

Atlas Copco

2011 – New records for sales and profits



Annual report
Sustainability report
Corporate governance report

11

Sustainable Productivity

Atlas Copco

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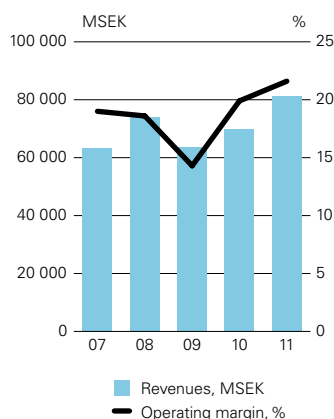
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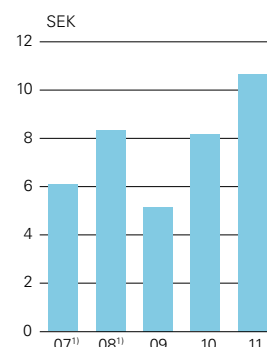
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Revenues and operating margin



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 Board 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.



This symbol indicates that further information is available on Atlas Copco's website, www.atlascopco.com.

- Favorable demand development for Atlas Copco's equipment.
- Strong continuous growth in the aftermarket.
- New business area structure with four business areas and focused service divisions.
- The Group continued to invest in market presence, new products and technologies, product development and production capacity.
- Record orders received, revenues and profit.
 - Order intake increased to MSEK 86 955 (75 178), 22% organic growth.
 - Revenues increased 16% to MSEK 81 203, 22% organic growth.
 - Operating profit up 26% to MSEK 17 560, corresponding to a margin of 21.6% (19.9).
 - Profit for the year was MSEK 12 988 (9 944).
 - Basic earnings per share were SEK 10.68 (8.16).
- Operating cash flow was MSEK 6 292 (9 698).
- Proposed dividend of SEK 5.00 (4.00) per share.

Copco 2011

2011 in figures

MSEK	2011	2010	Change, %
Orders received	86 955	75 178	+16
Revenues	81 203	69 875	+16
EBITDA	20 082	16 413	+22
Operating profit	17 560	13 915	+26
– as a percentage of revenues	21.6	19.9	
Profit before tax	17 276	13 495	+28
– as a percentage of revenues	21.3	19.3	
Profit for the year	12 988	9 944	+31
Basic earnings per share, SEK	10.68	8.16	
Diluted earnings per share, SEK	10.62	8.15	
Dividend per share	5.00 ¹⁾	4.00	+25
Mandatory redemption per share	–	5.00	
Equity per share, SEK	24	24	
Operating cash flow	6 292	9 698	
Return on capital employed, %	37.2	28.6	
Return on equity, %	47.6	37.6	
Average number of employees	35 131	31 214	

¹⁾ Proposed by the Board of Directors.

For definitions, see page 103.

Atlas Copco Group

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. With innovative products and services, Atlas Copco delivers solutions for sustainable productivity. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 170 countries. In 2011, Atlas Copco had 37 500 employees and revenues of BSEK 81 (BEUR 9). Learn more at www.atlascopco.com. 

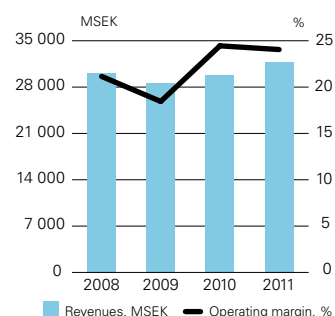
The business

Compressor Technique



The Compressor Technique business area provides industrial compressors, gas and process compressors and expanders, air and gas treatment equipment and air management systems. It has a global service network and offers specialty rental services. Compressor Technique innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, Germany, the United States, China and India.

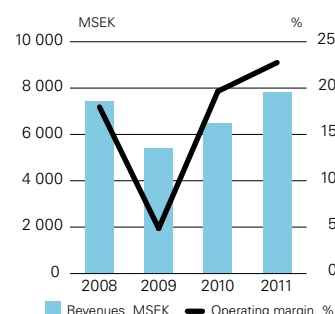
Revenues and operating margin



Industrial Technique



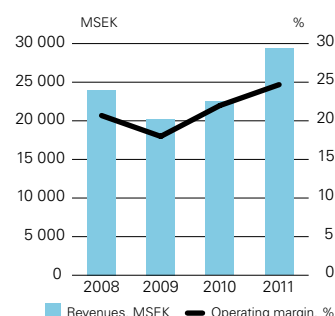
The Industrial Technique business area provides industrial power tools, assembly systems, quality assurance products, software and services through a global network. It innovates for sustainable productivity for customers in the automotive and aerospace industries, industrial manufacturing and maintenance, and in vehicle service. Principal product development and manufacturing units are located in Sweden, France, Japan and Germany.



Mining and Rock Excavation Technique



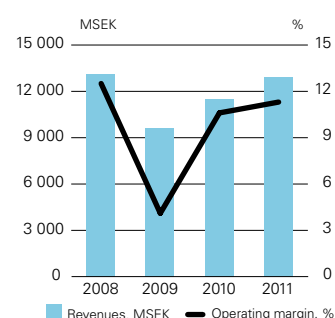
The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works, well drilling and geotechnical applications. Principal product development and manufacturing units are located in Sweden, the United States, Canada, China and India.



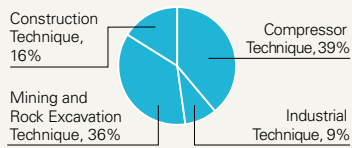
Construction Technique



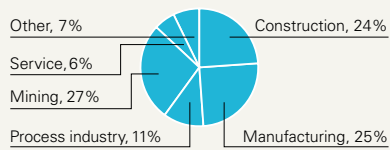
The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. It offers service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, China and Brazil.



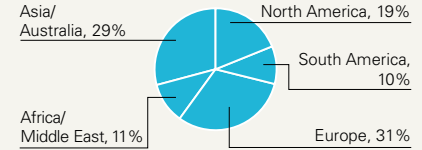
Revenues by business area



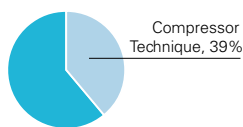
Orders received by customer category



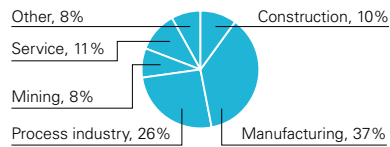
Revenues by geographic area



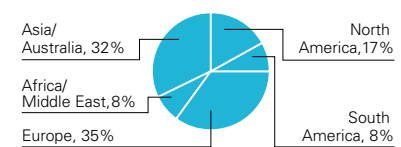
Share of Group revenues



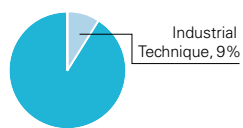
Orders received by customer category



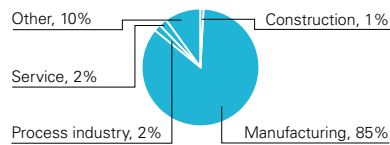
Revenues by geographic area



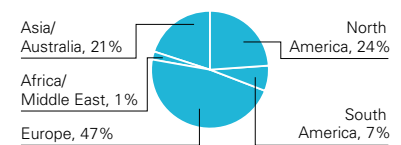
Share of Group revenues



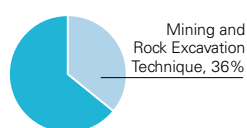
Orders received by customer category



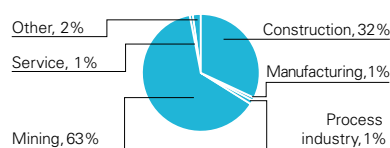
Revenues by geographic area



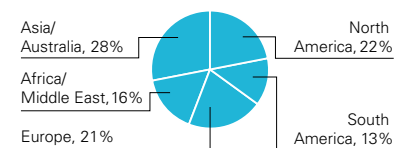
Share of Group revenues



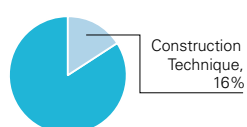
Orders received by customer category



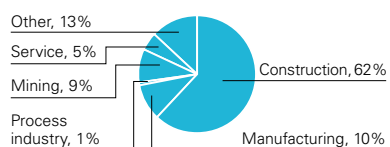
Revenues by geographic area



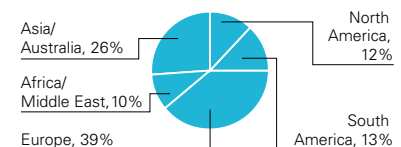
Share of Group revenues



Orders received by customer category



Revenues by geographic area





Planting new seeds for growth

The year of 2011 was fantastic for Atlas Copco, with new records for sales and profitability. We intensified relations with customers through a new structure for the organization and a stronger focus on customer service. We also made a large number of interesting acquisitions. These achievements do not mean we can settle down. We have a year of great uncertainty ahead and will strive to deliver good results while planting new seeds for Atlas Copco's sustainable, profitable development.

Summary of 2011

Demand for our products and services increased significantly in 2011, stabilizing on a high level in the second half of the year. The growth was very good for mining equipment, industrial tools and compressors. The construction-related businesses saw a somewhat weaker development, as a result of reduced spending on infrastructure and construction projects. We see that we can benefit from becoming even more customer focused, with an organization geared to give all customer segments the necessary attention.

To that end we have established a new structure for the Group, with dedicated business areas for mining and rock excavation and for construction equipment, and a sharper industrial customer focus in Compressor Technique and Industrial Technique. This new structure supports our ambition to be a product-driven, customer-focused company. Operational as of July, the new Construction Technique business area has begun to establish its own customer centers in selected markets, such as Australia, Russia, China and South Africa.

In this and other ways, the new structure will help us with the four priorities we have identified as key to Atlas Copco's long-term success: Extending our presence in growth markets, developing the service business, remaining innovative, and focusing on operational excellence.

All business areas now have their own service divisions, enabling us to further strengthen our global presence and customer relations. These divisions have a total of more than 13 000 employees, about 35% of Atlas Copco's total workforce – one indication of how important the aftermarket is for our company. The aftermarket provides a steady revenue stream that makes the company resilient in difficult times.

We are also investing to deepen our market presence and our ability to innovate. In October we inaugurated a new research and development center for mining products in Nanjing, China. During the year, we decided to build two new factories, one in India and one in China, to meet the growing demand for compressors in the region.

Developing our capacity for the future is a balancing act, as we want Atlas Copco to remain an asset-light organization without jeopardizing our future growth potential. This means investing a lot in engineering capabilities and in customer relations, but being tough on fixed asset investments and optimizing our manufacturing floor space and offices.

In line with this drive for operational excellence, we consolidated three smaller compressor manufacturing units in the United States into one. We are also adapting factories in our Construction Tools and Road Construction Equipment divisions to lower business volumes. On a global level, we have decided to outsource some of our financial processes, to leverage the competence and innovation capacity of our service partners.

Our full-year results were strong both in terms of growth and profitability. Revenues increased 16% to BSEK 81.2 and the operating profit was BSEK 17.6 (13.9), corresponding to a margin of 21.6% (19.9). The revenue level is now 10% higher than the previous peak (in 2008) and the operating profit margin is nearly two percentage points higher than the previous record. Atlas Copco's return on capital employed at 37% (29) is further proof of the efficiency of our business model.

The Board of Directors has proposed to the Annual General Meeting an ordinary dividend of SEK 5.00 per share, up 25% compared with 2010. In relation to our strong balance sheet this is a prudent dividend that maintains our capacity to finance Atlas Copco's further growth.



Seeds for growth

Will we be able to repeat these achievements in 2012? Considering the development of the past three years and the current turbulence in the global economy, the predictability of the coming year's market environment is extremely low. In the short term we might be facing a decline in the global economy, but demand could also remain on the current level or there may even be a period of renewed growth. There is no homogenous global outlook and the signs are not clear, making it more important than ever to develop the agile and resilient aspects of our organization, and keeping a steady eye on our growth opportunities.

To do this we need to keep our units working in line with Atlas Copco's most fundamental strategy for securing lasting results, which is to apply three different time horizons in developing strategies and growth plans. In the first horizon, we should attempt to extend and

defend our core business. In the second horizon, we focus on building new businesses close to the core. In the third horizon we seek to create options and look at new markets and ways of doing business. This is a well-known strategic concept that has proven useful for Atlas Copco throughout the years. It makes it possible to deliver good results today, while we at the same time plant seeds for future growth.

These "seeds" come in many shapes and forms. Looking at acquisitions, 2011 was an active year and we acquired or agreed to acquire more than 10 companies with combined revenues of almost BSEK 2. Research and development spending is another path to future growth. In 2011 the Group invested BSEK 1.8 in this area, an increase of 14% from 2010. It should be noted that most acquisitions and other activities give benefits on more than one time horizon, but here are some examples of how our strategy manifested itself last year.

Activity	Benefit	Strategic fit
Launched screw compressors targeted to Asia, certified with the new and stricter Chinese environmental standard.	Meeting official requirements, reducing customer costs and strengthening position versus local competitors.	First horizon
Acquired distributors in the U.S., Spain and Colombia.	Coming closer to customers and supporting the growth of the current business.	
Acquired Gesan, a Spanish manufacturer of generators.	Strengthening Atlas Copco's product portfolio and reaching a wider group of customers.	
Introduced service divisions in all business areas.	Improving focus on the service business and ability to respond to customer needs.	
Acquired GIA, a Swedish manufacturer of underground mining equipment.	Extending Atlas Copco's offering of underground transportation and utility equipment.	Second horizon
Acquired Houston Service Industries, a U.S. manufacturer of energy-efficient blowers.	Supporting Atlas Copco's ambition to become a leader in low-pressure compressors.	
Introduced a new business area structure.	Strengthening customer focus.	Third horizon
Acquired SCA Schucker, a German manufacturer of adhesive equipment for the automotive industry	Adding a new type of technology that will grow in importance due to increased use of lightweight materials.	
Launched a research project to develop technology for drilling deep geothermal wells.	Increasing knowledge about a potentially significant growth market for the Group.	



We also saw several promising products coming out last year. The Group's John Munck Award, which rewards important technical achievements, was in 2011 presented to the developers of a pick hammer with dramatically reduced vibration levels. Atlas Copco also, through the annual Environmental Award, recognized the developers of a drill rig system platform which reduces fuel consumption and extends the life span of the engine and consumables.

We were proud to see our efforts in innovation acknowledged externally, when Atlas Copco was included on two different

rankings of the world's 100 most innovative companies, published by Forbes and Thomson Reuters. Innovation is important because it is the key to creating value for our customers and ultimately shareholders. But it depends on one resource alone: people. We work with business partners to attract ideas and foster a culture of open innovation, and we engage in talent management to breed our next generation of leaders and innovators.

Meeting our goals

Competence development is emphasized in the goals introduced in 2011 for Atlas Copco's operations, products, services and solutions, to support the Group's sustainable, profitable development. Ranging from increased customer loyalty to improved energy efficiency of our products and a reduced number of accidents, these goals have been defined with a long-term view, but we are constantly measuring our progress.

Perhaps the most important goals relate to energy consumption – that of our own operations and of our products. The aim is to reduce carbon dioxide emissions and energy consumption by 20% by the year 2020. This focus is both good for the global environment and goes hand in hand with our business goals: Our customers benefit from lower life-cycle costs and Atlas Copco's business grows.





» We are prepared for long-term growth in an unpredictable world.

Our Group goals include a vision of zero work-related accidents and having a safe and healthy workplace for all our employees, with a sick-leave ratio below 2.5%. Supported by a company-wide campaign, the number of accidents declined by a third and we were pleased to see sick leave remain on a low level.

We still have a way to go when it comes to diversity in Atlas Copco, both related to gender and nationality among our employees. The ratio of female employees increased slightly to 17% and among our managers 67% (68) were locally employed. These figures are positive considering the significant increase in our workforce in emerging markets, but they show we can still become better at recruiting from the full pool of talent.

Partly thanks to our intensified work in these areas, we have once again been included in the Dow Jones Sustainability Indexes. In January of 2012 it was also announced that Atlas Copco has been included on the Global 100 list of the world's most sustainable companies.

Atlas Copco's vision is to be First in Mind—First in Choice® among our stakeholders, from potential employees to customers, and we have made this part of our goal structure. To measure whether we are first in mind among customers and prospects, we will conduct regular brand awareness surveys in key markets, in addition to our customer loyalty surveys. The results from our

early surveys are interesting. Among potential customers, awareness of Atlas Copco is reasonably good, but as always we need to keep a close eye on our competitors. Especially in markets like Asia, we will work hard with branding efforts in digital communications and other channels to further increase knowledge about Atlas Copco and develop our strong market position.

I would like to thank our customers, shareholders, employees, board members and partners for your business and cooperation in 2011. We can look back at a great year and forward to a year with the confidence that we have the right organization and motivated people who can meet whatever challenges we are presented with. We are prepared for long-term growth in an unpredictable world.

Ronnie Leten
President and CEO
Stockholm, January 31, 2012

Committed to sustainable productivity

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. With innovative products and services, Atlas Copco delivers solutions for sustainable productivity.

Vision and mission

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice® of its customers and other principal stakeholders. The mission is to achieve sustainable, profitable development. In order to achieve the mission, the Board of Directors has adopted a number of goals, see page 10.

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 intensified training for service and sales personnel
- increasing the scope of supply
- improving distribution channels and brands
- continuously launching new products for existing applications
- finding new applications for existing products
- acquiring more channels to the market, for example more brands or more distributor channels
- 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.

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.

Structure

The Group is organized in 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.

Processes

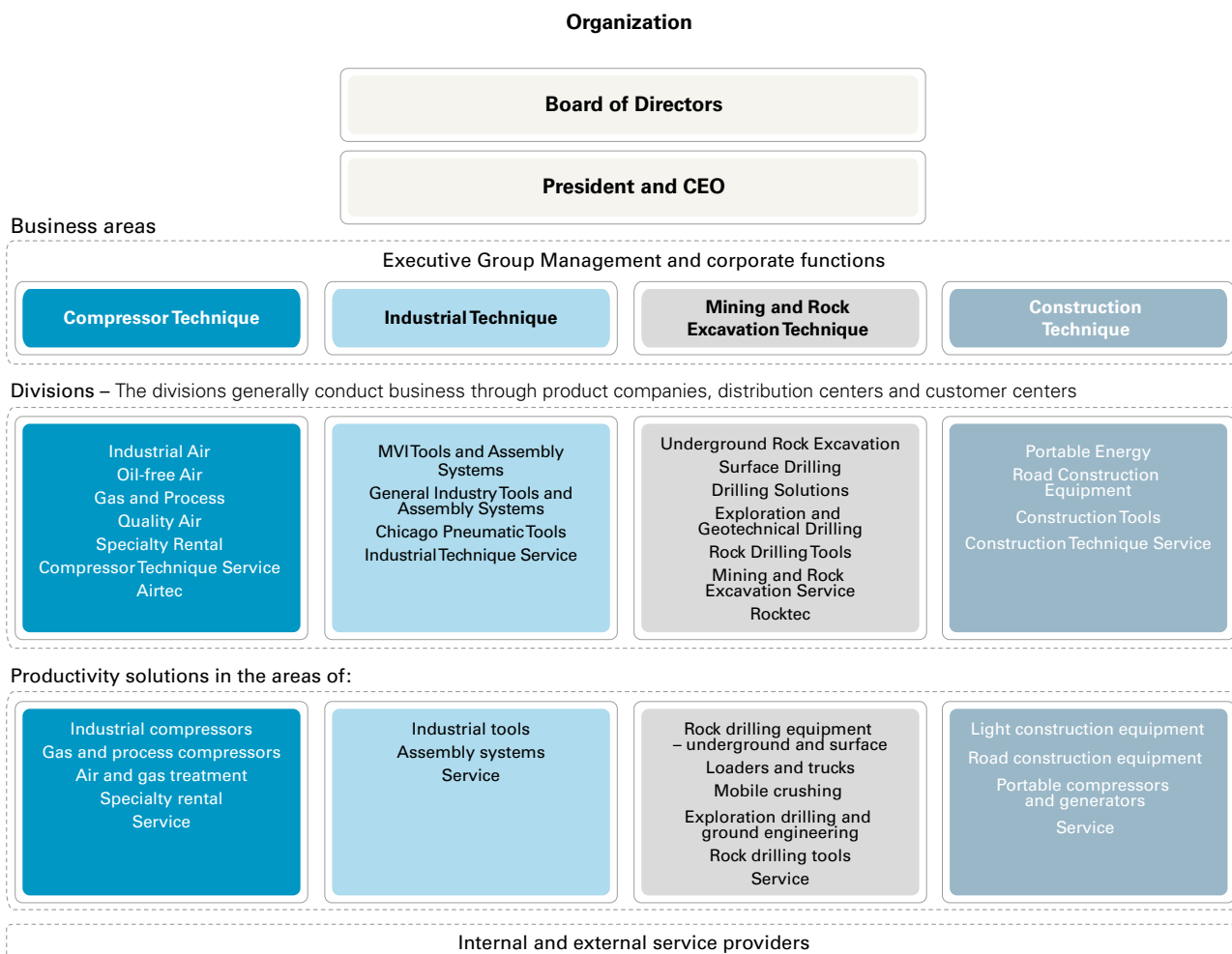
Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are governance, safety, health, environment and quality, accounting and business control, treasury, tax, audit and internal control, information technology, people management, legal, communications and branding, crisis management, administrative services, insurance, Group standards and acquisitions. 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.

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.



Primary drivers of revenues

Investments in equipment 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 increase capacity, reduce cost, improve productivity and quality. Customers in the construction and mining industries invest in equipment, e.g. for rock excavation, demolition and road construction. Large infrastructure investments, such as tunnel construction for roads, railways and hydroelectric power plants often depend on political decisions. Private investments in 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.

There is also demand for aftermarket – service and maintenance, training, parts, accessories and consumables – and 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 can perform additional services or functions. Demand for aftermarket is relatively stable compared to the demand for equipment. Aftermarket and rental revenues are generating about 40% of Atlas Copco's revenues.

	Equipment, 60%	Aftermarket and rental, 40%
Industry	Industrial machinery investment	Industrial production
Construction	Investment in infrastructure	Construction activity
Mining	Mining machinery investment	Metal and ore production

Goals

Increasing productivity is the foundation for all of Atlas Copco's business activities.

It means helping customers get more out of every investment. Be it making products faster, more energy efficient, safer or more ergonomic, the effect should be increased productivity. Atlas Copco achieves this by adhering to its core values: commitment, interaction and innovation.

Being committed to sustainable productivity includes the perspective that Atlas Copco always takes the long-term view. Customers need to know they will be productive not just today or tomorrow, but a year or even ten years from now. Atlas Copco always strives to provide the highest possible productivity, but believes doing so with a short-term view would ultimately damage both the company and its customers.

Sustainable productivity covers a range of subjects: making safe, efficient products with a minimum of environmental impact, interacting with customers, developing innovative products, having a good, diverse workplace, investing in competence development, and engaging in its local communities.

Atlas Copco's ambition for sustainable development is also manifested by goals for its operations, products, services and solutions. See the table below for a summary of all the Group goals. The achievements can be found in the sustainability report and on the next page.

Committed to sustainable productivity

is Atlas Copco's brand promise. This is a promise to ensure reliable, lasting results with a responsible use of resources – human, natural and capital.

Goals for sustainable, profitable development

Products, services and solutions	First in Mind—First in Choice® for customers and prospects for all brands.	Increase customer loyalty.	Increase customer energy efficiency by 20% by 2020*.	Offer safe and reliable products and services.
Operations	First in Mind—First in Choice® employer for current and future employees.	Competence development to achieve good results and yearly coaching/appraisals to all employees.	Increase diversity in both gender and nationality. Encourage internal mobility.	Safe and healthy working environment for all employees. Zero work-related accidents. Sick leave below 2.5%.
	No corruption or bribes.	Work with business partners committed to high ethical, environmental and social standards.	Develop new products and services with a lifecycle perspective.	Construct Atlas Copco buildings according to sustainable building standards.
	Decrease CO ₂ emissions from operations by 20% in relation to cost of sales by 2020*.	Decrease CO ₂ emissions from transport of goods by 20% in relation to cost of sales by 2020*.	Keep water consumption at current level.	Reuse or recycle waste.
Financials	Annual revenue growth of 8% over a business cycle.	Sustained high return on capital employed.	All acquired businesses to contribute to economic value added.	Annual dividend distribution about 50% of earnings per share.

* Base year 2010

Value creation

Recent years have proven Atlas Copco's ability to capture a best-in-class position vis-à-vis its industrial peers in terms of profitability – both during cyclical peaks and troughs. The goals that were introduced in 2011 aim at continuously delivering sustainable, profitable development.

The ambition for the company is to focus on growth while maintaining strong profitability. This will ensure that profit is increased and, together with continued efficiency improvements on capital employed, that more economic value is generated.

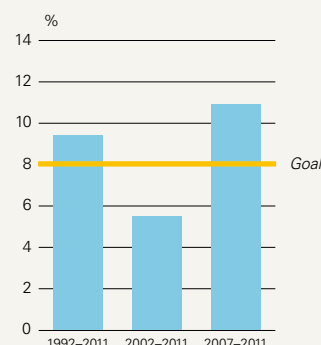
The Group's goal for annual revenue growth is 8%, measured over a business cycle. At the same time the ambition is to grow faster than the most important competitors.

The return on capital employed, i.e. operating profit divided by net operating assets, for the current Atlas Copco business portfolio, has been consistently strong over the years. The goal is to continue to deliver high return on capital employed, by constantly striving for operational excellence and generating the growth indicated above. All acquired businesses are expected to make a positive contribution to economic value added (i.e. a return on capital employed above the Group's weighted average cost of capital).

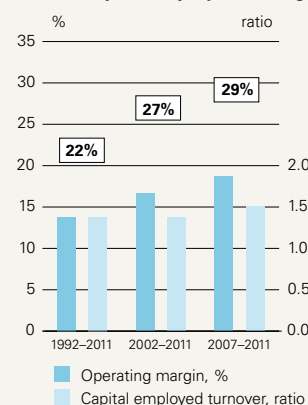
Atlas Copco aims to have a strong but also cost-efficient financing of the business. The priority for the use of capital is to develop and grow the business. The strong sustainable profitability and cash generation that have been reached allow the Group to do that and at the same time have the ambition to distribute about 50% of earnings as dividends to shareholders.

PERFORMANCE

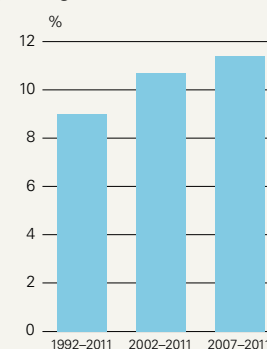
Revenue growth, average



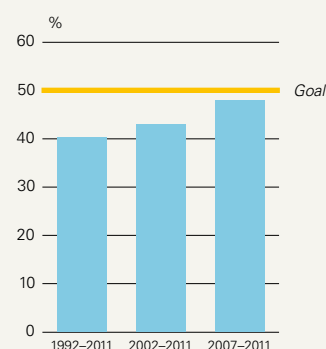
Return on capital employed, average



Operating cash flow/revenues, average



Dividend/earnings per share, average



Board of Directors' report on 2011 operations

Market review and demand development

The demand for Atlas Copco's products and services developed favorably during 2011. The sequential growth seen in all quarters of 2010 continued during the first half of 2011. From mid-year, the demand remained on a high level for most customer segments, with the exception of the construction industry, where weakness was noted in some areas. Compared to 2010, order intake increased significantly and it was particularly strong in the mining industry. The overall demand from most manufacturing and process industries improved and solid growth in order intake was recorded. The motor vehicle industry developed particularly well and orders received from this customer segment grew strongly. Demand from the construction industry was mixed, with significantly lower order intake for road construction equipment, while most other types of construction equipment saw increased orders received. The Group strengthened its market presence and penetration and successfully introduced a number of new products and services. This also contributed to the increased order intake.

Orders received increased 16%, to MSEK 86 955 (75 178). Volumes increased 20% for comparable units. The main growth driver was higher order intake for equipment, but double-digit growth was also recorded in the aftermarket business. Compressor Technique volumes increased 21%, Industrial Technique 28%, Mining and Rock Excavation Technique 25%, and Construction Technique 7%. Prices increased 2%, while currency translation effects had a negative impact of 8%. See also business area sections on pages 24–39.

North America

Sales improved significantly in North America, which accounted for 19% (18) of orders received. In total, orders received increased 37% in local currencies. All business areas benefited from the improved demand and recorded strong growth in orders received. Mining equipment, industrial tools for motor vehicle assembly and large gas and process compressors noted the highest growth figures, supported by some large orders. The activity level in most customer segments improved or remained high and the aftermarket order intake recorded healthy growth.

South America

South America accounted for 10% (11) of orders received. Overall demand developed positively and order intake increased 16% in local currencies and reached a new record. The best development

was recorded for industrial tools, but solid growth was also seen for mining equipment and compressors. Order intake for road construction equipment decreased significantly, primarily in Brazil. The aftermarket business performed well and solid growth was achieved.

Europe

Europe accounted for 31% (31) of orders received. The demand for mining and rock excavation equipment continued to improve and order intake increased strongly. The demand from most manufacturing and process industries improved and solid growth in order intake was recorded, with the best development seen in industrial tools. Orders received for construction equipment improved, but remained at a relatively low level. Healthy growth was recorded for the aftermarket business. In total, orders received increased 19% in local currencies.

Geographically, the strongest development of orders received was seen in Sweden, Great Britain, Germany and Russia. Affected by the economic and political turbulence, demand continued to be weak in Southern Europe with low order intake in, for example, Spain and Italy.

Africa/Middle East

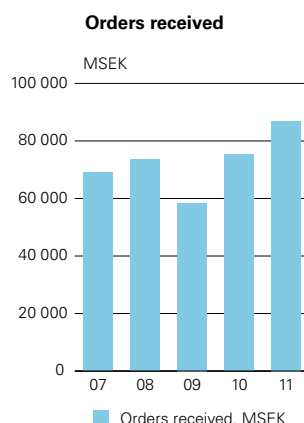
The Africa/Middle East region accounted for 11% (11) of orders received. Order intake increased strongly for most types of equipment and in all parts of the region, except for Northern Africa. In total, orders received increased 29% in local currencies.

Asia/Australia

Demand in Asia/Australia, representing 29% (29) of orders received, continued to improve and orders received reached a new record. In total, orders received increased by 23% in local currencies. Sales of industrial compressors and industrial tools developed particularly well, supported by strong growth in China. Orders received for road construction equipment deteriorated sharply in most Asian markets, while sales of most other types of construction equipment held up well. The mining business developed very strongly with Australia reporting record order intake.

Near-term demand outlook, Published January 31, 2012

The overall demand for Atlas Copco's products and services is expected to weaken somewhat from the current high level.



Geographic distribution of orders received, by business area, %

	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Atlas Copco Group
North America	17	24	23	13	19
South America	7	6	13	13	10
Europe	33	47	21	38	31
Africa/Middle East	9	1	16	11	11
Asia/Australia	34	22	27	25	29
	100	100	100	100	100

Orders received, by customer category, %

	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Atlas Copco Group
Construction	10	1	32	62	24
Manufacturing	37	85	1	10	25
Process industry	26	2	1	1	11
Mining	8	0	63	9	27
Service	11	2	1	5	6
Other	8	10	2	13	7
	100	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.

Significant events and structural changes

New business area structure and new divisions

Atlas Copco modified its business area structure to strengthen the focus on specific product and customer segments. As of July 1, 2011, the Group has four business areas instead of three. The divisions for portable compressors and generators, road construction equipment and construction tools have joined forces in the new Construction Technique business area. Divisions with underground and surface drilling products, crushing, loading and hauling, and exploration equipment belong to the Mining and Rock Excavation Technique business area. Compressor Technique focuses on stationary equipment for air and gas and related service. A new division, Quality Air, has been created to strengthen the focus on air and gas treatment products. All business areas now have dedicated service divisions.

Acquisitions and divestments

The Group completed nine acquisitions and one divestment during the year. The acquisitions added net revenues of MSEK 804 in 2011. Compressor Technique acquired J.C. Carter, a United States-based producer of cryogenic submerged motor pumps and Penlon's Medical Gas Solutions business based in the United Kingdom. The business area also acquired distributors in the United States and Spain. Industrial Technique acquired the German adhesive equipment manufacturer SCA Schucker as well as the French manufacturer of advanced drilling equipment and solutions for the aerospace industry, Seti-Tec, and Kalibrierdienst Stenger, a small German company specialized in calibration and measuring instruments for industrial tools. Mining and Rock Excavation Technique divested MAI, its business related to self-drilling anchors, based in Austria. Construction Technique acquired GESAN, a manufacturer of diesel and petrol generators based in Spain. Acquisitions are always integrated into the existing business structure in order to give the best

possibilities for profitable growth and to exploit synergies.

In January 2012, four more acquisitions were completed. Compressor Technique acquired Houston Service Industries, a United States-based manufacturer of low-pressure blowers and vacuum pumps. Mining and Rock Excavation Technique acquired Perfora, an Italian company that manufactures and sells drilling and cutting equipment for the dimension stone industry, the underground business of GIA Industri AB, a Sweden-based manufacturer of electric mine trucks, utility vehicles and equipment for continuous loading for mining and tunneling applications, and took over the sales of drilling equipment and related services from the previous distributor in Colombia. See also business area sections on pages 24–39 and note 2.

Investments

Atlas Copco invested approximately MSEK 60 to build a new research and development center in Nanjing, China. The center will support the Mining and Rock Excavation business area. The investment totaling approximately MSEK 450 to expand production capacity of rock drilling tools in Fagersta, Sweden, continued. The investment in modern machine technology will increase the capacity and create new job opportunities locally. Compressor manufacturing will be complemented by two manufacturing facilities during 2012. These factories are being built in China and in India and the investments amount to MSEK 150 and MSEK 160, respectively.

Purchase of minority shares in India and delisting of the Indian subsidiary

During 2011, the Group acquired 11.3% of minority shares in Atlas Copco (India) Ltd. for MSEK 991. The Group owned 95.1% of the shares at the end of the year and delisted the Indian subsidiary from Indian exchanges in the second quarter.

Restructuring

In January 2011, Atlas Copco initiated negotiations with unions regarding a plan to relocate production of light compaction equipment from Ljungby, Sweden to Rousse, Bulgaria. The factory in Ljungby was closed by the end of the year.

In November, Atlas Copco entered into an agreement with Infosys Limited to handle parts of its financial processes, such as accounting to reporting and processing of supplier invoices. The project is affecting approximately 230 positions within Atlas Copco, and of these Infosys will offer employment to around 70 staff working in the Czech Republic.

Updated goals for sustainable profitable development

Atlas Copco's vision is to become and remain First in Mind—First in Choice® for its stakeholders. This vision drives the Group's strategies and goals for its operations. The updated goals for sustainable, profitable development were presented on February 2, 2011. See pages 10–11.

Changes in Group Management

Two new business area presidents were appointed, Robert Fassl for Mining and Rock Excavation Technique and Nico Delvaux for Construction Technique. Atlas Copco appointed Håkan Osvald Senior Vice President General Counsel and member of Group Management as from January 1, 2012. He succeeded Hans Sandberg, who retired.

Financial summary and analysis

Revenues

The Group's revenues increased 16% to MSEK 81 203 (69 875). Volume increased 20% for comparable units attributable to all business areas; Compressor Technique +11%, Industrial Technique +22%, Mining and Rock Excavation Technique +36% and Construction Technique +17%. Prices increased 2%, while currency translation effects were -8%. See also the business area sections on pages 24–39 and notes 2 and 3.

Operating profit

Operating profit increased 26%, to a record MSEK 17 560 (13 915), corresponding to a margin of 21.6% (19.9). Restructuring costs and other items affecting comparability were MSEK -155 (-100) and the adjusted operating margin was 21.8% (20.1). The margin was positively affected by increased revenue volumes and price increases, while acquisitions diluted the margin somewhat. Changes in exchange rates had a negative effect of MSEK 1 840 on the operating profit and affected the margin negatively by about 0.7 percentage points.

Operating profit for the Compressor Technique business area increased 5% to MSEK 7 592 (7 233), corresponding to a margin of 23.9% (24.3). The margin benefited from volume, while revenue mix, acquisitions and currency all had negative effects. The return on capital employed was 70% (70).

Operating profit for the Industrial Technique business area increased 40% to MSEK 1 767 (1 262), corresponding to a margin of 22.6% (19.5). Significantly higher volumes affected the profit and margin positively. Return on capital employed was 55% (50).

Operating profit for the Mining and Rock Excavation Technique business area increased 46% to MSEK 7 196 (4 919), corresponding to a margin of 24.5% (21.8). The operating profit and margin was supported primarily by increased volumes. Return on capital employed was 66% (53).

Operating profit for the Construction Technique business area increased 20% to MSEK 1 460 (1 218), corresponding to a margin of 11.3% (10.6). Restructuring costs and other items affecting comparability were MSEK -105 (-100) and the adjusted operating margin was 12.1% (11.5). Return on capital employed was 12% (11).

Costs for common group functions and eliminations decreased to MSEK -455 (-717), including restructuring costs of MSEK 50 related to outsourcing of financial processes. Previous year's costs include a negative effect from the provision for share-related long-term incentive programs. The programs are hedged with own shares, but the off-setting effect from the hedge is recognized in equity when the shares are sold.

Depreciation and EBITDA

Depreciation and amortization totaled MSEK 2 522 (2 498), of which property and machinery accounted for MSEK 991 (995), rental equipment for MSEK 716 (680), and amortization of intangible assets MSEK 815 (823). Earnings before depreciation and amortization, EBITDA, was MSEK 20 082 (16 413), corresponding to a margin of 24.7% (23.5).

Net financial items

The Group's net financial items totaled MSEK -284 (-420). The net interest expense increased to MSEK -506 (-423). Interest net was affected by the significant capital distribution in the second quarter 2011. Financial exchange rate differences were MSEK -32 (-25), while other financial items of MSEK 254 (28) include a capital gain of MSEK 350 (81) from the sale of all remaining shares in RSC Holdings Inc., a financial participation which originated in the sale of the Rental Service business area in 2006. See note 27 for additional information on financial instruments, financial exposure and principles for control of financial risks.

Profit before tax

Profit before tax increased 28% to MSEK 17 276 (13 495), corresponding to a profit margin of 21.3% (19.3).

Taxes

Taxes for the year totaled MSEK 4 288 (3 551), corresponding to an effective tax rate of 24.8% (26.3) in relation to profit before tax. See also note 10.

Profit and earnings per share

Profit for the year increased 31% to MSEK 12 988 (9 944), of which MSEK 12 963 (9 921) and MSEK 25 (23) are attributable to owners of the parent and non-controlling interests, respectively. Basic and diluted earnings per share were SEK 10.68 (8.16) and SEK 10.62 (8.15), respectively.

Key figures

MSEK	2011	2010
Orders received	86 955	75 178
Revenues	81 203	69 875
EBITDA	20 082	16 413
Operating profit	17 560	13 915
- in % of revenues	21.6	19.9
Profit before tax	17 276	13 495
- in % of revenues	21.3	19.3
Profit for the year	12 988	9 944
Basic earnings per share, SEK	10.68	8.16
Diluted earnings per share, SEK	10.62	8.15

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets ¹⁾	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Compressor Technique	31 760	29 753	7 592	7 233	23.9	24.3	70	70	992	495
Industrial Technique	7 821	6 472	1 767	1 262	22.6	19.5	55	50	155	60
Mining and Rock Excavation Technique	29 356	22 520	7 196	4 919	24.5	21.8	66	53	1 294	690
Construction Technique	12 918	11 485	1 460	1 218	11.3	10.6	12	11	150	170
Common Group functions/eliminations	-652	-355	-455	-717					469	278
Total Group	81 203	69 875	17 560	13 915	21.6	19.9	37	29	3 060	1 693

¹⁾ Excluding assets leased.

Sales bridge

MSEK	Orders received	Orders on hand, December 31	Revenues
2009	58 451	14 265	63 762
Cancellations, %	+2		-
Structural change, %	+2		+2
Currency, %	-4		-4
Price, %	+1		+1
Volume, %	+28		+11
Total, %	+29		+10
2010	75 178	18 677	69 875
Structural change, %	+2		+2
Currency, %	-8		-8
Price, %	+2		+2
Volume, %	+20		+20
Total, %	+16		+16
2011	86 955	24 714	81 203

For more details and comments, see the business area sections on p. 24–39.

Balance sheet

Balance sheet in summary

MSEK	December 31, 2011		December 31, 2010	
Intangible assets	15 352	21%	13 464	19%
Rental equipment	2 117	3%	1 843	3%
Other property, plant and equipment	6 538	9%	5 702	8%
Other fixed assets	3 983	5%	4 123	6%
Inventories	17 579	23%	12 939	18%
Receivables	21 996	29%	17 474	24%
Current financial assets	1 773	2%	1 734	2%
Cash and cash equivalents	5 716	8%	14 264	20%
Assets classified as held for sale	55	0%	79	0%
Total assets	75 109	100%	71 622	100%
Total equity	28 839	39%	29 321	41%
Interest-bearing liabilities	21 939	29%	21 692	30%
Non-interest-bearing liabilities	24 331	32%	20 609	29%
Total equity and liabilities	75 109	100%	71 622	100%

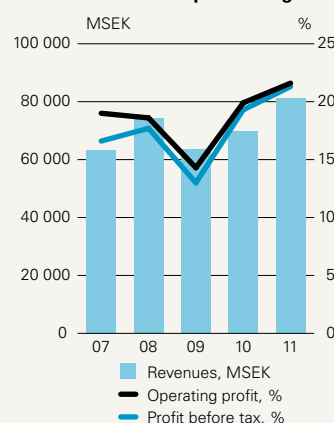
The Group's total assets increased 5% to MSEK 75 109 (71 622). Excluding currency translation effects, cash, cash equivalents and other current financial assets, assets increased approximately 16% for comparable units, which primarily is a result of the revenue increase with the corresponding increase in working capital.

Non-current assets and investments

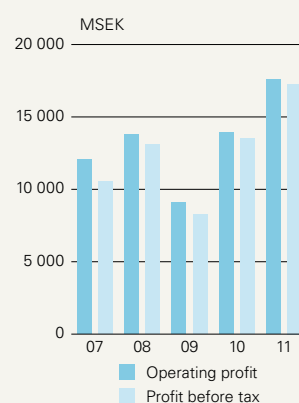
Non-current assets increased, primarily as a result of acquisitions and increased investments in property, plant and equipment.

Investments in other property, plant and equipment totaled MSEK 1 728 (868), 174% (87) of the annual depreciation. Large investments in facilities for manufacturing, research and development were made by Compressor Technique in Belgium, China, the United States and Germany. Industrial Technique's largest investments were in Sweden and in China. Mining and Rock Excavation Technique made significant investments in Sweden, China, the United States and India. Construction Technique made the largest investments in Germany, but also invested in Bulgaria, China, Canada and the United States.

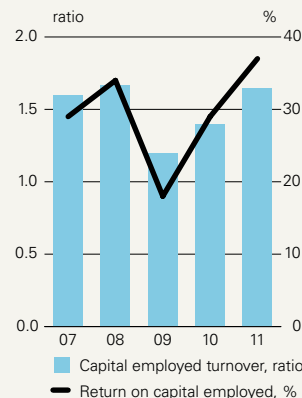
Revenues and profit margin



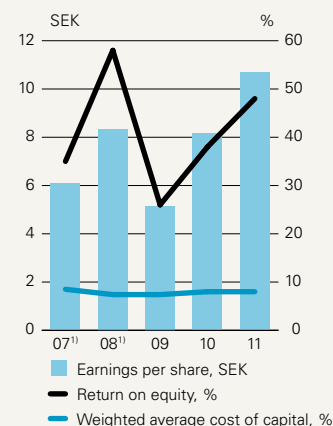
Operating profit and profit before tax



Capital employed turnover and return



Return on equity and earnings per share



¹⁾ Including discontinued operations.

Financial summary and analysis

(continued)

Investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK 619 (517). Rental equipment increased, with gross MSEK 1 332 (825), while sales of used rental equipment totaled MSEK 544 (480). Consequently, rental equipment increased with, net, MSEK 788 (345).

Shares in RSC Holdings Inc. amounting to MSEK 591 (190) were divested and no shares were held at year end. The minority ownership stake in this equipment rental business was recorded as a non-current financial asset held for sale. The book value of this asset at year end 2010 was MSEK 504.

The volume of finance leases for customer financing increased.

Working capital

Inventories and trade receivables increased 36% and 26%, respectively, as revenues recorded strong growth. The ratio of inventories to revenues at year end increased to 21.6% (18.5) and trade receivables increased to 20.7% (19.1) compared to the previous year's low levels. The corresponding average ratios increased to 19.0% (17.4) and decreased to 18.3% (18.4), respectively. Higher inventories in relation to revenues compared to the previous year is also explained by strong growth in the mining business, which has a higher inventory ratio than the Group average.

Trade payables increased by 20%. Average trade payables in relation to revenues increased to 8.8% (8.2).

Cash and cash equivalents

Cash and cash equivalents decreased to MSEK 5 716 (14 264). The positive effect of improved profits was more than offset by the large distribution of capital to shareholders, increased investments and more capital tied up in working capital.

Equity

MSEK	2011	2010
Opening balance	29 321	25 671
Profit for the year	12 988	9 944
Other comprehensive income for the year	-505	-2 951
Shareholders' transactions	-12 965	-3 343
Closing balance	28 839	29 321
Equity attributable to		
– owners of the parent	28 776	29 141
– non-controlling interests	63	180

At year end, Group equity including non-controlling interests was MSEK 28 839 (29 321). Translation differences recognized in other comprehensive income amounted to MSEK -406 (-4 536) and there was a net effect after taxes of MSEK -99 (1 585) related to hedging and fair value reserves, see page 40 and note 10. Shareholders' transactions include dividends and redemption of shares of MSEK -10 920 (-3 650) in total, sales and repurchases of own shares of net MSEK -1 005 (384), acquisition of non-controlling interest in Atlas Copco (India) Ltd. of MSEK -991 and share based payments of net MSEK -49 (-78), see page 42.

Equity per share was SEK 24 (24). Equity accounted for 38% (41) of total assets. Atlas Copco's market capitalization, excluding shares held by the company, at year end was MSEK 172 630

(199 921), or 599% (682) of net book value. The information related to public take over bids given for the Parent Company, on page 23, is also valid for the Group.

Interest-bearing debt

Total interest-bearing debt were MSEK 21 939 (21 692), whereof post-employment benefits MSEK 1 504 (1 578). See notes 21 and 23 for additional information.

Net indebtedness

The Group's net indebtedness, adjusted with MSEK -256 (-184) for the fair value of related interest rate swaps, amounted to MSEK 14 194 (5 510) at year end. The net debt/EBITDA ratio was 0.7 (0.3) and the debt/equity ratio was 49% (19).

Cash flow

Operating cash surplus reached MSEK 19 906 (16 673). Working capital increased with MSEK 6 115 (1 730). Rental equipment increased, with net MSEK 788 (345). Net cash from operating activities amounted to MSEK 8 421 (10 825).

Net investments in property, plant and equipment were MSEK -1 676 (-815) and net cash flows from other investing activities, excluding acquisitions and divestments, were MSEK -453 (-312). Operating cash flow was MSEK 6 292 (9 698), equal to 8% (14) of Group revenues.

The net cash flow from acquisitions and divestments increased, and amounted to MSEK -2 206 (-1 691).

Dividends paid amounted to MSEK 4 852 (3 646) and the mandatory redemption was MSEK 6 067. Sales and repurchases of own shares equaled net MSEK -1 005 (384). Acquisition of non-controlling interest in Atlas Copco (India) Ltd. amounted to MSEK -991.

Change in interest bearing liabilities was MSEK 181 (-1 474). Previous year, a bond loan of MSEK 2 000 was repaid while the closing of interest rate swap contracts related to other loans gave a positive cash flow of MSEK 1 161, both items included under change in interest-bearing liabilities.

Capital turnover

The capital turnover ratio was 1.14 (1.02) and the capital employed turnover ratio was 1.65 (1.40).

Return on capital employed and return on equity

Return on capital employed increased to 37.2% (28.6) and the return on equity to 47.6% (37.6). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

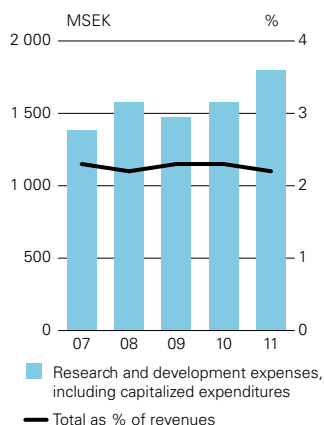
Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.00 (4.00) per share be paid for the 2011 fiscal year. Excluding shares held by the company, this corresponds to a total of MSEK 6 058 (4 852). See also page 23.

Product development

The aim of the research and development activities is to support the Group's vision First in Mind—First in Choice®, through innovation and close interaction with customers. The wide span of technologies used by Atlas Copco – from advanced computer control systems, hydraulics and pneumatics to specialized technologies such as air compression or rock drilling – creates an exciting and challenging environment for the Group's product developers. A winning approach to maintaining a leading market position has been to work closely with universities and in different cooperations and alliances with customers around the world. In 2011, the amount invested in product development, including capitalized expenditures, increased 14% to MSEK 1 802 (1 579), corresponding to 2.2% (2.3) of revenues and 2.8% (2.8) of operating expenses. The number of product development projects increased, including more projects where the focus is to develop differentiated solutions for customers in the emerging markets. Productivity, reliability, safety, energy efficiency and product cost are examples of key criteria in the projects. For example, in a project where energy efficiency is considered a key criterion, the project will not be approved if the goal for energy efficiency is not met. For further information, see the description under each business area.

