

## **Address given by President and CEO of Atlas Copco on April 27, 2009**

Dear shareholders! Ladies and gentlemen. One business year has now passed since many of us last convened here almost a year ago. A harsh ending to a record-breaking year. Because yes, in many regards it was a record-breaking year. The first three quarters were unprecedented, with unrivaled sales and profits. The final quarter was also unprecedented, but in a negative sense. We experienced a brutal market stagnation – something I believe none of us have seen before and which I hope none of us will see again. Our only comfort lies perhaps in the fact that we shared this situation with all companies on virtually all continents around the globe. We can safely say that 2008 will go to history as extraordinary.

I intend to give you a picture of what has happened and how we work. I will comment briefly on the results in figures and briefly about our dedication to the community and the environment. A company is not an isolated, but a highly integrated part of the world. We are a part of our community, a part of our employees' relations, and so on. There is a lot to discuss and say about this.

I will speak a little about our organization. You were shown a movie about compressed air. I won't say much about this but I will say significantly more about the business area that is headquartered in Sweden, namely Construction & Mining Technique. This has been home to a spectacular upswing and downturn, and may well be where we will see the first signs of recovery, particularly within the infrastructure sector. I'm going to go into this in a bit more detail.

Our existence is largely based on our development of products – products that are so much better than those of our competitors that we can charge well and thereby confirm our profitability and our growth. This is also something I will address. And finally, I will look at the most recent quarter.

If we look at our situation today, we see that the company is concentrated around three business areas. The first is Compressor Technique, which is about half. The second is Construction & Mining Technique, comprising almost 40 percent. The third is Industrial Technique or industrial tools, as we also say, which makes up about 10 percent. Despite last year's grim ending, I can say that we have in fact advanced our relative positions and become, relatively speaking, larger than our competitors. We managed to uphold our lead in 2008.

If we look at how we work, many of you may recognize Atlas Copco as a highly product-centered company. The foundation of our organization is built on our products and technology. But it takes infinitely more than a product today. It takes highly advanced expertise about applications and how to use the products. This is something we are trying to embed in our products, usually in the form of software, which gives the products optimum functionality.

To make this work completely for the customer, we need an aftermarket – a service organization that supports and makes sure that things really do work as they should. The more intelligence is embedded in the products, the harder it is for someone else to

replicate and copy the products. It is also much harder to serve the aftermarket. It becomes an insurance premium when running this part of the business. As you will see in just a moment, the aftermarket segment is in fact our strongest.

If we go back to 2004 and look at the past five years we can see that we more than doubled our sales, while profitability almost tripled. Notice that equipment and the aftermarket, service, spare parts and other expendable parts, drilling tools and drilling bits grow constantly. Equipment sales figures are cyclical – as is particularly evident now. The aftermarket is much more stable, and even more profitable. Unfortunately, the pretty trend was cut off. Those of you who attended the meeting last year saw even better figures, but the final quarter of 2008 did obviously have an impact on the numbers.

We usually talk about growth markets. They still exist, even if here as elsewhere in the world, they stagnated considerably in the fourth quarter of 2008 and the first quarter of this year. This picture shows the four markets (*Brazil, Russia, India and China*) that are immensely critical for Atlas Copco's future. We have grown well in what we call the four development markets, but also in compressor, mining and construction technique in the USA. In fact, we advanced our positions markedly during this period.

Our headcount has also increased. But today, when focus is on redundancies and shutdowns, I just want to show that during the period we grew considerably, both through organic growth and through corporate acquisitions. When we now make adjustments that will in total encompass about 5 000 employees around the globe we will not be far from our 2007 level. Between 1 100 and 1 200 people will be affected in Sweden. Naturally, locations where we have larger production will be more severely affected.

Here are just a few more figures. We're looking at what perhaps lies closest to the heart of many of us here today: What's the situation on the stock exchange? We can only say that it has been rather ominous for most, and perhaps slightly more ominous for a few. Last year, this figure was at 17 percent if I remember correctly, and just over 30 percent. Obviously, the period's figures are considerably influenced by the past year's share trend.

Before we turn to our social commitment, I want to say just a few words. We are dealing with a difficult period that requires us to adapt to considerably lower demand. But we must also fend off the downturn. As I said at the beginning, it is important to have extremely robust market positions. When times are tough, customers often turn to the market leader because they know quality and service is a given. I believe this is true in our case, also this time, in this recession.

