

Information to the shareholders in Atlas Copco concerning split and redemption of shares



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Brief description of redemption of shares

On 27 April 2005 the Annual General Meeting of shareholders in Atlas Copco AB resolved on split and redemption of shares in accordance with the Board of Directors' proposal.

The resolution principally implies that:

- each class A share in Atlas Copco will be split into four class A shares, one of which will be a class A redemption share. On the shareholders' securities accounts the redemption shares will be referred to as Atlas AK IL A.
- each class B share in Atlas Copco will be split into four class B shares, one of which will be a class B redemption share. On the shareholders' securities accounts the redemption shares will be referred to as Atlas AK IL B.

The redemption shares will be traded on the Stockholm Stock Exchange from and including 17 May 2005 up to and including 7 June 2005. All redemption shares will then automatically be redeemed for SEK 20, which amount will be distributed on or about 15 June 2005. Payment will be made via VPC (Swedish Central Securities Depository and Clearing Organization) into the yield account linked to the directly registered shareholders' securities accounts. VPC will distribute a notice as a confirmation of the payment. Nominee-registered shareholdings will be processed in accordance with each nominee's routines. Following implementation of the split, the Atlas Copco share will be traded in trading lots of 200 shares.

The Annual General Meeting resolved on split and redemption of shares	27 April 2005
Last day of trading in the share before split and with right to receive redemption share	16 May 2005
Trading in redemption shares	from and including 17 May up to and including 7 June 2005
Record day for receipt of redemption shares	19 May 2005
Payment of redemption amount	on or about 15 June 2005
For questions related to redemption of shares, please call + 46 480 404 109	

The resolutions on split and redemption of shares by the Annual General Meeting principally include the following:

- **Amendment of the Articles of Association.** The nominal value of each share will be reduced from SEK 5 to SEK 1.25, representing a split 4:1. Each Atlas Copco share will hereby be split into four shares, of which one share will be a redemption share.
- **Reduction of Atlas Copco's share capital** by way of redemption of 139 899 016 class A shares and 69 703 168 class B shares, and reduction of the share premium reserve.
- **A directed issue of new class C shares** to Svenska Handelsbanken AB in order to enable a prompt payment of the redemption amount to the shareholders.
- **Reduction of Atlas Copco's share capital** by redemption of all class C shares and reduction of the share premium reserve, subject to approval by the District Court. Following redemption of the shares, Atlas Copco's share capital will amount to SEK 786 008 190 distributed on 419 697 048 class A shares and 209 109 504 class B shares.

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 mentioning of the Board of Directors or the Directors refers to the Board of Directors of Atlas Copco AB.

Background and reasons

Atlas Copco's financial position is strong as a result of a number of years with good cash flow and the recent disposal of the professional electrical tools business for, in total, MSEK 4 705. In view hereof, the Board of Directors is of the opinion that Atlas Copco's current financial position is more than adequate to support the Group's strategy and financial targets, and the Board of Directors has therefore reached the conclusion that the balance sheet of Atlas Copco should be adjusted to a more efficient structure. In connection with Atlas Copco's full year 2004 summary (unaudited), the Board of Directors consequently proposed a redemption procedure. On 27 April 2005 the Annual General Meeting resolved in accordance with the Board of Director's proposal.

The redemption procedure implies that each original share, which at present has a nominal value of SEK 5, is split into four shares, each at a nominal value of SEK 1.25. Out of these four shares, one share will be automatically redeemed for SEK 20. In total, MSEK 4 192 will be distributed to the shareholders. Combined with the resolved dividend of SEK 9 per share, a total of MSEK 6 078 will thus be distributed to the shareholders in Atlas Copco by way of dividend and redemption of shares, corresponding to SEK 29 for each original share.