Research and development expenditures



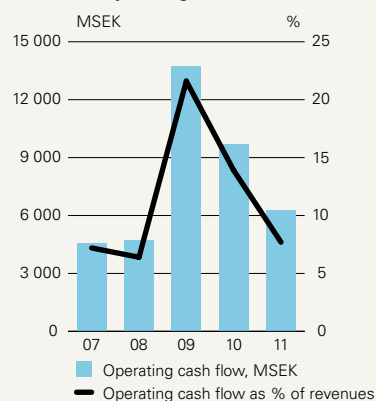
More financial information



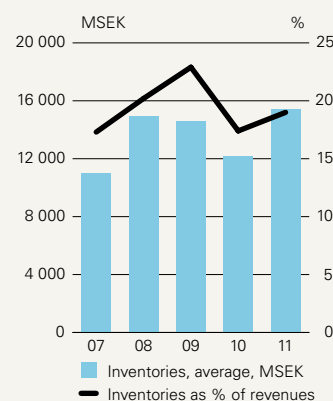
The following information is available at www.atlascopco.com/ir:

- Annual reports
- Quarterly reports
- Quarterly results presentations
- Presentation material from Capital Markets Days
- Debt information
- Key figures
- Information about acquisitions and divestments
- Share information

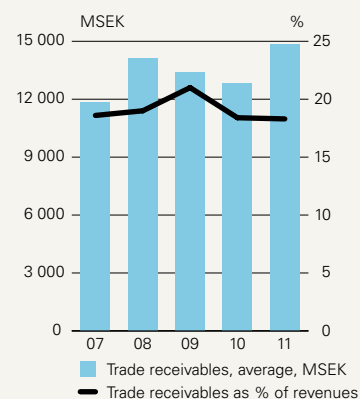
Operating cash flow



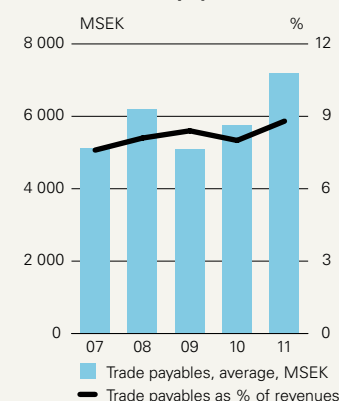
Inventories



Trade receivables



Trade payables



Personnel

	2011	2010
Average number of employees, total	35 131	31 214
– Sweden	4 353	3 890
– Outside Sweden	30 778	27 324
Business areas		
– Compressor Technique	14 187	12 832
– Industrial Technique	3 562	3 024
– Mining and Rock Excavation Technique	10 724	9 079
– Construction Technique	5 339	5 160
– Common Group Functions	1 319	1 119

In 2011, the average number of employees in the Atlas Copco Group increased by 3 917 to 35 131. At year end, the number of employees was 37 579 (32 790) and the number of full-time consultants/external workforce was 2 198 (1 696). For comparable units, the total workforce increased by 4 520. Acquisitions added 816 employees and divestments reduced the number of employees by 45. See note 5.

Management resourcing and recruitment

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 target is to have 85% of the managers internally recruited, and the outcome in 2011 was 92% (96).

Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally through the Internal Job Market, which was created in 1992. In 2011, 5 041 (3 330) positions were advertised, of which 603 (353) were international.

The Group has managers on international assignments from 55 (46) countries working in 59 (57) countries. The share of Swedish managers on international assignments has decreased from 23% in 2001 to 13% in 2011. The role of the international managers is to develop local managers and get international professional experience for even more demanding positions within the Group.

Competence mapping is done extensively to establish resource needs, particularly in core areas. External recruitment of young high-potential employees is focused through active promotion of the Atlas Copco employer brand. The Group strives to increase the proportion of female leaders and has many initiatives to facilitate this. The proportion of women in management positions increased to 14.6% (13.5) and the female proportion of recent graduate recruitments remained on a high level. The share of female employees increased to 16.8% (16.3%).

Equal opportunities, fairness, and diversity are fundamental pillars of Atlas Copco's people management process. Atlas Copco's workforce reflects the local recruitment base and comprises all cultures, religions and nationalities.

Competence development

To build and develop the leadership abilities of managers, there are many training programs available and the programs were further improved during 2011.

A significant part of the trainings that are conducted in the Group are related to products and applications. Newly appointed service technicians, product specialists and salespeople receive extensive training in this area, and trainings are then continuously held in order to keep the knowledge and competence on a high level. Product and application trainings are also offered to customers and consultants.

Another important area for competence development is value-based sales training, in which an understanding of the product and the customer's application is essential.

An important part of product and application trainings is related to safety and there have been several dedicated trainings on safety and health. This is in line with the Group's vision to eliminate work-related accidents. During the year the number of accidents decreased further compared to the previous year. This development has been supported by the implementation of the occupational health and safety standard OHSAS 18001 in more companies in the Group.

Language training, primarily English, is frequently held in order to facilitate easy communication throughout the organization. Leadership and people management trainings, including special trainings for aftermarket managers and team leaders, are continuously being conducted with the ambition to improve efficiency and processes. Specific courses are also held, for example training in lean production and lean research and development.

All employees, both newly recruited and existing employees, receive training in *The Way We Do Things*, the Group's single most important management tool. All employees should also receive training in the Business Code of Practice.

The Group measures the hours of training that each employee participates in. The ambition is to provide every employee with an average of 40 hours of training per year. In 2011, the average number of hours was 45 (40).

One of the Group's goals is that all employees shall have annual competence reviews as well as a personal development plan, which 84% (74) of all employees had in 2011.

For further information regarding the social performance in relation to the Group goals, see the sustainability report.

Diversity

There are 44 (40) nationalities among the 345 (323) most senior managers in the Group. The table below shows the share of local general managers from the region.

	2011	2010
North America	57%	43%
South America	77%	71%
Europe	94%	93%
Africa/Middle East	43%	41%
Asia	55%	59%
Australia	50%	29%

Safety, health and environmental management

Atlas Copco strives to conduct its business to ensure sustainable, profitable development with a responsible use of resources – human, natural and capital.

The Group companies comply with environmental legislation in its operations and processes worldwide and reports incidents relating to non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, in accordance with these laws. In 2011, there were no major incidents reported concerning these aspects.

Seven Swedish companies require permits based on Swedish environmental regulations. These operations account for approximately 20% of the Group's manufacturing and mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. During 2011, one permit has been revised and one permit is under revision. The Group has been granted all permits needed to conduct its business. No penalties relating to environmental permits have been imposed during 2011.

Atlas Copco has a global Safety, Health and Environmental (SHE) policy to support its efforts in these areas. The Group also has established specific safety, health and environmental goals; see page 10. The related internal targets state that all product companies and major customer centers should be certified in accordance with the international standards ISO 14001 and OHSAS 18001. The product companies with ISO 14001 and OHSAS 18001 certification represented 95% (97) and 67% (61) of cost of sales, respectively.

Atlas Copco aims to offer a safe and healthy working environment in all its operations, for all stakeholders. All employees shall work in a company with a SHE management system. By the end

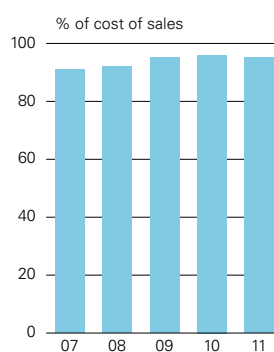
of 2011, 55% of Atlas Copco's employees worked in a company with a SHE management system.

Atlas Copco's main environmental impact is when the products are in use. The Group focuses on developing products and solutions to increase energy efficiency. Safety, health and environmental, as well as 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 be increasingly more energy efficient, safe and ergonomic.

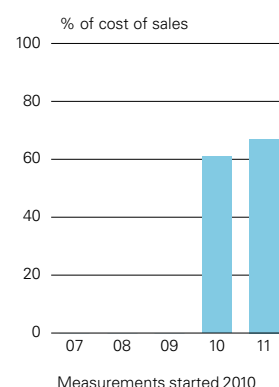
Atlas Copco also strives to decrease its environmental impact in terms of energy and water consumption, waste and carbon dioxide emissions. However, in 2011, water consumption increased both in absolute and relative numbers. The carbon dioxide emissions from product companies increased in absolute terms and decreased in relative terms.

For more information about Atlas Copco's safety, health and environmental performance, see the sustainability report.

ISO 14001 certification



OHSAS 18001 certification



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 becoming real as well as continuously making improvements and thereby limiting potential risks. Atlas Copco's risk management addresses business, financial and other potentially 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 assessments to be carried out in all business units. Established tools are used for evaluating and ranking existing risks based on their potential financial impact and likelihood of materializing.

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. This

is done 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 in which managers describe the development of their respective unit. In these monthly reports, "red flags" are raised if negative deviations or risks are identified. Mitigative actions are then implemented. See also the corporate governance report.

Market risks

The demand for Atlas Copco's products and services is affected by changes in the customers' investment and production levels. A widespread financial crisis and economic downturn, such as the one experienced during 2008–2009, affects the Group negatively both in terms of revenues and profitability. Furthermore, the functionality of the financial markets also has an impact on the customers' ability to finance their investments.

However, the Group's sales are well diversified with customers

in many industries and countries around the world, which limits the effect when the demand changes are concentrated in a single industry, country or region.

Changes in customers' production levels also have an effect on sales of spare parts, service and consumables. These changes have historically been relatively small in comparison to changes in investments, indicating that the risk of customer service-related sales deteriorating as a result of decreased production levels is limited.

The Group has leading positions in most market segments where it is active, with relatively few competitors of a comparable size. In developing markets, new smaller competitors continuously appear which may affect Atlas Copco negatively, mainly through competitive pricing.

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. To ensure its leading position in the market, Atlas Copco continuously invests in research and development to develop products in line with customer demand and expectations. If Atlas Copco fails to successfully introduce new products of high quality in a timely fashion, it can affect revenues and profits negatively.

One of the challenges in this respect will be to continuously develop innovative, sustainable products that consume less resources (such as energy, water, steel, and human effort) over the entire life cycle. Each Atlas Copco division has established measurable efficiency targets for their main product categories. In every master specification of a new product development project, the issue of energy and other resources is addressed, as well as ergonomics and safety and health aspects.

Product development efforts also reflect national and regional legislation in the United States and European Union, on issues such as emissions, noise, vibrations, and recycling. This may increase the risk of competition in emerging markets where low-cost products are not affected by such rules.

The technologies for compressors, construction and 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.

Production risks

Atlas Copco has a global manufacturing strategy based on the manufacturing of core components and assembly. Core component manufacturing is concentrated in few locations and if there are interruptions or if there is not enough capacity in these locations, this may have an effect on deliveries or on the quality of products. To minimize these risks and to maintain 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 for fire prevention.

Many components are sourced from sub-suppliers. The availability is dependent on the sub-suppliers and if they have interruptions or lack 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.

Atlas Copco is also directly and indirectly exposed to raw material prices. Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be offset by increased sales to mining customers and partly compensated for by increased market prices.

Atlas Copco affects the environment in the production process through the use of natural resources and generation of emissions and waste. To limit the environmental risks in production, the Group has the goal that all manufacturing units shall be certified in accordance with the ISO 14001 standard.

Distribution risks

Atlas Copco primarily distributes products and services directly to the end customer, but also through distributors and rental companies. Physical distribution of products from the Group is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored in order to minimize interruptions and improve delivery efficiency.

The distribution of services depends on the efficiency of the aftermarket organization and the Group 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 as all distributors are local/regional, the negative impact of poor distributors' performance is limited.

Risks with acquisitions and divestments

Atlas Copco has the ambition to grow all its business areas, primarily through organic growth, complemented by selected acquisitions. In order to ensure the success of acquisitions, the Group has established an Acquisitions Process Council. It provides training in the Atlas Copco acquisition process, which is based on the experience from a number of acquisitions. The Council supports all business units prior to, during and post an acquisition. The integration of acquired businesses is a difficult process and it is not certain that every integration will be successful. Therefore, costs related to acquisitions can be higher and/or synergies can take longer to materialize than anticipated.

Annual impairment tests are made on acquired goodwill. If goodwill is not deemed justified in such impairment tests it can result in a write-down, which would affect the Atlas Copco Group's result.

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, return on capital, and protecting creditors, Atlas Copco has adopted a policy to control the financial risks to which the Group is exposed. A financial risk management committee meets regularly to take decisions about how to manage financial risks.

The turbulence in the financial markets in 2008 and 2009 showed that it could become more expensive and difficult to obtain new funding for borrowers in general. Although Atlas Copco has already secured long-term loans and guaranteed

long-term stand-by credit facilities, a renewed turbulence and deterioration of the functioning of the financial markets could lead to increased costs and difficulties to meet future funding needs.

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.

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

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. Over the past years Atlas Copco has built up an in-house customer finance operation, Atlas Copco Customer Finance, as a means of broadening the offering to customers. Stringent credit policies are applied, and in the case of Atlas Copco Customer Finance, the norm is to mitigate risks by retaining security in the

equipment until full payment is received and by partly purchasing credit risk insurance. No major concentration of credit risk exists in Atlas Copco and the provision for bad debt is deemed sufficient based upon known cases and general provisions for losses based on historical loss levels incurred. See note 27.

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

To ensure good business practice in all markets, managers are repeatedly educated about Atlas Copco's Business Code of Practice and enhanced training programs for managers were introduced in 2010. From time to time, Atlas Copco encounters customers, for instance in the mining industry, who are exposed to problems concerning environmental and human rights issues. To manage such situations, the Group has developed a customer assessment checklist. The results can be used for evaluation of reputation and sustainability risks.

Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards. Supplier evaluations are regularly conducted in accordance with a checklist based on the United Nations Global Compact. Efforts may be made to assist suppliers who show a willingness to overcome a failure to meet Atlas Copco's expectations. However, if there is no demonstrated improvement, Atlas Copco will discontinue the business relationship.

Risk categories	Possible risks to Atlas Copco	Risk management
Market	Changes to customer investment levels, lack of funding for customers, competitor behavior	Monthly reports, diversified structure, leading market position
Product development	Lack of new products, legislation, increased energy costs	Continuous research and development
Production	Interruptions or lack of capacity at own facilities or at suppliers, quality, rising costs, pollution	Multi-purpose equipment, wide supplier network, environmental certifications
Distribution	Interruptions at delivery centers	Continuous monitoring of efficiency, training
Acquisitions and divestments	Integration problems, costs, goodwill impairments	Acquisitions Process Council supports in all acquisitions
Financial	Currency and interest rate fluctuations, credit losses, difficulties to raise funding	Financial risk exposure policy, hedging, adjustments of prices and costs, long-term loans
Reputation	Ethical and other violations internally, at suppliers or customers	Education in Atlas Copco's Business Code of Practice, supplier and customer assessments
Corruption and fraud	Fraud by internal or external parties, corruption in some markets	Internal audit function, ethical helpline, employee training, legal function
Legal	Product and patent liability claims, commercial and financial agreements and litigation in general	Monthly, quarterly and yearly legal risk exposure reviews
Insurable	Physical damage to all insurable assets and interests	Customary insurance program, extensive risk management surveys
Financial reporting	Internal and external reports could fail to give fair view of true financial position and results	Internal audits and other control procedures, external audits
Safety and health	Accidents, illness, pandemics	Implementation of OHSAS 18001 standard for occupational safety and health. Awareness programs.
Environmental (covered in sections on production and product development)	Increased energy costs, pollution	Product development, environmental certifications

Risks of corruption and fraud

The Group is aware of the risk of being subject to fraud by external or internal parties and has internal control routines, such as internal audits and an ethical helpline, in place aimed at preventing and detecting deviations that may be the result of such activities. The Internal Audit & Assurance function is established to ensure compliance with the Group's corporate governance, internal control and risk management policies. See further internal control section in the corporate governance report.

It is clear that corruption and bribery exist in markets where Atlas Copco conducts business. In Transparency International's Corruption Perceptions Index for 2011, the vast majority of the 183 countries included scored below five on a scale from zero (perceived to be highly corrupt) to ten (perceived to have low levels of corruption). Atlas Copco does not tolerate bribes and corruption, including facilitation payments. Business gifts or hospitality are offered or accepted only in accordance with local legislation and business practices. The Group has established training modules to increase awareness of such unacceptable behavior and thereby to help them avoid it. In 2011, approximately 3 300 managers signed a compliance certificate and committed themselves to act against corruption.

Legal risks

Responsibility for monitoring and steering the legal risk management within the Group rests with the legal function, with in-house lawyers on five continents. In addition to a continuous follow-up of the legal risk exposure carried out within the operative and legal structures with focus on areas of special concern, an in-depth review of all companies within the Group is performed yearly. With particular consideration to the trends within identified risk areas, the result is compiled, analyzed, and reported to both the Board and to the external auditor.

The conclusion for the business year 2011 was that the potential legal risk exposure to the Atlas Copco Group has been on the same level as in 2010, primarily reflecting the leveling out on a low level of the number of plaintiffs in respiratory cumulative trauma product liability cases in the United States. Considering the size of the business operations of the Group, 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 intangible property rights. This is normal for a business like Atlas Copco's and the company is not dependent upon any single agreement or intangible property right.

Insurable risks

Atlas Copco has a customary insurance program in place to protect all insurable assets and interests of the Group and its shareholders. Each company within the Group is responsible for managing and reporting its insurance-related matters in accordance with guidelines of the Group's insurance program.

The Atlas Copco Group Insurance Program is provided by the Group in-house insurance companies Industria Insurance Company Ltd. and Atlas Copco Reinsurance S. A., which retain part of the risk exposure. In addition, reinsurance capacity is

purchased from leading reinsurers in cooperation with international insurance brokers. Claims management services are purchased on a global basis from leading providers and a network of local fronting insurers are issuing insurance policies on a local basis to ensure legal compliance in all countries. The scope of insurable risks covered by the insurance program includes properties, various types of liabilities, goods in transit and financial lines.

In connection with the insurance program, loss prevention standards have been developed through a large number of risk management surveys. Focused on physical damage to the Group's facilities and the financial consequences thereof, these surveys take place on a frequent basis in the divisions. The various findings of the activities are summarized in a grading schedule, which gives the management control over and an overview of the risk exposure throughout the Group. By way of control and conformity in terms of level of risk management, the probability of events that can cause material damage and severely impact the business operation of the Atlas Copco Group is reduced.

Financial reporting risks

Atlas Copco subsidiaries report their financial statements regularly in accordance with internal reporting rules and International Financial Reporting Standards (IFRS). The Group's consolidated financial statements, based on those reports, are prepared in accordance with IFRS and applicable parts of the Annual Accounts Act as stated in RFR 1 "Supplementary Rules for Groups". The risk related to the communication of financial information to the capital market is that the reports do not give a fair view of the Group's true financial position and results of operations. In order to minimize this risk, the Group has several internal procedures in place to ensure compliance with Group instructions, standards, laws and regulations. For further information, see the internal control section in the corporate governance report.

Safety and health risks

The Group regularly assesses and manages safety and health risks with the aim of preventing and reducing work-related accidents and sickness rates, and creating a working environment that promotes the well-being of employees. Safety and health were focus areas in 2011 for all Atlas Copco companies. Training programs to increase awareness have been conducted and the Group will implement OHSAS 18001 in all major units.

Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees. Workplace programs to reduce the impact of pandemic HIV/AIDS are in place in southern Africa, where employees receive testing, awareness training, and consultation and treatment if necessary.

Parent Company

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and headquartered in Nacka, Sweden. Its operations include holding company functions as well as part of Group Treasury.

Earnings

Profit after financial items totaled MSEK 9 154 (6 546). Profit for the year amounted to MSEK 8 208 (5 825).

Financing

The total assets of the Parent Company were MSEK 104 215 (108 791). At year-end 2011, cash and cash equivalents amounted to MSEK 2 788 (10 813) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 57 900 (59 696), whereof the main part is Group internal loans. Equity represented 42% (43) of total assets and the undistributed earnings totaled MSEK 37 510 (41 122).

Personnel

The average number of employees in the Parent Company was 106 (101).

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 2011 are specified in note 5.

The Board proposes to the Annual General Meeting 2012 that the same guidelines shall be applied for another year.

Risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage financial risks. See also Risk Factors and Risk Management on pages 19–22.

Shares and share capital

At year end, Atlas Copco's share capital totaled MSEK 786 (786) and 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 issued. Net of shares held by Atlas Copco, 1 211 614 028 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 2011 Investor AB held a total of 206 895 611 shares, representing 22.3% of the votes and 16.8% 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.

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.

Share repurchases

During 2011, 7 162 790 series A shares, net, were purchased and 400 587 series B shares were divested for net MSEK –1 005.

During 2010, 1 750 160 series A shares, net, and 716 367 series B shares were divested for MSEK 384. All transactions were in accordance with Annual General Meeting resolutions; all related to commitments and obligations under the performance stock option plans.

As per December 31, 2011 Atlas Copco held 16 687 630 series A shares and 1 311 446 series B shares, corresponding to 1.5% of the total number of shares. As per December 31, 2010, Atlas Copco held 9 524 840 series A shares and 1 712 033 series B shares, corresponding to 0.9% of the total number of shares. The series A shares are held to fulfill the obligation to provide shares under the performance stock option plans, and the series B shares are held for the purpose of being divested over time to cover costs related to the performance stock option plans. See note 20 and A13.

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.00 (4.00) per share, equal to MSEK 6 058 (4 852), be paid for the 2011 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described on page 101.

Personnel stock option program

The Board of Directors will propose to the Annual General Meeting a similar performance-based long-term incentive program as in previous years. For Group Executive Management, participation in the plan requires own investment in Atlas Copco shares.

It is proposed that the plan is covered as before through the repurchase of the company's own shares.

Compressor Technique

The demand for industrial compressed air and gas equipment and services improved in 2011. The business area continued to invest in product development and increased presence in important markets. Several acquisitions were made.

- 22% organic order growth
- Record revenues and record operating profit
- New manufacturing facilities to be built in China and India

Business development

Demand for industrial compressors from the manufacturing and process industries improved and order intake increased significantly. The order growth was higher in the beginning of the year when demand increased sequentially, and remained at a healthy level in the second half of the year. Geographically, the highest sales growth was recorded in North America, South America and in Asia, but good growth was also recorded in Europe. Demand for energy-efficient solutions continued to be strong. Sales of air treatment equipment, such as compressed air dryers, coolers and filters, grew in all regions, reflecting a continued focus on compressed air quality.

Orders received for gas and process compressors and expanders doubled, with very good development in North America and Asia. Important orders were also won in the Middle East and in Russia.

The specialty rental business, primarily rental of oil-free and high-pressure equipment, recorded growth in most markets.

The aftermarket business, sales of service and spare parts, developed favorably and double-digit organic growth was achieved. Very strong growth was recorded in Asia.

Innovation

The business area continuously develops equipment, aftermarket products and services to help improve customers' productivity in their compressed air and gas applications. In the product development process, much attention is given to improving the reliability, air quality and energy efficiency of the new products, since these are important features for customers. Lower production costs and environmental impact are other important aspects and all components used are evaluated from a safety, environmental, quality, design and cost-efficiency perspective. In the product development process, the business area constantly works with adapting to different countries' legislation, which is often related to environmental and/or safety aspects.

Several new products were introduced in 2011.

A new highly energy efficient three-stage centrifugal compressor was launched. It is equipped with a high-speed motor, is without gearbox and is designed for industries that rely on high-quality, 100% oil-free air.

An extended range of oil-free centrifugal and rotary air blowers with variable speed drive was introduced. These products primarily target wastewater treatment plants. Energy-efficient blowers can help to significantly lower operational costs in such continuously operating plants.

The offering to the marine industry was extended with a range of starting air compressors. These water-cooled piston compressors offer a small and quiet solution with easy installation, low maintenance requirements and low cost of ownership.

A range of piston compressors intended primarily for railway applications was also introduced.

Many new industrial compressors, both large and small and with different value propositions, were introduced. In addition, a number of compressor models was introduced with integrated dryers and filters. Some of these machines were specifically developed for the markets in China and India.

A range of nitrogen generators was launched and the range of air treatment equipment was extended with a number of different dryers, coolers and filters.

Significant events and structural changes

As of July 1, 2011 the business for portable compressors and generators was transferred to the newly created Construction Technique business area and Compressor Technique focuses on stationary equipment for air and gas and related service. The Quality Air division, dedicated to air and gas treatment equipment, including the medical air business, is operational as of January 1, 2012.

The construction of new compressor manufacturing facilities was started in China and India during the year to meet the growing demand for compressors in the region. These facilities will become operational in the second half of 2012.

The pump business from J.C. Carter LLC, based in the United States, was acquired in March 2011. J.C. Carter is a leading producer of cryogenic submerged motor pumps for the growing natural gas market.

In August, Penlon's Medical Gas Solutions business in the United Kingdom was acquired. The business is a leading provider of medical gas systems, medical vacuum equipment, and pipeline components for hospitals.

In December, Atlas Copco agreed to acquire Houston Service Industries, Inc., a United States-based manufacturer of low-pressure blowers and vacuum pumps. The acquisition was finalized in January 2012.

Also in December, Atlas Copco agreed to acquire certain assets of Guangzhou Linghein Compressor Co., Ltd, China. The acquisition adds a brand of industrial air compressors with a strong regional presence.

Other structural changes include the acquisition of compressor distributors in the United States and Spain. In the United States, three minor manufacturing units for custom designed products and complete packaged solutions were consolidated into one.

Revenues, profits and returns

Revenues totaled MSEK 31 760 (29 753), corresponding to organic growth of 12%. Operating profit increased to a record MSEK 7 592 (7 233), corresponding to a margin of 23.9% (24.3). The margin was positively impacted by higher volumes and price increases, while product mix, changes in exchange rates and acquisitions had a negative impact. The return on capital employed was 70% (70).

Key figures

	2011	2010
Orders received	34 664	29 966
Revenues	31 760	29 753
Operating profit	7 592	7 233
Operating margin, %	23.9	24.3
Return on capital employed, %	70	70
Investments	992	495
Average number of employees	14 187	12 832

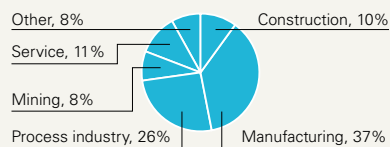
Sales bridge

	Orders received	Revenues
2009	25 804	28 604
Structural change, %	+4	+4
Currency, %	-5	-5
Price, %	+1	+1
Volume, %	+16	+4
Total, %	+16	+4
2010	29 966	29 753
Structural change, %	+3	+3
Currency, %	-9	-8
Price, %	+1	+1
Volume, %	+21	+11
Total, %	+16	+7
2011	34 664	31 760

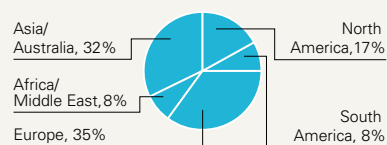
A new, highly energy-efficient centrifugal compressor



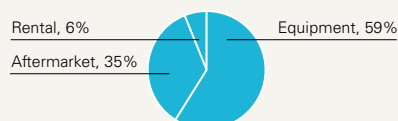
Orders received by customer category



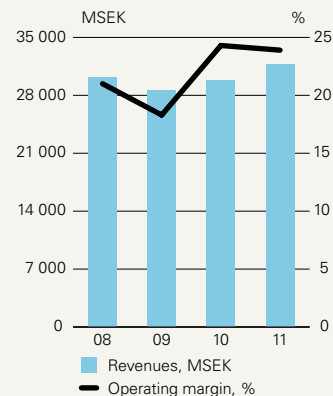
Revenues by geographic area



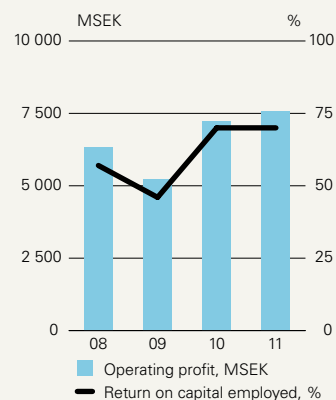
Share of revenues



Revenues and operating margin



Earnings and return



The Compressor Technique business area consists of seven divisions and provides industrial compressors, gas and process compressors and expanders, air and gas treatment equipment and air management systems. It has a global service network and offers specialty rental services.

Business area management

On January 31, 2012

Business Area President: Stephan Kuhn

Compressor Technique's divisions are:

- Industrial Air, President Ray Löfgren, until February 29, 2012
- Oil-free Air, President Chris Lybaert
- Gas and Process, President Peter Wagner
- Quality Air, President Horst Wasel
- Specialty Rental, President Horst Wasel, until February 29, 2012. Ray Löfgren from March 1, 2012.
- Compressor Technique Service, President Andrew Walker
- Airtec, President Paul Frigne



Stephan Kuhn



Ray Löfgren



Chris Lybaert



Peter Wagner



Horst Wasel



Andrew Walker



Paul Frigne

The operations

The Compressor Technique business area provides industrial compressors, gas and process compressors and expanders, air and gas treatment equipment and air management systems. It has a global service network and offers specialty rental services. Compressor Technique innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, Germany, the United States, China and India.

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of compressed air solutions, by being interactive, committed and innovative, and offering customers the best value.

The strategy is to further develop Atlas Copco's leading position in the field of compressed air and gas, and grow the business profitably by capitalizing on its strong market presence worldwide, improving market penetration in mature and developing markets, and continuously developing improved products and solutions to satisfy demands from customers. The local presence is further enhanced by establishing the brand portfolio strategy in more markets. The strategy encompasses giving a continuous focus to the aftermarket business as well as developing businesses within focused areas such as 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 and to develop new businesses. Growth should primarily be organic, supported by selective acquisitions.

Strategic activities

- Increase market coverage and establish presence in new markets
- Invest in employees and competence development
- Develop new sustainable products and solutions offering better value to customers
- Extend the product offering, including new compressors and air and gas treatment equipment
- Extend the offering, development, and marketing of aftermarket products and services
- Focus through a specialist service organization, providing uniform service in all markets
- Increase operational efficiency

The market

The global market for compressed air equipment and related aftermarket products and services is characterized by a diversified customer base. The products are used in a wide spectrum of applications in which compressed air is either used as a source of power, mainly in the manufacturing industry, or as an integrated part of the industrial processes. An important application is assembly operations, where compressed air is used to power assembly tools. In industrial processes, clean, dry and oil-free air is needed for applications where the compressed air comes into direct contact with the end product, such as in the food, pharmaceutical, electronics, and textile industries. Apart from the process and manufacturing industries, industrial compressors are used in applications as diversified as snow making, fish farming, on high-speed trains, and in hospitals. Gas and process compressors and expanders are supplied to various process industries, such as air separation plants, power utilities, chemical and petrochemical plants, and liquefied natural gas applications.

Stationary industrial air compressors and associated air-treatment products and aftermarket products and services represent about 85% of sales. Large gas and process compressors represent approximately 10% and specialty rental, some 5% of sales.

Market trends

- Energy efficiency and energy recovery – focus on the life-cycle cost of compressed air equipment
- Increased environmental awareness – energy savings and reduction of CO₂ emissions
- 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
- Energy costs

Market position

Compressor Technique has a leading market position globally in most of its operations.

Competition

Compressor Technique's principal competitor in the market for industrial compressors and air treatment equipment is Ingersoll-Rand. Other competitors are Kaeser, Hitachi, Gardner-Denver, Cameron, Sullair, Parker Hannifin, and regional and local competitors, such as Fusheng and Kaishan in China. In the market for gas and process compressors and expanders, the main competitors are Siemens and MAN Turbo.

PRODUCTS AND APPLICATIONS

Atlas Copco offers all major air compression technologies and is able to offer customers the best solution for every application.

Stationary industrial compressors are available with engine sizes ranging from 1.5–30 000 kW.

Piston compressors

Piston compressors are available as oil-injected and oil-free. They are used in general industrial applications as well as specialized applications.

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 a WorkPlace AirSystem with integrated dryers as well as with energy-efficient Variable Speed Drive (VSD).

Rotary screw compressors

Rotary screw compressors are available as oil-injected and oil-free. They are used in numerous industrial applications and can feature the WorkPlace AirSystem with integrated dryers, as well as the energy-efficient VSD technology and energy recovery kits.

Oil-free blowers

Oil-free blowers are available with different technologies: rotary lobe blowers, rotary screw blowers and centrifugal blowers. Blowers are used in process industry applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

Oil-free centrifugal compressors

Oil-free centrifugal compressors are used in industrial applications that demand constant, large volumes of oil-free air. They are also called turbo compressors.

Gas and process compressors

Gas and process compressors are supplied primarily to the oil and gas, chemical/petrochemical process and power industries. The main product category is multi-stage centrifugal, or turbo, compressors which are complemented by turbo expanders.

Air and gas treatment equipment

Dryers, coolers, gas purifiers and filters are supplied to produce the right quality of compressed air or gas. In addition, solutions for medical air, nitrogen generation as well as systems for biogas upgrading are offered.

Portable oil-free screw compressors

Portable oil-free screw compressors are used to meet a temporary need for oil-free air, primarily in petrochemical and industrial applications. The equipment is rented out through the Specialty Rental division.

Rotary screw compressors are available with numerous options



Multiple brands are used to increase local presence and reach specific customer segments



Medical air purifier



Industrial Technique

Demand for industrial tools and assembly systems increased significantly compared to the previous year. The business area continued to invest in presence and product development, and made several acquisitions.

- 30% organic order growth
- Strong operating profit and margin
- Acquisitions in new technologies

Business development

The capacity utilization and activity level in most of the business area's important customer segments was high during the year and the demand for industrial tools and assembly systems was very favorable. Order intake grew strongly in all major regions, with especially strong development in South America and Asia.

Demand from the motor vehicle industry for advanced industrial tools and assembly systems was very strong as vehicle manufacturers and their suppliers invested in new equipment, both for existing and new assembly lines. All major markets, including the United States, Brazil, Germany and China, recorded strong order growth.

Sales of industrial tools to the general manufacturing industry, such as electrical appliances, aerospace and shipyards, also increased significantly during the year. Record order intake was recorded in Asia and North America.

The vehicle service business, providing large fleet operators and specialized repair shops with tools, achieved a healthy sales increase.

The aftermarket business recorded double-digit growth. The best development was recorded in South America and Asia.

Innovation

The Industrial Technique product development process focuses on offering customers increased quality and productivity as well as improved ergonomics. The business area introduces customers to tools that are often faster and more powerful than their predecessors, offering the same or improved accuracy and reliability and lower noise and vibration levels. Environmental aspects are also considered and the ambition is to develop increasingly energy-efficient tools.

An advanced pneumatic drill, developed in close cooperation with the aerospace industry was introduced. The drill is ergonomically designed and also has a modular design, making the tool more flexible and the maintenance easier.

A number of other drills as well as grinders and sanders for material removal applications were also introduced.

Several tools and systems for assembly applications were introduced, including the following examples: A new pulse tool, with improved accuracy and monitoring; a range of high-torque pneumatic impact wrenches, which combine operator comfort with very high power-to-weight ratio; a new generation of industrial impact tools, with increased power and lower weight; a range of high-torque battery powered nutrunners; a range of low-torque screwdrivers and controllers for the motor vehicle industry; a new range of electric tightening tools with control units; and the next generation of tightening controller, with improved features and more benefits. Also, a much improved tool to measure and analyze torque was introduced.

Significant events and structural changes

Several acquisitions were made, which extend the product offering in the areas of assembly technologies and related services.

In October, SCA Schucker was acquired, a German manufacturer of adhesive and sealant equipment, which is operating in a relatively large niche segment with few global specialized players. The market is expanding fast due to the increasing use of light-weight materials in the automotive and other industries.

In November, Kalibrierdienst Stenger, a Germany-based business specialized in calibration of measuring instruments for industrial tools, was acquired.

Seti-Tec S.A.S., a French manufacturer of advanced drilling equipment and solutions for the aerospace industry, was also acquired in November.

At the end of the year, the business area created a dedicated service division. There is a growth trend in service and a dedicated organization improves the possibility to increase the presence and the offering in this business.

Revenues, profits and returns

Revenues totaled MSEK 7 821 (6 472), up 24% organically.

Operating profit increased 40% to MSEK 1 767 (1 262), corresponding to an operating profit margin of 22.6% (19.5).

The increased operating profit and margin was primarily a result of higher volumes. Return on capital employed was 55% (50).

Key figures

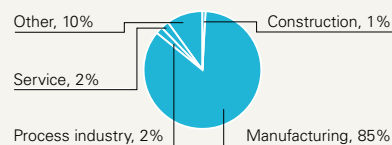
	2011	2010
Orders received	8 462	6 730
Revenues	7 821	6 472
Operating profit	1 767	1 262
Operating margin, %	22.6	19.5
Return on capital employed, %	55	50
Investments	155	60
Average number of employees	3 562	3 024

Sales bridge

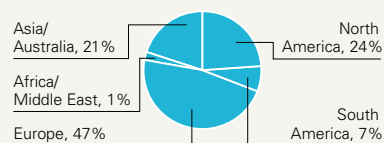
	Orders received	Revenues
2009	5 367	5 392
Structural change, %	+1	+1
Currency, %	-8	-8
Price, %	+1	+1
Volume, %	+31	+26
Total, %	+25	+20
2010	6 730	6 472
Structural change, %	+5	+6
Currency, %	-9	-9
Price, %	+2	+2
Volume, %	+28	+22
Total, %	+26	+21
2011	8 462	7 821



Orders received by customer category



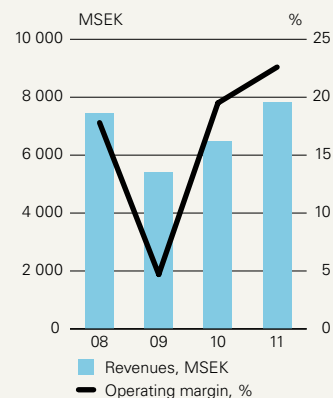
Revenues by geographic area



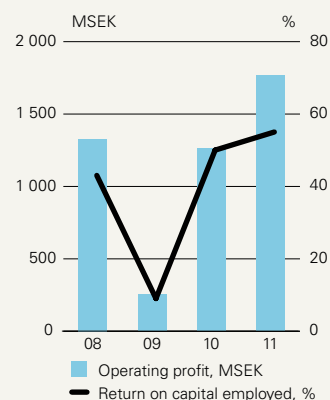
Share of revenues



Revenues and operating margin



Earnings and return



The Industrial Technique business area consists of four divisions and provides industrial power tools, assembly systems, quality assurance products, software and services through a global network.

Business area management

On January 31, 2012

Business Area President: Mats Rahmström

Industrial Technique's divisions are:

- MVI Tools and Assembly Systems, President Anders Lindquist, until March 31, 2012
President Tobias Hahn, from April 1, 2012
- General Industry Tools and Assembly Systems, President Tobias Hahn, until March 31, 2012
- Chicago Pneumatic Tools, President Norbert Paprocki
- Industrial Technique Service, President Lars Eklöf



Mats Rahmström



Anders Lindquist



Tobias Hahn



Norbert Paprocki



Lars Eklöf

The operations

The Industrial Technique business area provides industrial power tools, assembly systems, quality assurance products, software and services through a global network. It innovates for sustainable productivity for customers in the automotive and aerospace industries, industrial manufacturing and maintenance, and in vehicle service. Principal product development and manufacturing units are located in Sweden, France, Japan and Germany.

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of industrial power tools, assembly systems, quality assurance products, software and 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 services that improve customers' productivity. Important activities are to extend the product offering, particularly with the motor vehicle industry and to provide additional services, know-how and training. The business area is also increasing its presence in general industrial manufacturing, vehicle service and geographically in targeted markets in Asia and Eastern Europe. The presence is enhanced by utilizing multiple brands. The business area is actively looking at acquiring complementary businesses.

Strategic activities

- Increase market coverage and improve presence in targeted markets
- Invest in people in sales, service and support
- Develop new sustainable products and solutions, offering increased productivity and reducing environmental impact
- Extend product offering

The market

The motor vehicle industry, including sub-suppliers, is a key customer segment, representing approximately half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is increasingly using adhesives. The business area offers dispensing equipment for adhesives and sealants.

In general industry, industrial tools are used in 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.

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
- Demand for lower fuel consumption drives demand for alternative assembly methods, e.g. adhesives
- Both general industrial and motor vehicle manufacturing are moving east
- Increasing customer focus on productivity, ergonomics and environment

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 Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors. In the area of adhesive and sealant equipment, the primary competitors are Nordson and Graco.

CUSTOMER GROUPS, PRODUCTS AND APPLICATIONS

The IndustrialTechnique business area offers the most extensive range of industrial power tools and assembly systems 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 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. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is increasingly using adhesives and is offered dispensing equipment for adhesives and sealants.

Vehicle service

The business area offers powerful and reliable tools to meet the demands of the vehicle service professional. The offering includes 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. Products range from basic fastening tools, drills and abrasive tools to the most advanced assembly systems available. Adhesive and sealant equipment is also offered to general industrial manufacturing businesses. A large team of specialists is available to support customers in improving production efficiency.



Dispensing equipment for adhesives and sealants



Powerful and durable pneumatic impact wrench



Low torque screwdriver

Mining and Rock Excavation Technique

Order intake from the mining industry grew strongly and sales to civil engineering projects increased somewhat compared to 2010. The business area continued to invest in presence and product development and a research and development center was inaugurated in China.

- 28% organic order growth
- Record revenues and operating profit
- New research and development center in China

Business development

The activity in the mining industry continued to develop favorably and demand from both mining companies and contractors increased compared to 2010. The order intake for drilling equipment for underground and open pit mines as well as for exploration equipment increased worldwide. Strong growth was recorded in all regions with the best growth in North America, supported by two large orders in Mexico.

The demand for drilling equipment for civil engineering projects improved somewhat compared to 2010. Order volumes of crawler rigs for surface applications, such as quarries and road construction improved in most markets, whereas order intake for underground drilling rigs for civil engineering projects, such as tunneling and hydropower, was roughly flat.

The aftermarket business, primarily for mining, developed very favorably and recorded strong growth in all regions, with a particularly good development in South America. Also sales of consumables showed good growth in all regions, in line with the higher activity levels within both the mining and construction segment.

Innovation

A number of new and improved machines and aftermarket products were launched in 2011. The primary aim is increasing customers' productivity and efficiency, while at the same time reducing environmental impact and increasing safety.

For mining customers, a new, low-profile underground drill rig specially designed for development and production drilling in low-to-medium-height mines was introduced. Several underground production drill rigs and loaders were upgraded with additional features. The large rotary drill rigs for surface mining were upgraded with a new cab. The cab is larger than the previous model and offers a number of ergonomic and safety features to increase productivity. A new, powerful core-drilling rig was launched. The machine can drill as deep as 2 450 meters and is used for exploration within the mining industry.

Products developed for both mining and construction customers include a new range of drilling consumables with a new thread design. It offers up to 30% longer service life. A series of extreme duty pedestal boom systems for secondary rock breaking in mines and open pits was also introduced.

Two new surface drilling rigs for construction work were introduced and several upgrades to Tier 4 engines were made. The option of a new boom concept, which enables the rig to switch from downwards drilling to upwards drilling in one easy operation, was introduced for one of the small surface drill rigs.

Significant events and structural changes

As of July 1, the divisions for road construction equipment and construction tools were transferred to the new Construction Technique business area. All other divisions formerly in the Construction and Mining Technique business area now constitute the Mining and Rock Excavation Technique business area. In addition, a dedicated service division has been created. Robert (Bob) Fassl was appointed President of the business area.

Atlas Copco invested approximately MSEK 60 to build a new research and development center in Nanjing, China, to safeguard the Group's competitiveness on the Chinese market. The center will employ approximately 250 people within three years after its completion in November 2011. The center will provide specialist engineering services, laboratories and testing facilities and will focus on engineering specifically for the needs of customers within the Chinese mining and construction industry.

In October, the business area divested MAI, its business related to self-drilling anchors, based in Austria. These rock bolts are primarily used in civil engineering applications. The deal supports Atlas Copco's strategy within rock reinforcement to focus on products for the mining industry.

In January 2012, Atlas Copco acquired the underground business of GIA Industri AB, a Sweden-based manufacturer of electric mine trucks, utility vehicles and equipment for continuous loading for mining and tunneling applications.

Also in January 2012, the sales of drilling equipment and related services were taken over from the distributor in Colombia.

The Italian company Perfora S.p.A. was acquired in January 2012. The company manufactures and sells drilling and cutting equipment for the dimension stone industry.

Revenues, profits and returns

Revenues increased to MSEK 29 356 (22 520), corresponding to 38% organic growth. Operating profit increased 46% to MSEK 7 196 (4 919), corresponding to a margin of 24.5% (21.8). The margin was supported by the effects of higher volumes, partly offset by unfavorable exchange rates. Return on capital employed was 66% (53).

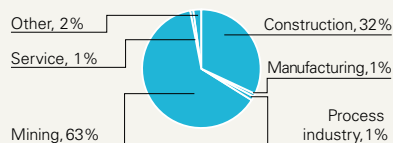
Key figures

	2011	2010
Orders received	31 751	26 356
Revenues	29 356	22 520
Operating profit	7 196	4 919
Operating margin, %	24.5	21.8
Return on capital employed, %	66	53
Investments	1 294	690
Average number of employees	10 724	9 079

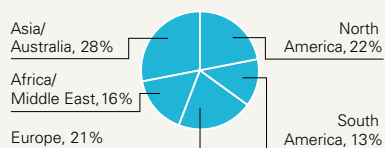
Sales bridge

	Orders received	Revenues
2009	17 533	20 202
Structural change, %	+1	+1
Currency, %	-2	-2
Price, %	+1	+1
Volume, %	+50	+11
Total, %	+50	+11
2010	26 356	22 520
Structural change, %	0	+1
Currency, %	-8	-9
Price, %	+3	+2
Volume, %	+25	+36
Total, %	+20	+30
2011	31 751	29 356

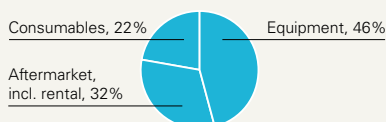
Orders received by customer category



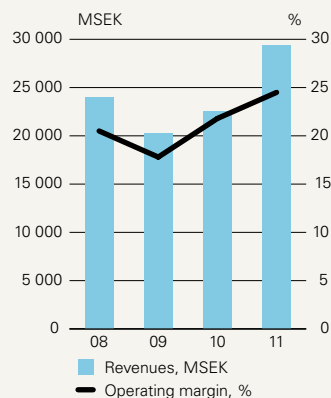
Revenues by geographic area



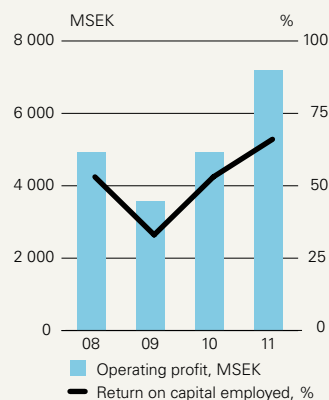
Share of revenues



Revenues and operating margin



Earnings and return



The Mining and Rock Excavation Technique business area consists of seven divisions and provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network.

Business area management

On January 31, 2012

Business Area President: Robert Fassel

Mining and Rock Excavation Technique's divisions are:

- Underground Rock Excavation, President David Shellhammer
- Surface Drilling, President Markku Teräsvasara
- Drilling Solutions, President Peter Salditt
- Rock Drilling Tools, President Johan Halling
- Exploration and Geotechnical Drilling, President Victor Tapia
- Mining and Rock Excavation Service, President Andreas Malmberg
- Rocktec, President Kobus Malan, until February 24, 2012. Scott Barker, from March 1, 2012.



Robert Fassel



David Shellhammer



Markku Teräsvasara



Peter Salditt



Johan Halling



Victor Tapia



Andreas Malmberg



Kobus Malan

The operations

The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works, well drilling and geotechnical applications. Principal product development and manufacturing units are located in Sweden, the United States, Canada, China and India.

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of equipment and aftermarket services for rock excavation for mining and civil engineering applications.

The strategy is to grow by maintaining and reinforcing its leading market position as a global supplier for rock excavation equipment and services; by developing its positions in drilling and loading equipment, exploration drilling, and related businesses; and by increasing revenues by offering more aftermarket products and services to customers.

Strategic activities

- Increase market coverage
- Invest in people and competence development
- Invest in design, development and production capacity in growth markets such as China and India to meet local demand
- Develop new sustainable products and solutions offering enhanced productivity and safety, while reducing environmental impact
- Extend the product offering based on modular design, including options such as computerized control systems, and systems for automation and remote operations

- Develop the global service concept/competence and extend the offering of aftermarket products
- Provide increased support to key customers, take more responsibility for service and aftermarket, and offer global contracts
- Acquire complementary businesses
- Increase operational efficiency

The market

The total market for equipment for mining and civil engineering applications is very large and has a large number of market participants offering a wide range of products and services. The Mining and Rock Excavation Technique business area, however, offers products and services only for selected applications.

The mining sector is a key customer segment that represents approximately two thirds of annual business area 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, or civil engineering, accounting for approximately one third of annual revenues. General and civil engineering contractors, often involved in infrastructure projects like road building, tunneling and dam construction, demand rock drilling equipment, rock tools and mobile crushers.

The equipment is primarily sold directly to the end user and the business area has a large aftermarket organization offering service and spare parts. Mining companies and contractors are vital customer groups for aftermarket products such as maintenance contracts, service and parts, as well as consumables.

Market trends

- More productive and safe equipment, including solutions for autonomous operations
- More intelligent products and remote control
- Increased focus on environment and safety
- 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

Mining and Rock Excavation Technique has a leading market position globally in most of its operations.

Competition

Mining and Rock Excavation Technique's principal competitor in most product areas is Sandvik. Other competitors include Furukawa in the market for underground and surface drilling equipment; Boart Longyear for underground drilling equipment for mining, exploration drilling equipment and rock drilling tools; Joy Global for open-pit mining equipment and Caterpillar for underground and open-pit mining equipment. In addition, there are several competitors operating locally, regionally and in certain niche areas.

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, as well as hand held 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.

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, 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.

Mobile crushers and screeners

Mobile crushers and screeners are used mainly to produce aggregate in quarries and to recycle construction waste.