It is also a question of diversification. We talk about how diversified we are in terms of geography, different industrial segments, our many customers and several different products. We do not depend on one market, one customer group, and so on. Obviously, this is important when it comes to growth. But when everything comes to a halt at the same time, the question arises of whether it is good. For us, it is good, because when the pace picks up again, demand will not be good all over at the same time, but will increase gradually. And we will be there when it does.

The entire aftermarket, which I mentioned earlier, contributes to new business deals and to keeping our customers satisfied with their investments in our products. We are now building a highly decentralized, worldwide aftermarket. We are also formulating a global strategy for production but above all assembly and purchasing that will make us significantly more flexible than many other companies. We standardize our products so that we can switch assembly sites. We can buy components in China for our factories in Europe and such.

If we look at the situation in various parts of the world during the period from 2008, we see that Europe dropped from 47 to 39 percent of our sales. Eastern Europe and Russia have doubled. South America has increased, as has the Middle East and Africa. We have grown and have a truly global presence today.

Finally, I want to show you that when we talk about standardizing products, components, assembly and production, we can benefit from this and easily move and be close to our customers. We can use Chinese subcontractors in Belgium; Swedish subcontractors can be used elsewhere, and so on.

I believe that we are well equipped to easily accommodate the downturn we are currently experiencing.

My next item is to speak about the role we play in our community. We are closely watched in our current state. We are not directly an environment-contaminating industry – I'll get back to this in just a moment – but there are other aspects that compel us to think about our actions. We have received a few awards the past years, all related to what is called sustainability. There are a number of indicators in the world, called sustainability index, FTSE 4 Good and so forth. They refer to various institutions that rank companies they feel manage their business in a sustainable way from an environmental perspective.

If we look at our internal efforts, we usually say that we have a dimension that is linked to social commitment. The pillar of these activities is a foundation called Water for All, in which the employees together with the company contribute funds to drill for water in many parts of the world where drinking water is scarce. We also have initiatives in various parts of India and Ghana for orphanages and daycare centers for orphans. We are involved locally in schools and in similar areas around the world.

The second dimension that we try to manage involves our internal processes – in other words, when we produce and distribute our products, we should do so in an environmentally acceptable manner with as little emissions, waste, etc. as possible. But we are not a major polluter of air and water – to put it somewhat crassly – since we have such little heavy production. The most important aspect is therefore not the internal process. Our greatest environmental impact comes from our products. We have a collective approach here, namely to make our products as energy efficient as possible. It's about drilling in hard granite twice as fast with half as much energy consumption and compressing air using less energy. The best way of preserving the environment is over what we call a product lifecycle, or the period over which the product is used. Energy can only be created using coal, oil, nuclear power, wind power or what have you. That's where we apply our efforts, and it is our greatest contribution to a sustainable environment.

Basically, all our factories now have environmental management systems. The tiny sliver missing in the picture refers to acquired companies that have not had the systems but where we are moving quickly to implement them. The second aspect relates to all types of business activities – office activities as well as distribution and so on. Even here we are attempting to introduce environmental management systems.

Sick leave and accident rate figures are another crucial aspect. We have had extremely low sick leave figures over an extended period. In fact, we can go so far as to say that it is constantly low. It may be difficult to push down these figures even further, but we are trying. Even more satisfying is the considerable decline in accident rates for the period. We must also bear in mind that we have acquired many companies that may not share our attitude and interest in this areas. But we are working on this aspect.

Variety and diversity are other sides of a company's social responsibility. As you see, we have a male-dominated company. Unfortunately, I cannot report any major accomplishments in terms of recruiting women compared with our meeting last year. The perhaps most promising aspect is what you see down at the bottom on the right, the figure relating to new recruits and recent graduates. The figure for this group is 36 percent women. We are addressing this issue in many different ways. I will not go into greater detail now, but one of the ways we are trying is to make sure that we always have at least one female candidate to every available internal position. In this way we can generate more attention for and interest in this matter. I hope that we can at a later stage report that we are making slightly faster progress here.

In regard to carbon dioxide emission, we are not a company that generates high levels of carbon dioxide or other gas emissions. We see in this slide that it has leveled off. If we compare this in relation to the cost of goods sold, the figure is stable at the same level as earlier. However, our acquisitions mean that we have added companies that may not share our attitude here either. In transport, we see that of the total, the number of airfreights has dropped. This means that we also lower carbon dioxide emissions in this area.