Stockholm, 28 April 2005

**Atlas Copco Aktiebolag
(publ)**

Financial effects of the redemption procedure

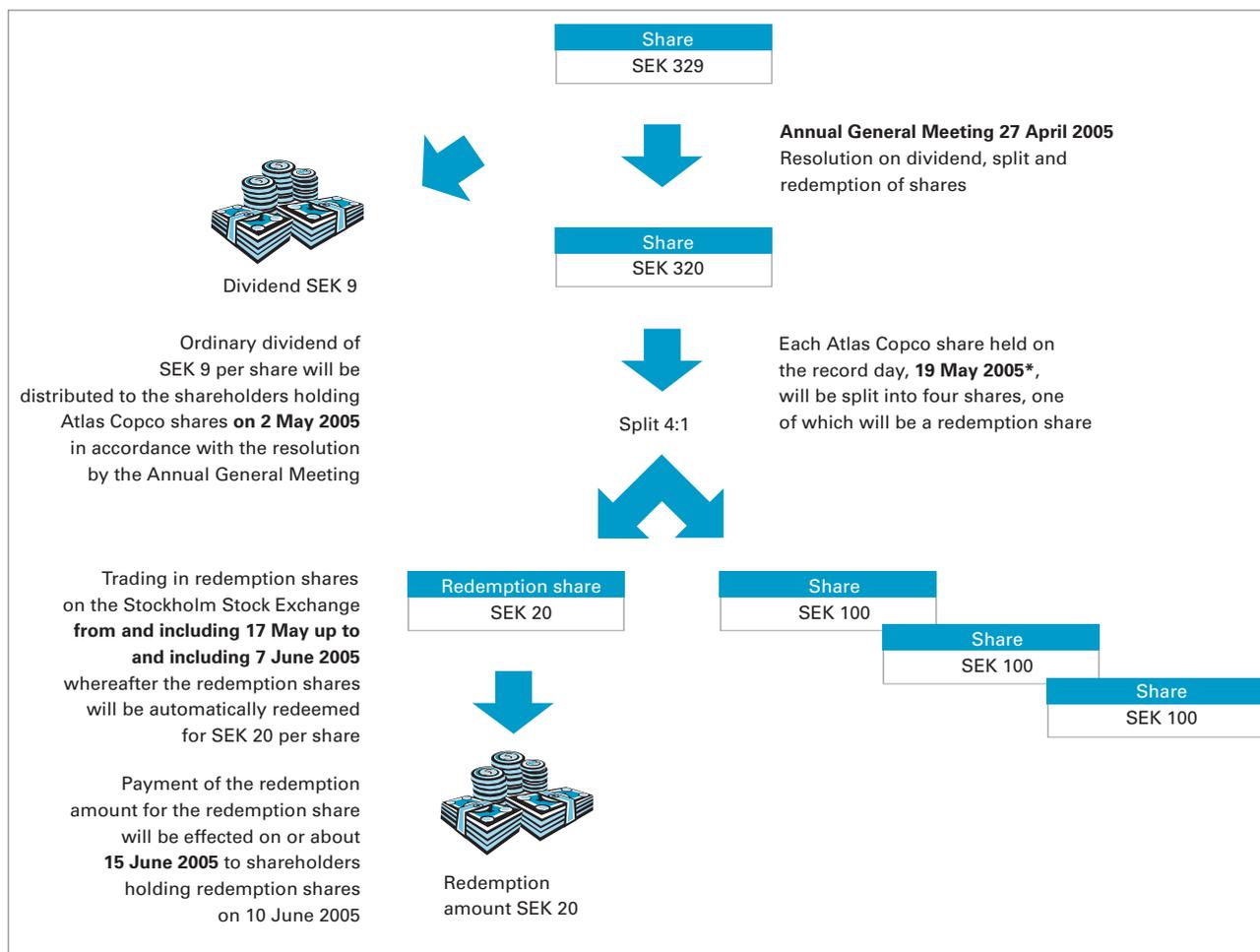
By way of redemption of shares MSEK 4 192 will be transferred to the shareholders. This will have the following financial effects for Atlas Copco:

- Shareholders' equity will be reduced by MSEK 4 192; of which the share capital will be reduced by MSEK 262, the share premium reserve by MSEK 734 and unrestricted equity by the remaining MSEK 3 196.
- Net debt, that is the difference between interest-bearing debt/provisions and liquid assets, will increase by MSEK 4 192.
- As a result of the increase in the Group's net debt, the net cost for Atlas Copco's financing will increase.