Construction Technique

Overall demand for construction equipment was better in 2011 than in 2010, but it weakened as the year progressed. The business area continued to invest in product development and presence, but also adapted to the weaker demand.

- 8% organic order growth
- Increased revenues and operating profit
- Acquisition of a generator manufacturer

Business development

In the beginning of 2011, the overall demand for construction equipment was healthy and order intake grew strongly. During the second half of the year, however, demand for some products, primarily road construction equipment, weakened in some important markets like China, India and Brazil. This development continued throughout the year and led to a negative development of order intake and revenues at the end of the year.

Demand for portable compressors, generators, pumps and lighting towers from contractors and rental companies increased significantly and strong sales growth was recorded. The strongest development was seen in North and South America and in Europe. Sales of light construction equipment, such as breakers and crushers, also improved, even though order intake in the latter part of the year decreased. Here, the best development was in North America, Asia and Australia. Sales of road construction equipment decreased and the decrease was significant in the latter part of the year with very weak development particularly in China and Brazil, countries that enjoyed strong demand in 2010.

The aftermarket business for the business area developed favorably in all regions, with a particularly good development in North and South America.

Innovation

Several new products were launched in 2011. The primary aim is increasing customers' productivity and efficiency, while at the same time reducing environmental impact and increasing safety.

The portable compressor ranges were extended with several new machines, both large and small and featuring both electric and diesel drives, and also with differentiated offerings. Many of these new products primarily target the Asian markets.

Several new models of portable generators were launched, including a 1 MW unit supplied in a standard 20-foot container, several large units with Tier 4 compliant engines, as well as several smaller units developed specifically for selected markets. The acquired manufacturer of generators, Gesan, extended its offering with a number of additional options for their products.

The range of road construction equipment was extended with new large tracked pavers with an innovative drive concept that allows the paver to adjust its engine speed in line with the varying hydraulic demands created by fluctuation in material flow. They

save up to 15% of the energy cost. Other innovative features to improve the quality of paving were also added. A new range of soil compaction rollers were also presented in selected markets.

For the concrete equipment market, a new range of trowels was introduced featuring a "QuickStop" function for improved operator safety.

A new range of hydraulic compactor attachments was launched and several new demolition cutters and pulverizers were introduced to complement Atlas Copco's range of silent demolition tools. A new hydraulic hammer was also launched. The hammer is 20% more energy efficient than its earlier version. The innovative design uses less material, gives high performance and is produced up to 99% of recycled material.

Significant events and structural changes

As of July 1, the divisions for road construction equipment and construction tools as well as portable compressors and generators joined forces in the new Construction Technique business area.

A dedicated service division was created as well as dedicated Construction Technique sales organizations in several countries, including the United States, Australia, Russia, China and South Africa. Nico Delvaux was appointed President of the business area and will relocate from Antwerp, Belgium, to Shanghai, China in July 2012, in order to be closer to the important Asian market.

In July, Grupo Electrógenos GESAN S.A., Spain, was acquired. Gesan is a manufacturer of diesel and petrol generators sold through a global distributor network.

Production of light compaction equipment was relocated from Ljungby, Sweden to Rousse, Bulgaria, during the year. The factory in Ljungby was closed at the end of 2011.

Revenues, profits and returns

Revenues increased to MSEK 12 918 (11 485), corresponding to 18% organic growth. Operating profit increased to MSEK 1 460 (1 218), corresponding to a margin of 11.3% (10.6). The operating profit includes MSEK 105 (100) restructuring costs, including costs related to the closure of the factory in Ljungby, write-down of certain capitalized research and development projects and redundancy costs. The adjusted operating margin was 12.1% (11.5). Return on capital employed was 12% (11).

Key figures

	2011	2010
Orders received	12 786	12 534
Revenues	12 918	11 485
Operating profit	1 460	1 218
Operating margin, %	11.3	10.6
Items affecting comparability	-105	-100
Adjusted operating profit	1 565	1 318
Adjusted operating margin, %	12.1	11.5
Return on capital employed, %	12	11
Investments	150	170
Average number of employees	5 339	5 160

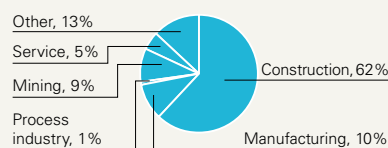
Sales bridge

	Orders received	Revenues
2009	9 843	9 627
Structural change, %	+0	+0
Currency, %	-4	-4
Price, %	+0	+0
Volume, %	+31	+23
Total, %	+27	+19
2010	12 534	11 485
Structural change, %	+1	+2
Currency, %	-7	-8
Price, %	+1	+1
Volume, %	+7	+17
Total, %	+2	+12
2011	12 786	12 918

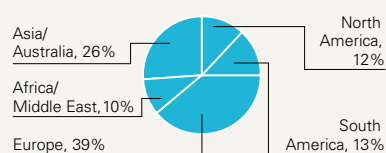
Portable compressor with Tier 4 engine, offering reduced emissions and fuel consumption



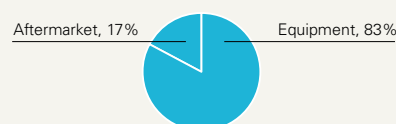
Orders received by customer category



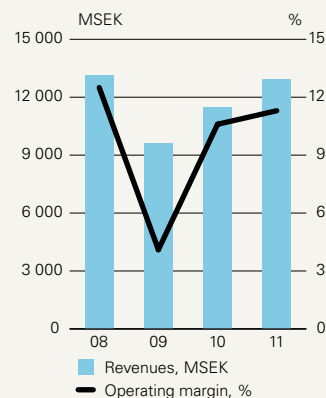
Revenues by geographic area



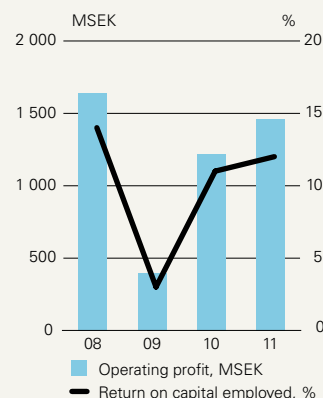
Share of revenues



Revenues and operating margin



Earnings and return



The Construction Technique business area consists of four divisions and provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The business area offers service through a global network.

Business area management

On January 31, 2012
Business Area President: Nico Delvaux

Construction Technique's divisions are:

- Portable Energy, President Geert Follens
- Road Construction Equipment, President Peter Lauwers
- Construction Tools, President Henk Brouwer
- Construction Technique Service, President Adrian Ridge



Nico Delvaux



Geert Follens



Peter Lauwers



Henk Brouwer



Adrian Ridge

The operations

The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The business area offers service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, China and Brazil.

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of equipment and aftermarket services for portable energy, road development, and demolition applications to the construction industries.

The strategy is to grow by developing its market position as a global supplier within the selected niches for the construction industries, in construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The strategy also includes development of the aftermarket business; increasing revenues by offering more customers more aftermarket products and services.

Strategic activities

- Increase operational efficiency
- Increase market coverage and presence
- Capture sales and service synergies between the construction businesses

- Develop new sustainable products and solutions offering enhanced productivity, safety and reduced environmental impact
- Invest in design, development and production capacity in growth markets such as China and India to meet local demand
- Develop more competitive offerings with different value propositions
- Develop the global service concept/competence and extend the offering of aftermarket products
- Invest in people and competence development
- Acquire complementary businesses

The market

The total market for construction equipment is very large. It has a large number of market participants offering a wide range of products and services for different applications. The Construction Technique business area, however, offers products and services only for selected applications.

The key customer segment is construction, accounting directly for approximately two thirds of annual revenues. General and civil engineering contractors, often involved in infrastructure projects like road building, other non-building activity and/or demolition work demand compaction and paving equipment and light construction tools, such as breakers and cutters. Diesel-driven portable compressors and generators are reliable power sources for machines and tools in the construction sector as well as for mining and numerous industrial applications.

Contractors as well as rental companies are important customers for aftermarket products such as maintenance contracts, service and parts.

Market trends

- More productive equipment
- More intelligent products
- Increased focus on environment and safety
- Customer and supplier consolidation
- Increased demands for aftermarket support/contracts

Demand drivers

- Infrastructure and public investments
- Road building and other non-building construction activities
- Demolition and recycling
- Flexible/portable equipment

Market position

The Construction Technique business area has leading or strong market positions globally in most of its operations.

Competition

Construction Technique's principal competitors in the market for portable compressors are Doosan Infracore, Kaeser and Sullair. Volvo, Caterpillar and Wirtgen are the principal competitors for road construction equipment and Sandvik, Furukawa and Wacker Neuson for construction tools. In addition, there is a large number of competitors operating locally, regionally and in certain niche areas. Sany and XCMG are examples of Chinese competitors in the area of road construction equipment.

PRODUCTS AND APPLICATIONS

Atlas Copco offers a range of products and services that enhance its customers' productivity.

Portable compressors

Portable compressors are primarily used in construction applications where the compressed air is used as a power source for equipment, such as pneumatic breakers and rock drills.

Boosters

When extra high pressure is needed, boosters are used to boost the air fed by portable compressors. This high-pressure air is mainly used in the drilling industry and in oil and gas applications.

Generators

Portable generators fulfill a temporary need for electricity, primarily in construction applications. Other common generator applications are power supply for events, emergency power and power in remote locations.

Lighting towers

Light for safe operations 24/7.

Pumps

Submersible pumps, primarily for water.

Compaction and paving equipment

The business area offers a range of compaction and paving 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.

Construction and demolition tools

Hydraulic, pneumatic and gasoline-powered breakers, cutters and drills are offered to construction, demolition and mining businesses.



Handheld rock drills



Vibratory soil compactor



Hydraulic demolition cutter

Consolidated income statement

For the year ended December 31,			
Amounts in MSEK	Note	2011	2010
Revenues	4	81 203	69 875
Cost of sales	7	-50 051	-43 468
Gross profit		31 152	26 407
Marketing expenses		-7 625	-6 914
Administrative expenses		-4 334	-4 173
Research and development expenses		-1 805	-1 517
Other operating income	8	293	192
Other operating expenses	8	-127	-93
Share of profit in associated companies	14	6	13
Operating profit	4, 5, 6, 7	17 560	13 915
Financial income	9	778	423
Financial expense	9	-1 062	-843
Net financial items		-284	-420
Profit before tax		17 276	13 495
Income tax expense	10	-4 288	-3 551
Profit for the year		12 988	9 944
Profit attributable to:			
– owners of the parent		12 963	9 921
– non-controlling interests		25	23
Basic earnings per share, SEK	11	10.68	8.16
Diluted earnings per share, SEK	11	10.62	8.15

Consolidated statement of comprehensive income

For the year ended December 31,			
Amounts in MSEK	Note	2011	2010
Profit for the year		12 988	9 944
Other comprehensive income			
Translation differences on foreign operations		-350	-3 419
– realized and reclassified to income statement		-2	-
Hedge of net investments in foreign operations		93	2 032
Cash flow hedges		68	-49
Available-for-sale investments		111	217
– realized and reclassified to income statement		-351	-82
Income tax relating to components of other comprehensive income	10	-74	-1 650
Other comprehensive income for the year, net of tax	10	-505	-2 951
Total comprehensive income for the year		12 483	6 993
Total comprehensive income attributable to:			
– owners of the parent		12 476	6 971
– non-controlling interests		7	22

Consolidated balance sheet

As at December 31,			
Amounts in MSEK	Note	2011	2010
ASSETS			
Non-current assets			
Intangible assets	12	15 352	13 464
Rental equipment	13	2 117	1 843
Other property, plant and equipment	13	6 538	5 702
Investments in associated companies	14	124	108
Other financial assets	15	2 713	2 701
Other receivables		94	5
Deferred tax assets	10	1 052	1 309
Total non-current assets		27 990	25 132
Current assets			
Inventories	16	17 579	12 939
Trade receivables	17	16 783	13 318
Income tax receivables		533	407
Other receivables	18	4 680	3 749
Other financial assets	15	1 773	1 734
Cash and cash equivalents	19	5 716	14 264
Assets classified as held for sale	3	55	79
Total current assets		47 119	46 490
TOTAL ASSETS		75 109	71 622
EQUITY			
	Page 42		
Share capital		786	786
Other paid-in capital		5 412	5 312
Reserves		448	935
Retained earnings		22 130	22 108
Total equity attributable to owners of the parent		28 776	29 141
Non-controlling interests		63	180
TOTAL EQUITY		28 839	29 321
LIABILITIES			
Non-current liabilities			
Borrowings	21, 22	17 013	19 615
Post-employment benefits	23	1 504	1 578
Other liabilities		368	187
Provisions	25	671	855
Deferred tax liabilities	10	1 390	1 167
Total non-current liabilities		20 946	23 402
Current liabilities			
Borrowings	21, 22	3 422	499
Trade payables		7 696	6 398
Income tax liabilities		2 005	1 197
Other liabilities	24	10 995	9 530
Provisions	25	1 206	1 275
Total current liabilities		25 324	18 899
TOTAL EQUITY AND LIABILITIES		75 109	71 622

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

Consolidated statement of changes in equity

2011	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Translation reserve	Retained earnings	Total		
Amounts in MSEK									
Opening balance, Jan. 1	786	5 312	-98	240	793	22 108	29 141	180	29 321
Total comprehensive income for the year	-	-	73	-240	-320	12 963	12 476	7	12 483
Dividends*						-4 851	-4 851	-2	-4 853
Redemption of shares	-393					-5 674	-6 067		-6 067
Increase of share capital through bonus issue	393					-393	-		-
Change in non-controlling interests						-869	-869	-122	-991
Acquisition of series A shares						-1 368	-1 368		-1 368
Divestment of series A shares held by Atlas Copco AB		73				236	309		309
Divestment of series B shares held by Atlas Copco AB		27				27	54		54
Share-based payment, equity settled									
– expense during the year						34	34		34
– exercise of options						-83	-83		-83
Closing balance, Dec. 31	786	5 412	-25	-	473	22 130	28 776	63	28 839

* Net of dividend repaid of 1.

2010	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Translation reserve	Retained earnings	Total		
Amounts in MSEK									
Opening balance, Jan. 1	786	5 129	-50	105	3 830	15 709	25 509	162	25 671
Total comprehensive income for the year	-	-	-48	135	-3 037	9 921	6 971	22	6 993
Dividends						-3 646	-3 646	-4	-3 650
Change in non-controlling interests						1	1		1
Acquisition of series A shares						-88	-88		-88
Divestment of series A shares held by Atlas Copco AB		139				240	379		379
Divestment of series B shares held by Atlas Copco AB		44				49	93		93
Share-based payment, equity settled									
– expense during the year						24	24		24
– exercise of options						-102	-102		-102
Closing balance, Dec. 31	786	5 312	-98	240	793	22 108	29 141	180	29 321

See notes 10 and 20 for additional information.

Consolidated statement of cash flows

For the year ended December 31,			
Amounts in MSEK	Note	2011	2010
Cash flows from operating activities			
Operating profit		17 560	13 915
Adjustments for:			
Depreciation, amortization and impairment	7	2 522	2 498
Capital gain/loss and other non-cash items		-176	260
Operating cash surplus		19 906	16 673
Net financial items received/paid		-1 275	-960
Taxes paid		-3 307	-2 813
Cash flow before change in working capital		15 324	12 900
Change in:			
Inventories		-4 267	-1 978
Operating receivables		-3 834	-2 535
Operating liabilities		1 986	2 783
Change in working capital		-6 115	-1 730
Increase in rental equipment		-1 332	-825
Sale of rental equipment		544	480
Net cash from operating activities		8 421	10 825
Cash flows from investing activities			
Investments in other property, plant and equipment		-1 728	-868
Sale of other property, plant and equipment		52	53
Investments in intangible assets		-619	-517
Sale of intangible assets		12	10
Sale of investments		610	197
Acquisition of subsidiaries	2	-2 298	-1 710
Divestment of subsidiaries	3	92	19
Investment in other financial assets, net		-456	-2
Net cash from investing activities		-4 335	-2 818
Cash flows from financing activities			
Dividends paid		-4 851	-3 646
Dividend paid to minority		-2	-4
Redemption of shares		-6 067	-
Acquisition of non-controlling interest		-991	-
Repurchase of own shares		-1 005	384
Borrowings		497	270
Repayment of borrowings		-259	-1 695
Payment of finance lease liabilities		-57	-49
Net cash from financing activities		-12 735	-4 740
Net cash flow for the year		-8 649	3 267
Cash and cash equivalents, Jan. 1		14 264	12 165
Net cash flow for the year		-8 649	3 267
Exchange-rate difference in cash and cash equivalents		101	-1 168
Cash and cash equivalents, Dec. 31	19	5 716	14 264

Notes to the consolidated financial statements

MSEK unless otherwise stated

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1. Significant accounting principles, accounting estimates and judgments

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. Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems.

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 recommendation RFR 1 June 2011 “Supplementary Accounting Rules for Groups” and applicable statements issued by the Swedish Financial Reporting Board. These detail certain additional disclosure requirements for Swedish consolidated financial statements, prepared in accordance with IFRS.

The accounting principles set out in the following paragraphs, have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise stated, and have been consistently applied for all entities included in the consolidated statements. The Annual report for the Group and the Company, including financial statements, was approved for issuance on February 10, 2012 and balance sheet and income statement are subject to the approval of the Annual General Meeting of the shareholders to be held on April 27, 2012.

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 Group’s 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 and financial assets classified as available-for-sale.

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

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 accounting principles and the carrying amounts of assets and liabilities. Critical accounting estimates and judgments made by management that can have a significant effect on the financial statements are further discussed on page 53.

Classification

Non-current assets and non-current liabilities are comprised primarily of amounts that are expected to be realized or paid more than 12 months after the balance sheet date. Current assets and current liabilities are comprised primarily of amounts expected to be settled within 12 months of the balance sheet date.

Changes in accounting principles

The following revised and amended IFRS standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) have been applied from 2011.

- *Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement* removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement. The amendment results in prepayments of contributions in certain circumstances being recognized as an asset rather

than as an expense. The standard is effective since January 1, 2011. The standard has had a limited impact on the consolidated financial statements.

The other new or amended IFRS standards and IFRIC interpretations, which became effective January 1, 2011, have had no material effect on the consolidated financial statements.

- *Annual Improvements to IFRSs (May 2010)* including amendments to IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.
- *Revised IAS 24 Related Party Disclosures (2009)*

The standard clarifies the definition of a related party particularly in relation to significant influence and joint control. Additionally, a partial exemption from the disclosures has been included for government-related entities.

- *Amendments to IAS 32 Classifications of Rights Issues*

The amendment requires a financial instrument that gives the holder the right to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency to be classified as an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Prior to this amendment, rights issues (rights, options, or warrants) denominated in a currency other than the functional currency of the issuer were accounted for as derivative instruments.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity instruments*

IFRIC 19 requires the extinguishment of a financial liability by the issue of equity instruments to be measured at fair value (preferably using the fair value of the equity instruments issued) with the difference between the fair value of the instrument issued and the carrying value of the liability extinguished being recognized in profit or loss.

Change in segments

Atlas Copco modified its business area structure to strengthen the focus on specific product and customer segments. As of July 1, 2011, the Group has four business areas instead of three. Segments as of July 1, 2011 are:

- Compressor Technique
- Industrial Technique
- Mining and Rock Excavation Technique
- Construction Technique

Following the change in business area structure, the comparative values for segments have been re-presented as from January 1, 2010 to be comparable with the present structure.

Business combinations and consolidation

The consolidated income statement and balance sheet of the 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 acquisition method. According to this method, business combinations are seen as the Group directly acquires the assets and assumes the liabilities of the entity acquired. As of the acquisition date, i.e. the date on which control is obtained, each identifiable asset acquired and liability assumed is recognized at its acquisition-date fair value.

Consideration transferred is measured at its fair value. It includes the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the previous owners of the acquiree and equity interests issued by the Group. Contingent consideration is initially measured at its acquisition-date fair value. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. In this case there is no remeasurement and the subsequent settlement is accounted for within equity. Contingent consideration related to business combinations which occurred prior to January 1, 2010, is accounted for under the previous IFRS 3 where subsequent changes resulted in adjustments to goodwill.

1. Continued

Transaction costs that the Group incurs in connection with a business combination, such as finder's fee, legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but tested for impairment at least annually. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss.

Non-controlling interest is initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. This means that goodwill is either recorded in "full" (on the total acquired net assets) or in "part" (only on the Group's share of net assets). The choice of measurement basis is made on an acquisition-by-acquisition basis.

Subsequent profit or loss and other components of comprehensive income attributable to the non-controlling interest are allocated to the non-controlling interest even if doing so causes the non-controlling interest to be in a deficit position.

Acquisitions of non-controlling interests are recognized as a transaction between equity attributable to owners of the parent and non-controlling interests. The difference between consideration paid and the proportionate share of net assets acquired is recognized in equity. Accordingly, goodwill does not arise in conjunction with such transactions. Gains and losses from sales of non-controlling interest that do not result in loss of control are also recognized in equity. When the Group ceases to have control, any remaining interest in the subsidiary is remeasured to its fair value and the change in carrying amount is recognized in the income statement.

Earnings from the acquirees are reported in the consolidated income statement from the date of control.

Intra-group balances and transactions, including income, expenses and dividends, are eliminated in preparing the consolidated financial statements. Profits and losses resulting from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full, but losses only to the extent that there is no evidence of impairment.

Associated companies

An associate is an entity in which the Group has significant influence, but not control, over financial and operating policies. 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 carrying values of interests in associates correspond to the Group's share of reported equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The Group's profit or loss includes "Share of results of associated companies", which comprises of the Group's share of the associate's income after tax adjusted for any amortization and depreciation, impairment losses and other adjustments arising from any remaining fair value adjustments recognized at acquisition date. Dividends received from an associated company reduce the carrying value of the investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill amount is included in the carrying amount of the associate and is assessed for impairment as part of that investment.

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.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Group's President (who has been considered to be the chief operating decision maker) to make decisions about resources to be allocated to the segments and assess their performance. See note 4 for additional information.

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 gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and expenses.

Exchange rate differences on translation to functional currency are reported in profit or loss, except when reported in other comprehensive income in the following cases:

- 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,
- on intra-group receivables from or liabilities to a foreign operation that in substance is part of the net investment in the foreign operation, or
- qualifying hedging instruments in cash flow hedges hedging currency risk to the extent that the hedges are effective.

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. Revenues, expenses, gains and losses are translated at average exchange rates, which approximate the exchange rate for the respective transactions. Foreign exchange differences arising on translation are recognized in other comprehensive income and are accumulated in a separate component of equity as a translation reserve. On divestment of foreign entities or when the equity or portion of the equity is repatriated, the accumulated exchange differences, net after impact of currency hedges of net investments, are recycled through profit or loss, increasing or decreasing the profit or loss on divestments.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes, goods returned, discounts and other similar deductions. Revenue is recognized when recovery of the consideration is considered probable and the revenue and associated costs can be measured reliably.

Goods sold

Revenue from sale of goods is recognized when 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 that is a significant part of the contract, revenue is recognized when the installation is completed. Revenue is not recorded for buy-back commitments if the substance of the agreement is that the risks and rewards of ownership have not been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding the possible return of goods.

Services rendered

Revenue from services is recognized in profit or loss by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of costs incurred that are expected to be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When services are performed by an indeterminate number of acts over the service contract period, revenues are recognized on a straight-line basis.

Rental operations

Revenue is derived and recognized from the rental of equipment on a daily, weekly or monthly basis. Rental income is recognized on a straight-line basis over the rental period. Revenue from delivery services, fuel sales, and sales of parts, supplies and new and used equipment are recognized when the product or service is delivered to the customer. The proceeds from the sale of rental equipment are recognized as revenue when the significant risks and rewards of ownership have been transferred to the buyer. The carrying value of the rental equipment sold is recognized as cost of sales. Investments in and sales of rental equipment are included in the cash flows from operating activities.

Other operating 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 operating income" or "other operating expenses".

Government grants

A government grant is recognized 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 profit or loss on a systematic basis in the same periods in which expenses are incurred and are presented net of the related expense. Grants related to assets are presented by deducting the grant from the carrying value of the asset and is recognized in profit or loss over the life of the asset as a reduced depreciation expense.

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 losses on hedging instruments that are recognized in profit or loss for hedging items recognized as financial income. 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, net interest on pension provision, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and gains on hedging instruments that are recognized in profit or loss for hedging items recognized as financial expense.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to owners 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 employee stock options that are settled in shares or that at the employees' choice can be settled in shares or cash – and in such case by adjusting the profit or loss for the difference between cash-settled and equity-settled treatment of options for which employees can choose settlement in shares or cash. The options are dilutive if the exercise price is less than

the quoted stock price and the effect on the number of potential shares increases with the size of the difference.

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 is allocated to the cash-generating units that are expected to benefit from the synergies of the combination and is tested at least annually for impairment. In the case of reorganization or divestment of a cash generating unit to which goodwill has been allocated, goodwill is reallocated to the units affected based on their relative values.

Technology-based intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is expensed in profit or loss as incurred. Research projects acquired as part of business combinations are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, research projects acquired as part of business combinations are carried at cost less amortization and impairment losses.

Expenditure on development activities are expensed as incurred unless the activities are applied to a plan or design for the production of new or substantially improved products or processes. In such instances development activities are 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.

Trademarks

Trademarks acquired by the Group are capitalized based on their fair value at the time of acquisition (which is regarded as their cost). Certain trademarks are estimated to have an indefinite useful life and are carried at cost less accumulated impairment losses. They are tested at least annually for impairment. Other trademarks, which have finite useful lives, are carried at cost less accumulated amortization and impairment losses.

Marketing and customer related intangible assets

Acquired marketing and customer related intangibles such as customer relations and other similar items are capitalized based on their fair value at the time of acquisition (which is regarded as their cost) and 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 based on their fair value at the time of acquisition (which is regarded as their cost) 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 profit or loss when incurred.

Rental equipment

The rental fleet is comprised of diesel and electric powered air compress-

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sors, generators, air dryers and to a lesser extent general construction equipment. Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a residual value estimated at 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. 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 lives of the parts do not coincide with the useful lives of other parts of the item.

The following useful lives are used for depreciation and amortization:

	Years
Technology-based intangible assets	3–15
Trademarks with definite lives	5–15
Marketing and customer related intangible assets	5–10
Buildings	25–50
Machinery and equipment	3–10
Vehicles	4–5
Computer hardware and software	3–8
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. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. 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 profit or loss, 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, i.e. depreciation is recognized over the useful life of the asset and consideration is taken to any residual values. The lease payments are included in profit or loss 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 comprising the future minimum lease payments and any residual value guaranteed to the lessor. Lease payments are recognized as interest income and repayment of the lease receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed when incurred.

Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, such as intangible assets and property, plant and equipment, are reviewed at

least at each reporting date to determine whether there is any indication of impairment. If any indication exists of impairment, 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 largely independent cash inflow cannot be linked to an individual asset, the recoverable amount is estimated 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.

The recoverable amount is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. 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) on a pro rata basis. Impairment losses are recognized in profit or loss.

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 in the ordinary course of business 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 production overheads based on normal operating capacity. 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. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with the contract.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group 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 employees provide services entitling them to the contributions.

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.

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 expected 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.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that 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 related assets is deducted. The discount rate used is the same as for the defined benefit plans. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains or losses are recognized in the period in which they arise.

Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. When termination benefits are provided as a result of an offer to encourage voluntary redundancy, an expense is recognized if it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. Termination benefits like stay bonuses are expensed as the related service is provided.

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 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.

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. Additionally, the Board is offered synthetic shares.

The fair value of share options that can only be settled in shares (equity-settled) 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 appreciation rights, synthetic shares and options with a choice for employees to settle in shares or cash is recognized in accordance with principles for cash-settled share-based payments, which is to recognize the value 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 accrued and recognized as an expense over the vesting period. Changes in fair value are, during the vesting period and after the vesting period until settlement, recognized in profit or loss as an employee expense. The accumulated expense recognized equals the cash amount paid (or liability amount transferred to equity when employees have a choice and choose to settle in shares) at settlement.

Social security charges are paid in cash. Social security charges are accounted for consistent with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments. 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 assets and liabilities

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 (fully or partially) 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 (fully or partially) 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 assets and liabilities not measured at fair value through profit or loss are, at initial recognition, measured at fair value with addition or deduction of transaction costs. For financial assets and liabilities carried at fair value through profit or loss, transaction costs are expensed.

Financial assets and liabilities are upon initial recognition classified in accordance with the categories in IAS 39 based on the purpose of the acquisition of the instrument. This determines the subsequent accounting and measurement for financial assets and liabilities.

The Group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Assets available for sale

The Group classifies its financial liabilities in the following categories:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest method

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Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss if they are held for trading or are designated as such upon initial recognition.

A financial asset or liability is classified as held for trading if the Group manages such investments and makes purchase and sale decisions based on their fair value. A derivative not part of hedge accounting is also categorized as held for trading. Financial assets and liabilities at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

Loans and receivables

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, other receivables and cash and cash equivalents are included in this category. In most cases, short-term receivables are not carried at amortized cost due to short expected time to payment. 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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the positive intention and ability to hold to maturity. 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. Held to maturity investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.

Assets available for sale

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 in other comprehensive income except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items, which are recognized in profit or loss. For available-for-sale financial assets that are not monetary items (for example equity instruments), the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other financial liabilities

Other financial liabilities are subsequent to initial recognition measured at amortized cost, using the effective interest rate method. Borrowing costs are recognized as an expense in the period in which they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.

Effective interest method

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 or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Impairment of financial assets

Financial assets, 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. Individually significant financial assets are regularly tested for impairment on an individual basis or in some cases are assessed collectively in groups with similar credit risks. 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, and any cumulative loss previously recognized in other comprehensive income is recognized in profit or loss. Impairment losses on financial assets of all other categories are recognized directly in profit or loss.

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 profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

Derivatives and hedge accounting

Derivative instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives qualifying for hedge accounting as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

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. For derivatives that are designated as hedging instruments, fair value changes are recognized in profit or loss unless the derivatives are designated as hedging instruments in cash flow or net investment hedges (see section below about hedge accounting). Changes in fair values of cross currency swaps and foreign exchange contracts are divided into three components; interest is recognized as interest income/expense, foreign exchange effect as foreign exchange difference and other changes in fair values are recognized as gains and losses from financial instruments. Interest payments for interest swaps are recognized as interest income/expense, whereas changes in fair value of future payments are presented as gains and losses from financial instruments.

Hedge accounting

In order to qualify for hedge accounting, the hedging relationship must be formally 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 reduced by the hedging instrument.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, 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 profit or loss to offset the effect of gain or loss on the hedging instrument.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

The Group applies fair value hedge accounting for interest rate swaps used for hedging fixed interest risk on borrowings.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent that the hedge is effective and the accumulated changes in fair value are recognized as a separate component in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The cumulative gain or loss previously recognized in equity through other comprehensive income remains there until the forecast transaction affects profit or loss. The amount recognized in equity through other comprehensive income is recycled to profit or loss in the same period in which the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However when the hedged item is a non-financial asset (for example inventory or fixed asset), the amount recognized in equity through other comprehensive income is transferred to the carrying amount of the asset when it is initially recognized.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss which at that time remains in equity is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

The Group, following decisions by the Financial Risk Management Committee, uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions denominated in foreign currencies.

Hedges of net investments in foreign operations

The Group hedges a substantial part of net investments in foreign operations. Gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in equity. Gain or loss relating to the ineffective portion is recognized immediately in profit or loss. On divestment of foreign operations or when the equity or portion of the equity of the foreign operation is repatriated, the gain or loss accumulated in equity is recycled through profit or loss, increasing or decreasing the profit or loss on divestments.

The Group uses loans and forward contracts as hedging instruments.

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, net of any tax effects, 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 subsequently reissued, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is transferred to or from other paid-in capital.

Income taxes

Income taxes include both current and deferred taxes in the consolidated accounts. Income taxes are reported in profit or loss unless the underlying transaction is reported in other comprehensive income or in equity. In those cases, the related income tax is also reported in other comprehensive income or in equity.

A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current or prior years.

Deferred tax is recognized using the balance sheet liability method. 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: the initial recognition of goodwill, the initial recognition (other than in business combinations) 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 or substantively enacted tax rates are used for the individual tax jurisdictions.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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. Management must be committed to a plan to sell and the sale should be expected to be completed within one year.

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 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 value of the assets (and all assets and liabilities in a disposal group) is remeasured in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are 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 profit or loss. 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 profit or loss for discontinued operations. When an operation is classified as a discontinued operation, the comparative profit or loss is restated 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.

New and amended accounting standards after 2011

The following standards, interpretations and amendments to standards have been issued but have not become effective as of December 31, 2011 and have not been applied by the Group. The assessment of the effect of the implementation of these standards and interpretations could have on the consolidated financial statements is preliminary.

- *IFRS 9 Financial Instruments* *

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. The standard deals with classification and measurement of financial assets and financial liabilities and with derecognition. The standard requires financial assets to be classified on initial recognition as measured at amortized cost or fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. For financial liabilities most of the added requirements were carried forward unchanged from IAS 39, including amortized cost accounting for most financial liabilities. The main change is that when the fair value option is chosen for financial liabilities, the part

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of the fair value change that is due to an entity's own credit risk is recorded in other comprehensive income, unless this creates an accounting mismatch. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 but may be applied earlier. The standard generally requires retrospective application in accordance with IAS 8 but there are several exceptions to this principle and the transitional requirements are extensive. If an entity adopts IFRS 9 for reporting periods beginning before January 1, 2013 it is not required to restate prior periods, but is required to provide certain specific disclosures. The effects of the implementation of IFRS 9 are not yet determined.

- *Amendment to IAS 19 Employees Benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Additionally, the amendments replace interest cost and expected return on plan assets with net interest on the net defined benefit liability/asset.

The amended version of IAS 19 is effective for financial years beginning on or after January 1, 2013. Earlier application is permitted. The standard is expected to have a significant impact on the consolidated financial statements for the Group, including the recognition in the balance sheet of the unrecognized actuarial losses of 763 through other comprehensive income.

- *Amendment to IFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets*

The amendment provides users with more information about an entity's exposure to the risks of transferred financial assets, particularly those that involve securitization of financial assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The standard is expected to have a limited impact on the consolidated financial statements. The standard is effective for annual periods beginning on or after July 1, 2011.

- *Amendment to IAS 1 Presentation of Items of Other Comprehensive Income**

The amendment requires a change in the way other comprehensive income is presented, requiring separate subtotals for elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not (e.g. remeasurement under IAS 19). The standard is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.

On May 12, 2011, the IASB issued the following new and amended guidance (the "package of five") on consolidated financial statements and joint arrangements:

- *IFRS 10 Consolidated Financial Statements**
IFRS 10 includes a new definition of control that determines which entities are consolidated. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities.
- *IFRS 11 Joint Arrangements**
IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for

joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

- *IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 sets out the disclosure requirements for subsidiaries, joint ventures, associates and "structured entities." IFRS 12 replaces the requirements previously included in IAS 27, IAS 31, and IAS 28 Investments in Associates.

- *IAS 27 Separate Financial Statements (Revised 2011)**

IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.

- *IAS 28 Investments in Associates and Joint Ventures (Revised 2011)**

IAS 28 has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

Each of the standards in the "package of five" is effective for annual periods beginning on or after January 1, 2013; earlier application is permitted as long as each of the other standards in this group is also early applied. The implementation is not expected to have any material effect on the consolidated financial statements.

- *IFRS 13 Fair value measurement**

The standard establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather, describes how to measure fair value under IFRS when it is required or permitted by IFRS. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The effects of the implementation of IFRS 13 are not yet determined.

- *Amendments to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets**

The amendments provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless this presumption is rebutted in certain circumstances. The amendments are not expected to have any impact on the consolidated financial statements.

* Indicates that the standard has not yet been endorsed by the EU.

Critical accounting estimates and judgments

The preparation of financial reports requires management's judgment and the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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 could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Following are the estimates and judgments which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which there is a significant risk that future events or information could change those estimates or judgments.

Impairment of goodwill, other intangible assets and other long-lived assets

Key sources of estimation uncertainty

In accordance with IFRS, goodwill and certain trademarks are not amortized but are 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. The impairment tests are based on a review of the recoverable amount which is estimated based on management's projections of future cash flows using internal business plans and forecasts.

Accounting judgment

Management's judgment 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 the financial condition and results of operation.

At December 31, 2011, goodwill amounted to 9 952 (8 769) of which impairment losses were 27 (27) and trademarks not being amortized amounted to 1 328 (1 328). Additional information is included in note 12.

Pension and post-employment benefit valuation assumptions

Key sources of estimation uncertainty

The pension and post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The key assumptions include discount rates, inflation, expected return on plan assets, future salary increases, mortality rates, and health care cost trend rates. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate. Actuarial gain and loss resulting from the difference between the assumptions and actual results are amortized over the expected average remaining working life of the employees in accordance with the "corridor method". At December 31, 2011, defined benefit obligations for pensions and other post-employment benefits amounted to 1 504 (1 578) and fair value of plan assets to 608 (590). See note 23 for additional information regarding assumptions used in the calculation of pension and post-retirement obligations.

Trade and financial receivable

Key sources of estimation uncertainty

The Group estimates the risk that receivables will not be paid and provides for doubtful accounts based on specific provisions for known cases and collective provisions for losses based on historical loss levels.

Accounting judgment

Management's judgment considers rapidly changing market conditions which may be particularly sensitive in customer financing operations. Additional information is included in section credit risk in note 27.

Total allowances for estimated losses as of December 31, 2011, were 766 (724) for trade receivables, finance lease receivables and other financial receivables with a corresponding gross amount of 20 956 (16 758).

Inventory

Accounting judgment

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. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. See note 16 for additional information. As of December 31, 2011, provision for obsolescence and other write-downs were 1 168 (1 071) representing 6.2% (7.6) of gross inventory of 18 747 (14 010).

Legal proceedings

Accounting judgment

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.

Deferred taxes

Key sources of estimation uncertainty

Deferred tax assets are recognized for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes and for tax loss carry-forwards. The Group records valuation allowances for deferred tax assets based upon management's estimates of future taxable profit in different tax jurisdictions. The actual results may differ from these estimates, due to change in the business climate and change in tax legislation. At December 31, 2011, the value of deferred tax assets amounted to 1 052 (1 309). See note 10 for additional information.

Revenue recognition

Key sources of estimation uncertainty

Revenue from services is recognized in profit or loss by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Accounting judgment

Management's judgment includes the following:

- If transfer of risks and rewards to the buyer has taken place to determine if revenue and costs should be recognized in the current period,
- The degree of completion of a service contract and the estimated total contract costs for assessing revenue to be recognized and whether any losses need to be recognized,
- Customer credit risk to assess whether payment is likely or not to justify revenue recognition.

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties should cover future commitments for the sales volumes already realized. Warranty provision is a complex accounting estimate due to the variety of variables which are included in the calculations. The calculation methods are based on the type of products sold and historical data for level of repairs and replacements. The underlying estimates for calculating the provision is reviewed at least quarterly as well as when new products are being introduced or when other changes occur which may affect the calculation. Total provisions for product warranties as of December 31, 2011, amounted to 938 (906).

2. Acquisitions

The following summarizes the significant acquisitions during 2011 and 2010:

Closing date		Country	Business area	Revenues ¹⁾	Number of employees ¹⁾
2011 Nov. 21	Seti-Tec S.A.S	France	Industrial Technique	40	14
2011 Oct. 7	Kalibriedienst Stenger	Germany	Industrial Technique	6	7
2011 Oct. 7	SCA Schucker	Germany and others	Industrial Technique	600	280
2011 Aug. 17	Penlon Medical Gas Solutions	United Kingdom	Compressor Technique	120	100
2011 Jul. 15	Gesan	Spain	Construction Technique	510	160
2011 Jul. 1	Sogimair S.A. and Aircom S.A.	Spain	Compressor Technique	124	75
2011 May 31	Tencarva	U.S.A.	Compressor Technique	²⁾	37
2011 Apr. 1	ABAC Catalunya	Spain	Compressor Technique	²⁾	8
2011 Mar. 7	J.C. Carter	U.S.A.	Compressor Technique	175	70
2010 Oct. 1	Cirmac International	Netherlands	Compressor Technique	127	42
2010 Sep. 8	Kramer Air Tool	U.S.A.	Industrial Technique	125	50
2010 Sep. 1	H & F Drilling Supplies	United Kingdom	Mining and Rock Excavation Technique	59	20
2010 Aug. 31	Hartl Anlagenbau	Austria	Mining and Rock Excavation Technique	197	110
2010 Jun. 2	Tooling Technologies	U.S.A.	Industrial Technique	²⁾	22
2010 May 28	American Air Products	U.S.A.	Compressor Technique	²⁾	18
2010 Mar. 1 ³⁾	Quincy Compressor	U.S.A.	Compressor Technique	900	400
2010 Jan. 18	Premier Equipment	U.S.A.	Compressor Technique	²⁾	12

¹⁾ Annual revenues and number of employees at time of acquisition.

²⁾ Distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.

³⁾ The acquisition of the Chinese part of Quincy Compressor was finalized in August 2010 after regulatory approvals from Chinese authorities.

The above acquisitions were made through the purchase of 100% of 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 acquisition method of consolidation.

The amounts presented in the following tables detail the recognized amounts aggregated by business areas, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 4–10.5%. The Group is in the process of reviewing the final values for the acquired businesses but any adjustments are not expected to be material.

Compressor Technique	Recognized values	
	2011	2010
Intangible assets	140	554
Property, plant and equipment	17	172
Other assets	173	275
Cash and cash equivalents	15	25
Interest-bearing loans and borrowings	–5	–
Other liabilities and provisions	–88	–213
Net identifiable assets	252	813
Goodwill	141	657
Total consideration	393	1 470
– of which deferred consideration	7	–2
Cash and cash equivalents acquired	–15	–25
Net cash outflow	385	1 443

The Compressor Technique business area made five acquisitions in 2011. In March, the business area completed the acquisition of J.C. Carter in California in the United States. J.C. Carter is a leading producer of cryogenic submerged motor pumps, which have many applications in the growing natural gas market. The company's products are primarily used in liquid natural gas regasification and liquefaction plants, and in natural gas liquid processing. The acquisition will extend Atlas Copco's offering to customers in liquid natural applications, as well as to the chemical and petrochemical industries. Intangible assets of 22 and goodwill of 8 were recorded on the purchase. The goodwill is deductible for tax purposes.

The Medical Gas Solutions business of UK headquartered Penlon Ltd was acquired in August. Penlon Medical Gas Solutions is a leading provider of medical gas systems, medical vacuum equipment, and pipeline components for hospitals. The acquisition supports Atlas Copco's strategy of extending its medical gas offering globally and increasing revenues through aftermarket. Intangible assets of 60 and goodwill of 110 were recorded. The goodwill is deductible for tax purposes.

In July, Sogimair S.A. and Aircom S.A., both well established distributors and service providers of compressed air as well as refrigerant equipment of different brands on the Spanish market were acquired. The acquisition further strengthens Atlas Copco's multibrand presence, building on the companies' long-standing reputation as a first class service provider in Spain, particularly in the continued development of the parts and services business. Intangible assets of 32 and goodwill of 14 were recorded. The goodwill is deductible for tax purposes.

Two additional acquisitions of compressor distributors were made during the year. The acquisitions bring Atlas Copco closer to the customers in the respective regions. In April, certain assets of ABAC Catalunya, a long-serving distributor of ABAC compressors in northeastern Spain, were acquired. Intangible assets of 4 were recorded on the purchase. Assets related to the compressor business of the Tencarva Machinery Company with operations in five states in eastern United States were acquired in May. Intangible assets of 21 and goodwill of 8 were recorded on the purchase. The goodwill is deductible for tax purposes.

Total consideration for all acquisitions was 393. This includes contingent consideration with a fair value of 11 related to the Tencarva acquisition. In order for the maximum contingent consideration to be paid, it is required that certain revenue targets are met the first three years after the acquisition. The fair value of the contingent consideration has been calculated based on the assumption that the maximum amount will be paid.

2. Continued

Industrial Technique		
	Recognized values	
	2011	2010
Intangible assets	670	141
Property, plant and equipment	104	1
Other assets	401	14
Cash and cash equivalents	79	–
Other liabilities and provisions	–198	–
Net identifiable assets	1 056	156
Goodwill	1 076	28
Total consideration	2 132	184
– of which deferred consideration	–373	–51
Cash and cash equivalents acquired	–79	–
Net cash outflow	1 680	133

The Industrial Technique business area made three acquisitions in 2011. The adhesive equipment manufacturer SCA Schucker was acquired in October. The company manufactures adhesive and sealant equipment, a relatively large niche segment with few global specialized players. It is headquartered in Germany where also the manufacturing operations are located. In addition, the company has sales and service operations in for example U.S.A., Brazil, Mexico and China. The acquisition offers Atlas Copco an opportunity to expand in a fast-growing market segment, with state of the art technology. Intangible assets of 642 and goodwill of 1 059 were recorded. The goodwill is tax deductible.

Also in October, the German company Kalibrierdienst Stenger, specialized in calibration of measuring instruments for industrial tools, was acquired. The acquisition provides an additional base from which to grow and develop the existing aftermarket offering. Intangible assets of 5 and goodwill of 1 were recorded on the purchase. The goodwill will not be tax deductible.

Seti-Tec S.A.S., a French manufacturer of advanced drilling equipment and solutions for the aerospace industry was acquired in November. The acquisition will give an additional base for the growth of the existing sales into the aerospace market. Intangible assets of 23 and goodwill of 15 were recorded. The goodwill is not tax deductible.

Total consideration for the three acquisitions amounts to 2 132. This includes contingent consideration with a fair value of 117. In order for the maximum contingent consideration to be paid for SCA Schucker, it is required that certain revenue targets are met for the years 2011 and 2012. In the case of Seti-Tec S.A.S., it is required that certain targets for revenues and gross margin are met for the years 2011-2014 in order for the maximum contingent consideration to be paid. The fair values have been calculated based on the assumption that the maximum amount will be paid.

Mining and Rock Excavation Technique		
	Recognized values	
	2011	2010
Intangible assets	12	93
Property, plant and equipment	–8	46
Other assets	–	125
Cash and cash equivalents	–	32
Interest-bearing loans and borrowings	–	–131
Other liabilities and provisions	–	–75
Net identifiable assets	4	90
Non-controlling interests	–	–1
Goodwill	1	167
Total consideration	5	256
– of which deferred consideration	11	–90
Cash and cash equivalents acquired	–	–32
Net cash outflow	16	134

The Mining and Rock Excavation Technique business area made no acquisitions in 2011. Some adjustments related to the acquisition in 2010 of Hartl Anlagenbau GmbH have however been made. The 70 initially recorded as intangible assets have been increased with 7 while property, plant and equipment have been reduced by 8, resulting in a change in goodwill of 1.

Construction Technique		
	Recognized values	
	2011	2010
Intangible assets	80	–
Property, plant and equipment	31	–
Other assets	294	–
Cash and cash equivalents	114	–
Interest-bearing loans and borrowings	–24	–
Other liabilities and provisions	–203	–
Net identifiable assets	292	–
Goodwill	57	–
Total consideration	349	–
– of which deferred consideration	–18	–
Cash and cash equivalents acquired	–114	–
Net cash outflow	217	–

The Construction Technique business area made one acquisition in 2011. Spanish Grupo Electrógenos GESAN S.A. was acquired in July. The company manufactures diesel and petrol generators sold through a global distributor network. The acquisition strengthens Atlas Copco's product portfolio, especially for customers in emerging markets. Total consideration was 349. Intangible assets of 80 and goodwill of 57 were recorded on the purchase. The goodwill is not deductible for tax.

Total fair value of acquired assets and liabilities		
	Group recognized values	
	2011	2010
Intangible assets	902	788
Property, plant and equipment	144	219
Deferred tax assets, net	1	–
Other non-current assets	5	–
Inventories	368	176
Receivables*	480	238
Other current assets	14	–
Cash and cash equivalents	208	57
Interest-bearing loans and borrowings	–29	–131
Other liabilities and provisions	–489	–278
Deferred tax liabilities, net	–	–10
Net identifiable assets	1 604	1 059
Non-controlling interests	–	–1
Goodwill	1 275	852
Total consideration	2 879	1 910
– of which deferred consideration	–373	–143
Cash and cash equivalents acquired	–208	–57
Net cash outflow	2 298	1 710

* The gross amount is 506 (255) of which 26 (17) is expected to be uncollectible.

The goodwill recognized on acquisitions is primarily related to the synergies expected to be achieved from integrating these companies into the Group's existing structure. The total consideration for all acquisitions was 2 879. Total consideration includes deferred consideration not yet paid for acquisitions made in 2011 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the outflow totaled 2 298 after deducting cash and cash equivalents acquired of 208. Acquisition-related costs were included in administrative expenses in the income statement for 2011 and amounted to 27 (8).

2. Continued

Contribution from businesses acquired in 2011 and 2010 by business area										
	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique		Group	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Contribution from date of control										
Revenues	268	941	266	48	–	115	270	–	804	1 104
Operating profit	–20	112	59	25	–	–13	8	–	47	124
Profit for the year									2	74
Contribution if the acquisition had occurred on Jan. 1										
Revenues	441	1 281	970	132	–	418	589	–	2 000	1 831
Operating profit	–20	144	228	53	–	–9	19	–	227	188
Profit for the year									153	120

In December, Atlas Copco agreed to acquire certain assets of Guangzhou Linghein Compressors Co., Ltd. in China. The acquisition adds a brand of industrial air compressors with a strong regional presence. In January 2012, the Group made four acquisitions. Houston Services Industries, Inc. is a manufacturer of low-pressure blowers and vacuum pumps in the United States. Italian Perfora S.p.A. manufactures and sells drilling and cutting equipment for the dimension stone industry, i.e. quarries that produce raw stone blocks. The underground business of Swedish GIA Industri AB broadens Atlas Copco's offering with products including electric mine trucks, utility vehicles and ventilation systems. Finally, Atlas Copco took over the sales of drilling equipment and related services from its distributor Neumatica Del Caribe S.A., Colombia.

