

## **Atlas Copco AB Annual General Meeting 27 April 2009**

### **Agenda point 13**

**The proposal of the Board regarding guiding principles for remuneration to senior executives, a Performance Stock Option Plan for 2009 and purchase and sale of series A shares to cover the obligations under the Performance Stock Option Plan 2009**

#### **13 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 2009, 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 Stock Option Plan 2009 as part of a program 2009-2011 as outlined in 13 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.

Additional benefits consist of company car and private health insurance.

A mutual notice period of six months apply. 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.

### **13 b) Performance Stock Option Plan 2009**

The Board have established that the performance target for the allocating the maximum number of personnel options in the Performance Personnel Option Plan 2008, which was the last plan in the 2006-2008 program, have been met. Personnel options under the 2008 plan will be issued no later than during March 2009.

In order to implement the proposed Performance Stock Option Plan for 2009, the Board proposes that the AGM takes the decisions regarding re-purchase and transfer of series A-shares that are presented under 13 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 performance stock 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 proposed performance stock option plan 2009 corresponds to previous such plans in all material respects.

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**

##### *Issuing of performance stock options*

The Board has the right to decide on the issuing of personnel options that can give a maximum of 280 key personnel in the Group the possibility to acquire a maximum of 4,699,874 Atlas Copco Series A-shares.

The issue dependent on the value increase of the Group expressed as Economic Value Added (EVA) during 2009. In an interval of 1,200 million SEK the granting varies linear from zero to 100% of the maximum options. The size of the plan and the limits of the interval have been established by the Board and is compatible with the business plan of the Company.

The issue of performance stock options is maximized to the following number per person within the respective key group:

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

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

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

category 4 – other key personnel (approx. 252) – 14,687 options.

The Board shall decide which persons shall be included in the categories above based on position, qualification and individual performance. The issuing of options will take place not later than March 20, 2010.

The Board shall have the right to introduce an alternative incentive plan for key personnel in such countries where the granting of options is not feasible. Such alternative incentive solutions shall, to the extent possible, have terms and conditions corresponding to the ones applicable to the performance stock option plan 2009.

*The term of the performance stock options*

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

*Exercise periods*

The personnel options can be exercised for the purpose of purchasing shares as follows:  
one third not earlier than one year from the issue  
two thirds not earlier than two years after the issue  
all not earlier than three years after the issue.

In case the continuous status as an employee is terminated only those options that are exercisable at that point can be exercised.

*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 2009 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 performance stock option has been calculated based on Black & Scholes model for evaluating options. As a base for the calculation a share price of 69 SEK and an expected volatility of 32% have been used among other parameters. The theoretical value has been calculated to 10.2 SEK per option or altogether maximum 48.0 million SEK for the whole plan.

*Delivery of shares and costs*

Performance stock options shall give the right to purchase already issued Series A-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 to the costs in order to secure the company's commitments, the granting of options will result in accounting effects in accordance with IFRS 2. The 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 options.

**13 c) Repurchase and sale of series A-shares in relation to the Performance Stock Option Plan 2009**

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 5,500,000 series A shares
2. The shares may only be acquired on the NASDAQ OMX 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 performance stock 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.

The Board further proposes that the Meeting resolves to transfer shares in the Company in relation to the Company's performance stock option plan 2009 according to the following.

A maximum of 4,699,874 series A-shares may be transferred. Right to acquire shares is to be granted to the persons participating in the Company's performance stock option plan 2009, with a right for each participant to acquire the maximum number of shares stipulated in the terms and conditions of this plan. The participants' right to receive shares is conditional upon all terms and conditions of the Company's performance stock option plan 2009 being fulfilled. Shares are to be transferred on the terms and conditions stipulated in the plan, 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 performance stock option plan 2009.

With respect to the number of shares that may be transferred under the plan 2009, 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 plan.

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 performance stock option plan for 2009.

In order for the resolutions by the Meeting in accordance with the Board's proposal under 13 a) and 13 b) above to be adopted, the resolutions must be supported by shareholders holding at least fifty percent of the votes cast. For decisions in accordance with the proposals from the Board under 13 c) it is required that at least two thirds of both the votes cast and of the shares represented at the Meeting support the proposal regarding acquisition of shares and in order for a resolution by the Meeting regarding the transfer of shares to be adopted it must be supported by shareholders holding at least nine tenths of the votes cast as well as of the shares represented at the Meeting.