Outline of split and redemption of shares

The outline is based on an assumed share price of SEK 329. The effects on the share price following dividend, split and redemption are only theoretical. The stock market's actual

pricing (the share price) of the Atlas Copco share may very well deviate.



*Please observe that the last day of trading in the share before split and including right to receive a redemption share is 16 May 2005.

Timetable for split and redemption of shares

Activity	Date 2005	Please note that
Annual General Meeting in Atlas Copco. Resolution on split and redemption of shares.	27 April	
Last day of trading in the Atlas Copco share before split and including right to receive redemption share.	16 May	Last day when it is possible to acquire shares in Atlas Copco with the object of obtaining redemption shares.
First day of trading following split of the Atlas Copco share and in the redemption shares.	17 May	As from this day the Atlas Copco share will be traded at a new nominal value and with a new share price (following split). The redemption share may be traded but will not appear at the shareholder's securities account until 20 May.
Record day for split and for receipt of redemption shares.	19 May	All Atlas Copco shares held by the shareholders this day will be split into four shares, one of which will be a redemption share.
Last day of trading in redemption shares.	7 June	Last day for sale or acquisition of redemption shares on the Stockholm Stock Exchange.
Establishment from the VPC system which shareholders are entitled to redemption amount.	10 June	Shareholders holding redemption shares this day will be entitled to redemption amount.
Payment of redemption amount.	On or about 15 June	The redemption amount will be distributed via VPC into the yield account linked to the securities account of shareholders directly registered with VPC. VPC will distribute a notice as a confirmation on the payment. Nominee-registered shareholdings will be processed in accordance with each nominee's routines.

Tax issues in Sweden

The following presentation is a summary of certain tax rules applicable to the shareholders of Atlas Copco on account of the redemption procedure.

Tax issues for shareholders in Sweden

Receipt of redemption shares

The receipt of redemption shares through a split does not give rise to any taxation. Instead, the acquisition cost of the original Atlas Copco class A and B shares immediately before the split shall be allocated between the redemption shares and the ordinary shares in Atlas Copco. The allocation will be made separately regarding class A shares and class B shares, based on the market values of the redemption shares and the ordinary shares in relation to the split and the detachment of the redemption shares. Atlas Copco intends to seek a general advice from the Swedish Tax Agency regarding how this allocation shall be made.¹⁾

Example

A shareholder owns 100 class A shares in Atlas Copco. The average acquisition cost of the shares is SEK 250 immediately before the split. Assume that the Tax Agency in its general advice determines that 94% of the acquisition cost of an original class A share will be allocated to the three remaining class A shares received through the split and 6% shall be allocated to the class A redemption share. The acquisition cost of the redemption shares will consequently be SEK 15 each (6% of SEK 250). The remaining three shares will have an average acquisition cost of SEK 235 in total or SEK 78.33 each (94% of SEK 250:3).

If the redemption shares are disposed of for SEK 20 each, a capital gain of $(20 \times 100) - (15 \times 100) = \text{SEK } 500$ will arise.

Redemption and disposal of shares

Redemption of shares is considered a disposal of the redeemed shares, which gives rise to capital gains taxation. This is also the case when redemption shares are sold in the market. A capital gain or capital loss shall be computed based on the difference between the redemption amount or the sales proceeds (after deduction of sales costs, if any) and the acquisition cost of the shares redeemed or disposed of.