3. Assets held for sale and divestments

Divestment during 2011					
Closing date	Operations	Country	Business area	Revenues ¹⁾	Number of employees ¹⁾
2011 Oct. 7	Self drilling anchors	Austria	Mining and Rock Excavation Technique	100	45

¹⁾ Annual revenues and number of employees at time of divestment.

Divestments

In October 2011, Atlas Copco MAI GmbH divested its business related to self drilling anchors; rock bolts that are primarily used in civil engineering. The divestment in the Mining and Rock Excavation business area is part of Atlas Copco's strategy within rock reinforcement to focus on products for the mining industry. The gain on the divestment amounting to 8 is reported under other operating income. See note 8. There were no significant divestments during 2010. The following table presents the carrying value of the divested operations on the date of divestment.

Carrying value of divested assets and liabilities		
	2011	2010
Goodwill	61	–
Other intangible assets	1	–
Other property, plant and equipment	9	–
Inventories	17	–
Receivables	–	19
Other liabilities and provisions	–2	–
Net carrying value	86	19
Capital gain	8	–
Translation differences recycled	–2	–
Consideration and cash received	92	19

The consideration received in 2010 was primarily for the divestment in 2008 of Guimerá S.A. in the Compressor Technique business area.

Assets held for sale

Following the restructuring of part of the business area Compressor Technique's operations in France, certain production facilities were reclassified to assets held for sale during 2011. These amounted to 7 at year end.

The Construction Technique business area restructured certain operations in Germany and accordingly reclassified certain properties as assets held for sale during 2010, which amounted to 18 at year end 2010. The assets were sold in the beginning of 2011.

In the Industrial Technique business area, assets in Japan were classified as assets held for sale during 2009 of which sales of machinery and equipment were finalized during 2010. The remaining assets, buildings, were in 2011 charged with an impairment loss of -9 and subsequently recognized at 21 (28) at year end. The buildings and equipment in the United Kingdom which were classified as assets held for sale in 2008 were partially divested during 2009. The remaining assets were during 2011 impaired resulting in a loss of -6 and recognized at 27 (33) at year end. The assets are still classified as held for sale due to the difficult market conditions during the year.

The total assets held for sale are measured at their fair value less costs to sell amounting to 55 (in 2010 recognized at their carrying amount of 79) and the assets are expected to be sold during 2012. The estimated fair value less costs to sell is reviewed on a regular basis.

4. Segment information

2011	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	31 674	7 791	29 264	12 226	248		81 203
Inter-segment revenues	86	30	92	692	66	-966	-
Total revenues	31 760	7 821	29 356	12 918	314	-966	81 203
Operating profit	7 592	1 767	7 196	1 460	-374	-81	17 560
– of which share of profit in associated companies		4	2				6
Net financial items							-284
Income tax expense							-4 288
Profit for the year							12 988
Non-cash expenses							
Depreciation/amortization	957	201	792	281	339	-121	2 449
Impairment	2		1	70			73
Other non-cash expenses	-210	-13	-56	51	-18		-246
Segment assets	21 281	6 742	18 964	14 894	4 127	-2 536	63 472
– of which goodwill	2 524	1 553	921	4 954			9 952
Investments in associated companies	1	116	7				124
Unallocated assets							11 513
Total assets							75 109
Segment liabilities	8 929	1 866	6 329	2 283	3 351	-2 131	20 627
Unallocated liabilities							25 643
Total liabilities							46 270
Capital expenditures							
Property, plant and equipment	1 006	159	1 328	154	706	-237	3 116
– of which assets leased	14	4	34	4			56
Intangible assets	171	117	238	80	13		619
Total capital expenditures	1 177	276	1 566	234	719	-237	3 735
Goodwill acquired	141	1 076	1	57			1 275

2010	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	29 702	6 446	22 512	11 078	137		69 875
Inter-segment revenues	51	26	8	407	51	-543	-
Total revenues	29 753	6 472	22 520	11 485	188	-543	69 875
Operating profit	7 233	1 262	4 919	1 218	-656	-61	13 915
– of which share of profit in associated companies		8	5				13
Net financial items							-420
Income tax expense							-3 551
Profit for the year							9 944
Non-cash expenses							
Depreciation/amortization	1 029	217	728	277	267	-94	2 424
Impairment	63	1	6	4			74
Other non-cash expenses	60	-15	66	11	227		349
Segment assets	18 117	3 881	14 874	13 156	3 284	-2 028	51 284
– of which goodwill	2 361	511	901	4 996			8 769
Investments in associated companies		104	4				108
Unallocated assets							20 230
Total assets							71 622
Segment liabilities	7 630	1 369	5 029	2 219	3 211	-1 512	17 946
Unallocated liabilities							24 355
Total liabilities							42 301
Capital expenditures							
Property, plant and equipment	505	64	711	173	432	-153	1 732
– of which assets leased	10	4	21	3	1		39
Intangible assets	137	84	138	152	6		517
Total capital expenditures	642	148	849	325	438	-153	2 249
Goodwill acquired	657	28	167				852

4. Continued

Atlas Copco modified its business area structure to strengthen the focus on specific product and customer segments. As of July 1, 2011, the Group has four business areas instead of three. Following the change in business area structure the comparative values for segments have been re-presented as from January 1, 2010 to be comparable with the present structure.

The Group is organized in separate, focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's Chief Operating Decision Maker, who has been identified as the Group President.

All business areas are managed on a worldwide basis and their role is to develop, implement, and follow up the objectives and strategy within their business. For a description of the business areas see pages 24–39.

Common group functions includes those operations which serve all business areas or the Group as a whole and is not considered a segment. The accounting principles of the segments are the same as those described in note 1. Atlas Copco's inter-segment 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:		
	2011	2010
Sale of equipment	48 374	39 844
Service (incl. spare parts, consumables and accessories)	30 532	27 769
Rental	2 297	2 262
	81 203	69 875

Geographical information

The revenues presented are based on the location of the customers while non-current assets are based on the geographical location of the assets. These assets include non-current assets other than financial instruments, investments in associated companies, deferred tax assets and post-employment benefit assets.

By geographic area/country	Revenues		Non-current assets	
	2011	2010	2011	2010
North America				
Canada	3 348	2 638	200	194
U.S.A.	9 501	8 137	3 927	3 672
Other countries in North America	2 316	1 575	81	70
	15 165	12 350	4 208	3 936
South America				
Brazil	3 992	4 035	345	347
Chile	2 111	1 644	86	97
Other countries in South America	2 510	2 049	53	48
	8 613	7 728	484	492
Europe				
Belgium	827	689	1 307	1 260
France	2 345	2 276	235	193
Germany	3 504	2 985	2 962	1 296
Italy	1 805	1 865	951	998
Russia	3 427	2 296	131	124
Sweden	1 856	1 573	8 607	8 457
Other countries in Europe	11 463	10 718	1 583	1 352
	25 227	22 402	15 776	13 680
Africa/Middle East				
South Africa	3 143	2 321	169	177
Other countries in Africa/Middle East	5 489	5 629	186	155
	8 632	7 950	355	332
Asia/Australia				
Australia	5 423	3 896	439	301
China	9 526	7 830	1 424	1 125
India	3 022	2 886	522	480
Other countries in Asia/Australia	5 595	4 833	799	663
	23 566	19 445	3 184	2 569
	81 203	69 875	24 007	21 009

5. Employees and personnel expenses

Average number of employees	2011			2010		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	58	48	106	56	45	101
Subsidiaries						
North America	816	4 017	4 833	654	3 456	4 110
South America	424	2 472	2 896	353	2 193	2 546
Europe	2 594	13 079	15 673	2 329	12 041	14 370
– of which Sweden	702	3 545	4 247	616	3 173	3 789
Africa/Middle East	361	1 964	2 325	324	1 807	2 131
Asia/Australia	1 662	7 636	9 298	1 381	6 575	7 956
Total in subsidiaries	5 857	29 168	35 025	5 041	26 072	31 113
	5 915	29 216	35 131	5 097	26 117	31 214

Women in Atlas Copco Board and Management, %		
	Dec. 31, 2011	Dec. 31, 2010
Parent Company		
Board of Directors excl. union representatives	33	33
Group Management	22 ¹⁾	25

¹⁾ Average 24%

Remuneration and other benefits	Group		Parent Company	
	2011	2010	2011	2010
Salaries and other remuneration	12 610	11 759	123	150
Contractual pension benefits	781	697	15	18
Other social costs	2 519	2 243	49	58
	15 910	14 699	187	226
Pension obligations to Board members and Group Management ¹⁾	16	22	16	22

¹⁾ Refers to former members of Group Management.

Remuneration and other benefits to the Board								
KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees ¹⁾	Total fees incl. value of synthetic shares at grant date 2011	Adj. due to change in stock price and accrual period ²⁾	Total expense recognized 2011 ³⁾	Total expense recognized 2010 ³⁾
Chair of the Board:								
Sune Carlsson	844	875	5 240	185	1 904	–362	1 542	3 303
Vice Chair:								
Jacob Wallenberg	311	322	1 931	60	693	–133	560	1 203
Other members of the Board:								
Staffan Bohman	450	–	–	125	575	–21	554	1 059
Margareth Øvrum	253	263	1 571	–	516	–109	407	938
Johan Forssell	253	263	1 571	125	641	–109	532	1 059
Ulla Litzén	450	–	–	260	710	–21	689	1 191
Anders Ullberg	450	–	–	120	570	–21	549	1 058
Gunilla Nordström	253	263	1 571	–	516	–31	485	423
Other members of the Board previous year	–	–	–	–	–	–99	–99	938
Union representatives (4 positions)	44	–	–	–	44	–	44	47
Total	3 308	1 986	11 884	875	6 169	–906	5 263	11 219
Total 2010	2 590	2 600	23 032	856	6 046	5 173		11 219

¹⁾ Refers to fees for membership in board committees. ²⁾ Refers to synthetic shares received in 2008, 2009, 2010 and 2011.

³⁾ Provisions for synthetic shares as at December 31 amounted to MSEK 14 (13).

Remuneration and other benefits to Group Management							
KSEK	Base salary	Variable compensation ¹⁾	Recognized costs for stock options, SARS ³⁾	Other benefits ⁴⁾	Pension fees	Total expense recognized 2011	Total expense recognized 2010
President and CEO							
Ronnie Leten	9 000	5 450 ²⁾	913	684	3 150	19 197	20 719
Other members of Group Management (8 positions)⁵⁾	20 028	8 571	135	2 586	6 536	37 856	51 404
Total	29 028	14 021	1 048	3 270	9 686	57 053	72 123
Total 2010 (8 positions)	26 946	12 905	20 890	2 372	9 010		72 123
Total remuneration and other benefits to the Board and Group Management						62 316	83 342

¹⁾ Refers to variable compensation earned in 2011 to be paid in 2012.

²⁾ The CEO has not exercised the option to have his compensation for 2011 as an additional pension contribution.

³⁾ For information on share payments, see note 23.

⁴⁾ Refers to vacation pay, company car, medical insurance and house allowance.

⁵⁾ Four business areas from July 1, 2011.

5. Continued

Remuneration and other fees for members of the Board, the President and CEO, and other members of 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 2011 meeting are described in the following paragraphs.

Board members

Remuneration and fees are based on the work performed by the Board. The remuneration and fees approved for 2011 are detailed in the table on the previous page. The remuneration to the President and CEO, who is a member of Group Management, is described in the following sections.

The Annual General Meeting decided that each Board member can elect to receive 50% of the 2011 gross fee before tax, excluding other committee fees, in the form of synthetic shares and the remaining part in cash. The number of shares is based upon an average end price of series A shares during ten trading days following the release of the first quarterly interim report for 2011. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The Board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a Board member resigns their position before the stipulated payment date as stated above, the Board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the Board member resigned or otherwise the original payment date is valid.

Five Board members accepted the right to receive synthetic shares. The number and costs at grant date and at the end of the financial year are disclosed by Board member in the table on the previous page.

Group Management

Group Management consists of the President and the other eight members of the Management Committee. The compensation to 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 2011 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.
- Other benefits consist of company car and private health insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco expatriate employment policy.

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 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. The variable compensation is not included in the basis for pension benefits. According to an agreement, the CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution.

The President and CEO is a member of the Atlas Copco Airpower n.v. pension plan and the contributions follow the Atlas Copco 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. These pension plans are vested and are lifetime payments upon retirement.

Other members of Group Management

Members of 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 stock options/share appreciation rights holdings as at December 31 are detailed below:

Stock options/share appreciation rights holdings as at Dec. 31, 2011							
Grant year	2006	2007	2008	2009	2010	2011 ¹⁾	Total
CEO		– 60 511 ²⁾	60 511 ²⁾	54 459	126 857	93 175	395 513
Other members of Group Management ²⁾	30 255	97 169	171 445	127 074	282 287	251 080	959 310

¹⁾ Estimated grants for the 2011 stock option program including matching shares.

²⁾ Includes options/share appreciation rights from previous positions.

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 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 salary.

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 and other committees

In 2011, 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.

In addition, three members of the Board participated in a committee regarding repurchase and sale of own shares.

6. Remuneration to auditors

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

	2011	2010
Deloitte		
– Audit fee	48	44
– Tax services	4	2
– Other services	5	8
Other audit firms		
– Audit fee	3	5
	60	59

At the Annual General Meeting 2010, Deloitte was elected as auditor for the Group for a four year period.

7. Operating expenses

Amortization, depreciation and impairment	2011	2010
Product development	429	408
Trademark	63	59
Marketing and customer related assets	151	156
Other technology and contract based assets	172	200
Buildings	149	158
Machinery and equipment	842	837
Rental equipment	716	680
	2 522	2 498

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

	2011		2010	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	17	18	27	13
Marketing expenses	16	215	6	188
Administrative expenses	37	35	54	72
Research and development expenses	411	66	389	74
	481	334	476	347

Impairment charges on intangible assets for 2011 totaled 67 (72) of which 64 (57) were classified as development expenses in the income statement, and – (15) as marketing expenses. Impairment charges were recorded for capitalized development costs amounting to 64 (40) relating to projects discontinued.

The impairment charges in 2010 for trademark of 5 and for other technology and contract based assets of 18 related primarily to the relocation of business operations from New Zealand to India in the Compressor Technique business area. Impairment in 2010 of marketing and customer related assets of 9 was due to changes in the customer base in Latvia, Lithuania and Slovenia.

Cost of sales

The amount of inventories recognized as expense amounted to 38 650 (32 202).

8. Other operating income and expenses

	2011	2010
Other operating income		
Commissions received	18	18
Income from insurance operations	198	106
Capital gain on sale of fixed assets	15	21
Capital gain on divestment of business	8	–
Exchange-rate differences	4	–
Other operating income	50	47
	293	192
Other operating expenses		
Capital loss on sale of fixed assets	–26	–21
Exchange-rate differences	–	–19
Other operating expenses	–101	–53
	–127	–93

Other operating income consists mainly of government grants received in China. The operating profit includes 15 (22) of realized and –37 (2) of unrealized foreign exchange hedging result which were previously recognized in equity. Information related to the changes in fair value of financial instruments using a valuation technique is included in note 27.

The capital gain on divestment of business amounting to 8 related to Atlas Copco MAI GmbH's sale of the self drilling anchors business. See note 3 for more information.

9. Financial income and expense

	2011	2010
Interest income		
– assets held for trading	–	1
– loans and receivables, incl. bank deposits	422	336
– held-to-maturity investments	6	4
Dividend income		
– loans and receivables, incl. bank deposits	–	1
Change in fair value		
– ineffective part of fair value hedge	2	–
Capital gain		
– available-for-sale financial assets	348	81
Financial income	778	423
Interest expenses		
– other liabilities	–697	–826
– derivatives for fair value hedges	–127	188
– pension provisions, net	–110	–126
Net foreign exchange loss	–32	–25
Change in fair value		
– ineffective part of fair value hedge	–	–2
– related to other liabilities	–80	–37
Impairment loss		
– loans and receivables, incl. bank deposits	–16	–15
Financial expense	–1 062	–843
Net finance costs	–284	–420

During 2011, Atlas Copco sold all remaining assets available for sale in RSC Holdings Inc representing 7.6 million shares. This resulted, net of sales expenses, in a capital gain of 350 (81), including 351 (82) previously recognized in equity. See note 27, Other market/price risk for additional information.

South Africa has Black Economic Empowerment (BEE) legislation intended to give previously disadvantaged groups economic opportunities. Companies not meeting the BEE requirements get, directly or indirectly, a competitive disadvantage. In order to meet the requirements in the BEE legislation Atlas Copco has entered into agreements and has certain obligations. The change in fair value related to other liabilities was –41.

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

	2011	2010
Total interest income on financial assets	428	340
Total interest expense on financial liabilities	–697	–826

Net foreign exchange loss includes the foreign exchange gains of 459 (1 081) on financial assets at fair value through profit and loss and foreign exchange losses of 491 (1 106) on other liabilities.

The following table shows the amounts of the fair value adjustments related to the hedging of interest rate risks included in financial income and expense during the year:

	Net result	
Fair value hedge	2011	2010
Financial liabilities	–72	–318
Interest rate-related derivatives	74	316
Ineffective part of fair value hedge	2	–2

10. Taxes

Income tax expense	2011	2010
Current taxes	–3 902	–3 619
Deferred taxes	–386	68
	–4 288	–3 551

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:

	2011	2010
Profit before tax	17 276	13 495
Weighted average tax based on national rates	–5 095	–3 900
– in %	29.5	28.9
Tax effect of:		
Non-deductible expenses	–286	–231
Withholding tax on dividends	–514	–271
Tax-exempt income	1 356	891
Adjustments from prior years:		
– current taxes	216	64
– deferred taxes	32	–24
Effects of tax losses/credits utilized	54	2
Change in tax rate, deferred tax	29	–5
Tax losses not valued	–82	–80
Other items	2	3
Income tax expense	–4 288	–3 551
Effective tax in %	24.8	26.3

The effective tax rate amounted to 24.8% (26.3). Withholding tax on dividends relates to provisions on increased profits in countries where Atlas Copco suffers withholding taxes on repatriation of income. The net from tax issues and disputes in different countries was a positive amount of 216.

Previously unrecognized tax losses/credits and deductible temporary differences which have been recognized against current tax expense amounted to 54 (2). No material unrecognized tax losses/credits or temporary differences have been used to reduce deferred tax expense. A write-down of a previously recognized deferred tax asset in Germany resulted in a deferred tax expense of 98, included above as tax losses not valued.

Deferred taxes relating to temporary differences between carrying value and tax base of directly held shares in subsidiaries have not been recognized. For group companies, the Parent Company controls the realization of the deferred tax asset/liability and realization is not planned in the foreseeable future.

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

Change in deferred taxes	2011	2010
Net balance, Jan. 1	142	1 792
Business acquisitions	1	–10
Charges to profit for the year	–386	68
Tax on amounts recorded to equity	–85	–1 650
Translation differences	–10	–58
Net balance, Dec. 31	–338	142

10. Continued

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

Deferred tax assets and liabilities	2011			2010		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	17	771	-754	30	766	-736
Property, plant and equipment	294	570	-276	237	429	-192
Other financial assets	1	198	-197	1	220	-219
Inventories	1 571	31	1 540	1 147	4	1 143
Current receivables	214	192	22	155	14	141
Operating liabilities	545	4	541	411	6	405
Provisions	268	1	267	292	4	288
Post-employment benefits	165	6	159	175	7	168
Borrowings	11	848	-837	12	855	-843
Loss/credit carry forwards	162	-	162	444	-	444
Other items	9	974	-965	80	537	-457
Deferred tax assets/liabilities	3 257	3 595	-338	2 984	2 842	142
Netting of assets/liabilities	-2 205	-2 205	-	-1 675	-1 675	-
Net deferred tax balances	1 052	1 390	-338	1 309	1 167	142

Other items primarily include tax deductions which are not related to specific balance sheet items.

At December 31, 2011, the Group had total tax loss carry-forwards of 2 377 (2 793) of which no deferred tax assets had been recognized of 1 728 (1 366) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiration date for utilization for the major part of the tax losses for which no deferred tax assets have been recorded.

Changes in temporary differences during the year that are recognized in the income statement are attributable to the following:

	2011	2010
Intangible assets	-4	107
Property, plant and equipment	-84	-14
Other financial assets	21	-1
Inventories	390	442
Current receivables	-118	52
Operating liabilities	137	43
Provisions	-20	81
Post-employment benefits	-7	16
Borrowings	96	-189
Other items	-512	-165
Changes due to temporary differences	-101	372
Loss/credit carry-forwards	-285	-304
	-386	68

10. Continued

Consolidated statement of comprehensive income

Other comprehensive income for the year	2011			2010		
	Before tax	Tax	After Tax	Before tax	Tax	After Tax
Attributable to owners of the parent						
Translation differences on foreign operations	-332	-54	-386	-3 418	-1 117	-4 535
– realized and reclassified to income statement	-2	–	-2	–	–	–
Hedge of net investments in foreign operations	93	-25	68	2 032	-534	1 498
Cash flow hedges	68	5	73	-49	1	-48
Available-for-sale investments	111	–	111	217	–	217
– realized and reclassified to income statement	-351	–	-351	-82	–	-82
	-413	-74	-487	-1 300	-1 650	-2 950
Attributable to non-controlling interests						
Translation differences on foreign operations	-18	–	-18	-1	–	-1
	-431	-74	-505	-1 301	-1 650	-2 951

11. Earnings per share

Amounts in SEK	Basic earnings per share		Diluted earnings per share	
	2011	2010	2011	2010
Earnings per share	10.68	8.16	10.62	8.15

The calculation of earnings per share presented above is based on profits and number of shares as detailed below.

Profit for the year attributable to owners of the parent	2011	2010
Profit for the year	12 963	9 921

Basic earnings per share

Basic earnings per share are calculated based on the profit for the year attributable to owners 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 owners of the parent and the diluted weighted average number of shares outstanding and, if dilutive, by adjusting the profit for the year for the difference between cash-settled and equity-settled treatment of options for which employees can choose settlement in shares or cash.

The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs.

The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options. The dilutive effect increases in proportion to the increase in the difference between the average share price during the period and the exercise price of the options. The exercise price is adjusted by the value of future services related to the options when calculating the dilutive effect.

Average number of shares outstanding	2011	2010
Basic weighted average number of shares outstanding	1 214 287 007	1 215 882 771
Effect of employee stock options	2 964 903	1 395 798
Diluted weighted average number of shares outstanding	1 217 251 910	1 217 278 569

The redemption procedure approved by the 2011 AGM, whereby every share was split into one ordinary share and one redemption share which was then automatically redeemed did not have any impact on the weighted average number of shares.

Potentially dilutive instruments

As of December 31, 2011, Atlas Copco has six outstanding employee stock option programs, of which the exercise price for the 2010 and 2011 programs exceeded the average share price for series A shares, SEK 148 per share. These programs 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

2011	Internally generated intangible assets		Acquired intangible assets					Total
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	
Cost								
Opening balance, Jan. 1	2 913	509	66	2 086	1 554	916	8 796	16 840
Investments	492	34				93		619
Business acquisitions				175	249	478	1 275	2 177
Divestment of business						-2	-61	-63
Disposals	-24	-10		-1	-9	-11		-55
Reclassifications	32	6	-6			6		38
Translation differences	-9	-1	1	1	10	-8	-31	-37
Closing balance, Dec. 31	3 404	538	61	2 261	1 804	1 472	9 979	19 519
Amortization and impairment losses								
Opening balance, Jan. 1	1 688	277	50	216	610	508	27	3 376
Amortization for the period	352	62	13	63	151	107		748
Impairment charge for the period	64	3						67
Divestment of business						-1		-1
Disposals	-15	-8			-9	-6		-38
Reclassifications	10	6	-6	-1		2		11
Translation differences	-8	2		2	9	-1		4
Closing balance, Dec. 31	2 091	342	57	280	761	609	27	4 167
Carrying amounts								
At Jan. 1	1 225	232	16	1 870	944	408	8 769	13 464
At Dec. 31	1 313	196	4	1 981	1 043	863	9 952	15 352

2010	Internally generated intangible assets		Acquired intangible assets					Total
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	
Cost								
Opening balance, Jan. 1	2 826	498	64	1 820	1 282	836	8 284	15 610
Investments	414	36				67		517
Business acquisitions				328	396	68	852	1 644
Disposals	-120	-1		-2		-13		-136
Reclassifications	-4	4	4			10		14
Translation differences	-203	-28	-2	-60	-124	-52	-340	-809
Closing balance, Dec. 31	2 913	509	66	2 086	1 554	916	8 796	16 840
Amortization and impairment losses								
Opening balance, Jan. 1	1 536	215	38	173	497	424	30	2 913
Amortization for the period	358	78	10	54	147	104		751
Impairment charge for the period	40			5	9	18		72
Business acquisitions						4		4
Disposals	-113	-1	-1			-10		-125
Reclassifications	-3		4			-1		-
Translation differences	-130	-15	-1	-16	-43	-31	-3	-239
Closing balance, Dec. 31	1 688	277	50	216	610	508	27	3 376
Carrying amounts								
At Jan. 1	1 290	283	26	1 647	785	412	8 254	12 697
At Dec. 31	1 225	232	16	1 870	944	408	8 769	13 464

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 useful lives are amortized. For information regarding amortization and impairment, see notes 1 and 7. See note 2 for information on business acquisitions.

12. Continued

Impairment tests for cash-generating units with goodwill and for intangible assets with indefinite useful lives

Atlas Copco reviews the carrying value of goodwill and intangible assets with an indefinite useful life, certain trademarks, for impairment on at least an annual basis. The impairment tests (including sensitivity analyses) are performed as per September 30 each year. In addition to the annual review, an assessment is made to determine whether there is any indication of impairment at each reporting date.

The accompanying table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area.

Due to the reorganisation of the Group in 2011 from three to four business areas as well as the split up of divisions in equipment and after-market divisions, current goodwill is monitored for internal management purposes at Business Area level. The goodwill has therefore been tested for impairment at business area level and the historical figures have been re-presented.

All businesses acquired in 2011 as well as those in previous years, and

their related cash flows have been integrated with other Atlas Copco operations soon after the acquisition. In instances where the acquired business would not be integrated and hence be monitored separately, the associated goodwill will be tested for impairment separately.

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, and capital expenditures.

All assumptions for the five-year forecast are estimated individually for each of the business areas based on their particular market position and the characteristics and development of their end markets. The forecasts assigned represent management's assessment and are based on both external and internal sources. The perpetual percentage for the period after five years is estimated at three percent. The Group's average weighted cost of capital in 2011 was 8% (8%) after tax (approximately 10.5% (10.5%) before tax) and has been used in discounting the cash flows to determine the recoverable amounts.

Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit				
	2011		2010	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique		2 524		2 361
Industrial Technique	103	1 553	103	511
Mining and Rock Excavation Technique		921		901
Construction Technique	1 225	4 954	1 225	4 996
Total	1 328	9 952	1 328	8 769

The trademarks Dynapac in Road Construction Equipment and Rodcraft in Chicago Pneumatic Tools represent strong trademarks that have been used for a long time in their respective industries. Management's intention is that these trade marks will be used indefinitely.

13. Property, plant and equipment

2011	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	3 839	9 600	244	13 683	3 993
Investments	318	986	477	1 781	1 335
Business acquisitions	83	61		144	
Divestment of business		-43		-43	
Disposals	-29	-382		-411	-857
Reclassifications ¹⁾	-14	9	-80	-85	
Translation differences	6	-40	7	-27	-16
Closing balance, Dec. 31	4 203	10 191	648	15 042	4 455
Depreciation and impairment losses					
Opening balance, Jan. 1	1 566	6 415		7 981	2 150
Depreciation for the period	149	836		985	716
Impairment charge for the period		6		6	
Divestment of business		-34		-34	
Disposals	-22	-329		-351	-511
Reclassifications ¹⁾	-23	-32		-55	
Translation differences	2	-30		-28	-17
Closing balance, Dec. 31	1 672	6 832		8 504	2 338
Carrying amounts					
At Jan. 1	2 273	3 185	244	5 702	1 843
At Dec. 31	2 531	3 359	648	6 538	2 117

¹⁾ In accordance with IFRS 5, fixed assets related to operations in France were reclassified as assets held for sale during the fourth quarter. See note 3 for additional information.

2010	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	3 950	9 773	302	14 025	4 023
Investments	151	811	-58	904	828
Business acquisitions	71	149	8	228	
Disposals	-26	-486		-512	-712
Reclassifications ²⁾	-44	-4	-2	-50	-1
Translation differences	-263	-643	-6	-912	-145
Closing balance, Dec. 31	3 839	9 600	244	13 683	3 993
Depreciation and impairment losses					
Opening balance, Jan. 1	1 564	6 468		8 032	1 967
Depreciation for the period	156	837		993	680
Impairment charge for the period	2			2	
Business acquisitions	2	7		9	
Disposals	-23	-437		-460	-407
Reclassifications ²⁾	-11	-7		-18	
Translation differences	-124	-453		-577	-90
Closing balance, Dec. 31	1 566	6 415		7 981	2 150
Carrying amounts					
At Jan. 1	2 386	3 305	302	5 993	2 056
At Dec. 31	2 273	3 185	244	5 702	1 843

²⁾ In accordance with IFRS 5, fixed assets related to operations in Germany were reclassified as assets held for sale during the fourth quarter. See note 3 for additional information.

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	2011	2010
Opening balance, Jan. 1	108	101
Acquisitions of associated companies	1	–
Dividends	–	–2
Profit for the year after income tax	6	13
Translation differences	9	–4
Closing balance, Dec. 31	124	108

Summary of financial information for associated companies							
	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, %
2011							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	54	6	48	40	–	25
Shanghai Toku International Co. Ltd.	China	47	25	22	169	2	50
Shenzhen Nectar Engineering & Equipment Co. Ltd.	China	59	23	36	134	9	25
Toku-Hanbai KK	Japan	303	116	187	689	6	50
Reintube S.L.	Spain	6	4	2	7	–	47
2010							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	49	5	44	41	2	25
Shanghai Toku International Co. Ltd.	China	43	25	18	202	7	50
Shenzhen Nectar Engineering & Equipment Co. Ltd.	China	63	38	25	86	9	25
Toku-Hanbai KK	Japan	281	113	168	644	8	50

The above table is based on the most recent financial reporting available from associated companies. The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

In 2011, a 47 % interest in the Spanish company Reintube S.L. was acquired in connection with the purchase of the subsidiary Sogimair. Atlas Copco has the option to acquire the remaining shares of the company. The option is exercisable until June 30, 2012.

15. Other financial assets

	2011	2010
Non-current		
Pension and other similar benefit assets (note 23)	608	590
Derivatives		
– not designated for hedge accounting	3	6
– designated for hedge accounting	281	206
Available-for-sale investments	3	509
Held-to-maturity	103	159
Financial assets classified as loans and receivables		
– finance lease receivables	598	480
– other financial receivables	1 117	751
	2 713	2 701
Current		
Held-to-maturity investments		
– government bonds	175	254
Financial assets classified as loans and receivables		
– finance lease receivables	465	430
– other financial receivables	1 133	1 050
	1 773	1 734

The significant decrease in available-for-sale investments is primarily due to the sale of remaining shares (7.4%) held in RSC Holdings Incorporated which derive from the divestment of the rental operations in 2006. The shares had a value of 504 as of December 31, 2010. See note 9 and note 27, Other market/price risk for further details.

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

16. Inventories

	2011	2010
Raw materials	560	513
Work in progress	2 822	2 390
Semi-finished goods	4 693	3 406
Finished goods	9 504	6 630
	17 579	12 939

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 349 (350). Reversals of write-downs which were recognized in earnings totaled 157 (185). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

No part of total carrying amount of inventories was pledged as security for liabilities.

17. Trade receivables

Trade receivables of 16 783 (13 318) are reported net of provisions for doubtful accounts and other impairments, amounting to 705 (659). Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 366 (401). For credit risk information see note 27.

18. Other receivables

	2011	2010
Current		
Derivatives		
– not designated for hedge accounting	40	27
– designated for hedge accounting	467	321
Financial assets classified as loans and receivables		
– other receivables	2 597	2 464
– accrued income	1 005	406
Prepaid expenses	571	531
	4 680	3 749

The increase in value of derivatives designated for hedge accounting is primarily an effect of the strengthening of the USD to the EUR.

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income consists primarily of work in progress. Prepaid expenses include items such as rent, insurance, interest, IT, premiums and commissions.

See note 27 for additional information on fair value derivatives.

19. Cash and cash equivalents

	2011	2010
Cash	2 975	3 105
Cash equivalents	2 741	11 159
	5 716	14 264

Cash and cash equivalents totaled 5 716 (14 264) at December 31. During 2011, cash equivalents had an average effective interest rate of 1.47% (0.67).

Before the payments totaling 10 918 for the dividend and the mandatory redemption in the second quarter of 2011, the management of MEUR 500 was outsourced to two banks who invested the funds under the same investment policy that regulates the management of the funds under Atlas Copco's own management. The committed, but unutilized, credit lines equaled 15 757 (13 188). See note 27 for additional information.

20. Equity

Shares outstanding, 2011	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Split of shares 2:1	839 394 096	390 219 008	1 229 613 104
	1 678 788 192	780 438 016	2 459 226 208
Redemption of shares	–824 811 735	–388 682 016	–1 213 493 751
Redemption of shares held by Atlas Copco	–14 582 361	–1 536 992	–16 119 353
Total number of shares, Dec. 31	839 394 096	390 219 008	1 229 613 104
– of which held by Atlas Copco	–16 687 630	–1 311 446	–17 999 076
Total shares outstanding, Dec. 31	822 706 466	388 907 562	1 211 614 028

Shares outstanding, 2010	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Total number of shares, Dec. 31	839 394 096	390 219 008	1 229 613 104
– of which held by Atlas Copco	–9 524 840	–1 712 033	–11 236 873
Total shares outstanding, Dec. 31	829 869 256	388 506 975	1 218 376 231

20. Continued

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 (0.64). 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.

Atlas Copco generated significant cash flows during the financial crisis and in 2010, resulting in a strong financial position. To adjust the Group's capital structure without jeopardizing the capacity to finance further growth, the 2011 Annual General Meeting approved a redemption procedure and the following transactions were performed in 2011:

- Amendment of the Articles of Association, so that the permitted range of number of shares was increased from a minimum of 500 million and a maximum of 2.0 billion to a minimum of 1.0 billion and a maximum of 4.0 billion. At the same time, the maximum number of series A shares, as well as of series B, was increased from 2.0 billion of each to 4.0 billion of each.
- Split of each series A and series B shares into one ordinary share and one redemption share.
- Reduction of the share capital for repayment to the shareholders by way of redemption of 1 229 613 104 redemption shares at SEK 5 per share. This corresponds to a total distribution of SEK 6 067 468 755 to the shareholders, taking into account that 16 119 353 shares were held by Atlas Copco AB and thus not eligible for repayment.
- Increase of share capital by 393 by way of a bonus issue, whereby the Company's non-restricted equity was used.

Repurchases of shares	Number of shares		Amounts affecting equity	
	2011	2010	2011	2010
Opening balance, Jan. 1	11 236 873	13 703 400	1 011	1 212
Split of shares 2:1	16 119 353			
Redemption of series A shares held by Atlas Copco AB	–14 582 361			
Redemption of series B shares held by Atlas Copco AB	–1 536 992			
Repurchase of A shares	9 169 360	813 000	1 368	88
Divestment of A shares	–2 006 570	–2 563 160	–236	–240
Divestment of B shares	–400 587	–716 367	–27	–49
Closing balance, Dec. 31	17 999 076	11 236 873	2 116	1 011
Percentage of total number of shares	1.5%	0.9%		

The 2011 Annual General Meeting (AGM) approved a mandate for the Board of Directors until the next AGM to repurchase and to sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adopt the capital structure of the Company as follows:

- The purchase of not more than 4 300 000 series A shares, whereof a maximum 3 420 000 may be transferred to personnel stock option holders under the Performance Stock Option Plan 2011.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to Board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 70 000 series A shares to cover costs related to previously issued synthetic shares to Board members.
- The sale of maximum 4 700 000 series A shares and maximum 1 500 000 series B shares currently held by the company, for the purpose of covering costs of fulfilling obligations related to the performance stock option plans 2006–2009.

Repurchases and sales are subject to market conditions, regulatory restrictions and the capital structure at any given time.

In the period April–December 2011, 3 369 360 series A shares were repurchased, whereas 1 715 809 series A shares and 279 427 series B shares were sold in accordance with the mandate granted at the 2011 AGM. Combined with the transactions made in the first quarter 2011 in accordance with the mandate granted at the 2010 AGM, as detailed on the next page, 7 162 790 series A shares, net, were repurchased and 400 587 series B shares were sold during 2011.

20. Continued

The 2010 AGM approved a mandate for the Board of Directors until the next AGM to repurchase and to sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adapt the capital structure of the Company as follows:

- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to Board members who have opted to receive synthetic shares as part of their board fee.
- The purchase of not more than 5 730 000 series A shares, whereof maximum 4 765 874 will be used for the transfer to performance stock option holders under the Performance Stock Option Plan 2010.
- The purchase of maximum 5% of all issued shares, excluding those shares held by the company at the time of the AGM on April 28, 2010, but including shares that the company will purchase based on mandates granted at that AGM.
- The sale of maximum 2 525 000 series A shares and maximum 2 400 000 series B shares held by the company at the time of the AGM 2010, for the purpose of covering costs of fulfilling obligations related to the performance stock option plans 2006–2008.

The mandates were valid until the 2011 AGM. In 2010, 2 543 576 series A shares and 651 106 were divested, whereas in the first quarter of 2011, 5 800 000 series A shares were repurchased while 290 761 series A shares and 121 160 series B shares respectively were sold under this resolution.

The 2009 AGM approved a mandate to repurchase on one or more occasions a maximum of 5 570 000 series A shares on the NASDAQ OMX Stockholm to be able to fulfill the obligations under the performance stock option plan 2009 and in relation to the synthetic shares offered as part of the Board remuneration.

The 2009 AGM also approved a mandate to sell a maximum of 1 445 000 series B shares held by Atlas Copco on NASDAQ OMX Stockholm on one or more occasions to cover costs, including social insurance charges, cash settlements, or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable, in accordance with the obligations in the 2006 and 2007 performance-based employee stock option plans. The mandates were valid until the 2010 AGM. No shares were repurchased or divested in 2009, whereas in the first quarter of 2010, 813 000 series A shares were repurchased while 19 584 series A shares and 65 261 series B shares respectively were sold under this resolution.

The series A shares are held for possible delivery under the 2006, 2007, 2008, 2009, 2010 and 2011 personnel stock option programs.

The total number of shares of series A and series B held by Atlas Copco are presented in the table on the previous page. The series B shares held can be divested over time to cover costs related to the personnel stock option programs.

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, translation of intra-group receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as from the translation of liabilities that hedge the company's net investments in foreign operations.

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 5.00 (4.00) totaling SEK 6 058 070 140 (4 851 952 608), if shares held by the company on December 31, 2011 are excluded. For further information see appropriation of profit on page 101.

The proposed dividend for 2010 of SEK 4.00 as approved by the AGM on April 21, 2011 was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 4 851 952 608.

21. Borrowings

	2011		2010	
	Carrying amount	Nominal amount	Carrying amount	Nominal amount
Non-current				
Medium Term Note Program	8 205	7 829	8 499	7 915
Other bond loans	7 258	6 511	7 169	6 407
Other bank loans	3 954	3 954	3 922	3 922
Less: current portion of bank loans	–2 664	–2 664	–37	–37
Total non-current loans	16 753	15 630	19 553	18 207
Finance lease liabilities	66	66	62	62
Other financial liabilities	194	194	–	–
	17 013	15 890	19 615	18 269
Current				
Current portion of bank loans	2 664	2 664	37	37
Short-term loans	718	718	417	417
Finance lease liabilities	40	40	45	45
	3 422	3 422	499	499
	20 435	19 312	20 114	18 768

See note 22 for information on finance leases.

Utilized borrowings

Atlas Copco has a long-term debt rating of A3 (A3) from Moody's Investor Service, Inc. and A (A–) from Standard & Poor's Corporation.

The Group has capital market loans outstanding consisting of a MSEK 3 000 5-year bond issue, whereof MSEK 487 have been repurchased, a MEUR 600 7-year bond issue, whereof MEUR 5 have been repurchased, a MUSD 800 10-year bond issue, and a MUSD 142.5 20-year bond issue. This is complemented by bilateral loans of MEUR 212 from the European Investment Bank and MEUR 100 and MSEK 705 from the Nordic Investment Bank.

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

Back-up credit facilities

In November 2011, Atlas Copco signed a 7-year MEUR 275 bilateral loan agreement with the European Investment Bank, on which drawdown of funds should take place before November 2012.

The company has one committed back-up credit line of MSEK 6 390 maturing 2017, and one of MUSD 1 000 maturing 2012. These lines have never been utilized.

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 MSEK 16 363 (16 196). As of December 31, 2011 and 2010 there were no outstanding balances under these programs. These programs have a K1 rating in Sweden and an A2/P2 rating internationally.

Fair value adjustments, currency and maturity structure

The difference between carrying amount and nominal amount on the borrowings is due to the fair value adjustment resulting from the decrease in market interest rates as compared to the nominal interest rates for the loans which are designated as hedged items in fair value hedges. Additional information about the Group's exposure to interest rate and foreign currency risk is detailed in note 27.

The Atlas Copco Group's short-term and long-term loans are distributed among the following currencies:

Distribution of current and non-current borrowings						
Currency	2011			2010		
	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	980	8 758	43	969	8 725	43
SEK	3 278	3 278	16	3 347	3 347	17
USD	1 072	7 406	36	1 079	7 333	36
Other		993	5		709	4
	20 435	100		20 114	100	

21. Continued

The following table shows the maturity structure of the Group's loans and includes the effect of interest rate swaps:

2011 Maturity	Fixed	Floating	Carrying value	Nominal amount
2012	2 540	842	3 382	3 354
2013	–	255	255	255
2014	5 665	1 924	7 589	7 240
2015	–	900	900	900
2016	–	748	748	748
2017	4 705	1 568	6 273	5 527
2018	–	1	1	1
2019	984	3	987	987
	13 894	6 241	20 135	19 012

22. Leases

Operating leases – lessee

The leasing costs of assets under operating leases amounted to 716 (688) and are derived primarily from rented premises, machinery, computer and office equipment. The office and factory facilities under operating leases typically run for a period of 10 to 15 years. The total leasing cost includes minimum lease payments of 683 (649), contingent rent 40 (45), and sub-lease payments received of 7 (6). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2011	2010
Less than one year	560	520
Between one and five years	1 086	979
More than five years	278	438
	1 924	1 937

The total of future minimum sublease payments expected to be received was 41 (46).

Future payments for assets, provided under finance leases as lessee, will fall due as follows:

	2011			2010		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	48	8	40	51	6	45
Between one and five years	73	8	65	68	8	60
More than five years	1	–	1	2	–	2
	122	16	106	121	14	107

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:

	2011	
--	------	--

23. Employee benefits

The net pension obligations have been recorded in the balance sheets as follows:		
	2011	2010
Financial assets (note 15)	-608	-590
Post-employment benefits	1 504	1 578
Other provisions (note 25)	76	63
Total, net	972	1 051

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 plans are Belgium, Canada, Germany, United Kingdom, Sweden, 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.

Asset returns improved on an overall basis in 2011, mainly due to United Kingdom and the United States exceeding the expected return on assets by 332. The discount rate used in 2011 was for most countries lower than the one used in 2010, which largely explained the increase of the net present value of the net obligations by 522 which mainly related to Sweden and United Kingdom. The effect on net present value of the net obligations due to new mortality tables implemented in Sweden and the United States was offset by the change in inflation indexation in United Kingdom.

In 2011, the Group divested an entity in Austria, resulting in a decrease of the defined liability obligation of 2.

In Ireland, the defined benefit pension scheme was closed which resulted in a settlement expense of 12.

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 two unfunded plans, a post-retirement benefit plan and a post-employment plan.

The German plans include those for pensions, early retirements, jubilee and death benefits. All plans are unfunded.

There is a final salary pension plan in United Kingdom and the plan is funded. In 2010, the plan was converted to a defined contribution plan for future services. The benefits earned in the defined benefit plan until the 2010 conversion represent the largest defined benefit obligation of all plans and represent 26% of the total defined benefit obligation of the Group.

In Sweden, there are three defined benefit pension plans. 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. 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 second plan relates to a group of employees earning more than 10 income base amounts who has opted out from the ITP plan. The plan is insured. The third defined benefit pension plan relates to former senior employees now retired.

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 543 (501). Of the total benefit expense of 288 (295), 178 (169) has been charged to operating expense and 110 (126) to financial expense.

Post-employment benefits				
2011	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	5 622	1 424	221	7 267
Fair value of plan				

23. Continued

Movement in plan assets	2011	2010
Fair value of plan assets at Jan. 1	5 064	4 852
Expected return on plan assets	211	212
Difference between expected and actual return on plan assets	332	289
Settlements	-77	-34
Employer contributions	357	140
Plan members contributions	16	17
Benefits paid by the plan	-407	-205
Translation differences	47	-207
Fair value of plan assets at Dec. 31	5 543	5 064

Plan assets consist of the following:	2011	2010
Equity securities	657	650
Bonds	3 466	3 675
Other	1 167	624
Cash	253	115
	5 543	5 064

The plan assets are allocated among the following geographic areas:	2011	2010
Europe	3 990	3 676
North America	1 520	1 358
Rest of the world	33	30
	5 543	5 064

Plan assets include 11 (18) of Atlas Copco AB series B shares. Plan assets do not include any property which is occupied by members of the Group.

Movement in the obligations for defined benefits	2011	2010
Defined benefit obligations at Jan. 1	6 725	6 695
Service cost	154	168
Interest expense	321	338
Actuarial experience gains (-) / losses (+)	-20	125
Actuarial assumptions gains (-) / losses (+)	542	256
Divestment of business	-2	-
Settlements	-77	-68
Benefits paid from plan or company assets	-407	-420
Other	-1	67
Translation differences	32	-436
Defined benefit obligations at Dec. 31	7 267	6 725

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:	2011	2010
Europe	5 412	5 004
North America	1 743	1 607
Rest of the world	112	114
	7 267	6 725

Expenses recognized in the income statement	2011	2010
Service cost	154	168
Interest expense	321	338
Expected return on plan assets	-211	-212

23. Continued

Assumed healthcare cost trend rates have a significant effect on the amounts recognized in profit and loss for post retirement medical plans. 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	8.8%	-7.1%
Effect on defined benefit obligation	6.0%	-8.0%

Historical information	2011	2010	2009	2008	2007
Present value of defined benefit obligations	7 267	6 725	6 695	6 741	6 288
Fair value of plan assets	5 543	5 064	4 852	4 863	4 936
Present value of net obligations	1 724	1 661	1 843	1 878	1 352

Experience adjustments relating to:	2011	2010	2009	2008	2007
Plan assets	332	289	-152	-293	-66
Plan liabilities	-20	125	-56	-33	16

The Group expects to pay 270 (309) in contributions to defined benefit plans in 2012.

Share value based incentive programs

In 2006, 2007, 2008, 2009 and 2010, the Annual General Meeting decided on performance based personnel stock option programs based on a proposal from the Board reflecting an option program for the respective years. In 2011, the Annual General Meeting decided on a performance based personnel stock option program for 2011 similar to the 2006, 2007, 2008, 2009 and 2010 programs.

Option programs 2006–2011

At the Annual General Meeting 2006, 2007, 2008, 2009, 2010 and 2011 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in May/June each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2011 option program, the number of options varies on a linear basis within a preset EVA interval. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options issued 2006–2008 remain the property of the employee also if the employment is terminated. For the 2009, 2010 and 2011 programs the options remain the property of the employee only to the extent they are exercisable at the time employment is terminated. The 2006–2009 programs have a term of five years from the issue date and the options are not transferable. The 2010 and 2011 programs have a term of five years from

the grant date and the options are not transferable. The options in the programs 2006–2009 are exercisable at a rate of one third per year, starting one year after the issue date. The options in the 2010 and 201

24. Other liabilities

	2011	2010
Current		
Derivatives		
– not designated for hedge accounting	224	127
– designated for hedge accounting	370	413
Financial liabilities classified as other liabilities		
– other operating liabilities	2 315	2 340
– accrued expenses	4 769	4 067
Advances from customers	2 724	2 166
Prepaid income	54	59
Deferred revenues service contracts	539	358
	10 995	9 530

Accrued expenses and prepaid income include items such as social costs, vacation pay liability, accrued interest and accrued operational expenses. See note 27 for additional information on valuation of derivatives.

25. Provisions

2011	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	906	84	1 140	2 130
During the year				
– provisions made	854	108	204	1 166
– provisions used	–715	–32	–406	–1 153
– provisions reversed	–118	–4	–137	–259
Business acquisitions	13	–	–	13
Translation differences	–2	–	–18	–20
Closing balance, Dec. 31	938	156	783	1 877
Non-current	84	39	548	671
Current	854	117	235	1 206
	938	156	783	1 877

2010	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	845	152	864	1 861
During the year				
– provisions made	893	53	607	1 553
– provisions used	–705	–93	–229	–1 027
– provisions reversed	–103	–20	–54	–177
Business acquisitions	42	1	–	43
Translation differences	–66	–9	–48	–123
Closing balance, Dec. 31	906	84	1 140	2 130
Non-current	122	45	688	855
Current	784	39	452	1 275
	906	84	1 140	2 130

2011, Maturity	Product warranty	Restructuring	Other	Total provisions
Less than one year	854	117	235	1 206
Between one and five years	83	4	472	559
More than five years	1	35	76	112
	938	156	783	1 877

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 replacements. As warranty periods are limited, the majority of the provision is classified as a current liability.