Allow me to now dwell for a while on our business areas. As I said, I will spend most of my time on Construction and Mining Technique. But first I want to present a general picture of the compressor segment. We are today the world's largest supplier and manufacturer of compressors and air treatment systems for compressors. Throughout the year we have further established our market positions. We continued to acquire small companies, primarily distributors, to get closer to the customers so there is no one between us and the customers using our product. It feels safer. It is also a way to better develop the aftermarket. The aftermarket frequency always rises when there are direct sales in relation to sales via distributors.

This slide illustrates the situation for the period I accounted for earlier. We have in other words doubled sales in this time and more than doubled our profitability in absolute figures. In relative terms, the level is high at about 20 percent.

Now I'll talk about Construction and Mining Technique. As I said at the start, this area has been hit hardest by the downturn, particularly in the mining sector. It is also the business area with the heaviest representation in Sweden. And, it is the business area that I believe will experience an upswing a bit earlier due to all the investments that governments around the world are planning in infrastructure-related segments. Even here, growth has been good. But it might look even better if we look at the business area over a 12-year period. We have invested in bringing home – if I may say so – business activities. We started by moving from Germany to Örebro. We moved from the west coast in the U.S.A. and from Oregon to Örebro; this was our loaders. As a result, we have a very nice unit in Örebro. We also added Dynapac with production in Karlskrona and Ljungby. We have a large organization in Kalmar. We are heavily represented in Sweden.

In 2004, we acquired a North American company called Ingersoll-Rand Drilling Solutions, which gave us a highly competitive product range for aboveground rigs. We were not number one at the time, but we are today.

If we take a look at the mining sector, which answers for over half of the sales in the Construction and Mining business area, we see that most of the world's mining operations take place in open pit mines. Our relative strength earlier was largely in the underground operations and underground mines. More and more business will go underground, but there will be an immensely large market for surface drilling rigs. We hold an excellent position there today.

Various types of rigs are used in open pit mines. There are drilling tools and drilling bits. If we look at the underground mines, we have a slightly larger range, because there we also have a multitude of technologies and systems for securing the mining sites against collapse. It's a question of encasing the mines and tunnels, and so on. We have a larger product range and an even larger market for consumables.

If we look at our customers worldwide, we can say that we have only between 100 and 150 customers of significance and they answer for about 80 percent of the world's mineral mining. Most customers are very small. This is the segment we call exploration. These are often small-sized companies. Exploration is also the segment that suffers quickest and most in a recession.

Another interesting picture is that our customers do different things with our tools, but over one third mine for gold. Now is a good time to be in gold, because gold mining is actually the only application that has maintained anywhere near acceptable volumes, while iron ore, copper, nickel, zinc and others have seen much lower results.

There are, and there will be, excellent opportunities in the mining industry, partly because we hold such a strong position, partly because it will require vast mineral quantities to proceed with the industrial expansion that actually came to a standstill in conjunction with the crisis. But if we take India, China, Russia, Brazil and so on, we see that enormous quantities of minerals will be needed. It will become increasingly difficult, and require increasingly more equipment to reach the minerals, and this will serve us well. Safety requirements in mines will also be much higher, an area for which we also have

suitable products. All in all, this means there is every reason to believe that Atlas Copco can look forward to a bright future in this segment. The question is when.

As so often in a recession, governments around the world respond with stimulus packages to counteract the downturn. This generally means employing many people in the infrastructure segment. But they are also investing in something that all of us benefit from. It is not a question of treating an ailing industry, but creating a blood stream for us all in the form of roads, airports, ports and so on. It is no different this time. What we see now is that it is taking some time for things to get moving. But this too will be of interest to us.

We have a wide product range and a vast selection of products in this segment, too. In some cases, the products are closely related. Drilling a tunnel and a mining site is not that big a difference, but it does require different equipment.

*film clip*

I should perhaps add that there is a division in Compressor Technique that will benefit from the hopefully robust infrastructure investments to come. That is our portable compressors, which are often seen around. It is the little yellow machine you see at intersections here and there.

Industrial Technique is the third and final business area. We won't be showing any movie clips or talking at length about this area today. But incredibly focused and strong development is taking place here. Unfortunately, about half of this area's sales stem from the car industry and subcontractors to the car industry. Naturally, given the crisis that the car industry is currently undergoing, we too caught the bug. But we have an immensely strong product range and a strong competitive position. As soon as the market recovers, we will see a return to profitability levels that mimic those of before.

