

## **ATLAS COPCO AB – ANNUAL GENERAL MEETING 2008**

### **Item 13 Board proposals regarding:**

- a) guiding principles for remuneration for senior executives**
- b) a performance related personnel option program for 2008, and**
- c) a hedging program to cover the obligations under a performance related personnel option program for 2008**

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

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

The proposal of the Board for 2008, which is in compliance with the principles of previous years and are based on agreements already entered into between Atlas Copco and respective employee, is as follows.

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

The base salary is reflects the position, qualification and individual performance.

The size of the variable compensation depends on the extent to which predetermined quantitative and qualitative goals are met. The variable compensation is limited to maximum 70% of the base salary for the President, to 50% for the Business Area Executives and to 40% for the other senior executives.

The Board is now proposing a performance related personnel option program for 2008 as outlined in b) below.

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

Additional benefits consist of company car and private health insurance.

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

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

### **b) a performance related personnel option program for 2008**

The Board have established that the performance target for granting of the maximum number of personnel options in the 2007 personnel option program have been met. Granting of personnel options under the 2007 program will take place no later than during March 2008.

In order to implement the proposed performance related personnel option program for 2008, the Board proposes that the AGM takes the decisions regarding re-purchase and transfer of series A-shares that are presented under c) below.

#### Background and reasons for the proposal

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

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

#### The Complete Proposal

##### *Granting*

The Board has the right to decide on the granting of personnel options that can give a maximum of 245 key personnel in the Group the possibility to acquire a maximum of 4 130 000 Atlas Copco series A-shares.

The granting is dependent on the value increase of the Group expressed as Economic Value Added (EVA) during 2008. In an interval of 900 million SEK the granting varies linear from zero to 100% of the maximum grant. The size and the limits of the interval have been established by the Board and is in full compliance with the goals for the Group set in the long range plan.

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

category 1 – the President (1) – 117 500 personnel options

category 2 – Business Area Executives (3) – 58 750 personnel options

category 3 – other members of the Group management and division Presidents (24) – 29 375 personnel options

category 4 – other key personnel (approx 213) – 14 687 personnel options.

The Board shall decide which persons shall be included in the categories above based on position, qualification and individual performance. The granting of personnel options will take place not later than March 20, 2009.

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

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

The term of the personnel options shall be five years from the date of the grant.

The personnel options are not transferable.

#### *Exercise periods*

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

one third not earlier than one year from the grant

two thirds not earlier than two years after the grant

all not earlier than three years after the grant.

#### *Exercise price*

The exercise price shall be set to an amount corresponding to 110 percent of the average of the closing rates at the Stockholm Stock Exchange of the series A-shares during a period of 10 business days next following the date of the publishing of the annual accounts (fourth quarter press release) for the year 2008 operations.

#### *Re-calculation*

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

#### *Theoretical value for the recipient*

A theoretical value of a personnel option has been calculated based on Black & Scholes model for evaluating options. As a base for the calculation a share rate of 90.25 SEK and an expected volatility of 27% have been used among other parameters. The theoretical value has been calculated to 16.39 SEK per personnel option or altogether maximum 68.8 million SEK for the whole program.

#### *Delivery of shares and costs*

Personnel options shall give the right to purchase already issued shares. In Sweden, the options can be utilized for cash exercise in which case the option holder receives the difference between the share value per exercise and the exercise price.

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

#### Simple Majority Rule

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

#### **c) a hedging program to cover the obligations under a performance related personnel option program for 2008**

The Board proposes that the Board is granted the mandate until the next Annual General Meeting to decide, on one or more occasions, on the acquisition of shares in the Company as follows:

1. Acquisition of not more than 4 800 000 series A shares
2. The shares may only be acquired on the Nordic Stock Exchange in Stockholm
3. The shares may only be acquired at a price per share within the registered trading interval at any given point in time

The acquisition is made with the intention to limit the economic risk caused by an increase of the share value during the period the personnel options remain outstanding, to be able to fulfil future delivery obligations, to be able to cover cash settlement in applicable cases and to cover social charges. Should the mandate not be granted by the Annual General Meeting, the intention of the Board is to hedge using a total return equity swap agreement with a bank.

The Board further proposes that the Meeting resolves to transfer shares in the Company in relation to the Company's personnel option program 2008 according to the following.

A maximum of 4 200 000 A-shares may be transferred. Right to acquire shares is to be granted to the persons participating in the Company's personnel option program 2008, with a right for each participant to acquire the maximum number of shares stipulated in the terms and conditions of the Company's personnel option program 2008. The participants' right to receive shares is conditional upon all terms and conditions of the Company's personnel option program 2008 being fulfilled. Shares are to be transferred on the terms and conditions stipulated by the Company's personnel option program 2008, meaning inter alia, that what is there stated regarding price and time during which the participants are to be entitled to use their right to acquire shares is also applicable to the transfer. Participants are to pay for the shares within the time and on the terms stipulated in the personnel option program 2008.

With respect to the number of shares that may be transferred under the Company's personnel option program 2008, customary terms for recalculation as a result of bonus issue, share split, rights issues and similar measures apply in accordance with the terms and conditions of the personnel option program.

As reason for the deviation from the shareholders right of first refusal and as the base for the transfer price in connection with the transfer of own shares, the Board states that the transfer of own shares is a part of the proposed personnel option program for 2008.

#### Qualified majority rules

The decision to grant the mandate to the Board to repurchase series A shares requires that shareholders holding at least two-thirds of the votes cast as well as the shares represented at the AGM support the decision. The decision to transfer such shares in compliance with the obligations under the program requires the support from shareholders holding at least nine tenths of the votes cast as well as the shares represented at the AGM.