Provision for restructuring is recognized when the Group has approved a detailed formal restructuring plan and those affected by the plan have been informed. The amounts are based on management's best estimates and are adjusted when changes occurs. Restructuring provisions consist primarily of severance pay to employees and costs for closure of facilities.

Other provisions consist primarily 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

	2011	2010
Assets pledged for debts to credit institutions and other commitments		
Real estate mortgages	36	11
Endowment insurances	55	52
	91	63

	2011	2010
Contingent liabilities		
Notes discounted	16	20
Sureties and other contingent liabilities	97	93
	113	113

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

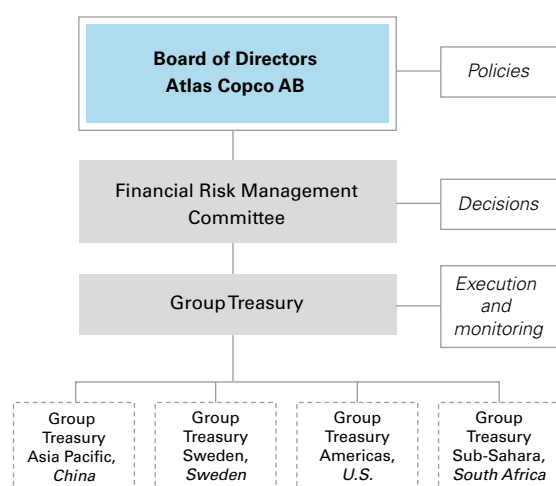
Atlas Copco Group Treasury has the operational responsibility for financial risk management in the Group. The establishment of the overall policies and systems to ensure the monitoring and management of the Group's financial risk is the responsibility of the Financial Risk Management Committee (FRMC). These risks include:

- Funding and liquidity risk
- Interest rate risk
- Currency risk
- Credit risk
- Pension 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. Compliance with the policies are followed up by Group Treasury and reported to the FRMC on a quarterly basis. Deviations are reported immediately.

In its management of financial risks, the Group uses 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 profit or loss that can result from fair-value adjustments. In those cases where hedge accounting is not applicable, the Group receives the benefits of an economic hedge, but earnings may be affected by fair value adjustments during the term of the financial instruments.

The members of the FRMC are the CEO, CFO, Group Treasurer and Group Treasury Controller. Representatives from other functions may participate to discuss specific risks. The FRMC meets on a quarterly basis or more often if circumstances require.



Funding risk

Funding risk is the risk that the Group and its subsidiaries do not have access to adequate financing on acceptable terms at any given point in time. As per December 31, cash and cash equivalents totaled 5 716 (14 264). The overall liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalent as of year end, and available back-up credit facilities from banks.

Group funding risk policy

- The Group should maintain a minimum of MSEK 6 000 committed credit facilities to meet operational and strategic objectives (actual: 15 757).
- The average tenor (i.e. time until maturity) of Atlas Copco AB's external debt should be at least 3 years (actual: 3.4 years).
- No more than MSEK 5 000 of Atlas Copco AB's external debt may mature within the next 12 months (actual: 2 513).

At year end 2011, the main back-up credit facilities available to the Group were:

- MUS\$ 1 000 committed revolving credit facility (by ten commercial banks) with maturity in April 2012. 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. The facility has never been utilized.
- MSEK 6 390 committed facility (by three commercial banks) with maturity in September 2017. The interest expense for using the facility is the applicable IBOR plus 0.90%. The facility has never been utilized.
- MEUR 275 committed facility (by the European Investment Bank) with maturity 7 years after drawdown. The facility is cancelled unless drawn upon before December 31, 2012. No additional drawings can be done after this date even if the facility only has been partially utilized.
- Uncommitted 1-year commercial paper facilities in EUR, SEK and USD totaling 16 363 (16 196) (MSEK equivalent). No amounts were utilized at year end 2011. The costs for utilizing these facilities depend on the market at the time of utilization.

The following table shows the maturity structure of the Group's financial assets and liabilities, the interest amount included totals MSEK 3 608, where of 1 098 is added to the assets and 2 510 to the liabilities.

The figures shown are contractual undiscounted cash flows based on contracted date when the Group is liable to pay or eligible to receive, and includes both interest and nominal amounts.

Future interest flows at variable rates are estimated using the current interest rate on the closing date. Currency rates are based on balance sheet rate at year end.

For additional information about the Group's maturity structure of borrowings see note 21.

27. Continued

Financial Instruments	up to 1 year	1-5 years	Over 5 years
Assets			
Financial assets		2 299	95
Other receivables		94	
Derivatives		3	281
Non-current financial assets	–	2 396	376
Trade receivables	16 783		
Financial assets	2 298		
Other receivables	2 115		
Derivatives	507		
Other accrued income	1 005		
Cash and cash equivalents	5 716		
Current financial assets	28 424	–	–
Financial assets	28 424	2 396	376
Liabilities			
Liabilities to credit institutions		17 513	1 152
Other financial liabilities		194	
Derivatives		21	
Other liabilities		234	
Non-current financial liabilities	–	17 962	1 152
Liabilities to credit institutions	718		
Current portion of interest-bearing liabilities	3 368		
Derivatives	594		
Other accrued expenses	4 769		
Trade payables	7 696		
Other liabilities	2 315		
Current financial liabilities	19 460	–	–
Financial liabilities	19 460	17 962	1 152

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 interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 36 months, with a benchmark of 12 months. Atlas Copco generally favors a short interest rate duration (variable rate) which results in more volatility in net interest expense as compared to long duration (fixed rate). 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.

To convert fixed to variable interest rates, the Group has entered into interest rate swaps designated as hedging instruments, with notional amount of MUSD 200 (unchanged from previous year). Including the effect of the derivatives, the effective interest rate and interest duration of the Group's borrowings at year end 2011 was 2.9% (2.7) and 2.3 years (2.9) respectively.

Excluding any derivatives, the Group's effective interest rate was 4.7% (4.6) and the average interest duration was 2.6 years (3.3). 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 the Group's loan portfolio (including derivatives) by approximately 468 (558) as per December 31 and increased the interest costs with 44 (46).

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.

Group currency risk policy

a) Transaction exposure

Due to Atlas Copco's presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies are created. The value of these net positions fluctuates with the changes in currency rates and, thus, a transaction exposure is created. The largest operational surplus and deficit currencies are shown in Graph 1.

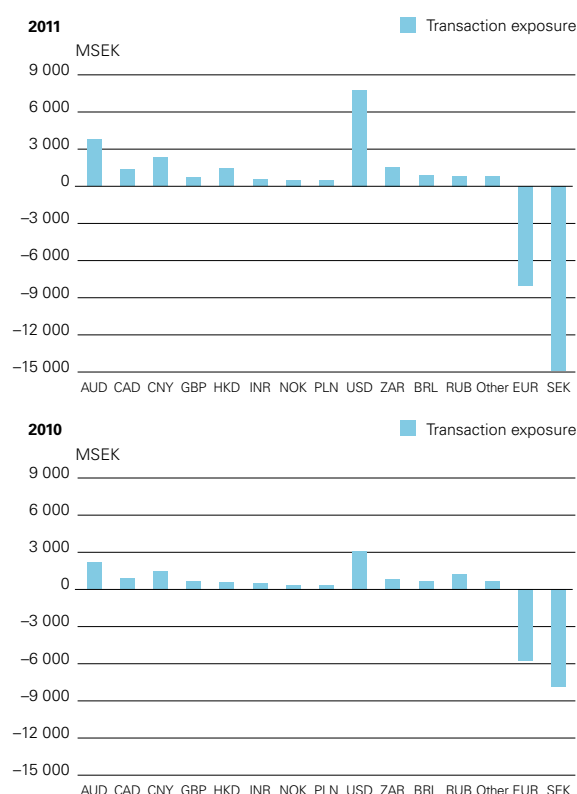
The amounts presented in Graph 1 are based on the Group's inter-company payments, as these for most currencies are reasonable estimates of the external flows, and on the external payment flows from customers and to suppliers in the most significant currencies. The total operational transaction exposure, measured in SEK is MSEK 14 936 (7 854), calculated as the net operational exposed flows per currency.

The following describes the Group's general policies for managing transaction exposure:

- Exposures should be reduced by matching in- and outflows of the same currencies.
- Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements. Business areas and divisions should normally not hedge currency risks. 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 recommend transaction exposures to be hedged on an ongoing basis. The FRMC decides from time to time if parts of the transaction exposure should be hedged. In accordance with the above, Atlas Copco has entered into foreign currency forwards which are designated as hedging instruments in an operational cash flow hedge. As part of the normal business operations, the hedged cash flows are received or paid and the currency effects recorded in earnings. The related hedging instruments mature on a monthly basis and the effective portion is recognized in equity through other comprehensive income until the forecasted transaction affects profit or loss. The amount recognized in equity is then recycled to profit or loss thus offsetting the effects of the hedged cash flows for the respective period. The hedge ratio at December 31 was 7.1% (6.0).

Graph 1

Estimated operational transaction exposure in the Group's most important currencies 2011 and 2010



27. Continued

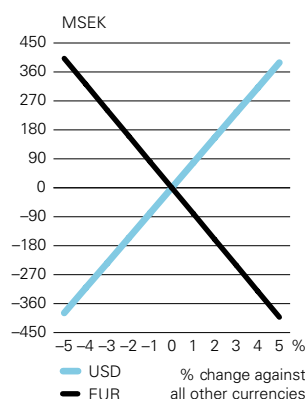
The fair value of the outstanding foreign currency forwards at December 31 was -45 (-1). A net realized result for currency hedging of 15 (22) was included in earnings during 2011.

Graph 2 illustrates the effect on the Group pre-tax earnings of one-sided fluctuation in USD and EUR exchange rates if no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The graph indicates e.g. that the Group's pre-tax earnings of estimated net USD flows would decrease by approximately 400 (200) if the USD would weaken by 5%.

A one percentage point weakening of the SEK against all other currencies would have increased the fair value of the loan portfolio by 130 (144). The impact on the net income would be very limited as substantially all of the Group's loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income (see also note 1, Accounting principles, Financial assets and liabilities). The same change would have an impact of 124 on other comprehensive income.

Atlas Copco also has a MUSD 700 forward contract which is designated as a hedge of the cash flow risk arising from a certain intercompany loan and classified as financial items. At December 31, the fair value of the forward contract was -325 (-388) accounted for through other comprehensive income. The cash flows related to the repayment of the loan and the maturity of the forward contract will occur in 2013.

Graph 2
Operational transaction exposure effect
of EUR and USD before hedging



b) Translation exposure

Atlas Copco's worldwide presence creates a currency effect when all entities with functional currencies other than SEK are translated to SEK when preparing the consolidated financial 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:

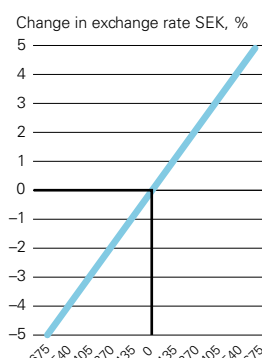
- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge part or all of the remaining translation exposure.

To reduce the translation exposure on net investments in USD and EUR in the consolidated financial statements and the exchange rate risk related to net assets in subsidiaries, Atlas Copco uses loans and derivatives which are designated as net investment hedges in the consolidated financial statements. The Group has a cross currency swap used to economically convert an underlying MUSD 800 loan to a EUR liability. Including the MUSD 800 loan converted to EUR, the external loans used to hedge EUR-denominated net assets amount to MEUR 1 473 (1 483). As of December 31, the change in fair value of the EUR-denominated hedging instruments was 135 (-42), of which currency effect was 685 (541). Atlas Copco also uses loans totaling MUSD 58 (58) to hedge the corresponding net assets in USD. The fair value of the USD-denominated hedging instruments as of December 31, 2011 was -122 (-82). The following table shows the amounts of the fair value adjustments included in other comprehensive income during the year, excluding amounts reclassified to profit or loss:

Net investment hedge	Other comprehensive income	
	2011	2010
Equity	-93	2 032
Loans and forward contracts realized and unrealized	93	-2 032
	-	-

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

Graph 3
Translation effect on earnings before tax



Credit risk

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

The table below shows the actual exposure of financial instruments as at December 31:

Credit risk	2011	2010
Loans and receivables		
– trade receivables	16 877	13 323
– finance lease receivables	1 063	910
– other financial receivables	2 250	1 801
– other receivables	2 115	2 068
– accrued income	1 005	405
– cash and cash equivalents	5 716	14 264
Held to maturity investments	278	413
Available-for-sale assets	3	509
Derivatives	791	560
	30 098	34 253

Group operational credit risk policy

Operational credit risk can be divided into commercial and political credit risk.

a) Group commercial risk policy

Commercial risk is the risk that the Group's customers will not meet their payment obligations. The Group's 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 has during the past years established an in-house customer finance operation (Atlas Copco Customer Finance) as a means of broadening its offering to customers. At December 31, the credit portfolio of their customer finance operations totaled approximately 3 233 (2 466) consisting of 127 (64) reported as trade receivables, 1 062 (907) reported as financial lease receivables, 2 044 (1 495) reported as other financial receivables. In addition, Atlas Copco Customer Finance also has non-cancelable operating lease contracts of 682 (461). There were no concentrations of customer risks in these operations. For further information, see note 22.

The Group maintains collateral for its credit portfolio primarily through repossession rights in equipment when mid- or long-term

27. Continued

financing is provided to the customer (normally through Atlas Copco Customer Finance). Business units may also, partly, 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's political risk policy is that political risks should be monitored and managed on a group level, based on country risk ratings. The Group generally retains most political risks since the sales are dispersed around the world and the Group has historically only experienced insignificant losses due to political risk. However, for countries with ratings of 5 to 7 (Atlas Copco country ratings generally coincide with the ratings of Swedish Export Credits Guarantee Board, EKN) the policy is to purchase political risk insurance.

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 2011, the provision for bad debt amounted to 4.0% (4.7) of gross total customer receivables.

The following tables present the gross value of trade, finance lease and other financial receivables by ageing category together with the related impairment provisions:

Trade receivables	2011		2010	
	Gross	Impairment	Gross	Impairment
Not past due	12 207	20	9 728	7
Past due but not impaired				
0–30 days	2 697		2 004	
31–60 days	824		717	
61–90 days	386		321	
More than 90 days	1 057		869	
Past due and individually impaired				
0–30 days	84	4	26	3
31–60 days	37	4	35	7
61–90 days	17	7	17	9
More than 90 days	273	239	265	223
Collective impairment		431		410
	17 582	705	13 982	659

The total estimated fair value of collateral for trade receivables amounts to 735 (756). Approximately 50% of collateral consisted of repossession rights and 50% of export credit insurance. Based on historical default statistics and the diversified customer base the credit risk is assessed to be limited.

Finance lease receivables	2011		2010	
	Gross	Impairment	Gross	Impairment
Not past due	1 068	10	909	6
Past due but not impaired				
0–30 days	2		2	
Past due and individually impaired				
0–30 days			1	1
31–60 days	1		1	
61–90 days	1		1	
More than 90 days	3	2	8	4
Collective impairment				1
	1 075	12	922	12

Other financial receivables	2011		2010	
	Gross	Impairment	Gross	Impairment
Not past due	2 229	18	1 763	10
Past due but not impaired				
0–30 days	4		6	
31–60 days			1	
61–90 days	1			
Past due and individually impaired				
0–30 days	2		8	2
31–60 days	11	2	4	1
61–90 days	10	4	5	1
More than 90 days	42	23	67	39
Collective impairment		2		
	2 299	49	1 854	53

Most of financial lease receivables and other financial receivables are related to the Atlas Copco Customer Finance. The total estimated fair value of collateral to finance lease receivables and other finance receivables was 680 (627) and 1 635 (1 170), respectively, consisting primarily of repossession rights.

Provisions for bad debts, trade	2011	2010
Provisions at Jan. 1	659	621
Business acquisitions	26	17
Provisions recognized for potential losses	366	401
Amounts used for established losses	–215	–158
Release of unnecessary provisions	–124	–177
Change in discounted amounts	–4	–3
Translation differences	–3	–42
Provisions at Dec. 31	705	659

Impairment of finance lease receivables	2011	2010
Provisions at Jan. 1	12	24
Provisions recognized for potential losses	12	9
Amounts used for established losses	–7	–18
Release of unnecessary provisions	–5	–3
Provisions at Dec. 31	12	12

Impairment of other financial receivables	2011	2010
Provisions at Jan. 1	53	82
Provisions recognized for potential losses	14	17
Amounts used for established losses	–13	–31
Release of unnecessary provisions	–5	–15
Provisions at Dec. 31	49	53

Group financial credit risk policy

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 derivative transactions.

a) Investment transactions

Efficient cash management systems should be maintained in order to minimize excess cash in the operations that cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if the credit rating (as rated by Standard & Poor's or Moody's) of the approved counterpart or underlying investment is at least A-/A3 in case of financial counterparties, funds or sovereigns and BBB-/Baa3 in case of non-financial counterparties. Investments in structured financial derivatives are not allowed even if they meet the rating criteria unless approved by the FRMC. Other criteria which are considered when investing include limiting the exposure with any single counterparty, the tenor and liquidity of the investment. A list of approved counterparts is maintained.

27. Continued

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 2011, 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 796 (490).

Derivative transactions may only be entered into by Group Treasury or, in rare cases by another entity, but only after the approval of Group Treasury. Atlas Copco primarily uses derivatives only as hedging instruments and the policy allows only standardized (as opposed to structured) derivatives.

Outstanding derivative instruments related to financial exposures	2011	2010
Cross currency swaps		
Assets	467	298
Liabilities	–	–
Interest rate swaps		
Assets	283	212
Liabilities	–10	–20
Foreign exchange forwards		
Assets	34	26
Liabilities	–536	–507
Outstanding derivative instruments related to operational exposures	2011	2010
Assets	7	24
Liabilities	–49	–25

Pension risk

Pension risk is the risk that the Group is negatively affected by changes in the values of pension assets and liabilities.

The Group had funded defined pension benefit plan assets totaling 5 543 (5 064) at year end 2011. The pension investment policy gives guidelines regarding the investment of these funds and is as follows:

- The assets should be invested with low risk.
- 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.

See note 23 for information on pension assets and liabilities.

Other market/price risk

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The group is directly and indirectly exposed to raw material prices. Cost increases for raw materials and component often coincide with strong end-customer demand and is offset by increased sales to mining customers and compensated for by increased market prices.

During 2011, Atlas Copco sold all remaining available for sale assets representing 7 607 759 shares in RSC Holdings Inc for net proceeds of 591. The market value of the shares at year end 2010 was 504. See also note 9.

Guarantees

At December 31, the Group had approximately 95 (267) of financial guarantees issued for the benefit of third parties, which is generally provided to facilitate customer financing of sales of Group products. As those guaran-

tees do not represent any risk for the Group, the guarantees' fair value reported in the balance sheet at December 31 is 0 (0). The fair value is estimated based on experience with similar transactions and history of past losses. In connection with some commercial transactions made in the ordinary course of business, e.g. public bidding processes, the Group also provides performance guarantees for its own account.

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled 49 211 (49 435). 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 about 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, distributions of "excess" (in relation to e.g. rating and strategic objectives) equity to the shareholders through share redemptions, and share repurchases.

The Group's long-term interest-bearing debt has had the same A-/A3 ratings from Standard & Poor's and Moody's respectively since 1999, but was during 2011 upgraded by Standard & Poor's to A. The short-term debt is rated A2/P2. The outstanding loans of the Group at December 31 are shown in note 21.

Fair value of assets and liabilities

Fair values are based on observable market prices or, in the case that such prices are not available, on observable inputs or other valuation techniques. Amounts shown are unrealized and will not necessarily be realized.

Level 1 includes all assets and liabilities to fair value where the instrument itself is quoted on an active market. As Atlas Copco only uses so called "plain vanilla" instruments (i.e. straight-forward, basic derivatives) in its hedging activities, all interest and currency rates used for valuation are directly observable in active markets. See also table below.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

Interest-bearing liabilities

Fair values are calculated based on market rates and present value of future cash flows.

Finance leases and other financial receivables

Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

Equity holdings

Fair values are based on share price and exchange rates at year end, see table below.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2011	Level 1	Level 2	Total	2010	Level 1	Level 2	Total
Available-for-sale assets			–	Available-for-sale assets	504		504
Derivatives		791	791	Derivatives		560	560
Financial assets	–	791	791	Financial assets	504	560	1 064
Derivatives		615	615	Derivatives		552	552
Financial liabilities	–	615	615	Financial liabilities	–	552	552

27. Continued

The Group's financial instruments per category

The following tables show the Group's financial instruments per category at December 31, 2011 and 2010:

2011							
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
Financial assets			1 715	103	3	1 821	1 821
Other receivables			94			94	94
Derivatives	281	3				284	284
Non-current financial assets	281	3	1 809	103	3	2 199	2 199
Trade receivables			16 783			16 783	16 783
Financial assets			1 598	175		1 773	1 773
Other receivables			2 115			2 115	2 115
Derivatives	467	40				507	507
Other accrued income			1 005			1 005	1 005
Cash and cash equivalents			5 716			5 716	5 716
Current financial assets	467	40	27 217	175	–	27 899	27 899
Financial assets	748	43	29 026	278	3	30 098	30 098

2010							
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
Financial assets			1 231	159	509	1 899	1 899
Other receivables			5			5	5
Derivatives	206	6				212	212
Non-current financial assets	206	6	1 236	159	509	2 116	2 116
Trade receivables			13 318			13 318	13 318
Financial assets			1 480	254		1 734	1 734
Other receivables			2 068			2 068	2 068
Derivatives	321	27				348	348
Other accrued income			405			405	405
Cash and cash equivalents			14 264			14 264	14 264
Current financial assets	321	27	31 535	254	–	32 137	32 137
Financial assets	527	33	32 771	413	509	34 253	34 253

27. Continued

2011					
Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			16 819	16 819	18 527
Other financial liabilities			194	194	194
Derivatives		21		21	21
Other liabilities			234	234	234
Non-current financial liabilities	–	21	17 247	17 268	18 976
Liabilities to credit institutions			718	718	718
Current portion of interest-bearing liabilities			2 704	2 704	2 704
Current financial interest-bearing liabilities	–	–	3 422	3 422	3 422
Derivatives	370	224		594	594
Other accrued expenses			4 769	4 769	4 769
Trade payables			7 696	7 696	7 696
Other liabilities			2 315	2 315	2 315
Current financial liabilities	370	224	14 780	15 374	15 374
Financial liabilities	370	245	35 449	36 064	37 772

2010					
Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 615	19 615	21 125
Derivatives		12		12	12
Other liabilities			171	171	171
Non-current financial liabilities	–	12	19 786	19 798	21 308
Liabilities to credit institutions			417	417	417
Current portion of interest-bearing liabilities			82	82	82
Current financial interest-bearing liabilities	–	–	499	499	499
Derivatives	413	127		540	540
Other accrued expenses			4 067	4 067	4 067
Trade payables			6 398	6 398	6 398
Other liabilities			2 340	2 340	2 340
Current financial liabilities	413	127	12 805	13 345	13 345
Financial liabilities	413	139	33 090	33 642	35 152

Currency rates used in the financial statements						
	Value	Code	Year-end rate		Average rate	
			2011	2010	2011	2010
Australia	1	AUD	7.01	6.92	6.72	6.61
Canada	1	CAD	6.77	6.80	6.55	6.96
EU	1	EUR	8.94	9.00	9.02	9.57
Hong Kong	100	HKD	88.92	87.33	83.30	92.79
United Kingdom	1	GBP	10.66	10.53	10.37	11.15
U.S.A.	1	USD	6.91	6.80	6.48	7.21

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates and with its Board members and Group Management. The Company's largest shareholder, the Investor Group, controls approximately 22% of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A20 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A21. Information about associated companies is found in note 14. Information about Board members and Group Management is presented on pages 126–129 and pages 132–134.

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 may have transactions within 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 associates:

	2011	2010
Revenues	16	19
Goods purchased	67	51
Services purchased	29	32
At Dec. 31:		
Trade receivables	13	10
Trade payables	7	11
Other liabilities	2	–
Other interest-bearing liabilities	9	–
Guarantees	10	10

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.

Financial statements, Parent Company

Income statement

For the year ended December 31,			
Amounts in MSEK	Note	2011	2010
Administrative expenses	A2	-392	-397
Other operating income	A3	181	147
Other operating expenses	A3	-8	-6
Operating loss		-219	-256
Financial income	A4	12 048	8 394
Financial expense	A4	-2 675	-1 592
Profit before tax		9 154	6 546
Income tax	A5	-946	-721
Profit for the year		8 208	5 825

Statement of comprehensive income

For the year ended December 31,			
Amounts in MSEK	Note	2011	2010
Profit for the year		8 208	5 825
Other comprehensive income			
Translation of net investment		152	3 154
Other comprehensive income of the year, net of tax		152	3 154
Total comprehensive income for the year	Page 86	8 360	8 979

Balance sheet

As at December 31,			
Amounts in MSEK	Note	2011	2010
ASSETS			
Non-current assets			
Intangible assets	A6	24	29
Tangible assets	A7	46	31
Financial assets			
Deferred tax assets	A8	-	-
Shares in Group companies	A9, A20	91 298	90 110
Other financial assets	A10	822	986
Total non-current assets		92 190	91 156
Current assets			
Income tax receivables		-	62
Other receivables	A11	9 237	6 760
Cash and cash equivalents	A12	2 788	10 813
Total current assets		12 025	17 635
TOTAL ASSETS		104 215	108 791
EQUITY			
	Page 86		
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		1 816	1 664
Retained earnings		27 486	33 633
Profit for the year		8 208	5 825
Total non-restricted equity		37 510	41 122
TOTAL EQUITY		43 295	46 907
PROVISIONS			
Post-employment benefits	A14	74	76
Other provisions	A15	274	358
Deferred tax liabilities	A8	629	600
Total provisions		977	1 034
LIABILITIES			
Non-current liabilities			
Borrowings	A16	49 557	48 377
Other liabilities		21	12
Total non-current liabilities		49 578	48 389
Current liabilities			
Borrowings	A16	8 343	11 319
Income tax liabilities		894	-
Other liabilities	A17	1 128	1 142
Total current liabilities		10 365	12 461
TOTAL EQUITY AND LIABILITIES		104 215	108 791
Assets pledged	A19	55	52
Contingent liabilities	A19	410	525

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, 2011	1 218 376 231	786	4 999	1 664	39 458	46 907
Total comprehensive income for the year				152	8 208	8 360
Dividends*					–4 851	–4 851
Redemption of shares		–393			–5 674	–6 067
Increase of share capital through bonus issue		393			–393	–
Acquisition series A shares	–9 169 360				–1 368	–1 368
Divestment series A shares	2 006 570				309	309
Divestment series B shares	400 587				54	54
Share-based payment, equity settled						
– expense during the year					34	34
– exercise of options					–83	–83
Closing balance, Dec. 31, 2011	1 211 614 028	786	4 999	1 816	35 694	43 295
Opening balance, Jan. 1, 2010	1 215 909 704	786	4 999	–1 490	36 973	41 268
Total comprehensive income for the year				3 154	5 825	8 979
Dividends					–3 646	–3 646
Acquisition series A shares	–813 000				–88	–88
Divestment series A shares	2 563 160				379	379
Divestment series B shares	716 367				93	93
Share-based payment, equity settled						
– expense during the year					24	24
– exercise of options					–102	–102
Closing balance, Dec. 31, 2010	1 218 376 231	786	4 999	1 664	39 458	46 907

* Net of dividend repaid of 1.

See note A13 for additional information.

Statement of cash flows

For the year ended December 31,		
Amounts in MSEK	2011	2010
Cash flows from operating activities		
Operating loss	–219	–256
Adjustments for:		
Depreciation	7	8
Capital gain/loss and other non-cash items	–139	–58
Operating cash surplus	–351	–306
Net financial items received/paid	7 483	4 489
Taxes paid	–9	–8
Cash flow before change in working capital	7 123	4 175
Change in		
Operating receivables	–360	822
Operating liabilities	–204	–183
Change in working capital	–564	639
Net cash from operating activities	6 559	4 814

For the year ended December 31,		
Amounts in MSEK	2011	2010
Cash flow from investing activities		
Investments in tangible assets	–30	–16
Investments in subsidiaries	–1 216	–118
Divestment of subsidiaries/repatriation of equity	–	2
Investments in financial assets	237	–33
Net cash from investing activities	–1 009	–165
Cash flow from financing activities		
Dividends paid	–4 851	–3 646
Redemption of shares	–6 067	–
Repurchase and divestment of own shares	–1 005	384
Change in interest-bearing liabilities	–1 652	162
Net cash from financing activities	–13 575	–3 100
Net cash flow for the year	–8 025	1 549
Cash and cash equivalents, Jan. 1	10 813	9 264
Net cash flow for the year	–8 025	1 549
Cash and cash equivalents, Dec. 31	2 788	10 813

Notes to the 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 administrative functions, holding company functions as well as part of Group Treasury.

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities" (September 2011), hereafter referred to as "RFR 2", issued by the Swedish Financial Reporting Board. In accordance with RFR 2, 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 RFR 2 due to Swedish tax legislation.

The financial statements are presented in Swedish kronor (SEK), rounded to the nearest million. The parent company's accounting principles have been consistently applied to all periods presented unless otherwise stated. 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 sections.

For discussion regarding accounting estimates and judgments, see page 53.

Changes in accounting principles

According to RFR 2 the parent company has in 2011 changed its accounting principle, with retrospective application, for paid group contribution from being recognized in other comprehensive income to being recognized as financial items in the income statement. Comparable figures for 2010 have been adjusted accordingly, where financial items were negatively affected by 221 and tax costs decreased by 58.

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 gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and expenses, except for exchange rate differences on intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation which are reported in other comprehensive income.

Exchange rates for major currencies used in the year-end accounts are shown in note 27 to the consolidated financial statements.

Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. 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, for further details.

Transaction costs incurred in connection with a business combination are by the Parent Company accounted for as part of the acquisition costs and are not expensed.

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 profit or loss as they occur.

Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but as an increase of Shares in Group companies. This increase is accrued over the same period as in the Group and with a corresponding increase in Equity for equity-settled programs and as an increase in liabilities for cash-settled programs.

Financial guarantees

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 recorded.

Hedge accounting

External 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.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss.

Group and shareholder's contributions

In Sweden, Group contributions are deductible for tax purposes but shareholder's contributions are not. Group contributions are accounted for to reflect the substance of the transactions.

Shareholder's contributions are capitalized as investments in subsidiaries, in the Parent Company's balance sheet, subject to impairment tests.

Group contributions received are classified as dividends and included in profit or loss. Group contributions paid by the Parent Company are from 2011, with retrospective application, recognized as financial items in the income statement.

A2. Employees and personnel expenses and remunerations to auditors

	Average number of employees					
	2011			2010		
	Women	Men	Total	Women	Men	Total
Sweden	58	48	106	56	45	101

Women in Atlas Copco Board and Management, %			Dec. 31, 2011	Dec. 31, 2010
Board of Directors excl. union representatives			33	33
Group Management			22 ¹⁾	25

¹⁾ Average 24%

	Salaries and other remuneration			
	2011		2010	
	Board members and Group Management ¹⁾	Other employees	Board members and Group Management ¹⁾	Other employees
Sweden	44	77	69	79
of which variable compensation	12		32	

¹⁾ Includes 9 (9) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 7 (6) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of the Group Management, see note 5 to the consolidated financial statements.

Pension benefits and other social costs	2011	2010
Contractual pension benefits for Board members and Group Management	9	8
Contractual pension benefits for other employees	16	24
Other social costs	49	58
	74	90
Capitalized pension obligations to Board members and Group Management	15	23

Remunerations to auditors

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

	2011	2010
Deloitte		
– audit fee	6	6
– other	3	1
	9	7

At the Annual General Meeting in 2010, Deloitte was elected as auditor for the Parent Company for a four year period.

Other fees are primarily consultancy for tax and accounting matters.

A3. Other operating income and expenses

	2011	2010
Commissions received	181	147
Total other operating income	181	147
Exchange-rate differences, net	–8	–6
Total other operating expenses	–8	–6

A4. Financial income and expense

	2011	2010
Financial income		
Interest income		
– bank deposits	158	73
– Group companies	212	153
Dividend income from Group companies	5 640	4 099
Group contribution, received	6 005	4 028
Foreign exchange gain, net	31	39
Change in fair value		
– ineffective part of fair value hedge	2	–
Capital gain		
– gain on divestment of shares in Group companies	–	2
Financial income	12 048	8 394
Financial expense		
Interest expense		
– financial liabilities measured at amortized cost	–606	–711
– derivatives for fair value hedge	–126	193
– Group companies	–1 665	–808
– pension provision, net	–1	–1
Group contribution, paid	–268	–221
Change in fair value		
– ineffective part of fair value hedge	–	–2
– related to other liabilities	–9	–41
Impairment loss		
– writedown of shares in Group companies	–	–1
Financial expense	–2 675	–1 592
Net finance income	9 373	6 802

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

	2011	2010
Total interest income on financial assets	370	226
Total interest expense on financial liabilities	–2 272	–1 519

The following table presents the net gain or loss by financial instrument category:

	2011	2010
Net gain/loss on		
– loans and receivables, incl bank deposits	401	264
– other liabilities	–2 281	–1 560
– fair value hedge	–124	191
Profit from shares in Group companies	11 377	7 907
	9 373	6 802

For further information on the hedges, see note 27 of the consolidated financial statements, section hedge accounting.

A5. Income tax

	2011	2010
Current tax	–971	–16
Deferred tax	25	–705
	–946	–721
The Swedish corporate tax rate, %	26.3	26.3
Profit before taxes	9 154	6 546
National tax based on profit before taxes	–2 408	–1 722
Tax effects of:		
Non-deductible expenses	–7	–34
Tax exempt income	1 483	1 079
Deductible expenses, not recognized in Income statement	28	–
Prior year adjustment, deferred tax	7	–3
Controlled Foreign Company taxation	–42	–41
Adjustments from prior years	–7	–
	–946	–721
Effective tax in %	10.3	11.0

The Parent Company's effective tax rate of 10.3% (11.0) is primarily affected by non-taxable dividends.

A6. Intangible assets

	Capitalized expenditures for computer programs	
	2011	2010
Accumulated cost		
Opening balance, Jan. 1	36	42
Investments	0	–
Disposals	–	–6
Closing balance, Dec. 31	36	36
Accumulated depreciation		
Opening balance, Jan. 1	7	3
Depreciation for the year	5	4
Closing balance, Dec. 31	12	7
Carrying amount		
Closing balance, Dec. 31	24	29
Opening balance, Jan 1	29	39

A7. Tangible assets

	2011				2010			
	Buildings and land	Machinery and equipment	Construction in progress	Total	Buildings and land	Machinery and equipment	Construction in progress	Total
Accumulated cost								
Opening balance, Jan. 1	4	22	24	50	4	37	9	50
Investments	–	17	13	30	–	1	15	16
Reclassifications	23	8	–31	–	–	–	–	–
Disposals	–4	–9	–6	–19	–	–16	–	–16
Closing balance, Dec. 31	23	38	–	61	4	22	24	50
Accumulated depreciation								
Opening balance, Jan. 1	4	15	–	19	3	28	–	31
Depreciation for the year	1	1	–	2	1	3	–	4
Disposals	–4	–2	–	–6	–	–16	–	–16
Closing balance, Dec. 31	1	14	–	15	4	15	–	19
Carrying amount								
Closing balance, Dec. 31	22	24	–	46	–	7	24	31
Opening balance, Jan. 1	–	7	24	31	1	9	9	19

The asset Buildings and land relates to improvements in leased properties. Depreciation is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 25 (15). Future payments for non-cancelable leasing contracts amounted to 269 (250) and fall due as follows:

	2011	2010
Less than one year	29	22
Between one and five years	113	120
More than five years	127	108
	269	250

A8. Deferred tax assets and liabilities

	2011			2010		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Fixed assets	0	–	0	1	–	1
Post-employment benefits	19	–	19	19	–	19
Other provisions	16	–	16	9	–	9
Non-current liabilities	–	–664	–664	–	–629	–629
	35	–664	–629	29	–629	–600

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

	2011	2010
Net balance, Jan. 1	–600	1 230
Charges to other comprehensive income	–54	–1 125
Charges to profit for the year	25	–705
Net balance, Dec. 31	–629	–600

A9. Shares in Group companies

	2011	2010
Accumulated cost		
Opening balance, Jan. 1	90 634	91 065
Investments	991	51
Net investment hedge	–40	–761
Shareholder's contribution	237	281
Disposals	–	–2
Closing balance, Dec. 31	91 822	90 634
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	600	600
Accumulated write-down		
Opening balance, Jan. 1	–1 124	–1 123
Write-down	–	–1
Closing balance, Dec. 31	–1 124	–1 124
	91 298	90 110

For further information about Group companies, see note A20.

A10. Other financial assets

	2011	2010
Receivables from Group companies	417	697
Derivatives		
– not designated for hedge accounting	3	6
– designated for hedge accounting	281	206
Endowment insurances	55	52
Other long-term receivables	66	25
	822	986

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A14 and A19).

A11. Other receivables

	2011	2010
Receivables from Group companies	8 582	6 117
Derivatives		
– not designated for hedge accounting	40	24
– designated for hedge accounting	467	321
Other receivables	91	227
Prepaid expenses and accrued income	57	71
	9 237	6 760

A12. Cash and cash equivalents

	2011	2010
Cash	202	84
Cash equivalents	2 586	10 729
	2 788	10 813

The Parent Company's guaranteed, but unutilized, credit lines equalled 15 757 (13 188).

A13. Equity

Shares outstanding, 2011	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104
Split of shares 2:1	839 394 096	390 219 008	1 229 613 104
	1 678 788 192	780 438 016	2 459 226 208
Redemption of shares	-824 811 735	-388 682 016	-1 213 493 751
Redemption of shares held by Atlas Copco	-14 582 361	-1 536 992	-16 119 353
Total number of shares, Dec. 31	839 394 096	390 219 008	1 229 613 104
– of which held by Atlas Copco	-16 687 630	-1 311 446	-17 999 076
Total shares outstanding, Dec. 31	822 706 466	388 907 562	1 211 614 028

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 (0.64). 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.

Atlas Copco generated significant cash flows during the financial crisis and in 2010, resulting in a strong financial position. To adjust the Group's capital structure without jeopardizing the capacity to finance further growth, the 2011 Annual General Meeting approved a redemption procedure and the following transactions were performed in 2011:

- Amendment of the Articles of Association, so that the permitted range of number of shares was increased from a minimum of 500 million and a maximum of 2.0 billion to a minimum of 1.0 billion and a maximum of 4.0 billion. At the same time, the maximum number of series A shares, as well as of series B, was increased from 2.0 billion of each to 4.0 billion of each.
- Split of each series A and series B shares into one ordinary share and one redemption share.
- Reduction of the share capital for repayment to the shareholders by way of redemption of 1 229 613 104 redemption shares at SEK 5 per share. This corresponds to a total distribution of SEK 6 067 468 755 to the shareholders, taking into account that 16 119 353 shares were held by Atlas Copco AB and thus not eligible for repayment.
- Increase of share capital by 393 by way of a bonus issue, whereby the Company's non-restricted equity was used.

Repurchases of shares	Number of shares		Amounts affecting equity	
	2011	2010	2011	2010
Opening balance, Jan. 1	11 236 873	13 703 400	1 011	1 212
Split of shares 2:1	16 119 353			
Redemption of series A shares held by Atlas Copco AB	-14 582 361			
Redemption of series B shares held by Atlas Copco AB	-1 536 992			
Repurchase of A shares	9 169 360	813 000	1 368	88
Divestment of A shares	-2 006 570	-2 563 160	-236	-240
Divestment of B shares	-400 587	-716 367	-27	-49
Closing balance, Dec. 31	17 999 076	11 236 873	2 116	1 011
Percentage of total number of shares	1.5%	0.9%		

For information on mandates approved by the Annual General Meeting (AGM) and share transactions, see note 20 in the consolidated financial statements.

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 – Translation reserve

The reserve comprises translation of intragroup receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 5.00 (4.00) totaling SEK 6 058 070 140 (4 851 952 608), if shares held by the company on December 31, 2011 are excluded. For further information see appropriation of profit on page 101.

The proposed dividend for 2010 of SEK 4.00 as approved by the AGM on April 21, 2011 was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 4 851 952 608.

A14. Post-employment benefits

	2011			2010		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	52	24	76	47	25	72
Provision made	3	–	3	5	–	5
Provision used	–	–5	–5	–	–1	–1
Closing balance, Dec. 31	55	19	74	52	24	76

The Parent Company has endowment insurances of 55 (52) relating to defined contribution pension plans. The insurances are recognized 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 trust. 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 retired former senior employees. These pension arrangements are provided for.

A14. Continued

	2011			2010		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	133	19	152	127	24	151
Fair value of plan assets	-208	-	-208	-202	-	-202
Present value of net obligations	-75	19	-56	-75	24	-51
Not recognized surplus	75	-	75	75	-	75
Net amount recognized in balance sheet	-	19	19	-	24	24

Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	127	24	151	132	25	157
Service cost	4	-	4	2	-	2
Interest expense	4	1	5	4	1	5
Other changes in obligations	9	-	9	1	-	1
Benefits paid from plan	-11	-6	-17	-12	-2	-14
Defined benefit obligations at Dec. 31	133	19	152	127	24	151

Reconciliation of plan assets	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	202	-	202	185	-	185
Return on plan assets	6	-	6	17	-	17
Payments	-	-	-	-	-	-
Fair value of plan assets at Dec. 31	208	-	208	202	-	202

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.

	2011	2010
Pension commitments provided for in the balance sheet		
Costs excluding interest	9	14
Interest expense	1	1
	10	15
Pension commitments provided for through insurance contracts		
Service cost	15	18
	15	18
Reimbursement from the Atlas Copco pension trust		
	-	-
	-	-
Net cost for pensions, excluding taxes	25	33
Special employer's contribution	7	8
Credit insurance costs	0	0
	32	41

Pension expenses for the year included within administrative expenses amounted to 25 (32) of which the Board members and Group Management 9 (8) and others 16 (24).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 208 (202) and is allocated as follows:

	2011	2010
Equity securities	33	31
Bonds	145	134
Real estate	27	33
Cash and cash equivalents	3	4
	208	202

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

The return on plan assets in the Atlas Copco pension trust amounted to 3.1% (10.0).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.9% (3.9).

The Parent Company estimates 12 will be paid to defined benefit pension plans during 2012.

A15. Other provisions

	2011	2010
Opening balance, Jan. 1	358	130
During the year		
– provisions made	–	269
– provisions used	–51	–41
– provisions reversed	–33	–
Closing balance, Dec. 31	274	358

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

A16. Borrowings

	2011		2010	
	Carrying amount	Notional amount	Carrying amount	Notional amount
Non-current borrowings				
Medium Term Note Program	8 353	7 978	8 610	8 026
Other bond loans	7 246	6 499	7 172	6 411
Other bank loans	3 657	3 657	3 657	3 657
Non-current borrowings from Group companies	32 841	32 841	28 938	28 938
Less current portion of bank loans	–2 540	–2 540	–	–
	49 557	48 435	48 377	47 032
Current borrowings				
Current portion of bank loans	2 540	2 540	–	–
Short-term loans	8	8	10	10
Current borrowings from Group companies	5 795	5 795	11 309	11 309
	8 343	8 343	11 319	11 319
Total interest-bearing loans and borrowings	57 900	56 778	59 696	58 351

2011 Maturity	Fixed	Float	Carrying amount	Notional amount
2012	2 540	8	2 548	2 521
2013			–	–
2014	5 815	2 007	7 822	7 473
2015		943	943	943
2016		705	705	705
2017	4 705	1 568	6 273	5 527
2018			–	–
2019	973		973	973
	14 033	5 231	19 264	18 142

A17. Other liabilities

	2011	2010
Accounts payable	30	29
Liabilities to Group companies	120	299
Derivatives		
– not designated for hedge accounting	221	71
– designated for hedge accounting	370	371
Other liabilities	7	11
Accrued expenses and prepaid income	380	361
	1 128	1 142

Accrued expenses and prepaid income include items such as social costs, vacation pay liability and accrued interest.

A18. Financial exposure and principles for control of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 19 264 (19 449) of external borrowings and MSEK 38 636 (40 247) of internal borrowings at December 31, 2011. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 27 in the consolidated financial statements.

Hedge accounting

The Parent Company hedges shares in subsidiaries through external loans of MEUR 913 (913) and MUSD 142 (142), internal loans of MEUR 3 214 (3 214) and derivatives of MEUR 565 (570). The deferral hedge accounting of the external loans is based on a RFR 2 exemption. The derivatives are accounted as fair value hedges.

The accumulated effect of the change in the exchange rate on the internal loans, which as of the reporting date amounted to MSEK 1 816 (1 664) net of tax, has been recognized in equity.

The interest rate risk is managed with interest rate swaps, designated as fair value hedges. Note 27 of the consolidated financial statements includes fair value of these swaps and further details.

Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparts related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see Note 27 of the consolidated financial statements.

The table below shows the actual exposure of financial instruments as at December 31:

Financial credit risk	2011	2010
Cash and cash equivalents	2 788	10 813
Receivables from Group companies	8 999	6 814
Derivatives	791	557
Other	213	319
	12 791	18 503

A18. Continued

Valuation methods

Derivatives

Fair value of futures contracts are calculated based on quoted market rates. Fair values of forward exchange contracts are calculated with the forward exchange rate.

Interest-bearing liabilities

Fair values are calculated by using discounted cash flows and interest rates prevailing on the balance sheet date.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2011	Level 1	Level 2	Total	2010	Level 1	Level 2	Total
Derivatives		791	791	Derivatives		557	557
Financial assets	–	791	791	Financial assets	–	557	557
Derivatives		612	612	Derivatives		454	454
Financial liabilities	–	612	612	Financial liabilities	–	454	454

The Parent Company's financial instruments per category

The following tables show the Parent Company's financial instruments per category as of December 31, 2011 and 2010:

2011					
Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			121	121	121
Derivatives	281	3		284	284
Long-term receivables from Group companies			417	417	417
Non-current financial assets	281	3	538	822	822
Other receivables			91	91	91
Derivatives	467	40		507	507
Other accrued income			1	1	1
Cash and cash equivalents			2 788	2 788	2 788
Short term Receivables from Group companies			8 582	8 582	8 582
Current financial assets	467	40	11 462	11 969	11 969
Total financial assets	748	43	12 000	12 791	12 791

2010					
Financial instruments – assets	Derivatives used for hedge accounting	Financial assets held for trading	Loans and receivables	Total carrying value	Fair value
Financial assets			77	77	77
Derivatives	206	6		212	212
Long-term receivables from Group companies			697	697	697
Non-current financial assets	206	6	774	986	986
Other receivables			227	227	227
Derivatives	321	24		345	345
Other accrued income			15	15	15
Cash and cash equivalents			10 813	10 813	10 813
Short-term receivables from Group companies			6 117	6 117	6 117
Current financial assets	321	24	17 172	17 517	17 517
Total financial assets	527	30	17 946	18 503	18 503

A18. Continued

2011					
Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			16 716	16 716	18 120
Derivatives		21		21	21
Long term liabilities to Group Companies			32 841	32 841	32 841
Non-current financial liabilities	–	21	49 557	49 578	50 982
Liabilities to credit institutions			8	8	8
Current portion of interest-bearing liabilities			2 540	2 540	2 540
Short term liabilities to Group Companies			5 795	5 795	5 795
Current financial interest bearing-liabilities	–	–	8 343	8 343	8 343
Derivatives	370	221		591	591
Other accrued expenses			380	380	380
Trade payables			30	30	30
Other liabilities			127	127	127
Current financial liabilities	370	221	537	1 128	1 128
Total financial liabilities	370	242	58 437	59 049	60 453

2010					
Financial instruments – liabilities	Derivatives used for hedge accounting	Financial liabilities held for trading	Other liabilities	Total carrying value	Fair value
Liabilities to credit institutions			19 439	19 439	20 701
Derivatives		12		12	12
Long-term liabilities to Group companies			28 938	28 938	28 938
Non-current financial liabilities	–	12	48 377	48 389	49 651
Liabilities to credit institutions			10	10	10
Short-term liabilities to Group companies			11 309	11 309	11 309
Current financial interest-bearing liabilities	–	–	11 319	11 319	11 319
Derivatives	371	71		442	442
Other accrued expenses			361	361	361
Trade payables			29	29	29
Other liabilities			310	310	310
Current financial liabilities	371	71	700	1 142	1 142
Total financial liabilities	371	83	60 396	60 850	62 112

A19. Assets pledged and contingent liabilities

	2011	2010
Assets pledged for pension commitments		
Endowment insurances	55	52
	55	52
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	407	522
	410	525

Sureties and other contingent liabilities include bank and commercial guarantees as well as performance bonds.

