and Johan Trocmé
SG Securities . . . . . Roderick Bridge
Swedbank . . . . . Mats Liss
UBS . . . . . Fredric Stahl
Öhman . . . . . Anders Roslund

Five Years in Summary

MSEK	2003[1]	2004[1]	2005	2006	2007
Orders received	45 149	44 659	44 744	55 239	69 059
Revenues and profit					
Revenues	44 619	43 192	42 205	50 512	63 355
Change, %	–6	9	25	20	25
Change, excluding currency, %	4	14	22	20	29
Change, organic from volume and price, %	3	10	15	17	18
EBITDA	8 623	9 567	8 355	10 840	13 866
EBITDA margin, %	19.3	22.1	19.8	21.5	21.9
Operating profit	5 310	6 651	6 938	9 203	12 066
Operating profit margin, %	11.9	15.4	16.4	18.2	19.0
Net interest expense	–386	–374	–469	–654	–453
as a percentage of revenues	*–0.9*	*–0.9*	*–1.1*	*–1.3*	*–0.7*
Interest coverage ratio	7.5	9.1	11.7	14.3	11.2
Profit before tax	4 913	6 382	6 863	8 695	10 534
Profit margin, %	11.0	14.8	16.3	17.2	16.6
Profit from continuing operations		4 430	4 964	6 260	7 416
Profit for the year	3 274	4 671	6 581	15 373	7 469
Employees					
Average number of employees	25 707	23 849	21 431	24 378	29 522
Revenues per employee, kSEK	1 736	1 811	1 969	2 072	2 146
Cash flow [2]					
Operating cash surplus	8 291	9 816	12 084	10 722	13 730
Cash flow before change in working capital	6 799	8 305	10 230	8 197	10 005
Change in working capital	863	–445	–231	–2 045	–2 326
Cash flow from investing activities	–2 823	–5 568	–1 996	–4 419	–8 808
Gross investments in other property, plant and equipment	–724	–841	–840	–1 035	–1 331
as a percentage of revenues	*–1.6*	*–1.9*	*–2.0*	*–2.0*	*–2.1*
Gross investments in rental equipment	–2 681	–3 991	–6 396	–1 133	–1 028
Net investments in rental equipment	–1 175	–2 050	–4 032	–638	–442
as a percentage of revenues	*–2.6*	*–4.7*	*–9.6*	*–1.3*	*–0.7*
Cash flow from financing activities	–1 895	–3 490	–7 521	–7 973	–14 943
of which dividends paid[3]	–1 219	–1 575	–6 082	–6 452	–27 344
Operating cash flow	5 609	4 697	4 521	3 065	4 589
Financial position and return[2]					
Total assets	45 862	48 168	54 955	55 255	56 659
Capital turnover ratio	0.95	0.99	1.02	1.29	1.14
Capital employed	32 859	33 174	34 970	25 797	39 512
Capital employed turnover ratio	1.33	1.41	1.51	1.96	1.60
Return on capital employed, %	16.8	22.1	28.5	36.2	29.3
Net indebtedness	7 613	7 860	7 229	–12 364	19 800
Net debt/EBITDA	0.88	0.82	0.87	–1.14	1.43
Equity	21 015	22 601	25 808	32 708	14 640
Debt/equity ratio, %	36.1	34.8	28.0	–37.8	135.2
Equity/assets ratio, %	45.9	46.9	47.0	59.2	25.8
Return on equity, %	16.0	21.6	27.8	54.8	34.7

For definitions see page 93.
Per share data, see page 131.
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 and 2007.