Finally, we see here something that identifies the Group. If we look at the portion of capital, sales and profit, it looks relatively homogenous for IT. About one tenth for each. Construction and Mining has a larger capital base, partly because of the nature of the business, partly because larger companies with goodwill in the balance sheets were acquired. Compressor Technique has just under half of the sales and more than half of the profits, and is a small consumer of capital.

I want to show a few final slides about product development. As I said at the start, there is only one way to keep profitability high in a company like ours, namely to make sure there is a constant stream of new products. A launch doesn't have to involve a major, all-inclusive new solution. Oftentimes, it is sufficient to make minor improvements and adjustments that add value for the customer and enable us to raise our prices.

We look here in hindsight at how great a portion our products take from sales. Then we look at their age. As we see in the slide, the light blue field at the bottom shows which portion of sales stem from products three years or less. The figure 55 percent in the middle for Construction and Mining Technique relates to acquisitions. When we acquire

a company, we gain a product portfolio that may not necessarily have the same structure as our own.

Let me give you a few examples. What you see here is a very interesting radio-controlled drilling rig that can maneuver here and there. This is one area in which we did not have a good product, but where we today have an excellent product that we have just started selling.

Yet another project that I personally believe will be an enormous success is a mobile unit for drilling for oil and gas at up to depths of 2 000 meters. It previously took almost a week to move this kind of rig to a new drilling site and start drilling. Now it can be done in less than one day. This means an incredible improvement in productivity.

And then we have compressors. I said earlier that one way of helping to preserve the environment is to make sure that our products use as little energy as possible. Last year, we launched a new series of large oil-injected compressors that have considerably lower energy consumption. This translates into much lower costs over a lifecycle for a customer than our earlier products could offer.

Another product gives 100% oil-free air at higher pressure when blowing polyester bottles for water, for instance. We also had a breakthrough here last year. This is primarily for the food industry but also other polyester bottle manufacturers, among others.

In industrial tools, many of you may have heard about the Tensor tool, which is a revolutionary tool that has been around for some time now. Here we managed to design a powerful battery-operated tool that gives the user greater mobility and flexibility than when having to run around with cables.

Another incredibly interesting product is the impact wrench that has proven to considerably increase productivity and lower costs for our customers.

Allow me to finally speak about the first quarter and show two brief slides. I earlier said that we have experienced something that I do not believe anyone has experienced before. The first quarter progressed in much the same way as last year's final quarter. A tiny ray of light has been that the construction and mining segment, CMT's activities that is, in China has done extremely well. I think this is an indication that stimulus packages and infrastructure measures in the Chinese market kicked off much quicker than in many other markets.

Unfortunately, we also saw a steady stream of cancellations, primarily of drilling rigs from mining customers. This wave of cancellations has however slowed markedly during the first quarter. In all likelihood, the worst is behind us. Today we have an underlying level that is relatively sound.

The aftermarket has remained in the same position in Compressor Technique, which is good. In Construction and Mining Technique, we have in fact seen upward movement, while Industrial Technique reports a slightly weaker development. There are major

questions in terms of what will happen when customers produce less and less, shut down mines, and so on. But to date, growth has been good in this area. This is an area in which we prioritize, expand and invest. It is a very easy decision to make. If these resources do not generate income, we can take them back. It is not a question of major, fixed investments.

I mentioned earlier that we have been compelled to modify our numbers, and this holds true worldwide. When you grow so intensely for such a long time, there's a risk of picking up some bad habits. Streamlining activities do not come first, but instead satisfying customers clamoring for the products. That is most important. Naturally, we have an opportunity to address this now. We would have wished for a slightly milder downturn. But we've conformed and will continue to do so if we see changes.

Cash flow was very strong. This is important – that we really can convert accounts receivable and inventory into cash. We have also considerably cut back our investments, so in that way we have had a good cash flow. You can see the figures on the slide. I'm not going to read them, but you can see the severe drop in organic order bookings. And while we make adjustments for the restructuring costs we incurred, we did nonetheless have an operating margin of 14.5 percent the first quarter.

This brings me to the end of my address. And possibly the end of something else as well. I would therefore like to take the opportunity to thank my colleagues for a long, rewarding time together. I also want to thank the Board, Sune Carlsson and his Board colleagues, for their good cooperation, and all you shareholders for providing such intense and strong support. When I resign my position in just over a month I can only wish my successor Ronnie Leten the very best as the head of this fantastic company. I am convinced that he too will receive your support.

Thank you very much!