A20. Directly owned subsidiaries

	2011			2010		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned product companies						
Atlas Copco Airpower n.v., Wilrijk	76 415	100	45 807	76 415	100	45 793
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	118	60 000	100	122
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	37	200 000	100	36
Atlas Copco MAI GmbH, Feistritz an der Drau	1	100	129	1	100	129
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	405	1 000 000	100	411
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	159	2 325 000	100	160
Directly owned customer centers						
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	99 998	100	0
Atlas Copco Argentina S.A.C.I., Buenos Aires	525 000	75/100 ¹⁾	11	525 000	75/100 ¹⁾	11
Atlas Copco (India) Ltd., Mumbai	21 431 921	95	1 592	18 899 360	84	602
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	37	250 000	100	37
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	14	1 000 000	100	14
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	6	121 995	100	6
Atlas Copco (Switzerland) AG., Studen/Biel	8 000	100	51	8 000	100	14
GreenField Brazil Ltda, São Paulo	5 997	100	4	5 997	100	4
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	5	1 500 000	100	5
Atlas Copco Brasil Ltda., São Paulo	22 909 089	100	229	22 909 089	100	228
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	8	24 998	100	7
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	12	103 000	100	14
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	11	60 000	100	11
Atlas Copco Customer Finance Chile Ltd., Santiago de Chile	6 317 500	95/100 ¹⁾	0	6 317 500	95/100 ¹⁾	0
GreenField AG, Birsfelden	–	–	–	5 997	100	37
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100 ¹⁾	2	5	0/100 ¹⁾	1
Atlas Copco Ges.m.b.H., Vienna	1	100	54	1	100	54
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	1	3 500	100	1
Atlas Copco Eastern Africa Ltd., Nairobi	482 999	100	5	482 999	100	5
Atlas Copco KK, Tokyo	375 001	100	27	375 001	100	27
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	3	4 000	100	3
Atlas Copco Maroc SA., Casablanca	3 854	96	1	3 854	96	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	3	500	100	3
Atlas Copco Venezuela S.A., Caracas	38 000	100	15	38 000	100	15
Chicago Pneumatic Construction Equipment AB, 556197-5375, Stockholm	30 000	100	56	30 000	100	31
CP Scanrotor Aktiebolag, 556103-0080, Tanum	1 500	100	2	1 500	100	2
Servatechnik AG., Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	24	1	100	23
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	29	200 000	100	29
Directly owned holding companies and others						
Atlas Copco A/S, Langhus	2 498	100	17	2 498	100	17
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	679	15 712	100	670
Atlas Copco Dynapac AB, 556655-0413, Nacka	86 993 823	100	5 508	86 993 823	100	5 310
Atlas Copco Finance Belgium bvba, Wilrijk	1	0/100 ¹⁾	0	1	0/100 ¹⁾	0
Atlas Copco Finance Europe n.v., Wilrijk	1	0/100 ¹⁾	0	1	0/100 ¹⁾	0
Atlas Copco France Holding S.A., St. Ouen l'Áumône	278 255	100	180	278 255	100	179
Atlas Copco Holding GmbH, Essen	1	100	278	1	100	271
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 570
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	720	700 500	100	719
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	16	4 999	100	16
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	10 605	1 000	100	10 612
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	299	50 623 666	100	298
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 389	100	100	3 394
CP Scanrotor Global AB, 556337-5897, Tanum	1 000	100	0	1 000	100	0
Dynapac Nordic AB, 556653-3658, Stockholm	1 000	100	19	1 000	100	19

A20. Continued

	2011			2010		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Econus S.A., Montevideo	21 582 605	100	17	21 582 605	100	17
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	31	150	100	30
Power Tools Distribution n.v., Hoeselt	1	0/100 ¹⁾	1	1	0/100 ¹⁾	0
16 dormant companies		100	34		100	34
Net investment hedge			20			60
Carrying amount, Dec. 31			91 298			90 110

¹⁾ First figure; percentage held by Parent Company, second figure; percentage held by Atlas Copco Group.

A21. 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 22 % of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A20 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 128–130 and 132–134.

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 Group companies:

	2011	2010
Revenues		
Dividends	5 640	4 099
Group contribution	6 005	4 028
Interest income	212	153
Expenses		
Group contribution	–268	–221
Interest expenses	–1 665	–808
Receivables	8 999	6 814
Liabilities	38 756	40 546
Guarantees	407	522

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)	Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	Alger	Bosnia and Herzegovina	Atlas Copco BH d.o.o.	Sarajevo
Angola	Atlas Copco Angola Lda	Luanda	Botswana	Atlas Copco (Botswana) (Pty) Ltd.	Gaborone
Argentina	Atlas Copco Argentina S.A.C.I	Buenos Aires	Brazil	Atlas Copco Brasil Ltda	São Paulo
Australia	Atlas Copco Servicios Mineros S.A.	Buenos Aires		Chicago Pneumatic Brasil Ltda	São Carlos
	Atlas Copco Australia Pty Limited	Blacktown		Dynapac Brasil Industria e Comercio Ltda	São Paulo
	Atlas Copco Customer Finance Australia Pty Limited	Blacktown		Schucker do Brazil Ltda	São José dos Pinais
	Atlas Copco South Pacific Holdings Pty Ltd.	Blacktown	Bulgaria	Atlas Copco Bulgaria EOOD	Sofia
Austria	AGRE Kompressoren GmbH	Garsten-st. Ulrich		Atlas Copco Lifton EOOD	Rouse
	Atlas Copco Ges.m.b.H.	Wien	Canada	Atlas Copco Canada Inc.	Dorval
	Atlas Copco Powercrusher GmbH	St. Valentin		Chicago Pneumatic Tool Co. Canada Ltd.	Toronto
Bahrain	Atlas Copco Services Middle East OMC	Bahrain	Chile	Atlas Copco Chilena S.A.C.	Santiago
Bangladesh	Atlas Copco Bangladesh Ltd.	Dhaka		Atlas Copco Customer Finance Chile Ltda	Santiago
Belgium	Atlas Copco Airpower n.v.	Wilrijk	China	Atlas Copco (China) Investment Co., Ltd.	Shanghai
	Atlas Copco ASAP n.v.	Wilrijk		Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	Nanjing
	Atlas Copco Belgium n.v.	Overijse		Atlas Copco (Shanghai) Equipment Rental Co., Ltd.	Shanghai
	Atlas Copco Finance Belgium BVBA	Wilrijk		Atlas Copco (Shanghai) Process Equipment Co., Ltd.	Shanghai
	Atlas Copco Finance Europe n.v.	Wilrijk		Atlas Copco (Shanghai) Trading Co., Ltd.	Shanghai
	Atlas Copco Rental Europe n.v.	Wilrijk		Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	Shenyang
	International Compressor Distribution NV	Wilrijk			
	Power Tools Distribution n.v.	Hoeselt			
Bolivia	Atlas Copco Boliviana SA	La Paz			

A21. Continued

Country	Company	Location (City)
China	Atlas Copco (Wuxi) Compressor Co., Ltd.	Wuxi
	Atlas Copco (Wuxi) Exploration Equipment Ltd.	Wuxi
	Atlas Copco (Wuxi) Research and Development Center Co., Ltd.	Wuxi
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	Zhangjiakou City
	Bolaite (Shanghai) Compressor Co., Ltd.	Shanghai
	Dynapac (China) Compaction & Paving Eq Co., Ltd.	Tiajin
	Edmac (Shanghai) Trading Co., Ltd.	Shanghai
	Kunshan Q-Tech Air System Technologies Ltd.	Kunshan
	Liuzhou Tech Machinery Co., Ltd.	Liuzhou City
	SCA Schucker Automation Equipment (Shanghai) Co., Ltd.	Shanghai
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	Shanghai
	Shanghai Tooltec Industrial Tool Co., Ltd.	Shanghai
	Shenyang Rui Feng Machinery Ltd.	Shenyang
	Tooltec (Qingdao) Tool Co., Ltd.	Qingdao
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	Wuxi
Colombia	Atlas Copco Colombia Ltda	Bogotá
Croatia	Atlas Copco d.o.o.	Zagreb
Cyprus	Atlas Copco (Cyprus) Ltd.	Nicosia
Czech Republic	ALUP CZ spol. S.r.o.	Breclav
	Atlas Copco s.r.o.	Praha
Democratic Republic of the Congo	Atlas Copco DRC sprl	Lubumbashi
Denmark	Atlas Copco Kompressorteknik A/S	Copenhagen
Egypt	Atlas Copco Equipment Egypt S.A.E.	Cairo
Finland	Oy Atlas Copco Ab	Masaby
	Oy Atlas Copco Kompressorit Ab	Masaby
	Oy Atlas Copco Louhintateknikka Ab	Masaby
	Oy Atlas Copco Rotex Ab	Tammerfors
	Oy Atlas Copco Tools Ab	Masaby
France	ABAC France S.A.S.	Valence
	Atlas Copco Applications Industrielles S.A.S.	Franconville
	Atlas Copco Compresseurs S.A.S	Franconville
	Atlas Copco Crépelle S.A.S.	Lille
	Atlas Copco Forage et Construction S.A.S.	Franconville
	Atlas Copco France Holding S.A.	Franconville
	Compresseurs Mauguière S.A.S.	Sermamagny
	Compresseurs Worthington Creyssensac S.A.S.	Meru
	ETS Georges Renault S.A.S.	Nantes
	Seti-Tec S.A.S.	Lognes
	Techfluid Nord S.A.S.	Chereng
	Vibratechniques S.A.S.	Saint Valéry-En-Caux
Germany	ALUP Kompressoren GmbH	Köngen
	Atlas Copco Application Center Europe GmbH	Essen
	Atlas Copco Beteiligungsgesellschaft GmbH	Essen
	Atlas Copco Contruction Tools GmbH	Essen
	Atlas Copco Energas GmbH	Cologne
	Atlas Copco Holding GmbH	Essen
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	Essen
	Atlas Copco MCT GmbH	Essen
	Atlas Copco Tools Central Europe GmbH	Essen
	Chicago Pneumatic Tool Verwaltungs GmbH	Geisenheim
	Desoutter GmbH	Maintal

Country	Company	Location (City)
Germany	Dynapac GmbH	Wardenburg
	Dynapac Holding GmbH	Wardenburg
	IRMER + ELZE Kompressoren GmbH	Oyenhausen
	SCA Schucker GmbH & Co KG	Bretten
	SCA Schucker Verwaltungs-GmbH	Bretten
	TBB Industrial Tools Services GmbH	Dingolfing
Ghana	Atlas Copco Ghana Ltd.	Accra
Greece	Atlas Copco Hellas AE	Rentis
Hong Kong	Atlas Copco China/Hong Kong Ltd.	Kowloon
	CP China/Hong Kong Ltd.	Kowloon
Hungary	ALUP Magyarországi Kft.	Eger
	Atlas Copco Kft.	Budapest
	Industrial Technique Hungary Kft.	Budapest
India	Atlas Copco (India) Ltd.	Bombay
Indonesia	PT Atlas Copco Fluidcon	Jakarta
	PT Atlas Copco Indonesia	Jakarta
Ireland	Atlas Copco (Ireland) Ltd.	Dublin
Italy	ABAC Aria Compressa S.p.A	Robassomero
	Atlas Copco BLM S.r.l.	Milan
	Atlas Copco Customer Finance Italia S.p.A	Milan
	Atlas Copco Italia S.p.A.	Milan
	Ceccato Aria Compressa S.p.A.	Vicenza
	Desoutter Italiana S.r.l.	Oltrona, Como
	MultiAir Italia S.r.l.	Cinisello Balsamo
Japan	Atlas Copco KK	Tokyo
	Fuji Air Tools Co., Ltd.	Osaka
	SCA Schucker Japan Co., Ltd.	Yokohama
Kazakhstan	Atlas Copco Central Asia LLP	Almaty
Kenya	Atlas Copco Eastern Africa Limited	Nairobi
Latvia	Atlas Copco Latvija SIA	Riga
Lebanon	Atlas Copco Levant S.A.L. (Offshore)	Beirut
Luxembourg	Atlas Copco Finance S.á.r.l.	Luxembourg
	Atlas Copco Reinsurance SA	Luxembourg
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	Kuala Lumpur
Mali	Atlas Copco Mali Sarl	Bamako
Mexico	Atlas Copco Mexicana S.A. de C.V.	Tlalnepantla
	Atlas Copco Rental Mexico	Monterrey
	Desarrollos Tecnológicos ACMSA S.A. de C.V.	Tlalnepantla
	SCA Schucker de Mexico S.A. de C.V.	Puebla
Mongolia	Atlas Copco Mongolia LLC	Ulaanbaatar
Morocco	Atlas Copco Maroc SA	Casablanca
Namibia	Atlas Copco Namibia (Pty) Ltd.	Windhoek
Netherlands	ALUP Kompressoren B.V.	Nieuwegein
	Atlas Copco Beheer B.V.	Zwijndrecht
	Atlas Copco Internationaal B.V.	Zwijndrecht
	Atlas Copco Nederland B.V.	Zwijndrecht
	Atlas Copco Rental B.V.	Rotterdam
	Cirmac International B.V.	Apeldoorn
	Creemers Compressors B.V.	Eindhoven
	Grass-Air Compressoren B.V.	Oss
	Grass-Air Holding B.V.	Oss
New Zealand	Atlas Copco (N.Z.) Ltd.	Lower Hutt
Nigeria	Atlas Copco CMT & CT Nigeria Ltd.	Lagos
Norway	Atlas Copco Anlegg- og Gruvetechnik A/S	Langhus
	Atlas Copco A/S	Langhus
	Atlas Copco Kompressorteknikk A/S	Langhus
	Atlas Copco Tools A/S	Langhus
	Berema A/S	Langhus
Pakistan	Atlas Copco Pakistan (Pvt) Ltd.	Lahore
Panama	Atlas Copco Central América SA	Panama
	Atlas Copco Panama SA	Ciudad de Panama
Peru	Atlas Copco Peruana SA	Lima
Philippines	Atlas Copco (Philippines) Inc.	Paranaque
Poland	ALUP Kompressoren Polska sp. z o.o.	Warszawa

A21. Continued

Country	Company	Location (City)	Country	Company	Location (City)
Poland	Atlas Copco Polska Sp. z o.o.	Warszawa	Sweden	Industria Försäkringsaktiebolag	Nacka
	Dynapac Poland Sp. z o.o.	Katowice	Switzerland	Atlas Copco (Schweiz) AG	Studen
	Gesan Polska Sp. z o.o.	Krakow		Servatechnik AG	Oftringen
Portugal	Sociedade Atlas Copco de Portugal Lda	Lisbon	Taiwan	Atlas Copco Taiwan Ltd.	Taipei
Romania	Atlas Copco Romania S.R.L.	Bucharest	Tanzania	Atlas Copco Tanzania Limited	Geita
	Industrial Technique & Tools S.R.L.	Pitesti	Thailand	Atlas Copco (Thailand) Limited	Bangkok
	S.C. ALUP Kompressoren Romania S.R.L.	Baia Mare	Turkey	Atlas Copco Makinalari Imalat AS	Istanbul
Russia	ZAO Atlas Copco	Moscow		Scanrotor Otomotiv Ticaret A.S.	Bursa
Serbia	Atlas Copco A.D.	Beograd	Ukraine	LLC Atlas Copco Ukraine	Kiev
Singapore	ABAC DMS Air Compressors Pte. Ltd.	Singapore	United Arab Emirates	Atlas Copco Middle East FZE	Jebel Ali free zone, Dubai
	Atlas Copco (South East Asia) Pte. Ltd.	Singapore		Atlas Copco Services Middle East SPC	Abu Dhabi
	Fluidcon Services Pte. Ltd.	Singapore	United Kingdom	ABAC UK Limited	Bicester
Slovakia	Atlas Copco Compressors Slovakia s.r.o.	Trencin		Air Compressors and Tools Ltd.	Hemel Hempstead
	Industrial Technique s.r.o.	Bratislava		Atlas Copco Ltd.	Hemel Hempstead
Slovenia	Atlas Copco d.o.o.	Trzin		Atlas Copco UK Holdings Ltd.	Hemel Hempstead
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd.	Benoni		Atlas Copco (NI) Ltd.	Lisburn
	Atlas Copco Investment Company (Pty) Ltd.	Johannesburg		Medaes Limited	Staveley
	Atlas Copco South Africa (Pty) Ltd.	Boksburg	Uruguay	Econus S A	Montevideo
	ZAQ Coalfields Drilling Services (Pty) Ltd.	Middelburg		Atlas Copco Assembly Systems LLC	Auburn Hills, MI
	Atlas Copco Mfg. Korea Co., Ltd.	Seoul	USA	Atlas Copco Compressors LLC	Rock Hill, SC
South Korea	CPTools Korea Co., Ltd.	Seoul		Atlas Copco Comptec LLC	Voorheesville, NY
	SCA Korea Co., Ltd.	Gyunggi-do		Atlas Copco Construction Mining Technique USA LLC	Commerce City, CO
	Aire Comprimido Industrial Iberia, S.L.	Pinto (Madrid)		Atlas Copco Customer Finance USA LLC	Parsippany, NJ
	Aire Comprimido S.A.	Madrid		Atlas Copco Drilling Solutions LLC	Garland, TX
	Atlas Copco S.A.E.	Madrid		Atlas Copco Hurricane LLC	Franklin, IN
Spain	Desoutter S.A.	Madrid		Atlas Copco Mafi-Trench Company LLC	Santa Maria, CA
	GESAN S.A.	Zaragoza		Atlas Copco North America LLC	Parsippany, NJ
	Sogimair S.A.	Barcelona		Atlas Copco Rental LLC	Laporte, TX
	Atlas Copco AB	Nacka		Atlas Copco Secoroc LLC	Grand Prairie, TX
	Atlas Copco CMT Sweden AB	Nacka		Atlas Copco Specialty Rental LLC	Humble, TX
Sweden	Atlas Copco Compressor AB	Nacka		Atlas Copco Tools & Assembly Systems LLC	Auburn Hills, MI
	Atlas Copco Construction Tools AB	Kalmar		Atlas Copco USA Holdings Inc.	Parsippany, NJ
	Atlas Copco Craelius AB	Märsta		BeaconMedaes LLC	Rock hill, SC
	Atlas Copco Customer Finance AB	Nacka		Benz Compressed Air Systems, Inc.	Montebello, CA
	Atlas Copco Dynapac AB	Nacka		Bond Acquisition LLC	Parsippany, NJ
	Atlas Copco Järla Holding AB	Nacka		Chicago Pneumatic International Inc.	Rock Hill, SC
	Atlas Copco Lugnet Treasury AB	Nacka		Chicago Pneumatic Tool Company LLC	Rock Hill, SC
	Atlas Copco Rock Drills AB	Örebro		Houston Service Industries	Houston, TX
	Atlas Copco Secoroc AB	Fagersta		Quincy Compressor Inc.	Parsippany, NJ
	Atlas Copco Sickla Holding AB	Nacka		Quincy Compressor LLC	Bay Minette, AL
	Atlas Copco Tools AB	Nacka		SCA Schucker Company LP	Novi, MI
	Chicago Pneumatic Construction Equipment AB	Nacka		SCA Schucker Inc.	Novi, MI
	CP Scanrotor Aktiebolag	Fjällbacka	Venezuela	Atlas Copco Venezuela SA	Caracas
	Dynapac AB	Malmö	Vietnam	Atlas Copco Vietnam Company Ltd.	Ho Chi Minh City
	Dynapac Compaction Equipment AB	Karlskrona	Zambia	Atlas Copco (Zambia) Ltd.	Ndola
	Dynapac International AB	Malmö	Zimbabwe	Atlas Copco Zimbabwe (Private) Ltd.	Harare
	Dynapac Nordic AB	Järfälla			

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:

Retained earnings including Reserve for fair value	SEK	29 301 741 723
Profit for the year	SEK	8 207 815 943
	SEK	37 509 557 666

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

To the shareholders, a dividend of SEK 5.00 per share	SEK	6 058 070 140
To be retained in the business	SEK	31 451 487 526
	SEK	37 509 557 666

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's and the 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 10, 2012

Sune Carlsson
Chair

Jacob Wallenberg
Vice Chair

Staffan Bohman
Board Member

Johan Forssell
Board Member

Ronnie Leten
President and CEO

Ulla Litzén
Board Member

Gunilla Nordström
Board Member

Anders Ullberg
Board Member

Margareth Øvrum
Board Member

Mikael Bergstedt
Union representative

Bengt Lindgren
Union representative

Our audit report was submitted on February 16, 2012
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Atlas Copco AB 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 19, 2012.

Audit report

To the annual meeting of the shareholders of Atlas Copco AB Corporate identity number 556014-2720

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 12–101.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and

present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Atlas Copco AB for the financial year 2011.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Nacka, February 16, 2012

Deloitte AB

Jan Berntsson
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 dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs. The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options.

Capital employed

Average 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/equity ratio

Net indebtedness in relation to equity, including non-controlling interests.

Dividend yield

Dividend divided by the average share price quoted.

Earnings per share

Profit for the period attributable to owners of the parent divided by the average number of shares outstanding.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

Operating profit plus depreciation, impairment and amortization.

EBITDA margin

EBITDA as a percentage of revenues.

Equity/assets ratio

Equity including non-controlling interests, as a percentage of total assets.

Equity per share

Equity including non-controlling interests divided by the average number of shares outstanding.

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 debt/EBITDA ratio

Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position

Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

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 net financial items and income tax expense.

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 capital employed.

Return on equity

Profit for the period, attributable to owners of the parent as a percentage of average equity, excluding non-controlling interests.

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: An estimated average risk-free interest rate of 4% plus a premium of 0.5%.

An estimated standard tax rate has been applied.

r: An estimated average risk-free interest rate of 4% plus an equity risk premium of 5%.

Pre-tax WACC

WACC divided by (1 – estimated standard tax rate).

Sustainability report

Sustainability plays an important role in Atlas Copco's vision to be First in Mind—First in Choice® for its stakeholders and it is an integral aspect of the Group's approach to growing the business for the long term. An integrated sustainability strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders – employees, customers, business partners and investors – in a way that is economically, environmentally and socially responsible.

In a complex, rapidly changing world facing critical social and environmental challenges, Atlas Copco recognizes that companies must innovate to provide goods and services in ways that minimize negative impacts and seize opportunities to create a more sustainable path for the future.

As a world-leading provider of industrial productivity solutions with own operations in 86 countries around the world, and production facilities in 21 countries on five continents, Atlas Copco has a global reach that spans customers in the manufacturing, process, mining, construction and service sectors in more than 170 countries.

Given the nature of its business, the issues most relevant for Atlas Copco's operations from a sustainability perspective concern energy and water consumption, chemicals use, the health and safety of its workforce and suppliers, and human rights. The most significant long-term impact is from the total energy consumption during the life-cycle of its products. To that end, 95% of the Group's production units are certified in the ISO 14001 environmental management program, and Atlas Copco encourages all its business partners to have a program to ensure high standards in safety, health and environmental management. Atlas Copco emphasizes high standards of business ethics in its relationships with all its stakeholders and invests in developing the necessary skills and competences within its own operations to achieve this aim.

Recognizing the ripple effect of the company's actions, Atlas Copco addresses sustainability issues throughout the value chain.

This includes ensuring high standards of environmental protection and labor rights in the supply chain; reducing negative environmental impacts of Atlas Copco's products in operation and enhancing the resource efficiency of products to strengthen their value to society.

In 2011, Atlas Copco announced ambitious goals to tackle these key issues where they have the greatest impact, using the baseline of 2010 performance. In addition to existing goals on energy and safety, additional goals include diversity, energy-efficient products and solutions, and water consumption. Together, they exceed or meet best industry practice by taking an approach that leads to Atlas Copco's sustainable, profitable development.

Important events 2011

- Greater focus on human rights. Started adopting the framework based on the UN Guiding Principles on Business and Human Rights
- Safety improvements resulted in number of accidents decreasing by 33%
- Relative water increase by 14% due to new buildings
- Product launches illustrating greater energy efficiency: screw compressor with energy-saving certificate, increased energy-efficiency in battery tools and rock drills

Recognitions

- One of 100 most sustainable companies according to Global 100, www.global100.org
- Inclusion in 2011/2012 Dow Jones Sustainability World Index, www.sustainability-indexes.com and FTSE4Good, www.ftse.com
- One of 100 most innovative companies in the world, www.top100innovators.com



Delivering on commitments

Atlas Copco is committed to universal standards of ethical conduct, labor practices and high environmental standards as well as achieving its ambitious goals for greater sustainability. The Group delivers on its commitments and values related to the environment, ethics, human rights and other areas through a set of policies, principles and practices that sets the framework. This is supported by a Group-wide approach to managing and engaging its stakeholders.

Vision and goals

Based on its vision to become and remain First in Mind—First in Choice® for its stakeholders, Atlas Copco Group Management and the Board decided in February 2011 on revised and more ambitious goals for the Group. The goals are published on pages 10 and 131. A performance summary is reported on page 124. The analysis of the performance related to sustainability is reported in each respective stakeholder section of the sustainability report.

Governance structure

The governance approach defines goals on the Group level; business divisions are responsible for defining individual targets. Roles and responsibilities are set to ensure that sustainability is integrated throughout the Group and carried out at the most appropriate level.

Board of Directors: Formally approves the Group's Business Code of Practice. Legal, social, and environmental risk assessments are reported at board meetings.

President and CEO: Responsible for sustainability, reports directly to the Board of Directors in situations with, for example, significant environmental or social aspects.

Group functional responsible: Responsible for policies in the Business Code of Practice and principles, guidelines, processes, and instructions in *The Way We Do Things*. Establish Group goals and provides guidance, support activities, and follow-up procedures as required. Support the Group Safety, Health and Environmental (SHE) Council, and the Organizational Development and Human Resources department. The Senior Vice President Corporate Communications is the sustainability spokesperson.

Business Area Presidents: Responsible for developing, implementing, and following up on the objectives and strategy within the total business scope, including environmental and social performance.

Divisions: Responsible for implementation of sustainability policies in their area of responsibility. They also establish measurable targets for product development projects and conduct supplier evaluations as appropriate.

Group Internal Audit and Assurance: Monitors internal control routines.

Endorse and support international standards

The Business Code of Practice is based on the UN Bill of Human Rights, the International Labour Organization Declaration on Fundamental Principles and Rights at Work, the UN Global Compact (UNGC), and OECD's Guidelines for Multinational Enterprises. Since 2008, Atlas Copco has been a signatory to the UNGC principles on human rights, labor, the environment and anti-corruption. The Business Code of Practice, translated in 25 languages, is regularly reviewed. In 2011, the Group began the

process to adopt the UN Guiding Principles on Business and Human Rights. Atlas Copco follows both local and international rules (US OFAC, UN and EU) and regulations regarding trading in high-risk countries.



www.unglobalcompact.org

Manage and monitor commitments

The Business Code of Practice, launched in 2003 and formally approved by the Atlas Copco AB Board in 2004 and endorsed by the union, is the primary way in which Atlas Copco manages commitments to health and safety, the environment, human rights, anti-corruption and other aspects of ethical business conduct. The related principles, guidelines, processes and instructions are published and available to employees in *The Way We Do Things*. The governance structure, including its sustainability elements, is also reported in the corporate governance report.

Atlas Copco has a formal process to ensure compliance with the Business Code of Practice. Managers are asked to sign off compliance to the Code. This annual process, along with internal audits, is aimed at analyzing risks related to corruption and is developed to cover the reporting of commission payments that are commonly used in agent and distributor agreements.

Operations and the supply chain are monitored through the international environmental management system certification ISO 14001 and the Group's safety, health and environmental management systems.

Chemicals and hazardous substances are monitored through the application Substances of Concern with prohibited and restricted lists of hazardous substances. This application is available online and regularly revised with international updates, for example European Union directives such as REACH. Updates are communicated to the organization through newsletters.

A process to assess and manage the environmental and social impact of operations on communities when entering, operating and divesting is part of due diligence. If necessary, remedial steps are taken to address any problems. Atlas Copco's processes are deemed to have been sufficient to limit the impact on the environment or the local community for all acquisitions and divestments made in 2011.

Social and environmental audits are conducted by Group Internal Audit and Assurance as an integrated part of audits, see the corporate governance report.

Employee training a high priority

Guidance documents and training materials are available to help employees meet the commitments in the Business Code of Practice. All employees receive training in the Code. In 2011, approximately 90% of Atlas Copco employees had received training, mainly via the Group's internal training program at local company level. In addition, all employees receive relevant training in health and safety as part of the Group target that all employees shall work in a company with a safety, health and environmental (SHE) management system. A SHE interactive e-learning module is available to all employees; special training is offered to managers.

Atlas Copco has globally rolled out a training package on the Business Code of Practice for managers worldwide. The classroom training material includes dilemma cases on human rights, corruption, environmental concerns and business integrity in

general. One third of all managers have so far received this training. The ambition during 2012 is to continue the training roll-out but also the launch of a focused e-learning on corruption.

Materiality

Atlas Copco determines which issues are most important and relevant, to its business from a sustainability perspective through a process of internal analysis to identify priorities and key issues, and a review of stakeholder dialogue and engagement to identify areas of concern. The significance of the issue to external stakeholders is mapped against its significance to the Group internally to rate its level of importance. This exercise feeds into Atlas Copco's decision-making process in order to better inform its sustainability work.

Stakeholders' view of Atlas Copco's sustainability issues

Significance to external stakeholders	Very important	- Energy consumption - Work with business partners committed to high ethical, environmental and social standards - Water risk management - Climate strategy - Employer/employee relations	- Safe and reliable products and quality - Marketing of sustainable products - Energy-efficient products and solutions - Reduce hazardous substances in products and components - Reduce emissions to air and water - No corruption or bribery - Safe and healthy working environment
	Important	- Corporate governance - Raw materials consumption - Risk and crisis management - Human rights and non-discrimination - Investments and acquisitions - Sustainable construction - Public policy and lobbying	- Diversity in gender and nationality - Open and transparent communication - Talent attraction and retention - Competence development - Waste reuse and recovery
	Important	Significance to Atlas Copco	
	Very important		

Reporting of violations

The ethical helpline on Group level can be used by employees to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. The Group ethical helpline process is used when a case cannot be solved at a local unit level. It serves as a complement to similar processes on a country level. The Group Legal department is responsible for managing the reports and it ensures that they are treated confidentially. The person reporting is guaranteed anonymity.

In 2011, a total of 25 (20) possible violations of the Business Code of Practice were reported to the Group Legal Counsel through the ethical helpline. The nature of the violations was related to organizational changes, economic issues, and personal issues. Of the reported cases, 22 were substantiated and led to actions: for example, an internal audit, a police investigation or a disciplinary action such as dismissal. One case was found to clearly involve fraud and led to dismissal. Two cases are still under investigation, including one regarding alleged corruption.

More information on sustainability

The following information is available at www.atlascopco.com/cr:

- Sustainability reports since 2001
- Energy-efficient products and solutions
- Business Code of Practice
- Sustainability scorecards
- Safety, Health and Environmental (SHE) policy
- Community engagement projects and case stories
- Substances of concern – prohibited and restricted lists
- GRI compliance index
- Sustainability reporting definitions

About this report

This report addressed the Atlas Copco's progress during 2011 according to the expectations of each stakeholder group. Since 2001, the report has been prepared yearly in accordance with the Global Reporting Initiative (GRI) guidelines. The most recent sustainability report was published in March 2011 as part of the annual report 2010. The GRI indicators reported are those considered most important and relevant to Atlas Copco and its stakeholders, and which facilitate benchmarking with other companies. The Group has self-declared the report to be GRI B-level compliant, which was confirmed by Deloitte. The report covers all Profile Disclosures, all Disclosures on Management Approach and at least 20 Performance Indicators. For more information on Atlas Copco's use of the GRI Principles, and to view its GRI Compliance Index, visit www.atlascopco.com/cr.

This report is also Atlas Copco's Communication on Progress (COP), the advanced level, a report on performance in relation to the UN Global Compact's 10 principles.

The report covers Atlas Copco's operations for the fiscal year 2011, unless otherwise stated. Operations divested during the year are excluded; units that were acquired are included. This may at times cause major changes in reported performance. Limitations and reporting principles as well as any restatement of the reporting are explained in the relevant

section of the report. The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline of CO₂ emissions from transport.

Due to the change of reporting system and organizational structure the environmental data for 2010 has been adjusted to reflect this.

The sustainability report and the corporate governance report are both published in the 2011 annual report. To avoid duplication of information, references are at times made to these reports, including the statement from the President and CEO. Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. The sustainability report has been reviewed and approved by Atlas Copco's Group Management. The sustainability report 2011 has not been subject to limited assurance by a third party.

Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis as of quarter three 2011. Environmental data covers production units, including distribution and applications centers as well as rental operations. Employee data covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is compiled by Group Controlling and Corporate Communications and is then reported to Group Management.

Stakeholder engagement

Atlas Copco is accountable to the people and organizations that are affected by its business. The Group aims to be transparent and to engage stakeholders on sustainability-related issues in areas of mutual concern, in order to find common ground and therefore arrive at better and more informed decisions. The topics that concern each stakeholder group are described in the respective chapters and are held at both the local and Group level. The ambition is three-fold: to identify opportunities to improve sustainability performance with a specific focus on safety, health and environmental aspects as well as ethical aspects, to compare performance with other leading multinational companies, and to take account of stakeholders' views and perspectives on the Group.

Atlas Copco's stakeholder model



The key stakeholder groups include customers, business partners, employees, shareholders and society and the environment. Atlas Copco addresses their concerns in the economic, social and environmental areas. The Group also values discussions with non-governmental organizations (NGOs), governmental organizations and others with whom it can have constructive dialogues. No stakeholders are excluded.

Atlas Copco replies to surveys from major rating institutes, for example Sustainable Asset Management (SAM), Eiris, and Vigeo.

Regular meetings are held with:

- Major shareholders and Socially Responsible Investors (SRI)
- NGOs such as Amnesty International and Transparency International
- Students, e.g. theses writings, internships, job fairs at universities and technical schools
- Corporate responsibility-focused networks, for example, the UN Global Compact Nordic Network, Globalt Ansvar (Global Responsibility)
- Discussion groups sponsored by trade organizations in which Atlas Copco is a member
- Industry organizations, for example Pneurop and the Committee for the European Construction Equipment Industry

In 2011, Atlas Copco conducted a formal stakeholder dialogue with major shareholders and NGOs. Many individual meetings with stakeholders also took place during the year.

Main issues raised in stakeholder/influencer dialogues

Stakeholder	Stakeholder views	Performance 2011	Comment
Society and the environment	Regularly update the Business Code of Practice and continue the work to fight corruption.	The Business Code of Practice was updated regarding corruption and human rights. 33% of Atlas Copco's managers have received an in-depth training.	The work to fight corruption was in focus and all managers will be trained. In 2012, an anti-corruption e-learning training will be mandatory for all company managers.
	Public policy	Meeting and interview with Connie Hedegaard, EU Climate Action Commissioner on energy efficiency.	Energy-efficiency was in focus and the EU Commissioner's view was communicated to 500 managers at a seminar.
Customers	Further increase the energy efficiency of products and solutions.	Launch of more ambitious goals and key performance indicators to increase customer energy-efficiency by 20% by 2020.	More energy-efficient products and solutions were developed and launched; see customer section in this report.
	Increase customer risk awareness in countries with weak governments ¹⁾ .	A tool to increase awareness of customer sustainability performance was developed and tested.	The customer sustainability assessment tool was developed and tested during the year. It will be rolled out in 2012.
Employees	Continue to offer a safe and healthy workplace in all operations. Report on incidents.	5.7 accidents/one million working hours, 2.0% sick-leave. Reporting on incidents started.	The rate of accidents has improved thanks to focused work over the last three years. Reporting on incidents will prevent accidents and continue the work towards zero accidents.
	Improve diversity in gender and nationality.	14.8% female managers and 44 nationalities among senior managers.	Several years of the female mentorship program have resulted in an increased number of female managers.
Business partners	Important to have goals on business partners and work with ensuring a sustainable supply chain.	16% of the significant suppliers have been evaluated on sustainability aspects. An e-learning for business partners was developed and launched.	The work to safeguard a sustainable supply chain was in focus. Long-term relations and close cooperation give opportunities for improvements.
Shareholders	Improve the sustainability performance and reporting by following up on goals on key performance indicators.	Launch of more ambitious goals and key performance indicators. Formal stakeholder dialogue with major shareholders.	Performance versus goals, including analysis, is reported in this report and on the Atlas Copco website. Main shareholders approved to have the report on GRI level B given the focus on Group goals.

¹⁾ OECD definition

Society and the environment

Atlas Copco, given its global reach, has an influence on the economic and social development of the countries in which it operates. The Group is expected to demonstrate that influence in a positive way. This requires careful mapping of risks in the Atlas Copco value chain so that significant issues that may arise can be effectively managed and monitored.

Companies face rising expectations to contribute to a more sustainable world, and take a broader, more inclusive and transparent role in society. As a global Group with ambitious business growth targets Atlas Copco is seizing opportunities while navigating the challenges of a diverse market where cultures, and standards for environmental and social responsibility can vary significantly.

Anti-competitive behavior and corruption

Atlas Copco's goal is that there should be no incidence of corruption or bribes within its operation globally. This is supported by a policy, procedures, training and monitoring process (see page 105). The Business Code of Practice includes zero tolerance of corruption, including facilitation payments. Firm action will be taken on a case-by-case basis. There will be no negative consequences for employees refusing to pay bribes. The company works actively to prevent, detect and respond to potential corruption cases. Internal control procedures are set up to minimize the risk of corruption and bribes, e.g. by segregation of duties. Awareness of, and compliance with, principles of integrity in all its business dealings is a priority for Atlas Copco. According to Group policy, business gifts received and given must be in accordance with local legislation and business practices, to avoid creating an unhealthy loyalty or even breaking a law.

Atlas Copco uses Transparency International's Corruption Perception Indices in employee training. Group companies are encouraged to hold workshops that cover business integrity and ethical dilemmas. Through the Group ethical helpline, employees and other stakeholders can report behavior or actions that may conflict with the Business Code of Practice. More than 90% of Atlas Copco's companies have a process in place to analyze risks related to corruption, according to the Control Self Assessment procedure. In 2012, all company managers must take an e-learning course on corruption developed by the UN Global Compact, before signing the Business Code of Practice compliance statement.

Atlas Copco will be active in Transparency International's corporate forum and network with other major corporations in 2012.

The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. There have been no instances of anti-competitive behavior or corruption brought to the attention of Group Management in 2011. There are no pending legal actions in this area and no fines have been paid during the year, see page 106 reporting on violation.

Human rights

The Business Code of Practice supports and covers internationally recognized human rights, including freedom of association

and collective bargaining, a zero tolerance of forced and child labor, and the rights of indigenous people, and Atlas Copco respects those rights in its operations. The basic principles are promoted to business partners worldwide. In 2011, Atlas Copco strengthened this approach by starting to adopt the UN Guiding Principles on Business and Human Rights (the so-called Ruggie Principles), consisting of 31 principles.

Human rights abuse exists in markets where Atlas Copco operates. Amnesty International provides guidance to the Group to identify areas with risks related to human rights abuse, and thereby supports Group companies active in such areas. Countries such as Angola, Democratic Republic of the Congo, Iran, Uzbekistan and China meet Amnesty International's definition of a high risk of human rights abuse, including child labor or forced or compulsory labor. Atlas Copco has sales and service operations in these countries as well as extensive production in China.

Group companies in countries with a high risk of human rights abuse, such as conflict areas, are encouraged to evaluate business processes and relationships, and to act to minimize such risks, aided by a set of guidance documents from Atlas Copco. Risks are mapped along the value chain, and included in the SHE supplier evaluation checklist and in training packages.

Through the Control Self Assessment procedure (see corporate governance report), Atlas Copco ensures that Group companies have procedures in place to inform customers and business partners about its human rights policies and to assess possible reputational risks by association with customers. To date, approximately 67% of Atlas Copco's operational units have established this routine.

There have been no instances of incidents involving indigenous rights among the Group's own employees and no instances of human rights violations brought to the attention of Group Management in 2011, see page 106 reporting on violations.

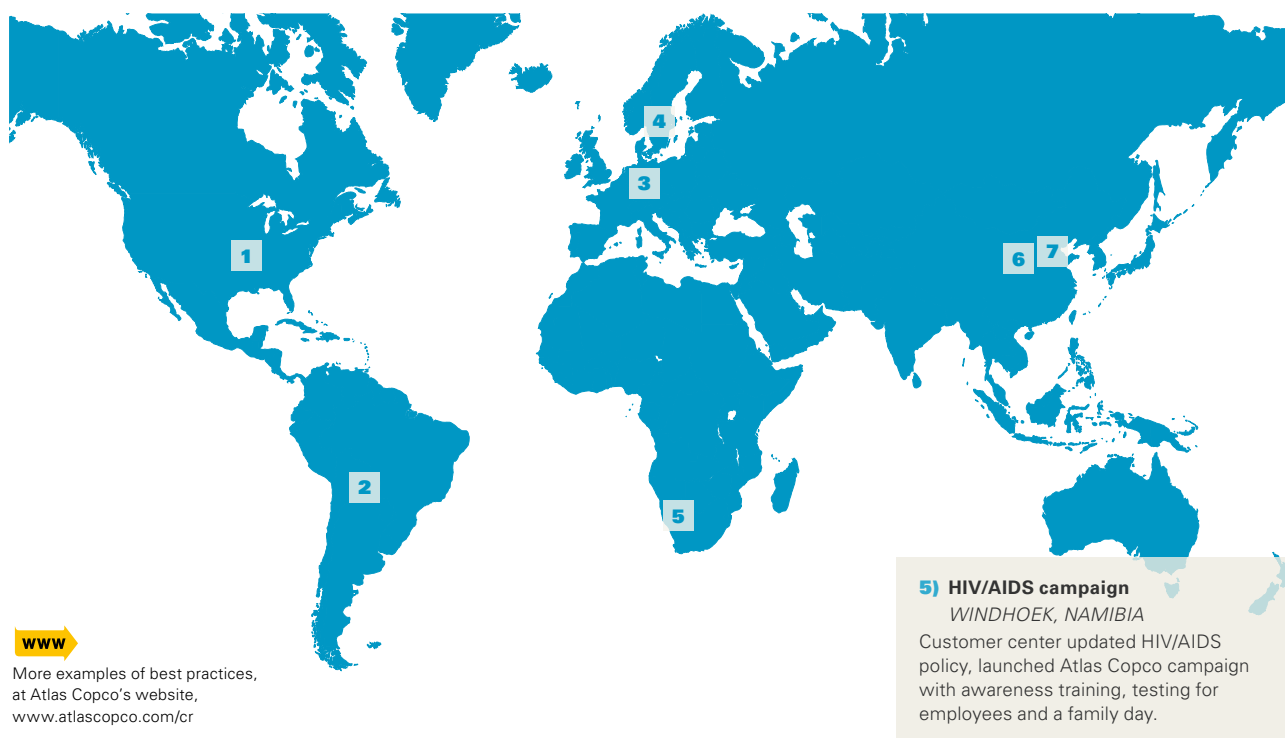
Atlas Copco's business partners are expected to observe the same high standards regarding human rights as Atlas Copco does, see page 121 Business Partners.

Due diligence

Human rights considerations are integrated in the acquisition process. When an acquisition is completed, Atlas Copco guidelines and policies are applied to assess and manage the environmental and social impact of operations in the affected communities. In 2011, Atlas Copco conducted human rights impact assessments in Ghana and Kazakhstan. In Ghana, Atlas Copco has discussed human rights with different stakeholders over the years. In Kazakhstan, transparency is an issue but the local company uses and discusses the Business Code of Practice along the value chain.

A process to assess and manage the environmental and social impact of operations on communities when entering, operating and divesting is part of Atlas Copco's due diligence process. If necessary, remedial steps are taken to address any problems, sometimes assisted by a third party. Atlas Copco's processes are deemed to have been sufficient to limit the impact on the environment or the local community for all acquisitions and divestments made in 2011.

Examples of best practices



1) Solar panels installed

AUBURN HILLS, UNITED STATES

Customer center installed a nine-panel solar array on the roof of the building. It generates 8.8 MWh of power annually and reduces carbon dioxide emissions by 9 tons/year.

3) Water performance

COLOGNE, GERMANY

Product company in Cologne connected new test bed to water cooling tower, creating a cooling-water cycle. Water use decreased by 30% in one year.

6) LEED (Gold) building

NANJING, CHINA

Product company in Nanjing is the first Atlas Copco construction with LEED (Gold) certification. More sustainable construction offers better working environment, less environmental impact.

2) Health and safety program

SANTIAGO, CHILE

Customer center set up daily safety procedure with awareness training, which has resulted in 50% reduction of accidents, vital for engineers working in mines.

4) Atlas Copco Environmental Award

ÖREBRO, SWEDEN

Product company received the Atlas Copco Environmental Award 2011 for its new uniform control system platform, which improves the energy efficiency of the system and reduces the number of components.

7) Metalworkers' training

CHINA

The Swedish Metal Workers' Union and Atlas Copco's Swedish union representatives trained employees at product companies in China on employer-employee relations, and workers' rights.

Community engagement and charity

Atlas Copco has long engaged in the societies where it operates. The Group's community initiatives, selected and supported by local companies, focus on providing education, a safe upbringing for children, and fighting diseases. This includes support to schools or universities to raise the educational level and to orphanages that provide children a safe childhood. Besides supporting local charity projects, the Group's Community Engagement Policy also encourages companies to give support in the case of natural and humanitarian disasters. Employee-led initiatives are supported by a financial 'matching' principle in which Group companies match employee financial donations with company funds.

Group companies make a local community needs assessment to determine how they can best contribute to the local society.

However, *Water for All* is recognized as the main initiative of this type of engagement.

Since 1984, Atlas Copco has supported the voluntary, 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 villages and communities. As of 2011, Atlas Copco doubles employee contributions to *Water for All*. The water supply is normally achieved through drilling or digging and installing hand pumps or through protection of natural springs. To date, *Water for All* has provided access to clean well water to more than 1 200 000 people. The initiative is established in 12 countries, with more underway. Visit www.water4all.org for more information.

All local charity activities should provide medium- to long-term support. With natural and humanitarian disasters, support

may be provided on a short-term basis, either in the form of products, for example generators and breakers, or via employee contributions, matched by Atlas Copco. In 2011, the Group gave food and medication to flood victims in Brazil and supported employees and their families in Japan recovering from the earthquake and tsunami.

The community engagement and charity spent during 2011 was distributed accordingly: cash donations 91%, in kind 3%, and time value 6%. Atlas Copco in Sweden donated SEK 1 300 000 to the Swedish *Water for All* organization.

Public policy

Atlas Copco belongs to trade organizations such as The Association of Swedish Engineering Industries, the Federation for the Technology Industry in Belgium, the Compressed Air and Gas Institute in the US, the German Engineering Federation, and many others. Since 1959, Atlas Copco has been actively involved in Pneurop, the European committee of manufacturers of compressors, vacuum pumps, pneumatic tools and allied equipment. It acts on behalf of members in European and international forums regarding the harmonization of technical, normative and legislative development of construction equipment.

Atlas Copco is a member of the Committee for the European Construction Equipment Industry (CECE) which works, for example, in removing technical barriers and improving safety standards and environmental aspects of construction equipment. In addition, the company participates in ongoing development of international standards, including the ISO committee ISO/TC 118 and the CEN committee CEN 232.

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 provides services to political endeavors.



Impact on the environment

With global environmental challenges growing in urgency, and issues like climate change high on the political agenda, business is expected to play its part in reducing its environmental impact on society. Atlas Copco seeks to meet stakeholders' expectations for energy-efficient, sound environmental management of its operations and products, and follows applicable environmental laws in all countries where the Group operates. This responsibility extends to restoring the environment when leaving a site, if needed.

Atlas Copco's greatest environmental impact occurs during the use of its products. Therefore, incorporating environmental considerations into new product design, and continuous product development, is a high priority, not only for Atlas Copco but also for its customers, who are also seeking ways to minimize their environmental footprint.

Goals:

- Increase customer energy efficiency by 20% by 2020
- Construct Atlas Copco buildings according to sustainable building standards
- Keep water consumption at current level in relation to cost of sales
- Decrease CO₂ emissions from operations by 20% in relation to cost of sales by 2020
- Decrease CO₂ emissions from transport of goods by 20% in relation to cost of sales by 2020
- Reuse or recycle waste

Environmental management systems

To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has a target to implement environmental management systems (EMS) in all operations. In 2011, the number of employees working in an EMS-verified environment was 55%.

All product companies shall be certified according to the international standard ISO 14001. Acquired product companies are normally certified within a two-year period. Product companies with ISO 14001 certification represent 95% of cost of sales. The number of certifications has remained steady in the last five years.

Life cycle analysis shows that Atlas Copco's most significant environmental impact is related to CO₂ emissions during the use of the products and to a lesser degree, during transport and in production. Energy consumption and emissions of CO₂ are therefore the most significant indicators, but Atlas Copco also tracks and reports performance on water consumption, packaging material, waste, and other emissions to air.

Construction

Atlas Copco has a goal to construct its buildings, both new and reconstructed, according to a sustainable building standard, such as LEED. A Sustainable Construction Manual supports Group companies when new production sites are built; in which climate risks and the risk of natural disaster are considered. A facility in Nanjing, China, is the first Atlas Copco building with a LEED (Gold) certification and more buildings will go for this standard in the future.

Resource use

The transformation of raw materials and purchased components into finished products is fundamental to the Atlas Copco business, and substantial amounts of material, energy and water are consumed in this process. The Group works continuously to improve the resource efficiency in the manufacturing process. The most important raw materials for Atlas Copco are steel, rubber and plastics. In terms of weight, steel represents more than 90% of the raw material used in production. It is to a great extent recycled steel.

Energy

Atlas Copco reports its energy consumption in terms of direct and indirect energy as well as in renewable and non-renewable energy. Direct energy is defined as purchased and consumed fuel for own production; this includes oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example energy required to produce and deliver purchased electricity and district heating. Renewable energy includes electricity and heat generated from solar, wind, ocean, hydro-power, geothermal resources, bio fuels, and hydrogen derived from renewable resources.

In 2011, the total energy used in production decreased by 8% in relation to cost of sales. These reductions were achieved in part through energy-efficiency measures, such as improved lighting in several production units and the change to more energy-efficient energy sources.

In 2011, 21% of the energy consumption came from renewable resources such as wind energy and solar panels. The latter was invested in and installed by an Atlas Copco company in the United States, see best practices on page 109.

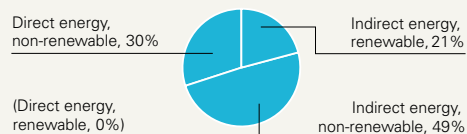
The Group goal of increased customer energy efficiency of 20% by 2020 relates to energy efficiency for major product categories. Achievements for energy-efficient products launched during 2011 are reported on page 116 in the customer section.