The calculation of the acquisition cost shall be based on the allocation of the acquisition cost as described above. The acquisition cost of redemption shares acquired in the market is the purchase price. The acquisition cost of all shares of the same class and type shall be computed collectively in accordance with the average method. It should be noted that the redemption shares are no longer considered to be of the same class and type as the ordinary shares. Should the redemption shares be regarded as quoted on a market at the time of disposal, the acquisition cost may alternatively be computed in accordance with the standard method to 20% of the sales proceeds after deduction of sales costs.

For **individuals**, the **capital gain** is taxed in the capital income category at a tax rate of 30%.

A **capital loss** on shares may be fully offset against capital gains on shares and other quoted securities that are taxed as shares during the same year, with the exception of Swedish interest funds. 70% of any excess loss, which cannot be offset in this way, is deductible from other income in the capital income category. Should a net loss arise in the capital income category, the tax on income from employment and business operations as well as property tax will be reduced with 30 or 21% respectively.

For **limited liability companies**, a **capital gain** is normally taxed in the business income category at a tax rate of 28%. A limited liability company's deductible **capital losses** on shares and other securities that are taxed as shares may normally be offset only against taxable capital gains on shares and other securities that are taxed as shares.

1) Information regarding the Swedish Tax Agency's general advice will be published on its website www.skatteverket.se and on Atlas Copco's website www.atlascopco.com/redemption.

Certain tax issues for shareholders with limited tax liability in Sweden

For shareholders that are not tax residents of Sweden a redemption of shares is deemed to be a dividend, which means that the consideration received will be subject to Swedish withholding tax. Under present tax law, no deduction for the acquisition cost on the redeemed shares is admitted²⁾.

The Swedish Government has however proposed changes to these provisions³⁾. Pursuant to the proposal, a right to claim a refund for the withholding tax attributable to the acquisition cost of the shares or – as an alternative for shares that are quoted on a market – 20% of the withholding tax on the redemption amount received, may be admitted if a claim for a refund is filed with the Swedish Tax Agency at the latest at the end of the fifth calendar year after the payment. The new provisions are scheduled to enter into force on 1 July 2005 and are proposed to apply to payments as from 1 January 2005. To claim such refund, the shareholder must file form 3740 “Claim for repayment of Swedish tax on dividends”, and provide the Swedish Tax Agency with appropriate certificates of deduction of the Swedish withholding tax on dividends as well as evidence of the redeemed shares’ acquisition cost. The claim is to be filed with the Swedish Tax Agency, the Ludvika Office. Present address: Box 23, SE-771 21 Ludvika, Sweden, Telephone +46 240 87 000. The application form is available at the Swedish Tax Agency's website, www.skatteverket.se/blanketter/3740.

Note that withholding tax is payable when shares are redeemed regardless of whether the redemption shares are acquired through the share split or acquired in the market. The withholding tax rate is 30% but it is generally reduced by tax treaties with other countries. Normally, in Sweden VPC or – in case of nominee registered shares – the nominee handles the deduction of withholding tax. However, no withholding tax is imposed if the redemption shares are disposed of in the market.

Individuals that are not tax residents of Sweden are normally not taxed in Sweden for any capital gain on the sale of shares or other similar securities. Yet, according to a special provision, an individual who is not a tax resident of Sweden may be subject to tax in Sweden for the sale of Swedish shares if this person at any time during the calendar year of the disposal or the previous ten calendar years has been domiciled or permanently resident in Sweden. However, this right to tax may be limited through applicable tax treaties.

It should be noted that Swedish withholding tax is payable on the redemption amount received when shares are redeemed for shareholders tax resident outside of Sweden. However, no Swedish withholding tax is payable when redemption shares are sold in the market.

The summary is based on Swedish legislation currently in force and is intended as general information for shareholders that are tax residents of Sweden, unless otherwise stated. The summary does not cover securities that are held as current assets in business operations or by a partnership. Special rules that may apply to certain corporate categories or the rules on tax-exempt capital gains (including non-deductible capital losses) and dividends on shares considered to be held for business purposes are not described. Nor does the summary cover the special rules that may apply to holdings in companies that have been acquired by means of “qualified shares” in closely held companies. For shareholders that are not tax residents of Sweden, the tax consequences may be affected by provisions of the shareholders’ home state and by tax treaties between Sweden and other countries for the avoidance of double taxation. The tax treatment of shareholders depends in part on their particular circumstances. Each shareholder should therefore consult a tax advisor regarding the tax implications that may arise.