Quarterly Data

Revenues by Business Area

				2006				2007
MSEK	1	2	3	4	1	2	3	4
Compressor Technique[1)]	5 789	6 215	6 540	6 944	6 794	8 126	8 304	8 676
Construction and Mining Technique	4 568	4 719	4 567	5 060	5 093	6 292	6 634	7 121
Industrial Technique	1 676	1 629	1 493	1 642	1 591	1 714	1 646	1 920
Eliminations	–85	–119	–62	–64	–88	–147	–153	–168
Atlas Copco Group	11 948	12 444	12 538	13 582	13 390	15 985	16 431	17 549

Operating profit by Business Area

				2006				2007
MSEK	1	2	3	4	1	2	3	4
Compressor Technique[1)]	1 195	1 275	1 442	1 411	1 440	1 622	1 801	1 886
as a percentage of revenues	*20.6*	*20.5*	*22.0*	*20.3*	*21.2*	*20.0*	*21.7*	*21.7*
Construction and Mining Technique	703	721	748	838	912	1 125	1 119	1 228
as a percentage of revenues	*15.4*	*15.3*	*16.4*	*16.6*	*17.9*	*17.9*	*16.9*	*17.2*
Industrial Technique	351	336	311	348	378	392	343	426
as a percentage of revenues	*20.9*	*20.6*	*20.8*	*21.2*	*23.8*	*22.9*	*20.8*	*22.2*
Common Group functions/Eliminations	–153	5	–195	–133	–189	–102	–136	–179
Operating profit	2 096	2 337	2 306	2 464	2 541	3 037	3 127	3 361
as a percentage of revenues	*17.5*	*18.8*	*18.4*	*18.1*	*19.0*	*19.0*	*19.0*	*19.2*
Net financial items	–64	–137	–225	–82	–64	178	–419	–1 227
Profit before tax	2 032	2 200	2 081	2 382	2 477	3 215	2 708	2 134
as a percentage of revenues	*17.0*	*17.7*	*16.6*	*17.5*	*18.5*	*20.1*	*16.5*	*12.2*

1) Restated to include Prime Energy in 2006.

Legal Entities

(Holding and operating companies – excluding branches)

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
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
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
	ALUP Compressors Bulgaria OOD Ltd.	SOFIA
Canada	Atlas Copco Canada Inc.	LASALLE
	Chicago Pneumatic Tool Co. Canada Ltd.	TORONTO
	Dynapac Canada Ltd.	ONTARIO
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
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

Country	Company	Location (City)
Egypt	Atlas Copco Equipment Egypt S.A.E.	CAIRO
Finland	Oy Atlas Copco Ab	VANTAA
	Oy Atlas Copco Kompressorit Ab	VANTAA
	Oy Atlas Copco Louhintatekniikka 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	MUELHEIM
	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
Indonesia	PT Atlas Copco Indonesia	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

Country	Company	Location (City)
	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 Secoroc (Pty) Ltd.	SPRINGS
	Atlas Copco South Africa (Pty) Ltd.	BOKSBURG
	ABAC Air Compressors SA Pty Ltd.	WESTVILLE
	Dynapac (SA) (Pty) Ltd.	JOHANNESBURG
South Korea	Atlas Copco Mfg. Korea Co. Ltd.	SEOUL
	CP Tools Korea Co. Ltd.	SEOUL
Spain	Atlas Copco S.A.E.	MADRID
	ABAC Iberica Aire Comprimido S. A.	MADRID
	Desoutter S.A.	MADRID
	Dynapac Iberica SLU	MADRID
	Guimerá, S.A.	BARCELONA

Country	Company	Location (City)
	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 Industrial Technique Finance KB	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
	BEMT Tryckluft AB	STAFFANSTORP
	BIAB Tryckluft AB	LUDVIKA
	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	PINEBROOK, 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 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
	Pneumatech LLC	KENOSHA, WI
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

Financial Information

Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Thursday, April 24, 2008, 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 24, 2008 .... Q1 – first quarter results
July 18, 2008 .... Q2 – second quarter results
October 23, 2008 .... Q3 – third quarter results
February 2, 2009 .... Q4 – fourth quarter results
March, 2009 .... Annual Report 2008

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 Investors sector, **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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We are committed to your superior productivity through interaction and innovation.

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