Water

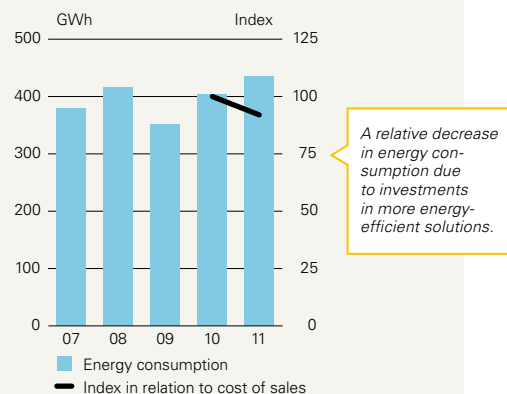
With operations in several countries facing water scarcity, Atlas Copco understands the importance of water and has started to use water index maps to identify operations located in water-risk areas. While not among the most significant environmental impacts of Atlas Copco's operations, it is of great importance to the company's stakeholders. One way in which the Group responds to this concern is through the employee-led organization *Water for All*. See page 109. Innovative product design also aims to reduce water use when drilling to explore for minerals, for example.

The Group goal on water supports companies' efforts to keep water consumption at the current level. The water withdrawal is disclosed as a total figure. It is normally purchased and connected to municipal water systems. The water usage is to a great extent related to the non-production process. The production water is reused, and cleaned before dispatch. Water consumption increased by 14% in relation to cost of sales. The relative increase is primarily explained by business increase, new reporting companies (acquisitions), water leakages in two factories and new construction or reconstruction of product companies.

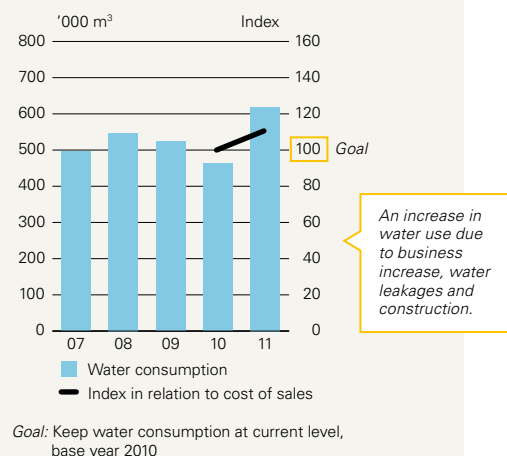
Proportion of energy consumption



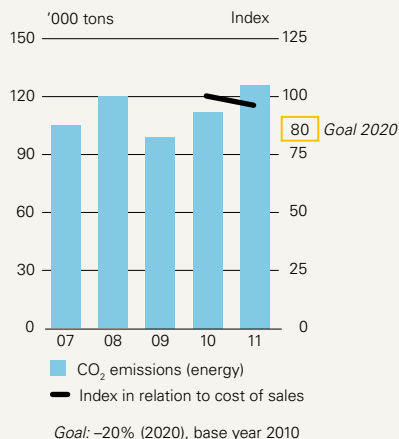
Energy consumption



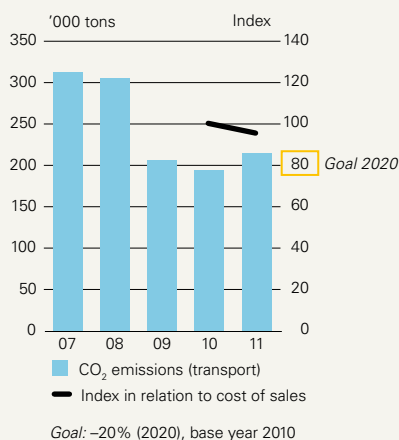
Water consumption



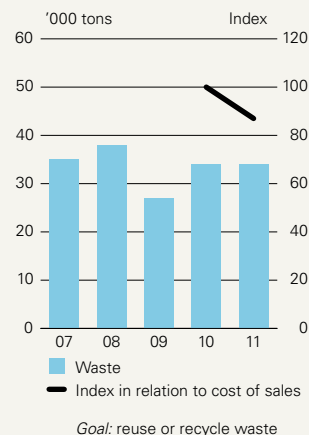
A detailed overview of direct and indirect energy consumption by primary source, for renewable and non-renewable energy, is available on the Atlas Copco website, www.atlascopco.com

CO₂ emissions from energy

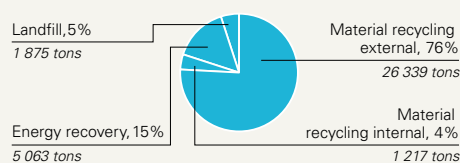
A relative decrease in CO₂ emissions from energy consumption due to the use of more renewable energy.

CO₂ emissions from transport

A relative decrease in CO₂ emissions due to the use of more boat transport and shorter distances.

Waste

A relative decrease in waste.

Waste disposal*

*of which regulated waste 2 170 tons

Materials

Atlas Copco tracks materials used in the production process and for packing of finished products or parts. By far the most significant direct material used in the production process is steel, either as raw steel, or as part of components that are machined in-house or by sub-suppliers. In terms of weight, steel represents more than 90% of the raw material used in production.

Steel and other major direct materials are reported at the Group level. Other materials used in the production process include: aluminum, copper and brass, plastics, rubber, oils and lubricants, and natural gas. The finished products include parts or components which are not accounted for. There are initiatives in the companies to change to more environmentally sound materials, such as plastics. A detailed overview is available on the Atlas Copco website. [www](http://www.atlascopco.com)

Emissions and waste

Atlas Copco reports CO₂ emissions from direct and indirect energy used in production, and from transport to and from production sites. Standardized conversion factors published by the Greenhouse Gas Protocol Initiative are used to calculate CO₂ emissions, see www.ghgprotocol.org.

The Group's goal is to reduce the CO₂ emissions from the energy used in production by 20% by 2020 in relation to cost of sales. The Group goal is aligned to EU 2020 goals and is ambitious, since the reduction is based on 2010 performance, i.e. when many big production units had invested in renewable energy use.

In 2011, CO₂ emissions from energy at production sites decreased by 4% in relation to cost of sales. The decrease is primarily due to the increased use of renewable energy in some product companies. In absolute numbers the increase in CO₂ emissions was 12%, which is less than the increase in business.

Emissions to air

The rental operations continued the work to switch its rental fleet to more environmentally sound equipment to reduce its carbon footprint. The target is to increase the share of variable speed drive compressors in the rental fleet.

The Atlas Copco Chemical and Gas Manual is a guiding document available to operations globally. The use of chemicals is monitored in the Group global database, which is used by the majority of the product companies.

Atlas Copco is using cooling agents in some products (air dryers) and processes (cooling installations). For products, all cooling agents used have a zero ozone-depleting impact, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP). The majority of the cooling agents is in closed-loop systems in the products and therefore not released during the operational life of the products.

Other emissions to air such as sulfur dioxide and nitrogen oxides are reported on the Atlas Copco website. [www](http://www.atlascopco.com)

Hazardous waste

Hazardous waste in Atlas Copco's operations includes primarily cadmium, beryllium and lead. Atlas Copco tracks various categories of waste from the production process, including regulated (sometimes referred to as hazardous) waste. Restricted substances

are not yet legally excluded from use but should be replaced according to a plan that takes into account technical and financial aspects. Prohibited substances are not allowed in the Group's products or processes. Group companies monitor the handling of hazardous waste by its business partners. See page 122.

The goal is to avoid creation of waste and that all waste is reused or recycled. As the main raw material going into the process is steel, metal scrap represents 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 oils and solvents, as well as wood and paper from incoming packaging material and for office use.

Waste management

There are initiatives to reduce the waste to landfill, through an increased separation of waste in cooperation with recycling handling companies, for example. Another initiative involves the separation of metal scrap from oil before sending it to external recycling. The Atlas Copco Waste Manual is a guiding document describing strict procedures and required documents regarding waste handling. It is available to all companies in the internal database *The Way We Do Things* and on the Atlas Copco website. [www](#)

Electronic equipment such as computers and mobile phones are leased or purchased. Leased equipment is returned to the provider and the purchased equipment is donated to schools and hospitals, or is sent to waste handling.

In 2011, the amount of waste in relation to cost of sales decreased by 13% and the proportion of reused or recycled waste was 95%.

Transport

Transport of goods to and from production is purchased (i.e. Scope 3 emissions as defined in the GHG protocol). The Group goal is to reduce its CO₂ emissions from transport by 20% by 2020 in relation to cost of sales. In 2011, the CO₂ emissions from transport decreased by 6% in relation to cost of sales. The reduction is primarily explained by the improved reporting from transport companies, but also by an active choice of some companies to replace air freight by other means of transportation, for example by ship. Other initiatives to reduce transport were to make better use of each transport, to lower its weight and to start sending spare parts directly to customers instead of via customer centers.

The Group continues its efforts to monitor emissions caused by business-related travel. The use of internet-based meetings, and telephone and video conferences were used to a high extent. A number of companies in the Group have invested in video conference units.

Compliance

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 been reported in 2011 and no major fines have been paid.

Economy

Social and environmental responsibility is key to Atlas Copco's approach to long-term financial and economic growth, adding value to both local and global economies. Some benefits of this approach are: healthier employees, a more reliable supply chain, and energy-efficient products and solutions. Atlas Copco has its most significant economic impacts through the payment of taxes, employee wages, the use of local and global suppliers, and indirectly, through training and education of engineers and other competencies.

Atlas Copco assesses its economic sustainability in terms of the economic value generated 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.

The Group's goals for sustainable, profitable development are reported in the annual report, see page 10. For sales development in different regions, see page 12.

Development and distribution of economic value

Through subcontracting manufacturing and other activities, Atlas Copco generated further employment and financial stability. Operating costs including payments to suppliers for goods and services, functional costs, and employee wages and benefits deductions, amounted to MSEK 48 032 (41 466).

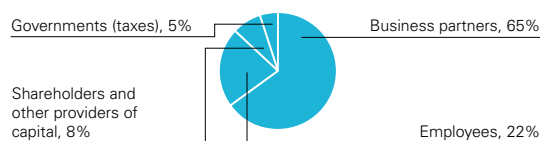
Employee wages and benefits paid by the Group increased by 8% to MSEK 15 910 (14 699).

Atlas Copco's providers of capital, for example shareholders and creditors, provide funds to finance the asset base that is used to create economic value. In turn, these stakeholders receive annual dividend and interest payments. The payments to providers of capital increased by 32% to MSEK 5 913 (4 489).

The Group contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2011, payments to governments through direct tax was up 8% to MSEK 3 902 (3 619). Community investments amounted to MSEK 17.5.

The economic value retained increased by 37% to MSEK 8 517 (6 217), as a result of increased business demand in 2011. In 2011, MSEK 6 067 was distributed to the shareholders through a mandatory redemption of shares. Further details are reported in the annual report and on page 124.

Distribution of direct economic value



Customers

From a product life cycle perspective, the customers hold the key to reducing Atlas Copco's total environmental footprint. By developing, manufacturing and delivering quality products and solutions that help deliver sustainable productivity, the Group strives to meet customer's expectations for energy-efficiency, safety, reliability, ergonomics and use of resources. At the same time, this approach contributes to Atlas Copco's own sustainability goals to reduce its environmental impact, a win-win situation.

Goals:

- First in Mind—First in Choice® for customers and prospects for all brands
- Increase customer loyalty
- Develop new products and services with a life-cycle perspective
- Increase customer energy efficiency by 20% by 2020
- Offer safe and reliable products and services

Atlas Copco's customers require sustainable products and solutions to increase their productivity. 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. The focus is on quality, cost and efficiency as well as ergonomics, safety and health and environmental aspects of Atlas Copco products.

By using electric tools, which are more precise than pneumatic tools, a bolt can be tightened so that the clamp load capability of the bolt is used to maximum. On average, a weight reduction of 20 kg per car can be achieved if lighter screws are used. This could reduce global fuel consumption by twelve billion liters per year, equal to four maximum capacity oil tankers.

Customer centricity is a guiding principle for Atlas Copco. Customer centers track their performance in terms of customer share. Furthermore, in accordance with the Group's quality policy, all units conduct customer satisfaction surveys.

In 2011, the Group set a goal to increase customer loyalty. Customer loyalty programs were enhanced and closely linked to sustainability and profitable growth targets. The programs reached more than 50 markets and included 13 brands, bringing valuable feedback on the Group's product performance in product innovation, performance, operational excellence and customer support.

The Group recognizes the importance of safeguarding its reputation by working with customers who observe the same high standards for environmental, ethical and social responsibility. In countries defined to be high-risk areas or at risk, Atlas Copco seeks to minimize these risks by ensuring that its own commitments are met regarding its business practices and the safety and technological leadership of its products and services. In some cases there will be no deal due to reputational risk. In addition, Atlas Copco strives to build awareness for the Group's ethical

guidelines and at times is invited by customers to support them in raising their awareness. During 2011, the internal customer sustainability assessment tool was developed and tested. Training will be conducted during 2012. This tool will in particular be used in cases of financing by credit export agencies.

Products and solutions

Seen over the entire product life cycle, from product development, manufacturing, usage to discards, the largest portion of Atlas Copco's environmental footprint is in the use of its products, with energy consumption making the most significant environmental impact. Therefore, the Group aims to reduce the environmental impact and improve the performance of every product and solution to meet customer requirements. As a minimum, the Group complies with laws and regulations regarding the environmental impact of its products.

Atlas Copco assesses relevant aspects of ergonomics, safety and health not only in its product development process but also in all life-cycle stages of the product. Environmental declarations are provided with sold products in some divisions and the practice is increasing. Significant product or service categories are all covered by and assessed in terms of safety, health and reliability impacts.

The Group is organized in four business areas. Each business area operates globally. Depending on the nature of the products and solutions offered, the focus and priorities vary. It is therefore difficult to report a consolidated figure on environmental impact. Increased customer energy efficiency is reported as examples of sustainable product launches, see below. The percentage increase will be reported on a business area level as from 2012.

Compressor Technique

Compressed air is a crucial component in all manufacturing industries. Up to 10% of the total energy consumption worldwide comes from compressed air systems. Atlas Copco is strongly committed to continuously improving energy efficiency for its customers. A good example of this is the advanced variable speed technology, which has achieved average energy savings of 25% for customers. All oil-free compressors are now certified to deliver air with no trace of oil.

In 2011, the Compressor Technique business area continued to deliver products and services with the objective of reducing customers' energy consumption and increase their capacity. Examples include energy-efficient oil-free centrifugal compressors, water-cooled piston compressors for marine applications, and energy-efficient deep dew point rotary drum dryers. Other examples of improvements are impeller design for turbo expander generators, screw compressors with energy-saving certificates, a new oil-free range of centrifugal air blowers with variable speed drive, and state-of-the-art air foil bearing technology ensuring high energy efficiency. There is also a new controller offering software that monitors up to six compressors simultaneously and selects the right compressor at any moment in production.

Industrial Technique

The Industrial Technique business area's product development focus includes reducing energy consumption during the use of the tools, from a life-cycle cost perspective while increasing the customers' productivity.

More energy-efficient tools reduce both energy cost and carbon dioxide emissions. New electric tools with a modular design are flexible, lighter and easier to disassemble. Electric tools vibrate less and make less noise than pneumatic tools. The optimized design of the tools improves ergonomic aspects, increases efficiency, consumes less energy and reduces waste. Atlas Copco's latest contribution to raising accuracy and productivity in assembly plants is the tool positioning system, which together with a torque arm and a tool controller ensures that joints are tightened in the correct sequence and position.

In 2011 the Asia Center of Excellence was set up in China to increase competence and come closer to the customer. In Sweden a partnership between Atlas Copco and ABB was established to improve the working environment in the production of an ABB factory. It resulted in increased productivity by an improved compressed air system and logistics, as well as improved safety and ergonomics for operators.

Mining and Rock Excavation Technique

The Mining and Rock Excavation Technique business area's strategy is to develop new products and offer services to reduce the environmental impact and customer's total cost of ownership, by enhancing performance and reducing costs, as well as ensuring a safe working environment.

A new range of surface drill rigs is the most fuel efficient yet. Field tests have demonstrated a reduction of up to 50% in fuel consumption. All surface drilling equipment has an environ-

mental declaration. A new high-speed, hydraulic rock drill for long-hole drilling is more efficient and has less environmental impact. Within core drilling new, improved drill bits and a smarter control system result in faster drilling requiring less power. This results in energy-efficient core drilling and decreased water consumption.

In the United States, geothermal drilling technology will be developed together with a business partner in a joint research project. The aim is to increase the speed and reduce the investment cost when drilling for geothermal energy.

Construction Technique

The Construction Technique business area develops new products and offers services to reduce the environmental impact by increasing energy efficiency, enhancing performance and reducing costs, such as those for fuel, labor and parts.

The rotary screw portable compressor range has been redesigned to meet new emission standards and is Tier 4 compliant. The road construction equipment division has developed environmental declarations for all its products. New road construction machines and systems were developed such as the compact asphalt paving system, which has two layers in one process, significantly increases quality and lowers life-cycle costs by saving time and material during paving and offering increased durability. Asphalt tandem rollers have an ECO-mode, which resulted in reduced noise and fuel consumption by 10%, meaning reduced CO₂ emissions.

A newly developed range of breakers is saving both money and the environment. The innovative design uses less material, gives high performance and is produced of up to 99% recycled material. With improved energy efficiency, the breaker reduces the hydrocarbon emissions from the carrier.



Compact asphalt paving system saves resources

The compact asphalt paving system reduces time and material by having two layers in one process. It significantly increases quality and reduces CO₂ emissions. The life-cycle costs decrease by saving time and material during paving and offering increased durability.

Sustainable products launched in 2011

New Power Focus controller

Atlas Copco takes yet another step in offering more energy-efficient equipment. The new Power Focus controller, powering and controlling electric nutrunners, provides an energy consumption that is 40% lower compared to the previous version. On an annual basis this is a reduction of 100 kWh per system.



Energy-efficient hammer

A new hydraulic hammer is 20% more energy efficient than its earlier version. The innovative design uses less material, gives high performance and is produced of up to 99% recycled material.



Energy-efficient rock drill

A new high-speed, hydraulic rock drill for long-hole drilling has an improved efficiency and environmental impact, with 17% energy-efficiency improvement.



Innovative surface drill rig

New surface drill rigs have demonstrated a reduction of up to 50% in fuel consumption. Each drill rig reduces its carbon dioxide emissions by 53.5 tons per year. The new drill rig silenced kit reduces noise by another 2dB, setting a new standard in the market.



Innovative centrifugal compressor

Atlas Copco's oil-free high-speed drive centrifugal compressor is designed specifically for the pharmaceutical and electronics industry customers, which require the highest compressor performance in terms of energy efficiency and reliability. This medium-pressure industrial three-stage centrifugal compressor is 4% more energy efficient compared to the previous version of turbo compressors.



Product take-back and smart packaging

Atlas Copco has initiatives to reduce its use of resources. Products such as stationary compressors, drill rigs, hydraulic breakers and industrial tools are taken back from customers, refurbished and resold as used equipment. The requirements to be met in terms of quality, performance and reliability are the same as those to be met by new units.

Optimizing packaging material is important to the Group's companies. The consumption increased by 1% in relation to cost of sales primarily due to the change in product mix.

Product responsibility

Atlas Copco strives to consistently deliver high-quality products and services that contribute to its customers' productivity and business growth. 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 safety and health perspective, including ergonomics. Further, all Atlas Copco products and services come with relevant product, service and safety information. The product and service information required by the companies' procedures for product and service information and labeling covers aspects such as sourcing of

components, content such as substances of concern, safe use and disposal of the product or service. Customer training is included when relevant, to secure safe handling of the products.

Atlas Copco is in general not directly covered by the EU Waste Electrical and Electronic Equipment (WEEE) Directive. However, handheld electric tools and monitoring control instruments are defined to be within the scope. For those products Atlas Copco has a responsibility for the disposed products. The Group handles the EU WEEE Directive globally.

The Group strives to follow laws and regulations regarding safety, health and environmental aspects or product information and labeling. In 2011, no fines were paid for non-compliance with laws and regulations concerning the provision and use of products and services.

Sales and marketing communication

Atlas Copco's products and services are marketed and sold on the basis of their quality, productivity, price and service level and other legitimate attributes. The Group companies are responsible for the marketing activities and for communications as well as training of personnel within the area of customer safety and health, product and service labeling, marketing communications, customer privacy and compliance.

Communications professionals are employed in the local markets. In addition to the competence that they bring, they are offered internal training through the Atlas Copco Communications Academy, on legal aspects of communication or how to write for the website, for example.



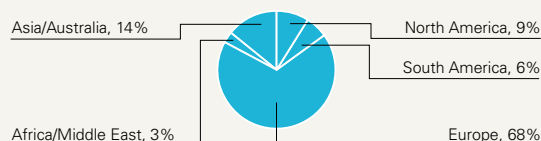
Battery powered tightening tool

Atlas Copco developed a tool specifically for the aerospace industry with the aim to decrease energy consumption while increasing tightening quality. The battery-powered tool replaces pneumatic versions and is more energy efficient than comparable corded electric versions. The annual saving in energy versus the pneumatic version is 225 kWh per system, given a typical use pattern in aerospace industry.

Screw compressor with energy-saving certificate

This new compressor range is designed for the Asian market, bringing the power and reliability of an industrial screw compressor to any type of small and medium-sized industry. It utilizes state of the art compressor elements and is certified with Green Label Level 2 efficiency, which is a Chinese standard.



Geographical spread of employees**Professional category spread of employees****Gender distribution of employees****Gender distribution of managers****Gender distribution recent graduates recruited in the year****Geographical spread of accidents**

Employees

Atlas Copco's current and potential employees expect a working environment that sets a high standard for leadership and provides opportunities for each individual to develop professionally. Offering a diverse workplace with good health, safety and labor practices is an important part of Atlas Copco's brand as an employer, and thereby a key success factor for the Group.

Goals:

- First in Mind—First in Choice® employer for today's and future employees
- Safe and healthy working environment for all employees – zero work-related accidents
- Sick leave below 2.5%
- Increase the diversity both in terms of nationality and gender
- Encourage internal mobility
- Ensure competence development and yearly coaching

Atlas Copco's people management strategy is to attract, develop and keep motivated people, while expecting managers to take responsibility for developing their employees, their organizations and themselves. A key success factor of this strategy is to encourage diversity and to integrate the Group's basic beliefs and values with local culture. Greater diversity fosters an international mindset, stimulates innovation, the ability to work cross culturally and expand into new markets, and gives a better understanding of the societies in which Atlas Copco operates. Diversity remains a challenge which the Group is addressing through initiatives such as the launch of a program with short-term assignments abroad to increase both competence development and diversity. Mentorship programs, a global network, and policies aim to increase the number of women in management positions. Read more on page 18 in the annual report and on page 124.

Employee surveys

Atlas Copco conducts a Group employee survey at least every second year; next time in 2012. During the year companies worked with the result from the 2010 survey including launching on-the-job training, internships and coaching programs. Local management follows up areas needing attention and improvement and hold employee workshops on how to improve where there are weaknesses and capitalize on strengths.

Employer/employee relations

The Way We Do Things gives employees information on the Group's people management process, including guidance on recruitment, compensation, performance reviews, and competence development.

The non-discrimination policy covers all employees. Labor practices such as the right to collective bargaining are included in the Business Code of Practice; see page 105. In 2011, 41% of all employees were covered by collective bargaining agreements. The Business Code of Practice covers employee rights and is regularly updated. In countries where no independent labor union may exist, Atlas Copco has taken measures to establish forums for employer/employee relations, as in China for example, through environment and safety committees.

Wages and benefits

Atlas Copco's aim is to provide wages and benefits that are fair, consistent and competitive, and in line with industry standards, in order to attract and retain the best people. A fair salary structure is determined through a classification system based on a specific compensation level for each position, and is benchmarked against similar companies using the same system. For temporary employees, benefits provided are in line with national laws and regulations. This is also valid regarding minimum wages and the minimum notice period in cases of operational changes.

Mobility and employee turnover

Atlas Copco encourages mobility across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced 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 2011, internal mobility among employees was 9%, which means that 3 250 people moved to new positions. Overall external recruitment reached 21%, which means that it totaled 7 270 people excluding acquisitions. Employee turnover was 8%. The increase in internal mobility, external recruitment and employee turnover are explained by the business increase.

Safety and health

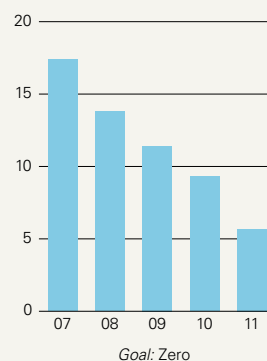
Continued focus on safety and health in 2011 resulted in an increased number of companies with OHSAS 18001 certification (Occupational Health and Safety Accounting Standard) and a decrease in work-related accidents. The target is that all employees work in an environment with a health and safety management system. As of this year 55% of the employees work in a company that has implemented this system.

The Atlas Copco Safety and Health Award 2011 recognized four companies in the Group with a long-term commitment and a structured approach to safety and health, leading to a strong performance over the years that also benefits customers. Business areas have taken long-term initiatives to improve safety and health performance. The Safety First campaign promotes safety among employees at Compressor Technique, and Industrial Technique runs a wellness initiative among employees, which has proven successful with increased health and wellness. The goal is zero work-related accidents.

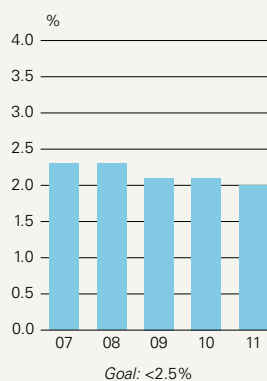
The number of accidents per million hours worked was 5.7 (9.3), in 2011. This corresponds to 370 (561) accidents during the year. This substantial improvement is partly explained by increased awareness through implementation of the OHSAS 18001 standard in more companies. Safety training, for example, is included in the new employee induction program and reporting of near-accidents or incidents also helps prevent accidents. The total number of incidents was 1 490. The lost time due to accidents was 6 599 days. The rate of companies having achieved the OHSAS 18001 certification represents 67% (61) of cost of sales. Employees that work in an environment with an OHSAS 18001 are represented in formal joint management-worker health and safety committees.

In 2011, there was 1 (0) work-related fatality in Atlas Copco's operations which involved a car accident. This tragedy was

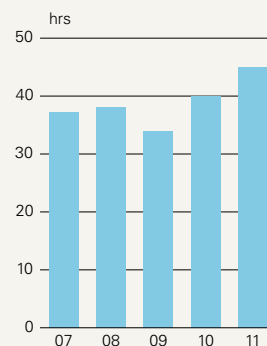
No. of accidents per million of hours worked



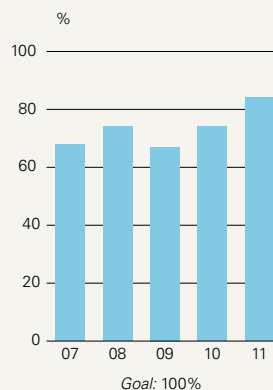
% of sick-leave



Average hours of training per employee



Proportion of appraisals among employees



reported to Group Management and action was taken to improve the road safety policy, now included in the updated global Group travel policy.

The goal on sick-leave is to keep it below 2.5%. In 2011, it was kept at a low level of 2.0% (2.1). Regional data is available on the Atlas Copco website. [www](http://www.atlascopco.com)

Addressing diseases

The HIV/AIDS pandemic is a major concern in some countries where Atlas Copco operates. The Group has HIV/AIDS or wellness programs in countries where important diseases such as HIV/AIDS have an impact on its employees, the business and the local community.

In 2002, Atlas Copco introduced an HIV/AIDS program in its operations in South Africa, including testing, awareness training, and consultation and treatment for those who are diagnosed HIV positive. Today, Atlas Copco's HIV/AIDS program spans nine countries in Africa. No Atlas Copco employee who joined the program with a negative test result has later been tested positive for HIV/AIDS.

During the year, Atlas Copco in South Africa and Zimbabwe addressed their business partners to support and help with their experience and knowledge on how to conduct HIV/AIDS programs. See case study on page 109.

Employees and family members in India and the United States where diabetes is a concern are offered wellness programs including counseling and medication to address the disease.

Competence development

Competence development is part of attracting and keeping satisfied employees. The goal is that employees should receive the training and coaching needed to achieve good results and an appraisal each year, regardless of professional category, including on-the-job training. In 2011, the total number of training hours was 1 583 557; the average number of training hours per employee was 45 (40). The increase is primarily explained by business growth and an increase in new employees. Some training initiatives include local Atlas Copco Academy training in Russia, China, India and South Africa, management training, sales and service training.

Workshops and seminars help implement Group policies and processes. Business areas provide targeted skill-based training in

accordance with the organization's needs. While seminars and workshops are the most popular forms of training within Atlas Copco, the Group also focuses on e-learning courses and webinars, for example. An introductory Atlas Copco Circles course which includes the Business Code of Practice, and safety, health and environmental awareness training, available in ten languages are mandatory for all employees.

One measure of success of the focus on competence building within Atlas Copco is the percentage of employees with a university degree or higher. In 2011, 51% of the white-collar employees had a university degree or higher. During the year, 84% (74) of all employees had an appraisal, an annual performance and career development review. See page 18 in the annual report.

Equality, fairness and diversity

Atlas Copco companies establish a local diversity policy and guideline aligned with local laws and regulations, Group policy and local ambitions. This can include options regarding a reduction of working time for childcare or educational leave. The goal is to increase diversity in both nationality and gender.

The Group mainly recruits managers and employees from local communities where it operates. As such, Atlas Copco's workforce reflects the local recruitment base and comprises all cultures, religions and nationalities. The long-term ambition is to develop local leaders. A total of 67% (68) of all senior managers are locally employed.

The ratio of female employees was 17% (16). The proportion of women in management positions was 15% (14). The small increases are explained by focused activities to increase the number of females in all positions. Even though the absolute number of female recent graduates increased, the proportion decreased to 31% (32).

To increase the proportion of female leaders, Group policy states that recruiting managers must always have at least one female candidate when recruiting external candidates to positions where a university degree is needed. The high-level female mentorship program is in the third consecutive year, aimed at women with ambition and potential to become general managers. The global female managers' network *The Pleiades* supports participants during and after the program has ended.



Big region, big goals

Marina Krassyuk, General Manager of Atlas Copco Compressor Technique Central Asia, is from Kazakhstan and responsible for her native country and five other countries in the region, an area the size of Europe. She reflects on a career at Atlas Copco that has offered many opportunities for growth and development since she joined in 2001.

"If you do a good job and ask for new challenges at Atlas Copco you will receive them. The corporate culture is friendly.

I travel frequently and I always feel like I'm visiting family or relatives in every office in every country. It has been an exciting journey for me; ten years ago, we were only five people in the office and today we are over 200," she says.

Her chief concern, however, is on the home front: "There is enormous potential here. We need to expand our business and I have already posted some vacant positions. To be honest, I never thought that I would work in this area but I have never regretted my decision to join Atlas Copco."

Business partners

When products carry an Atlas Copco brand, the same high standards for the environment, labor and human rights must be consistently met at Atlas Copco or its business partners such as suppliers, sub-contractors and joint venture partners. Atlas Copco therefore has a process in place for managing and monitoring its supply chain, recognizing that business partners play an integral role in achieving the Group's sustainability goals.

Goal:

- Work with business partners committed to high ethical, environmental and social standards

The Group goal is to work with business partners committed to high ethical, environmental and social standards. Working with suppliers plays a crucial role in safeguarding the reputation and brand for Atlas Copco.

There are three focus areas for evaluating suppliers' performance on social and environmental responsibility:

- Business partners' adherence to a 10-point checklist/letter that Atlas Copco has developed, based on the UN Global Compact and on the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and published on the Atlas Copco website. The checklist requires that the business partner takes responsibility for sub-suppliers' business conduct. However, Atlas Copco has the right to evaluate further down the supply chain when deemed necessary. The checklist forms the basis of the supplier evaluation guideline and includes human rights, labor practices, environment and corruption. Business partners are asked to sign the letter. [www](#)
- The use of Atlas Copco lists of substances of concern.
- Atlas Copco encourages all business partners to implement a safety, health and environmental management system.

The Group's purchasing process is decentralized and managed in the divisions. However, local purchasing (non-core) is mostly carried out by individual companies. Atlas Copco promotes local purchasing since it benefits the region where the Group operates and also facilitates close relationships with local partners to capitalize on opportunities to further improve quality and efficiency, and decrease environmental impact, particularly at the start-up

phase of projects and with new suppliers. Training and resources are a focus in new sourcing projects.

Group companies select and evaluate business partners partly on the basis of their commitment to social and environmental performance. The environmental commitment includes environmental management system, policy, targets, etc. The potential risk of violations of the Atlas Copco Business Code of Practice is very important and minimizing this risk is in focus when selecting and evaluating a business partner.

Business partners are evaluated during, and after selection, for example when quality issues arise in sourced components or depending on aspects such as geographical location, purchase volume, or type of component. The supplier evaluation process includes for example the business partner's use of energy and related CO₂ emissions, water use, respect of human rights and labor practices. At times self-assessment checklists are sent to suppliers and on-site evaluations are conducted either at regular intervals or when deemed necessary. The on-site visit results in a report with concrete suggestions for improvement to be followed up on at an agreed time. Where business partners' operations indicate a potential conflict to the Business Code of Practice, improvement plans can be agreed upon and Atlas Copco can provide experience and know-how.

The internal training on supplier evaluations is published in the internal database *The Way We Do Things*, which is available to all employees. Training is given on a worldwide basis.

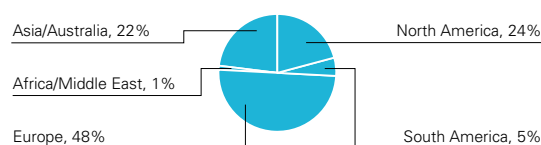
During the year an e-learning for business partners was developed and launched on the Atlas Copco website. The aim is to raise awareness of Atlas Copco's Business Code of Practice. Business partners such as significant suppliers of direct material are encouraged to take the training either online or during visits.

Performance from supplier evaluations

Group companies report quantitative data on evaluated, approved and rejected suppliers and those requiring further improvement in their practices. The companies report in which regions their suppliers are located and the status of environmental and social evaluations.

A supplier is considered approved if Atlas Copco has performed an assessment at the supplier site and reported that there is no risk of violating the Business Code of Practice, or that the supplier has acted on all development suggestions from a previous evaluation.

Geographical spread of suppliers



Activities on supplier evaluations take place primarily in the product companies. In some places suppliers were invited to Suppliers' Day, during which they were informed and trained in the supplier evaluation procedure. The activities have in many cases resulted in business ethics, safety, health and environmental improvements.

Significant suppliers are defined as direct material suppliers and indirect material suppliers where relevant. In 2011, 3 242 suppliers, representing 16% of the total number of significant suppliers (20 306), were evaluated on environmental performance by teams directly at the suppliers' sites, or through verification of the suppliers' own reports. A total of 93% of the suppliers evaluated from an environmental perspective were approved and need not be followed up. A total of 6% of the suppliers were conditionally approved and will be monitored. The same figures related to social evaluations, including business ethics and human rights, in which 2 835 suppliers were evaluated, out of which 87% were approved and 12% conditionally approved. Approximately 1% of the suppliers were rejected.

Approximately 78% of the significant suppliers who were queried confirmed commitment to the Business Code of Practice or the 10-point letter.

In 2011, 17 suppliers were rejected for environmental reasons and 16 for social, safety and health reasons. The suppliers were rejected, or not approved, because they were deemed to not live up to Atlas Copco requirements and were not willing to improve. Some of the issues that resulted in the decision concerned, for example, safety in the workplace, personal protection for workers and no fulfillment of environmental laws. The Group does not keep any black lists of business partners.

Prohibited or restricted substances

Atlas Copco maintains lists of substances which are either prohibited or restricted due to their potential negative impact on health or the environment. Restricted substances are not yet legally excluded for use but should be replaced according to a plan that takes into account technical and financial aspects. Prohibited substances are not allowed in the Group's products or processes. Suppliers' use of such substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with approved alternatives. The lists are continuously revised according to applicable legislation, including REACH. The lists on prohibited and restricted substances are published on the Atlas Copco website. 

Supplier evaluations safeguard a sustainable supply chain

As suppliers of components to the Group's production plants, business partners constitute an important part of the value chain. Many of these business partners are active in countries where ethical, social, and environmental standards are different from those described in voluntary ethical guidelines.

Atlas Copco strives to have a capable and competitive supplier base by seeking business opportunities and mitigating risks. The suppliers are selected and evaluated on the basis of objective factors including quality, delivery, price, and reliability, but also on their commitment to environmental and social performance including human rights and business ethics, and development towards further improving their performance in those areas.

Steps in a supplier evaluation

1. The evaluation begins with an interview with managers about the safety, health and environmental management system, laws and regulations, site permits, emergency preparedness training, maintenance, terms of employment, working hours, etc.
2. The next step is a tour of the production area, where the focus is on health and safety-related aspects: maintenance of machinery, ventilation, handling of hazardous waste, oil spills, risk for contamination, access to fire extinguishers, use of chemical products, and access to personal protection equipment, toilets, drinking water, lighting, and first aid, as well as local legislation compliance.
3. The evaluation is concluded with improvement suggestions. The team goes through the assessment checklist together with the suppliers and provides direct feedback on needed improvements.

In cases of potential violations to the Atlas Copco Business Code of Practice, efforts are made to assist suppliers who show a willingness to improve. However, if there is no demonstrated improvement, Atlas Copco will discontinue the business relationship.

Shareholders

For Atlas Copco, sustainability is the pathway to long-term value creation. Investors, particularly ethical funds, are increasingly incorporating social, environmental and ethical parameters into their traditional financial analysis of a company's management quality prospects for growth. Investors are looking for companies that demonstrate transparency and openness, innovation in product development, can attract and retain a talented and dedicated workforce, and are considered a preferred partner for their customers. Sustainability underpins many of these qualities and is a way to both minimize risk and capture new opportunities.

Assessing risks

Atlas Copco's approach to assessing and managing risks, including those related to the Group's corporate responsibility work, is described in the annual report, section Risk factors and risk management.

Climate change is considered a significant source of potential risk as well as an opportunity by Atlas Copco. 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. 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 government initiatives to combat climate change.

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.

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, hence potential financial implications have not been quantified.

Carbon Disclosure Project

Atlas Copco is listed in the Carbon Disclosure Project's (CDP) annual reporting of climate impact in 2011 scored 72 out of a maximum 100. Atlas Copco also participated in the CDP's first Water Disclosure Global Report in 2011. The CDP is a non-profit organization that serves as the largest database on corporate climate change information, acting on behalf of 655 institutional investors holding USD 78 trillion in assets under management. For more, see www.cdproject.net.

Sustainability ratings

Atlas Copco seeks opportunities to measure its sustainability policies and performance against peer companies and external standards to inspire learning, and set more challenging goals. In addition to the reporting on key performance indicators, which in part have been defined based on Global Reporting Initiative's reporting guidelines, Atlas Copco reports annually on its sustainability performance to a number of companies involved in sustainability ratings.

Global 100

Atlas Copco was ranked number 10 in the world at the 8th Annual Global 100 Most Sustainable Corporations list released at the World Economic Forum in Davos, Switzerland. Led by Corporate Knights, the Global 100 is a well known corporate sustainability assessment. For more, see www.global100.org.

Dow Jones Sustainability Indexes

In 2011, Atlas Copco was included in the Dow Jones Sustainability Indexes, which lists the world's leading sustainability driven companies. For asset managers focused on investing in sustainable companies, the indexes provide a benchmark to measure the performance of their investments. Atlas Copco was previously included in the indexes in 2007/2008. Membership in the sustainability indexes is based on an annual assessment and comparison between industry peers. The assessment focuses on management of opportunities and risks deriving from economic, environmental and social developments. Aspects such as corporate governance and strategy are taken into account, as well as key performance indicators such as emissions and waste. Atlas Copco's introduction of new goals in 2011 for sustainable, profitable development is believed to have contributed to its inclusion once again, and confirms Atlas Copco's profile for investors with a focus on these issues. For more, see www.sustainability-indexes.com.

Other sustainability ratings which listed Atlas Copco are:

- FTSE4Good Global Index, www.ftse.com
- Atlas Copco A has been selected for inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers, www.ethibel.org
- STOXX® Global ESG Leaders indexes STOXX, www.stoxx.com
- OMX GES Sustainability Nordic index by NASDAQ OMX Stockholm and GES Investments Services, indexes.nasdaqomx.com
- GS SUSTAIN focus list by Goldman Sachs, www.gs.com
- Folksam Environmental Index (4.1) and Folksam Human Rights Index (4.0), www.folksam.se

The Group received its most recent recognition in January 2012 from Global 100.

Performance summary¹⁾

GRI*	Economic ⁴⁾	2007	2008	2009	2010	2011	
EC1	Direct economic value						
EC1	Revenues	64 391	77 370	65 374	70 490	82 274	
EC1	Economic value distributed						
EC1	Operating costs ²⁾	38 888	46 084	41 593	41 466	48 032	
EC1	Employee wages and benefits	12 696	14 555	13 339	14 699	15 910	
EC1	Payments to providers of capital ³⁾	5 119	7 097	5 819	4 489	5 913	
EC1	Payments to governments (tax)	3 434	3 194	2 095	3 619	3 902	
EC1	Economic value retained	4 254	6 440	2 528	6 217	8 517	
EC1	– Redemption of shares	24 416	–	–	–	6 067	
EC1	– Repurchase of own shares	–	–	–	–	–	
GRI*	Social/employees ⁴⁾	2007	2008	2009	2010	2011	Goal ⁵⁾
LA1	Proportion of white-collar employees, %	66	68	67	61	62	
LA1	Proportion of blue-collar employees, %	34	32	33	39	38	
LA2	Employee turnover white-collar employees, %			10.0	7.0	7.4	
LA2	Employee turnover blue-collar employees, %					7.7	
LA7	Number of accidents	911	881	652	561	370	0
LA7	Number of accidents per million hours worked	17.4	13.8	11.4	9.3	5.7	0
LA7	Lost days due to accidents per million hours worked					101	
LA7	Number of incidents per million hours worked					22.8	
LA7	Sick-leave due to diseases, %	2.3	2.3	2.1	2.1	2.0	<2,5
LA7	Sick-leave rate due to diseases and accidents, %					2.1	
LA10	Average training hours per employee	37	38	34	40	45	
LA10	Average training hours, white-collar employees	39	39	36	44	48	
LA10	Average training hours, blue-collar employees	35	36	30	34	41	
LA12	Proportion of appraisals, % employees	68	74	67	74	84	100
LA13	Proportion of women, % employees	16.4	16.6	17.7	16.3	16.8	
LA13	Proportion of women in management positions, % managers	12.0	12.9	13.6	13.5	14.6	
LA13	Number of nationalities, senior managers			39	40	44	
GRI*	Environmental (production units) ⁴⁾	2007	2008	2009	2010 ⁶⁾	2011	Goal ⁵⁾
EN1	Material use in '000 tons (iron and steel)	143	138	104	141	135	
EN1	Packaging material in '000 tons	35	34	26	30	35	
EN3	Direct energy use in GWh ⁷⁾	122	140	101	116	132	
EN4	Indirect energy use in GWh ⁷⁾	258	276	251	287	305	
EN3+EN4	Energy use in GWh	380	416	352	403	437	
EN8	Water consumption in '000 m ³	497	547	523	464	619	keep at current level/COS
EN16	CO ₂ emissions '000 tons (direct energy)	25	30	32	24	28	–20%/COS (2020)
EN16	CO ₂ emissions '000 tons (indirect energy)	80	90	78	88	98	–20%/COS (2020)
EN16	CO ₂ emissions '000 tons (total energy)	105	120	99	112	126	–20%/COS (2020)
EN17	CO ₂ emissions '000 tons (transports)	312	305	206	194	214	–20%/COS (2020)
EN22	Waste in '000 tons	35	38	27	34	34	reuse or recycle
EN22	Rate of reused or recycled waste, %	88	88	87	88	95	100%
GRI*	Environmental (specialty rental) ⁴⁾	2007	2008	2009	2010 ⁶⁾	2011	Goal ⁵⁾
EN3 + EN4	Energy consumption in GWh	65	27	17	9	38	
EN8	Water consumption in '000 m ³	19	23	16	15	12	keep at current level/COS
EN16	CO ₂ emissions in '000 tons (energy)	17	7	5	3	10	–20%/COS (2020)
EN17	CO ₂ emissions in '000 tons (transports)	9	4	3	5	8	–20%/COS (2020)

* Calculations according to GRI guidelines, www.globalreporting.org

¹⁾ Changes reflect both changes in volume, consumption and an increase in the number of reporting units.

²⁾ In operating costs, cost of sales also includes taxes paid to local governments.

³⁾ Payments to providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.

⁴⁾ Reported values are not corrected retroactively.

⁵⁾ Goal base year is 2010.

⁶⁾ Updated values in italic, according to the new organizational structure and reporting system.

⁷⁾ Direct and indirect energy is reported in detail on the web: <http://www.atlascopco.com/corporateresponsibility/CRAtlas/environment/useofresources/>



Corporate governance report

Atlas Copco AB is incorporated under the laws of Sweden with a public listing at NASDAQ OMX Stockholm AB (OMX Stockholm). Reflecting this, the corporate governance of Atlas Copco is based on Swedish legislation and regulations: primarily the Swedish Companies Act, but also the rules of OMX Stockholm, the Swedish Corporate Governance Code, the Articles of Association and other relevant rules.

IMPORTANT EVENTS IN 2011

- The Board adopted new goals for sustainable profitable development.
- New organization; Atlas Copco has moved from three to four business areas.
- Two new members joined Group Management.

www More information on corporate governance

The following information is available at www.atlascopco.com:

- Corporate governance reports since 2004
- Atlas Copco's Articles of Association
- An item-by-item report on Atlas Copco's compliance with the Swedish Corporate Governance Code
- Business Code of Practice
- Information on Atlas Copco's Annual General Meeting

The Swedish Corporate Governance Code is available at www.corporategovernanceboard.se

Shareholders

In the Atlas Copco Share section, pages 138–141, the shareholder structure, share capital, voting rights, and dividend policy are described as well as the trading and market capitalization.

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 shareholdings. Shareholders who cannot participate personally may be represented by proxy holders and a proxy form is made available for the shareholders. A shareholder or a proxy holder may be accompanied by two assistants.

Shareholders representing 54.1% of the total number of votes in the company and 53.3% of the shares attended the Annual General Meeting held on April 20, 2011 in Stockholm, Sweden.

Among other matters, all 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 unless otherwise decided by the Nomination Committee. Board members are nominated in accordance with the process proposed by the Nomination Committee and adopted by the Annual General Meeting.

ANNUAL GENERAL MEETING 2012

The Annual General Meeting of Atlas Copco AB will be held in Stockholm, Sweden, on April 27, 2012.

How to contact the Board of Directors

If a shareholder wishes to submit questions or for other reason wants to get in contact with the Board, please contact:
Atlas Copco AB, Att: General Counsel, SE-105 23 Stockholm, Sweden, or e-mail: board@se.atlascopco.com

Nomination process

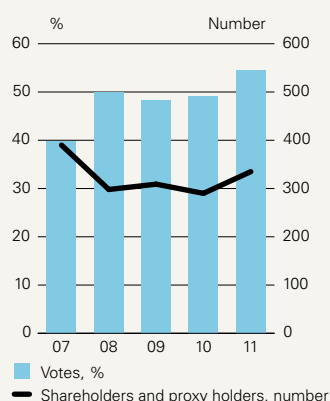
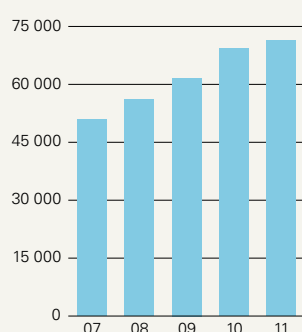
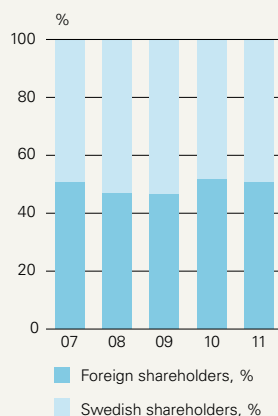
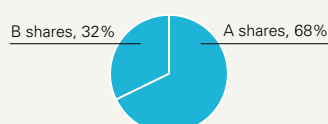
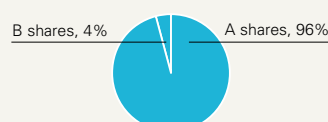
Board members

The process for nomination and presentation of Board members for election at the 2012 Annual General Meeting has been performed in accordance with the nomination process and the criteria adopted at the 2011 Annual General Meeting.

As prescribed by this process and criteria, during October 2011 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, Jan Andersson, Swedbank Robur Funds, Ramsay Brufer, Alecta Pension Insurance, Mutual, and Frank Larsson, Handelsbanken Fonder. The Committee members represented some 28% of all votes in the company. The names of the Committee members were made public on October 19, 2011. A way to contact the Nomination Committee directly was also provided. In mid-November the Committee began preparing a proposal to be submitted to the 2012 Annual General Meeting covering the issues specified at the 2011 Annual General Meeting and the Swedish Corporate Governance Code.

In line with the formal evaluation process adopted by the Committee, Sune Carlsson made an evaluation of 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. The Nomination Committee also met with the President and CEO, Ronnie Leten, for discussions.

When the notice of the Annual General Meeting 2012 is issued, the Nomination Committee will issue a statement on Atlas Copco's website explaining its proposal regarding the Board members as stated in the Swedish Corporate Governance Code.

Annual General Meeting attendance**Number of shareholders****Ownership structure (votes)****Distribution of shares, % of number****Distribution of shares, % of votes**

In the notice to the 2012 Annual General Meeting, the Committee will present its proposal regarding Chair of the Annual General Meeting, number of Board members, names of the proposed Board members, as well as Chair of the Board. It also submits its proposal for remuneration to the Chair and other Board members not employed by the company, as well as a proposal for remuneration for committee work. In addition, the Nomination Committee will present a proposal for the process and criteria that shall govern the appointment of the members of the Nomination Committee until otherwise decided as well as a list of decision points.