- 2) The Swedish Tax Agency has in some cases admitted deduction of the redemption shares’ nominal amount. The issue regarding whether deduction of a higher amount than the nominal amount of the redeemed shares may be deducted when calculating the withholding tax is at present subject to trial by Swedish tax courts and the EC court.
- 3) See government bill 2004/05:146 on certain withholding tax issues, etc.

Questions and answers concerning split and redemption procedure in Atlas Copco

What does the split and redemption procedure in Atlas Copco imply?

Each class A share will be split into four class A shares, one of which will be a redemption share, and each class B share will be split into four class B shares, one of which will be a redemption share. All redemption shares will be automatically redeemed for SEK 20, to be distributed on or about 15 June 2005.

Why did Atlas Copco resolve on a share redemption procedure?

Atlas Copco's financial position is strong as a result of a number of years with good cash flow and the recent disposal of the professional electrical tools business for, in total, MSEK 4 705. The Board of Directors is of the opinion that the Group's current financial position is more than adequate to support the Group's strategy and financial targets. By distributing capital to the company's shareholders Atlas Copco will obtain a more efficient capital structure which, in its turn, creates value for the company's shareholders.

Why did not Atlas Copco choose a one-time dividend?

Dividend to the shareholders is paid annually in accordance with Atlas Copco's dividend policy, under which the dividend shall amount to 40–50% of the Group's net income. Redemption of shares is an extra measure taken to harmonise Atlas Copco's capital structure. Compared to a one-time dividend, redemption of shares may, from a taxation point of view, be more advantageous to certain shareholders.

Why did not Atlas Copco choose to repurchase shares over the market?

Since the object is to distribute capital to the company's shareholders and since the amount constitutes such a significant part of the company's market value, it is important that each shareholder receives his/her part of the distributed amount. This may not be achieved by way of repurchase of shares over the market, where only the shareholders who choose to sell their shares will participate.

What does the redemption procedure mean for me in my capacity of shareholder?

At the Annual General Meeting on 27 April 2005 shareholders in Atlas Copco resolved on split and a redemption procedure. By way of split and redemption procedure the shareholders will, for each share held, receive four shares of which one will be a redemption share that will be automatically redeemed for SEK 20. On the shareholder's securities account the class A redemption share will be referred to as Atlas AK IL A and the class B redemption share will be referred to as Atlas AK IL B.

What are my options in connection with the redemption procedure?

You can choose either to:

1. do nothing. You will automatically receive payment for redemption shares following redemption of these shares, or to
2. sell all or some of your redemption shares on the Stockholm Stock Exchange during the trading period from and including 17 May up to and including 7 June 2005.

What are the tax consequences for me as a shareholder regarding redemption of shares compared to dividend?

For a large group of shareholders, for example private individuals in Sweden, a redemption of shares is more tax effective than a dividend distribution since, to put it simply, the shareholder may deduct a portion of the acquisition cost of the underlying share before the split. This is also the case should the shareholder choose to sell the redemption share, see example on page 6.

What are the tax consequences for me as a foreign shareholder?

When it comes to foreign shareholders, a redemption of shares is deemed to be a dividend, which means that the redemption amount received will be subject to Swedish withholding tax. No deduction for the acquisition cost on the redeemed shares is admitted under present tax law (see however the proposed changes on page 7). On the other hand, if the redemption shares are disposed of in the market, they are not subject to Swedish withholding tax.

If you have any questions in respect of redemption of shares, please call + 46 480 404 109



Atlas Copco AB
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 8000
Corporate Identity No: 556014-2720
atlascopco.com