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

External auditor

At the Annual General Meeting 2010 the audit firm Deloitte AB, Sweden was elected external auditor until the 2014 Annual General Meeting in compliance with a proposal from the Nomination Committee.

Board of Directors

At the 2011 Annual General Meeting, nine Board members were elected, one of which is the President and CEO, Ronnie Leten. The Board also has two members, with personal deputies, who are appointed by the labor unions.

The Board had seven meetings in 2011, five times at Atlas Copco AB in Nacka, Sweden, one per capsulam and one in Nanjing, China. 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(s) 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 as well as Hans Ola Meyer, CFO, have been present at most meetings. The two business area presidents Stephan Kuhn and Robert Fassl have been present at a meeting during the year when they presented in-depth analysis of their respective business areas. Jeanette Livijn, Senior Vice President Organizational Development and Human Resources, Mats Högborg, Vice President Corporate IT, and Ken Lagerborg, Group Treasurer, presented the situation in their respective area of responsibility at the April and November meetings.

At the January meeting 2012, the Board evaluated the performance of the President and CEO. At the same meeting the main responsible external auditor, Jan Berntsson, Deloitte, reported his observations from the annual audit 2011; both the September hard close and as of December 31. Members of the management were not present during these discussions.

Rules of procedure and written instructions

The rules of procedure and written instructions for the Board and its committees have been updated and re-adopted by the Board at each statutory meeting since 1999. In addition to the task of preparing matters for decision by the Board described in the rules of procedure and written instructions, Anders Ullberg, Ulla Litzén

The Business Code of Practice

In the Atlas Copco Business Code of Practice the internal policy documents related to business ethics and social and environmental performance are summarized. All employees and managers in Group companies, as well as business partners, are expected to adhere to these policies. To make it accessible to all employees, the Business Code of Practice has been translated into 23 languages.

Through its annual training and compliance process, Atlas Copco ensures that all managers will act in accordance with high ethical standards outlined in The Business Code of Practice. It also means that the managers can provide support and guidance to their organizations and to local external stakeholders.

and Sune Carlsson were given the task to support management in the implementation of the share repurchase mandates given 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 and three.
- 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, corporate responsibility 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 fact box on page 137.
- 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 or rejected a proposal from management. Each Board member has commented on the market/economic development from his/her perspective at the Board meetings.

Major issues dealt with by the Board during the year include the follow-up of measures to increase production, cost development and the development of the world economy.

During the year, the Board has continuously addressed the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Atlas Copco Group. Corporate responsibility issues were covered, with a special focus on safety and health.

Remuneration to the Board members

The 2011 Annual General Meeting decided on the following fees: the Chair received SEK 1 750 000, the Vice Chair SEK 645 000, and each of the other Board members not employed by the company SEK 525 000. An amount of SEK 200 000 was granted to the Chair of the Audit Committee and SEK 125 000 to each of the other three members of this committee. An amount of SEK 60 000 was granted to each one of the three members of the Remuneration Committee and SEK 60 000 to a Board member who participated in additional committee work decided upon by the Board.

The Annual General Meeting further decided that out of the stated fees, 50% of the Board fee could be received in the form of synthetic shares. Most Board members accepted this offer prior to the Annual General 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 2011. 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 280 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 (notice period and severance pay). The base salary is determined by position and performance and the variable compensation is for the achievement of individual goals. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders.

The Remuneration Policy is reviewed every year and was presented to the 2011 Annual General Meeting for approval. The current Remuneration Policy is included in the annual report. During the year, the Remuneration Committee had two meetings where all members were present.

Audit committee

In 2011, the audit committee consisted of Board members Ulla Litzén, Chair, Sune Carlsson, Staffan Bohman, and Johan Forssell. The Chair of the committee has the accounting competence required by the Swedish Companies Act and two of the members are independent from the company and its main shareholder. The committee convened five times. All members were present at all meetings. All meetings were also attended by the responsible auditor Jan Berntsson, Deloitte, Atlas Copco's President and CEO, Ronnie Leten, CFO, Hans Ola Meyer and Vice President Group Internal Audit & Assurance, Anders Björkdahl.

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 2011. The committee's primary task is to support the Board in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and risk management as well as to supervise the financial structure and operations of the Group. Work in 2011 focused on review of each quarterly interim report, follow-up of the 2010 audit, the auditor's review of the half-year report according to agreed upon procedures and the hard close audit carried out as of September 30. Further, the financial risk exposure and the capital and financial structures were regularly reviewed, the Group's internal audit and control procedures were evaluated and certain risk areas were monitored by the committee.

Board of Directors



Sune Carlsson



Jacob Wallenberg



Ronnie Leten



Ulla Litzén



Anders Ullberg



Staffan Bohman



Margareth Øvrum

Union Representatives



Johan Forssell



Gunilla Nordström



Bengt Lindgren



Ulf Ström



Mikael Bergstedt



Kristina Kanestad

The Board of Directors consists of nine elected Board members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2011 requirements of the OMX Stockholm and the rules of the Swedish Code of Corporate Governance regarding independence of board members, which secures that conflicts of interest are avoided. See table on page 130.

All Board members have participated in the training sessions arranged by OMX Stockholm.

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. *Principal work experience and other information:* Vice Chair of Scania AB, Sweden, President and CEO of AB SKF, Sweden, and Executive Vice President of ASEA AB, Sweden, and ABB Ltd., Switzerland.

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, the airline SAS AB and the telecom equipment company LM Ericsson AB, all in Sweden. Board Member of the power and automation company ABB Ltd., Switzerland, The Coca-Cola Company, the United States, the nonprofit Knut and Alice Wallenberg Foundation, Sweden, and the Stockholm School of Economics, Sweden. *Principal work experience and other information:* Chair of SEB AB, President and CEO of SEB AB, Executive Vice President and Head of Enskilda Division, SEB AB, Advisor to the President and CEO of SEB AB, Executive Vice President and CFO of Investor AB. All positions based in Sweden.

Ronnie Leten, *President and CEO*. M. Sc. in Applied Economics, University of Hasselt, Belgium. *Principal work experience and other information*: Various positions at food company General Biscuits, Plant Manager in Monroe Tenneco, a sub-supplier to the motor vehicle industry, Business Development Manager for Atlas Copco Compressor Technique, President of the Atlas Copco Airtec division, President of the Atlas Copco Industrial Air division, and Business Area President for Atlas Copco Compressor Technique. All positions based in Belgium.

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 mining company Boliden AB, the industrial company Alfa Laval AB, the construction company NCC AB and outdoor equipment company Husqvarna AB, all based in Sweden. *Principal work experience and other information*: President of W Capital Management AB, Sweden, and Managing Director and member of the Management Group, Investor AB, Sweden.

Anders Ullberg M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Chair of the Board of the steel wholesaler BE Group AB, the mining company Boliden AB, the publishing company Natur & Kultur, and the technical services company Studsvik AB. Member of the Board of the aluminum profile company Sapa AB, the investment company Beijer Alma, and the roll manufacturer Åkers AB. Chair of the Swedish Financial Reporting Board and member of the Swedish Corporate Governance Board. All based in Sweden. *Principal work experience and other information*: Vice President Corporate Control Swedyard (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel and President and CEO of SSAB Swedish Steel. All positions based in Sweden.

Staffan Bohman M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and Stanford Executive Program, the United States. Member of the Board of the holding company Inter-IKEA Holding N.V., the Netherlands, the private equity company Ratos AB, Sweden, the mining company Boliden AB, Sweden, the lift manufacturer Cibes Lift AB, Sweden, and the component manufacturer OSM AB, Sweden. Chair of the hospital- and social welfare organization Ersta Diakoni, Sweden, Vice Chair of the Board of trustees of SNS, Sweden. *Principal work experience and other information*: Former CEO of Sapa AB, Gränges AB and DeLaval AB. All positions based in Sweden.

Margareth Øvrum M.Sc. in Technical Physics, Norwegian University of Science and Technology. Member of the Board of the private equity company Ratos AB, Sweden. *Principal work experience and other information*: Executive vice president for the Technology & New Energy business area in Statoil. Several leading positions within technology, projects, production, maintenance, health/safety/environment, and procurement in Statoil. All positions based in Norway.

Johan Forssell M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Board Member of the defense and security company Saab AB. *Principal work experience and other information*: Member of the management team of investment company Investor AB, Sweden. Head of Research, Head of Capital Goods and Healthcare sector, Head of Capital Goods sector and Analyst Core Holdings in Investor AB.

Gunilla Nordström M.Sc. in Electronics, Industrial Marketing Management, Linköping University. *Principal work experience and other information*: President and CEO of Electrolux Major Appliances Asia/Pacific, based in Singapore, and Executive Vice President of Electrolux AB. Senior management positions with telecom equipment company LM Ericsson and Sony Ericsson in Europe, Latin America and Asia.

Board members and deputies appointed by the unions

Bengt Lindgren, Chair of IF Metall, Atlas Copco Secoroc AB, Fagersta, Sweden.

Deputy **Ulf Ström**, Chair of IF Metall, Atlas Copco Rock Drills AB, Örebro, Sweden.

Mikael Bergstedt, Chair of union PTK, Atlas Copco Tools AB, Tierp, Sweden.

Deputy **Kristina Kanestad**, Chair of Unionen, Atlas Copco Rock Drills AB, Örebro, Sweden.

Honorary Chair

Dr. Peter Wallenberg, Honorary Chair. Econ. Dr. h.c. and Dr. of Laws h.c., Bachelor of Law, University of Stockholm, Sweden. Honorary Chair of the Board of the investment company Investor AB, Sweden. Chair of the Board of the nonprofit Knut and Alice Wallenberg Foundation, Sweden. Held various positions within the Atlas Copco Group 1953–1974 and was Chair of the Board 1974–1996.



Peter Wallenberg

Auditor

Following a thorough evaluation process, the audit firm Deloitte AB (Deloitte), Sweden, was at the 2010 Annual General Meeting elected auditor for the period until the 2014 Annual General Meeting and has appointed Authorized Public Accountant Jan Berntsson as main responsible auditor. Deloitte has the necessary expertise and a global network that coincides with Atlas Copco's demands.

The main responsible auditor personally reported his observations and presented their views on the quality of internal control in the Group at the February 2011 and January 2012 Board meetings, respectively. He also participated in all meetings with the Audit Committee and met regularly with management representatives.

The Board of Directors of Atlas Copco AB, dependency and holdings⁵⁾

Name	Born	Nationality	Elected	Independent to the company's major shareholders	Independent to the company and its management	Class A shares	Class B shares	Synthetic shares/employee stock options
Sune Carlsson	1941	Swedish	1997	No ²⁾	Yes	20 000	34 284	32 108
Jacob Wallenberg ¹⁾	1956	Swedish	1998	No ²⁾	Yes	163 000		11 755
Ronnie Leten	1956	Belgian	2009	Yes	No ³⁾	19 166	12 000	395 513
Ulla Litzén	1956	Swedish	1999	Yes	Yes	75 800	3 000	8 086
Anders Ullberg	1946	Swedish	2003	Yes	Yes	14 000	10 000	8 086
Staffan Bohman	1949	Swedish	2003	Yes	Yes	10 000	30 000	8 086
Margareth Øvrum	1958	Norwegian	2008	Yes	Yes			9 657
Gunilla Nordström	1959	Swedish	2010	Yes	Yes			3 671
Johan Forssell	1971	Swedish	2008	No ⁴⁾	Yes		2 000	9 657
Bengt Lindgren *	1957	Swedish	1990					
Ulf Ström *	1961	Swedish	2008					
Mikael Bergstedt *	1960	Swedish	2004					
Kristina Kanestad *	1966	Swedish	2007					

¹⁾ Jacob Wallenberg was also a Board Member of Atlas Copco AB between 1985–1994

²⁾ Board member in a company which is a larger owner (Investor AB)

³⁾ President and CEO of Atlas Copco

⁴⁾ Employed by a company which is a larger owner (Investor AB)

⁵⁾ Holdings as per end of 2011, including those of close relatives or legal entities.

* Union representative

Board members' roles and attendance in 2011

Name	Position	Board meeting	Annual General Meeting	Audit Committee	Audit Committee meeting	Remuneration Committee	Remuneration Committee meeting
Sune Carlsson	Chair	7 of 7	Yes	Member	5 of 5	Chair	1 of 1
Jacob Wallenberg	Vice Chair	7 of 7	Yes			Member	1 of 1
Ronnie Leten	Member	7 of 7	Yes				
Ulla Litzén	Member	7 of 7	Yes	Chair	5 of 5		
Anders Ullberg	Member	7 of 7	Yes			Member	1 of 1
Staffan Bohman	Member	7 of 7	Yes	Member	5 of 5		
Margareth Øvrum	Member	7 of 7	Yes				
Gunilla Nordström	Member	7 of 7	Yes				
Johan Forssell	Member	7 of 7	Yes	Member	5 of 5		
Bengt Lindgren *	Member	6 of 7	Yes				
Ulf Ström *	Member	7 of 7	Yes				
Mikael Bergstedt *	Member	6 of 7	Yes				
Kristina Kanestad *	Member	7 of 7	Yes				

* Appointed by the unions.

Group structure and management

Since July 1, 2011, Atlas Copco's operations are organized in four (three) business areas and, at year end, comprised of 22 (19) divisions. Each business area has a dedicated service division. In addition to the business areas, there are four Group functions, holding functions, and a few service providers.

Vision and mission

The Atlas Copco Group's vision is to be First in Mind—First in Choice ® for its customers and other principal stakeholders. Its mission is to achieve sustainable, profitable development. In order to achieve the mission the Board of Directors has adopted a number of goals, see separate table. Atlas Copco has established one or more key performance indicators for each goal. The business areas and divisions respectively get objectives/establish targets for their operations within the framework of the Group's mission.

Atlas Copco culture

Atlas Copco acknowledges corporate culture as an important factor for driving behavior in all aspects of how to communicate, behave and appear. As a result, the Group's management team dedicates a lot of time and resources to communicate and cement the culture. With many new recruits and acquired companies this is more important than ever.

The core values of interaction, commitment and innovation must be understood and implemented in all parts of the organization to secure current and future success.

Business areas and divisions

The Group's operative 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, objectives and targets, financial, environmental, and social, to achieve sustainable, profitable development.

The divisions are separate operational units, each responsible to deliver growth and profit in line with the strategies and objectives set by the business area, as well as for structures for product development, manufacturing, marketing, sales, and rental. Each business area has a service division in charge of service of the products and solutions of the business area worldwide. Comprehensive information about the business areas can be found on pages 24–39.

Service providers

As a complement to the divisions, a number of service providers have been set up to provide service in the areas of administration, IT support, treasury 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 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, business boards, reflecting the operational structure of the Group. The duty of a 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 has several customer centers (selling units) dedicated or shared with other divisions.

Common Group processes

Atlas Copco has regularly introduced and fine-tuned processes and control systems to effectively generate sustainable, profitable development.

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. To ensure a successful acquisition strategy and integration, the company has designed a 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. The company's policy is to have 100% ownership in all its holdings.

With respect to the Group's long-term business sustainability, highest priority is given to Atlas Copco's primary 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 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.

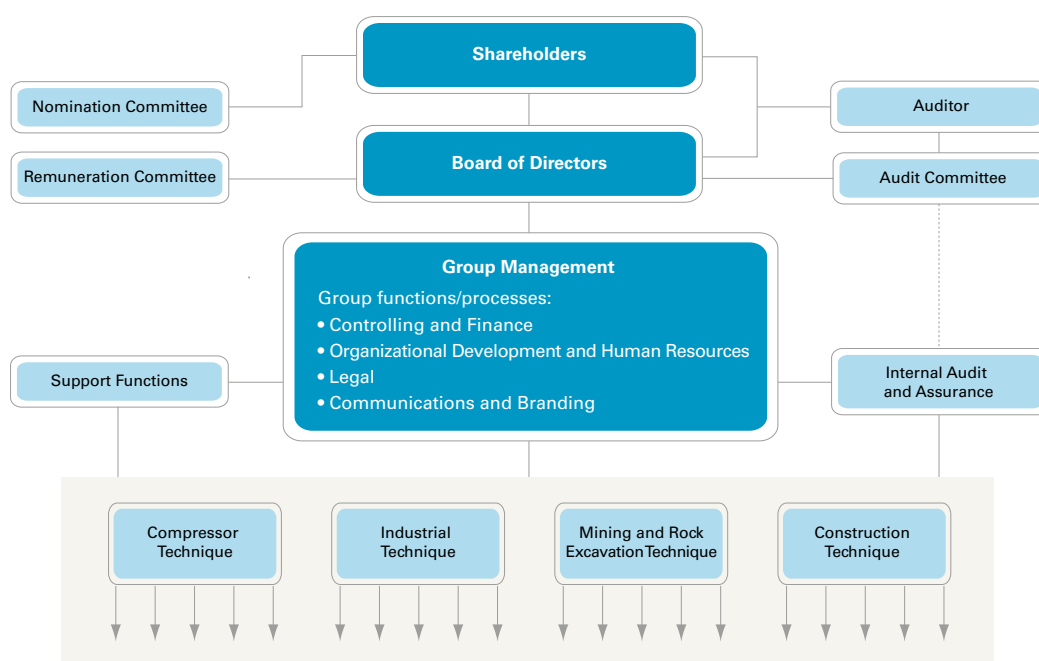
Risk management

See Board of Directors' report, pages 19–22.

Goals for sustainable, profitable development

Products, services and solutions	First in Mind—First in Choice® for customers and prospects for all brands.	Increase customer loyalty.	Increase customer energy efficiency by 20% by 2020*.	Offer safe and reliable products and services.
Operations	First in Mind—First in Choice® employer for current and future employees.	Competence development to achieve good results and yearly coaching/appraisals to all employees.	Increase diversity in both gender and nationality. Encourage internal mobility.	Safe and healthy working environment for all employees. Zero work-related accidents. Sick leave below 2.5%.
	No corruption or bribes.	Work with business partners committed to high ethical, environmental and social standards.	Develop new products and services with a lifecycle perspective.	Construct Atlas Copco buildings according to sustainable building standards.
	Decrease CO ₂ emissions from operations by 20% in relation to cost of sales by 2020*.	Decrease CO ₂ emissions from transport of goods by 20% in relation to cost of sales by 2020*.	Keep water consumption at current level.	Reuse or recycle waste.
Financials	Annual revenue growth of 8% over a business cycle.	Sustained high return on capital employed.	All acquired businesses to contribute to economic value added.	Annual dividend distribution about 50% of earnings per share.

* Base year 2010

Governance structure**Group Management**

Besides the President and CEO, Group Management consists of four business area executives and four persons responsible for the Group functions: Controlling and Finance, Organizational Development and Human Resources, Legal, and Communications and Branding.

President and Chief Executive Officer

Ronnie Leten, assumed his position as President and CEO on June 1, 2009. He earned his M. Sc. in Applied Economics from the University of Hasselt, Belgium, in 1979. Before joining Atlas Copco in 1985, he 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 sub-supplier 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, in 2001, President of the Industrial Air division and in 2006, Business Area President for Compressor Technique. All positions based in Belgium. Besides his holdings in Atlas Copco, neither Ronnie Leten nor any member of his immediate family have shares/partnerships in companies with which the Atlas Copco Group has significant business connections.

Business Area Presidents

Stephan Kuhn, Senior Executive Vice President for Atlas Copco AB and Business Area President for Compressor Technique as from June 2009. He holds a M. Sc. in Business Administration from Bentley College in Waltham, the United States. Stephan Kuhn started his career at Atlas Copco in 1995 as manager of an electric tools joint venture in China, and later held General Manager positions in Belgium and Germany. He was President of the

Surface Drilling Equipment division within the former Construction and Mining Technique business area until 2008, when he took a position outside the Group for a short period of time.

Mats Rahmström, Senior Executive Vice President for Atlas Copco AB and Business Area President for Industrial Technique, earned his MBA in 2005 from the Henley Management College, Great Britain. He joined Atlas Copco in 1988 and has held positions in sales, service, marketing and general management within the Industrial Technique business area. Between 1998 and 2006 he held the position as the General Manager for customer centers in Sweden, Canada, and Great Britain. Between 2006 and 2008 he was President of the Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique. Mats Rahmström holds his current position as from June 2008.

Robert Fassl, Senior Executive Vice President for Atlas Copco AB and Business Area President for Mining and Rock Excavation Technique, joined Atlas Copco in 1982. From 1982 to 1998 he held several management positions in Atlas Copco Construction and Mining Technique business area in finance, service, logistics, purchasing and manufacturing. Between 1998 and 1999, he was General Manager in Atlas Copco Kango, Great Britain, a product company in the Atlas Copco Group. From 1999 to 2004, he was General Manager for Atlas Copco Exploration Products and from 2004 to 2011 he served as Divisional President for Atlas Copco Drilling Solutions. The positions have been stationed in Canada, Sweden, Great Britain and United States. Robert Fassl was appointed to his current position on July 1, 2011.

Nico Delvaux, Senior Executive Vice President for Atlas Copco AB and Business Area President for Construction Technique, has a M. Sc. in Electromechanics from the University of Brussels and an MBA from the Handelshogeschool in Antwerp, Belgium. He



First row, from left to right: Ronnie Leten, Stephan Kuhn, Mats Rahmström, Robert Fassl, Nico Delvaux.
Second row: Hans Ola Meyer, Jeanette Livijn, Hans Sandberg, Annika Berglund.

started his career with Atlas Copco in 1991 and has had positions in sales, marketing, service, acquisition-integration management and general management, in markets including Benelux, Italy, Canada and the United States. Between 2008 and 2011 he was President of the Compressor Technique Service division. Nico Delvaux holds his current position as from October 1, 2011.

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 Penningmarknads-mäklarna, Sweden. Hans Ola Meyer returned to Atlas Copco in 1991 as Financial Manager in Spain and in 1993 he 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. *External directorships:* Member of The Swedish Financial Reporting Board and member of the Board of Trustees for The Bank of Sweden Tercentenary Foundation.

Jeanette Livijn, Senior Vice President Organizational Development and Human Resources, earned her M. Sc. 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 a customer center, product companies, and divisions. Since 1997 Jeanette Livijn has held managerial positions within human resource management. Before she took up this present position

she was Vice President Human Resources for the Industrial Technique business area. Jeanette Livijn took up her current position and is a member of Group Management since 2007.

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. He then began as an Assistant Judge at Södra Roslagen District Court, Sweden, and was later employed at the Lagerlöf Law firm, Sweden. He 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 the position of General Counsel since 1984 and has been 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.

Hans Sandberg retired on December 31, 2011 and was succeeded by Håkan Osvald.

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 and market research with Atlas Copco in 1979. Since then, she has held a number of positions in the Group related to marketing, sales, and business controlling in Europe. Prior to her current position, which she 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 1997.

Group Management

Name	Born	Nationality	Employed	Function	Class A shares	Class B shares	Employee stock options
Ronnie Leten	1956	Belgian	1997	President and CEO	19 166	12 000	395 513
Stephan Kuhn	1962	German	2009	Compressor Technique	5 731		162 380
Mats Rahmström	1965	Swedish	1988	Industrial Technique	4 640		185 916
Robert Fassl	1962	Canadian	1982	Mining and Rock Excavation Technique	5 151		92 727
Nico Delvaux	1966	Belgian	1991	Construction Technique	1 966		77 343
Hans Ola Meyer	1955	Swedish	1991	Controlling and Finance	5 286	24 781	160 644
Jeanette Livijn	1963	Swedish	1987	Organizational Development and Human Resources	2 329		73 433
Hans Sandberg	1946	Swedish	1975	Legal	20 000	12 874	108 778
Annika Berglund	1954	Swedish	1979	Communications and Branding	10 467	5 900	98 089

Holdings as per Dec 31, 2011 including those of close relatives or legal entities, grant for the 2011 program and matching shares. See note 23 for additional information.

Remuneration to Group Management

Remuneration covers an annual base salary, variable compensation, possible long term incentive (personnel options), pension premium 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. See note 5 and 23.

President and CEO: The variable compensation can give a maximum of 70% of the base salary paid. The variable compensation is not included in the basis for pension benefits. The President and CEO is a member of the Atlas Copco Airpower n.v. pension plan and the contributions follow the Atlas Copco Group's for Swedish executives. 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.

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 CEO: 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 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 OMX Stockholm. The policy is updated 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, as soon as possible, to disclose information about decisions or other facts and circumstances that are "price sensitive"
- 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

This is a description of the internal control regarding financial reporting, established in accordance with the Swedish Code of Corporate Governance. The section covers Atlas Copco's goal for sustainable, profitable development.

The base for the internal control over the financial reporting consists of the overall control environment that the Board of Directors and the Group 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 company applies different processes for risk assessment and identification of the main risks. See also the Board of Directors' report, pages 19–22. The risk assessment process is regularly 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 instructions for attestations and authority to pay 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 in *The Way We Do Things* through the Intranet, supported by, for example, training programs for general managers, controllers and accounting staff.

The company continuously 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's internal control processes

Prokura: 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 act on behalf of a Group company 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.

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 a service provider – 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.

Reporting: Monthly operative reports are prepared to measure profitability per product category, company, business line, division, and business area. Each division consolidates its units and reports adjustments and eliminations. Quarterly these reports are completed with additional information and specifications in accordance with a standardized reporting routine. These reports constitute the basis for the Group's quarterly and annual consolidated reports.

Quarterly and yearly reports are also prepared to measure social and environmental performance per company, division, and business area. Consolidated reports constitute the basis for the Group's quarterly reporting and the sustainability report, see pages 104–124.

The Group uses a common system for consolidation of the reports. Information is stored in central databases from which it can be retrieved for analysis and follow-up. The analysis package includes a series of standardized scorecards used to follow up key indicators and trends in relation to the set targets.

Business boards: An internal board structure, 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 audits: 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. Further, the process aims to identify and recommend leading practices within the Group.

Internal audits are initiated by the division in charge of operations or the responsible holding company or by Group functions. An internal audit is performed each time there is a change of General Manager in a company or, for instance, after major negative events or structural changes, remarks from external auditors, when a new company is formed or acquired, 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. Internal audits are normally performed by a team of people appointed from various parts of the organization with suitable competence for the audit to be conducted. There are standardized tools for planning and risk assessment before an audit, as well as audit programs and forms for reports and follow-up activities.

The function Group Internal Audit & Assurance, created during 2008 with a small team of dedicated internal auditors, has continued to strengthen the internal audit function in terms

of quality and quantity. The Vice President Group Internal Audit & Assurance participated in the meetings of the Audit Committee during the year.

Focused 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. Findings and conclusions are reported back to the Audit Committee. Examples of such identified areas are specific countries/regions, structural changes, certain accounting principles, business processes, fraud risks 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, communication and branding, and Business Code of Practice are also included in the assessment. Unit managers annually review extensive questionnaires to personally assess 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 and as a base for improvement of Group processes, clarification of instructions etc.

Ethical helpline: The Group has a process where employees can report on behavior or actions that are, or may be perceived as, violations of laws or of Group policies. This process serves as a complement to similar processes that exist in certain countries. The reports are treated confidentially and the person who is reporting is guaranteed anonymity. Efforts have been made to increase the awareness of this process among all employees. A fraud awareness training was introduced during 2010, with all managers as a primary target group, and it has been further spread throughout the Group.

Compliance process: Atlas Copco has implemented a process whereby Group Management, divisional managements and all managers responsible for an operational or holding entity and certain other positions have been requested to sign a statement confirming compliance to the Group's Business Code of Practice and applicable laws. The process is repeated on an annual basis.

Internal control statistics

	2011	2010	2009
Operative units in the Group	407	388	392
Internal audits conducted	94	105	107
Control self assessments completed	284	280	290

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	Continuously
	Financial reporting is prepared to measure profitability and constitute basis for Group consolidated (public) reports.	Monthly, quarterly, annually
Reporting	In addition, reporting is prepared to measure progress in fields related to environmental and social performance (see also the sustainability report).	Quarterly, annually
Business boards and company review meetings	Follow-up on adherence to <i>The Way We Do Things</i> 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. To ensure compliance with the Group's corporate governance and internal control procedures	All units at least once every four years
Focused areas	To identify, assess and control major risks and monitor actions taken	Annually
Control self assessment	To support the unit manager in taking appropriate actions and to assess control routines on the Group level	Annually
Ethical helpline	To highlight possible violations through anonymous reporting	As required
Compliance statement	To confirm compliance to Business Code of Practice and applicable laws	Annually

Nacka, February 10, 2012

The Board of Directors

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:

- Governance
- Safety, health, environment and quality
- Accounting and business control
- Treasury tax and customer finance
- Audit and internal control
- Information technology
- People management
- Legal
- Communications and branding
- Crisis management
- Administrative services
- Insurance
- Group standards
- Acquisition process

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*.

Auditor's report on the corporate governance report

To the Annual General Meeting of the shareholders of Atlas Copco AB, corporate identity number 556014-2720

It is the Board of Directors who is responsible for the corporate governance report for the year 2011 included in the printed version of this document on pages 125–137 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Nacka, February 16, 2012

Deloitte AB

Jan Berntsson
Authorized Public Accountant

The Atlas Copco share

On December 31, 2011, the price of the Atlas Copco A share was SEK 148. During 2011, the price of the A share decreased 13%. The Industrial Index and General Index on NASDAQ OMX Stockholm decreased 21% and 17%, respectively. The annual total return on the Atlas Copco A share, equal to dividend, redemption and the appreciation of the share price, was in average 20.2% for the past 10 years and 12.1% for the past five years. The corresponding total return for NASDAQ OMX Stockholm was 6.0% (2002–2011) and –0.2% (2007–2011), respectively.

Dividend and dividend policy

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.00 (4.00) per share be paid for the 2011 fiscal year. This corresponds to a total of MSEK 6 058 (4 852) if the shares held by the company are excluded.

The dividends to shareholders shall reflect the company's profit and cash flow development as well as growth opportunities.

The Board of Directors' opinion is that the dividend should correspond to about 50% of earnings per share. If the shareholders approve the Board of Directors' proposal for a dividend of SEK 5.00 per share, the annual dividend growth for the five-year period 2007–2011 will equal 16.1%. During the same period, the dividend has averaged 46.9% of basic earnings per share.

Mandatory redemption of shares

Atlas Copco generated significant cash flows both during the financial crisis and during 2010. In order to adjust the Group's balance sheet to a more efficient structure without jeopardizing the capacity to finance further growth, the Board of Directors proposed a mandatory redemption of shares to the AGM 2011. This proposal was resolved and the redemption procedure was carried out during 2011. The redemption shares were automatically redeemed at SEK 5.00 per share. This corresponded to a

total of MSEK 6 067. Combined with the ordinary dividend shareholders received MSEK 10 919.

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 income year 2011. Redemption of shares is considered a disposal of the redeemed shares. Hence 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, 97.1% should be allocated to the remaining shares of the same class and 2.9% to the redemption share.
- Of the acquisition cost of an original class B share, 96.7% should be allocated to the remaining shares of the same class and 3.3% to the redemption share.

For more information, please turn to the Swedish Tax Agency, www.skatteverket.se.

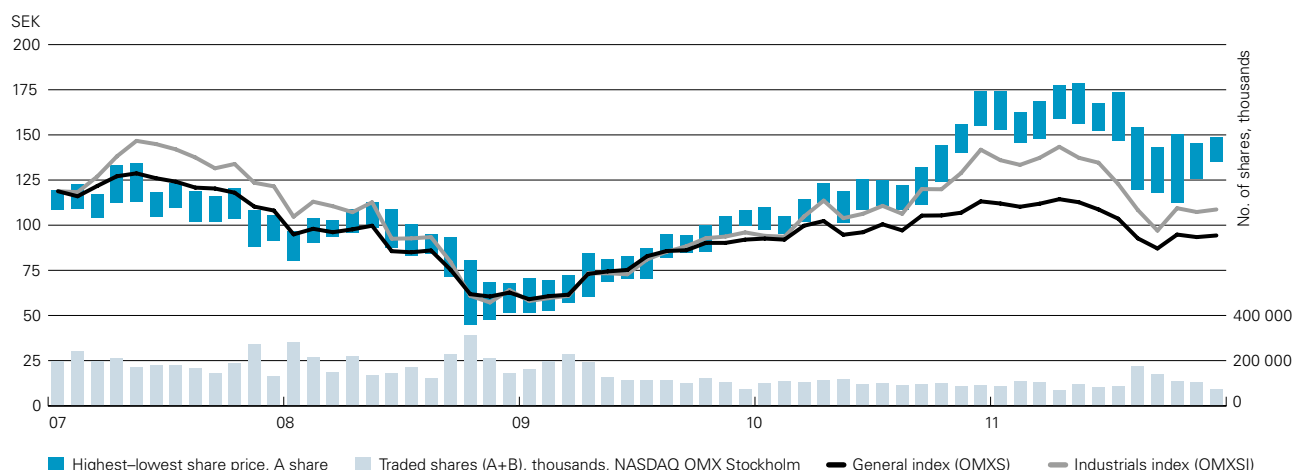
Personnel stock option program

The Board of Directors will propose to the Annual General Meeting 2012 a similar performance-based long-term incentive program as in previous years. For Group Executive Management, participation in the plan requires own investment in Atlas Copco shares. It is proposed that the plan is covered as before through the repurchase of the company's own shares.

Transaction in own shares

During 2011, 7 162 790 series A shares, net, were purchased and 400 587 series B shares were divested in accordance with mandates granted. As per December 31, 2011 Atlas Copco held 16 687 630 series A shares and 1 311 446 series B shares, corresponding to 1.5% of the total number of shares.

Share price



Symbols and tickers

	A share	B share
NASDAQ OMX Stockholm	ATCO A	ATCO B
ISIN code	SE0000101032	SE0000122467
Reuters	ATCOa.ST	ATCOb.ST
Bloomberg	ATCOA SS	ATCOB SS
ADR	ATLKY.OTC	ATLCY.OTC

Share capital and votes

Atlas Copco's share capital at year end 2011 amounted to SEK 768 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately 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. The total number of votes amounted to 878 415 997.

Distribution of shares, December 31, 2011

Class of share	Shares outstanding	% of votes	% of capital
A	839 394 096	95.6	68.3
B	390 219 008	4.4	31.7
Total	1 229 613 104	100.0	100.0
Whereof A-shares held by Atlas Copco	16 687 630	1.9	1.4
Whereof B-shares held by Atlas Copco	1 311 446	0.1	0.1
Total, net of shares held by Atlas Copco	1 211 614 028		

Market capitalization

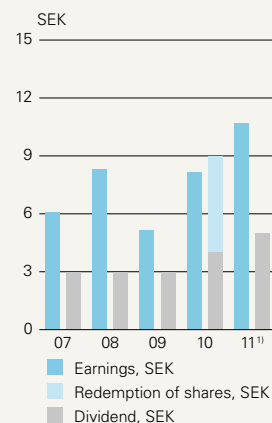
Atlas Copco's market capitalization at December 31, 2011 was MSEK 172 630 (199 921), excluding shares held by Atlas Copco. This corresponds to 5.0% (4.8) of the total market value of NASDAQ OMX Stockholm.

Trading

Trading of the Atlas Copco AB shares primarily takes place on NASDAQ OMX Stockholm, where Atlas Copco shares were the 4th (4th) most actively traded shares in 2011. A total of 1 541 994 935 shares were traded, whereof 1 188 068 878 A shares and 353 926 057 B shares, corresponding to a value of MSEK 222 305 (177 948). On average, 6 094 842 (5 920 229) shares were traded each business day, corresponding to a value of MSEK 879 (703). The turnover rate was 125% (122), compared with the stock market average of 96% (95).

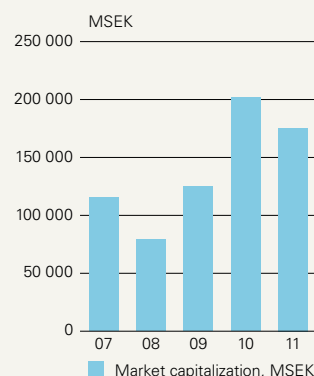
Trading in Atlas Copco shares also takes place on other markets, so called Multilateral Trading Facilities (MTF), e.g. BATS Chi-X Europe, Turquoise and Burgundy. These account for approximately 20% of total trading. Further, the Atlas Copco share is also traded outside public markets, for example through "over the counter trading", which accounts for 25–30% of the total trading.

Earnings and distribution per share

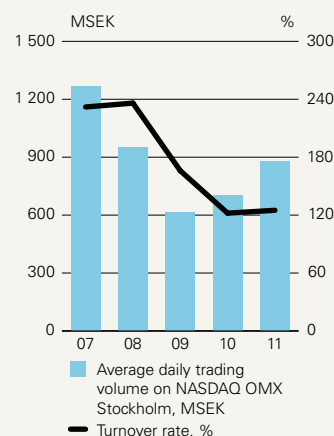


¹⁾ Dividend proposed by the Board of Directors.

Market capitalization



Liquidity



Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A shares, are listed on NASDAQ OMX Stockholm. In 2011, 1 039 829 (905 490) 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 2011, there were 11 976 443 (15 272 081) ADRs outstanding, of which 8 445 885 represented A shares and 3 530 558 B shares.

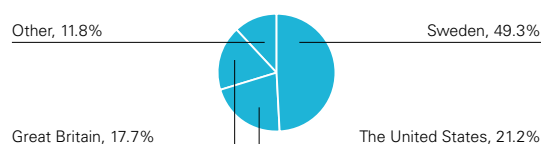
Ownership structure

At year end 2011, Atlas Copco had 71 379 (69 275) shareholders. The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34% (34) of the voting rights and 33% (33) of the number of shares. Non-Swedish investors held 48% (47) of the shares and represented 51% (52) of the voting rights.

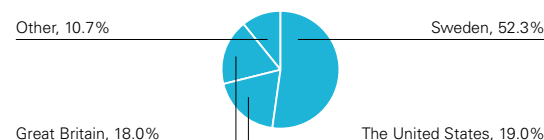
Ownership structure, December 31, 2011

Number of shares	% of shareholders	% of capital
1–500	57.1	0.6
501–2 000	27.8	1.8
2 001–10 000	11.8	2.9
10 001–50 000	2.3	2.7
50 001–100 000	0.3	1.4
>100 000	0.7	90.6
	100.0	100.0

Shareholders by country, December 31, 2011 % of votes



Shareholders by country, December 31, 2011 % of capital



Share issues 1973–2011			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	
2011	Split	2:1 quota value SEK 0.320		
	Share redemption ⁴⁾	1 229 613 104 shares at SEK 5	–393.0	–6 067.0
	Bonus issue	No new shares issued, quota value SEK 0.639	393.0	

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.

⁴⁾ 1 213 493 751 shares net of shares held by Atlas Copco.

10 largest shareholders*, December 31, 2011

	Number of shares	A shares	B shares	% of votes	% of capital
Investor AB	206 895 611	194 803 726	12 091 885	22.3%	16.8%
Swedbank Robur	46 126 555	20 076 731	26 049 824	2.6%	3.8%
Alecta	34 143 000	13 205 000	20 938 000	1.7%	2.8%
Handelsbanken	19 355 987	12 427 361	6 928 626	1.5%	1.6%
SEB Investment	16 465 143	9 006 269	7 458 874	1.1%	1.3%
Folksam	19 297 679	8 650 625	10 647 054	1.1%	1.6%
AP 4	12 373 276	7 676 855	4 696 421	0.9%	1.0%
AP 1	14 199 802	6 655 392	7 544 410	0.8%	1.2%
AP 2	10 222 639	6 295 135	3 927 504	0.8%	0.8%
AMF	26 435 000	3 350 000	23 085 000	0.6%	2.1%
Others	824 098 412	557 247 002	266 851 410	66.5%	67.0%
Total	1 229 613 104	839 394 096	390 219 008	100.0%	100.0%
– of which shares held by Atlas Copco	17 999 076	16 687 630	1 311 446	1.9%	1.5%
Total, net of shares held by Atlas Copco	1 211 614 028	822 706 466	388 907 562		

*Shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository.

Key figures per share

SEK	2007	2008	2009	2010	2011	Average growth 5 years, %
Basic earnings	6.09	8.33	5.14	8.16	10.68	16.5%
Diluted earnings	6.09	8.33	5.13	8.15	10.62	
Dividend	3.00	3.00	3.00	4.00	5.00 ¹⁾	16.1%
Dividend as % of basic earnings	49.3%	36.0%	58.4%	49.0%	46.8%	
Dividend yield	2.7%	3.5%	3.7%	3.3%	3.4%	
Redemption of shares				5.00		
Operating cash flow	3.76	3.91	11.32	7.98	5.18	16.2%
Equity	12	20	21	24	24	
Share price, Dec. 31, A share	97	67	105	170	148	5.2%
Share price, Dec. 31, B share	88	60	93	152	131	3.4%
Highest price quoted, A share	134	113	107	173	177	
Lowest price quoted, A share	91	49	55	96	123	
Average price quoted, A share	113	86	81	123	148	
Average number of shares, millions	1 220.8	1 219.1	1 215.9	1 215.9	1 214.3	
Diluted average number of shares, millions	1 222.3	1 219.8	1 216.3	1 217.3	1 217.3	

¹⁾ Proposed by the Board of Directors.

No adjustment has been made for the redemption of shares in accordance with the recommendation from The Swedish Society of Financial Analysts. To adjust historic figures also for the redemption of shares, use factor 0.98.

Analysts following Atlas Copco

ABG Sundal Collier	Anders Idborg	Exane/BNP Paribas	Jonathan Mounsey
Bank of America – Merrill Lynch	Ben Maslen	Goldman Sachs	Aaron Ibbotson
Barclays	Allan Smylie	Handelsbanken	Peder Frölen
Berenberg Bank	Alexander Virgo	HSBC	Colin Gibson
Bernstein Research	Martin Prozesky	Jefferies	John Dean
Carnegie	Joakim Höglund	JP Morgan Cazenove	Nico Dil
Cheuvreux	Andreas Brock	Morgan Stanley	Guillermo Peigneux
Citi	Natalia Mamaeva	Nordea	Andreas Koski
Collins Stewart	Mark Wilson	Pareto Öhman	David Jacobsson
Credit Suisse	Andre Kukhnin	Redburn	James Moore
Danske Markets	Oscar Stjerngren	SEB Enskilda	Anders Eriksson
Deutsche Bank	Johan Wettergren	Societe Generale	Sebastien Gruter
DnB Nor	Lars Brorson	Swedbank	Anders Roslund
Evli	Magnus Axén	UBS	Fredric Stahl
Espirito Santo IB	Edward Stacey	William Blair	Lawrence de Maria

Five years in summary

MSEK	2007	2008	2009	2010	2011
Orders received	69 059	73 572	58 451	75 178	86 955
Revenues and profit					
Revenues	63 355	74 177	63 762	69 875	81 203
Change, %	25	17	-14	10	16
Change, excluding currency, %	29	17	-22	14	24
Change, organic from volume and price, %	18	12	-22	12	22
EBITDA	13 866	15 886	11 560	16 413	20 082
EBITDA margin, %	21.9	21.4	18.1	23.5	24.7
Operating profit	12 066	13 806	9 090	13 915	17 560
Operating profit margin, %	19.0	18.6	14.3	19.9	21.6
Net interest expense	-453	-1 243	-808	-423	-506
as a percentage of revenues	-0.7	-1.7	-1.3	-0.6	-0.6
Interest coverage ratio	11.2	8.5	8.2	18.1	18.9
Profit before tax	10 534	13 112	8 271	13 495	17 276
Profit margin, %	16.6	17.7	13.0	19.3	21.3
Profit from continuing operations	7 416	10 006	6 276	9 944	12 988
Profit for the year	7 469	10 190	6 276	9 944	12 988
Employees					
Average number of employees	29 522	34 119	31 085	31 214	35 131
Revenues per employee, SEK thousands	2 146	2 174	2 051	2 239	2 311
Cash flow¹⁾					
Operating cash surplus	13 730	15 805	11 434	16 673	19 906
Cash flow before change in working capital	10 005	11 874	7 889	12 555	14 536
Change in working capital	-2 326	-2 291	6 715	-1 730	-6 115
Cash flow from investing activities	-8 808	-4 352	-1 014	-2 818	-4 335
Gross investments in other property, plant and equipment	-1 331	-1 741	-954	-868	-1 728
as a percentage of revenues	-2.1	-2.3	-1.5	-1.2	-2.1
Gross investments in rental equipment ¹⁾	-1 028	-1 158	-769	-825	-1 332
Net investments in rental equipment ¹⁾	-442	-739	-212	-345	-788
as a percentage of revenues	-0.7	-1.0	-0.3	-0.5	-1.0
Cash flow from financing activities	-14 943	-2 706	-6 804	-4 740	-12 735
of which dividends paid ²⁾	-27 344	-3 667	-3 652	-3 650	-10 920
Operating cash flow	4 589	4 751	13 761	9 698	6 292
Financial position and return					
Total assets	56 659	75 394	67 874	71 622	75 109
Capital turnover ratio	1.14	1.16	0.89	1.02	1.14
Capital employed	39 512	44 372	53 160	50 006	49 086
Capital employed turnover ratio	1.60	1.67	1.20	1.40	1.65
Return on capital employed, %	29.3	33.5	17.7	28.6	37.2
Net indebtedness	19 775	21 686	10 906	5 510	14 194
Net debt/EBITDA	1.43	1.37	0.94	0.34	0.71
Equity	14 640	23 768	25 671	29 321	28 839
Debt/equity ratio, %	135.1	91.2	42.5	18.8	49.2
Equity/assets ratio, %	25.8	31.5	37.8	40.9	38.4
Return on equity, %	34.7	57.7	25.8	37.6	47.6

For definitions, see page 103.

Per share data, see page 141.

Key financial data in USD and EUR is published on www.atlascopco.com

¹⁾ Cash flow from increase and sale of rental equipment has been reclassified from investing to operating activities as from 2009.

²⁾ Includes share redemption in 2007 and 2011, and repurchases of own shares in 2006.

Quarterly data

Revenues by business area

MSEK	2010				2011			
	1	2	3	4	1	2	3	4
Compressor Technique	6 622	7 394	7 598	8 139	6 989	7 676	8 264	8 831
– of which external	6 616	7 378	7 596	8 112	7 000	7 699	8 171	8 804
– of which internal	6	16	2	27	–11	–23	93	27
Industrial Technique	1 483	1 535	1 569	1 885	1 768	1 800	1 816	2 437
– of which external	1 473	1 529	1 564	1 880	1 763	1 792	1 807	2 429
– of which internal	10	6	5	5	5	8	9	8
Mining and Rock Excavation Technique	4 876	5 492	5 589	6 563	6 516	6 994	7 642	8 204
– of which external	4 878	5 488	5 587	6 559	6 485	6 987	7 609	8 183
– of which internal	–2	4	2	4	31	7	33	21
Construction Technique	2 394	3 122	3 047	2 922	3 063	3 599	3 292	2 964
– of which external	2 304	3 003	2 962	2 809	2 930	3 422	3 090	2 784
– of which internal	90	119	85	113	133	177	202	180
Common Group functions/eliminations	–74	–113	–60	–108	–113	–118	–275	–146
Atlas Copco Group	15 301	17 430	17 743	19 401	18 223	19 951	20 739	22 290

Operating profit by business area

MSEK	2010				2011			
	1	2	3	4	1	2	3	4
Compressor Technique	1 422	1 755	2 030	2 026	1 701	1 840	1 990	2 061
<i>as a percentage of revenues</i>	<i>21.5</i>	<i>23.7</i>	<i>26.7</i>	<i>24.9</i>	<i>24.3</i>	<i>24.0</i>	<i>24.1</i>	<i>23.3</i>
Industrial Technique	243	289	317	413	401	392	398	576
<i>as a percentage of revenues</i>	<i>16.4</i>	<i>18.8</i>	<i>20.2</i>	<i>21.9</i>	<i>22.7</i>	<i>21.8</i>	<i>21.9</i>	<i>23.6</i>
Mining and Rock Excavation Technique	917	1 171	1 287	1 544	1 537	1 641	1 959	2 059
<i>as a percentage of revenues</i>	<i>18.8</i>	<i>21.3</i>	<i>23.0</i>	<i>23.5</i>	<i>23.6</i>	<i>23.5</i>	<i>25.6</i>	<i>25.1</i>
Construction Technique	198	405	307	308	449	499	390	122
<i>as a percentage of revenues</i>	<i>8.3</i>	<i>13.0</i>	<i>10.1</i>	<i>10.5</i>	<i>14.7</i>	<i>13.9</i>	<i>11.8</i>	<i>4.1</i>
Common Group functions/eliminations	–153	–121	–159	–284	–101	–195	63	–222
Operating profit	2 627	3 499	3 782	4 007	3 987	4 177	4 800	4 596
<i>as a percentage of revenues</i>	<i>17.2</i>	<i>20.1</i>	<i>21.3</i>	<i>20.7</i>	<i>21.9</i>	<i>20.9</i>	<i>23.1</i>	<i>20.6</i>
Net financial items	–130	–96	–107	–87	69	–96	–97	–160
Profit before tax	2 497	3 403	3 675	3 920	4 056	4 081	4 703	4 436
<i>as a percentage of revenues</i>	<i>16.3</i>	<i>19.5</i>	<i>20.7</i>	<i>20.2</i>	<i>22.3</i>	<i>20.5</i>	<i>22.7</i>	<i>19.9</i>

Financial information

Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Wednesday, April 27, 2012 at 3 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 27, 2012	Q1 – first quarter results
July 17, 2012	Q2 – second quarter results
October 24, 2012	Q3 – third quarter results
January 31, 2013	Q4 – fourth quarter results
March, 2013	Annual report 2012



Order the Annual report from

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The web site **www.atlascopco.com** serves its stakeholders – customers, the press, and the financial markets – with information in several languages.

In the investor section, **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).

In the corporate responsibility section, **www.atlascopco.com/cr**, available in English and Swedish, you will find the sustainability report and key figures in digital formats.

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Committed to sustainable productivity



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