Atlas Copco

2005 was characterized by strong order growth with record revenues and operating profit.

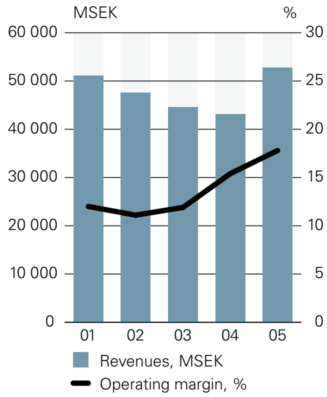
Annual Report
Sustainability Report
Corporate Governance Report

05

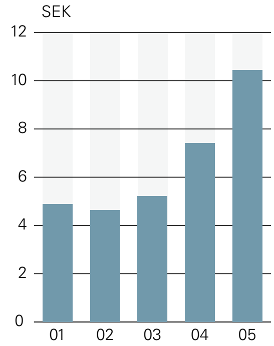
Contents

Annual Report

Revenues and operating margin



Earnings per share



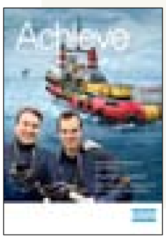
Excluding goodwill impairment charge in 2002. Restated for IFRS 2004.

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 Directors 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.

The annual magazine Achieve presents how Atlas Copco works to reach the vision First in Mind—First in Choice™.

- Improved demand, increased market presence and penetration, and successful introductions of new products.
- Strong order growth with double digit growth in all regions.
- Record revenues MSEK 52 742 (43 192), up 11% in volume.
- Record operating profit MSEK 9 403 (6 651), corresponding to an operating margin of 17.8% (15.4).
- Strong operating cash flow of MSEK 4 521 (4 697).
- Basic earnings per share up 41% to SEK 10.43.
- Proposed dividend for 2005: SEK 4.25 (3.00) per share.

Copco 2005

2005 in figures

MSEK	2005	2004	Change, %
Orders received	55 281	44 659	+24
Revenues	52 742	43 192	+22
Operating profit	9 403	6 651	+41
—as a percentage of revenues	*17.8*	*15.4*	
Profit before tax	9 300	6 382	+46
—as a percentage of revenues	*17.6*	*14.8*	
Profit for the period	6 581	4 671	+41
Basic earnings per share, SEK	10.43	7.41	+41
Diluted earnings per share, SEK	10.41	7.40	+41
Dividend per share, SEK	4.25[2]	3.00	+42
Mandatory redemption per share, SEK	–	6.67	
Equity per share, SEK	41	36	
Operating cash flow	4 521	4 697[1]	
Return on capital employed, %	28.5	22.1[1]	
Return on equity, %	27.8	21.6[1]	
Average number of employees	26 258	23 849	

[1] Including discontinued operations.

[2] Proposed by the Board of Directors.

Atlas Copco Group

Atlas Copco is a world leading provider of industrial productivity solutions. The products and services range from compressed air and gas equipment, generators, construction and mining equipment, industrial tools and assembly systems, to related aftermarket and rental. In close cooperation with customers and business partners, and with more than 130 years of experience, Atlas Copco innovates for superior productivity. Headquartered in Stockholm, Sweden, the Group's global reach spans more than 150 markets. In 2005, Atlas Copco had 27 000 employees and revenues of BSEK 53.

The Business | **Brands**

Compressor Technique

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electric power generators, air treatment equipment (such as compressed air dryers, coolers, and filters) and air management systems. It offers specialty rental services of chiefly compressors and generators.

Development, manufacturing, and assembly are concentrated in Belgium, with other units situated in Brazil, China, France, Germany, Great Britain, India, Italy, the Netherlands, and the United States.

Construction and Mining Technique

The Construction and Mining Technique business area develops, manufactures, and markets rock drilling tools, underground rock drilling rigs for tunneling and mining applications, surface drilling rigs, loading equipment, exploration drilling equipment, and construction tools.

The business area has its principal product development and manufacturing units in Sweden and in the United States, with other units in Austria, Canada, China, Finland, Germany, India, Japan, and South Africa.

Industrial Technique

The Industrial Technique business area develops, manufactures, and markets high quality industrial power tools, assembly systems, aftermarket products and service. It serves the needs of advanced industrial manufacturing, like the automotive and the aerospace industry, general industrial manufacturing and maintenance and vehicle service.

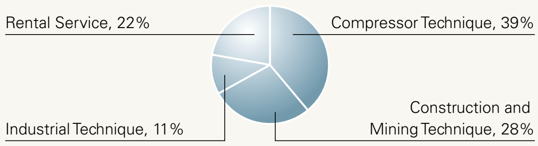
Industrial Technique has its principal product development and manufacturing in Sweden, China, Great Britain, France, the United States, and Italy and has assembly system application centers also in several other markets.

Rental Service

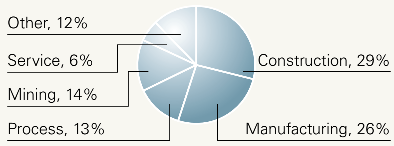
The Rental Service business area, with 465 rental stores in 38 states in the United States, 5 provinces in Canada and in Mexico, provides equipment rental and related services to customers in the construction, industrial manufacturing, and homeowner segments. Sales of used equipment, spare parts, accessories, and merchandise support the business.

The business area operates with two well-respected brands. RSC Equipment Rental serves the general equipment rental market for both construction and industrial customers, while Prime Energy provides oil-free air, generator and temperature-control services to a broad range of industries.

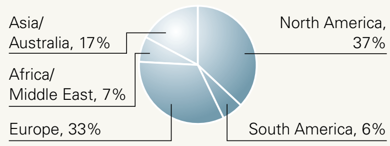
Revenues by business area



Revenues by customer category



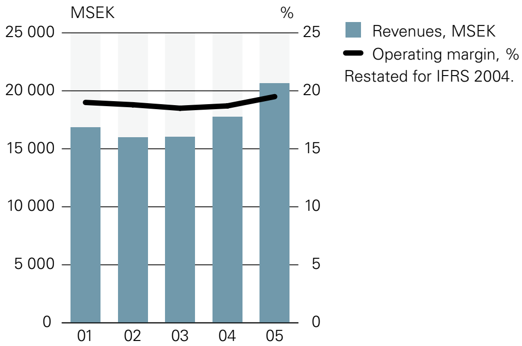
Revenues by geographic area

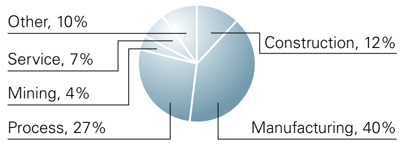


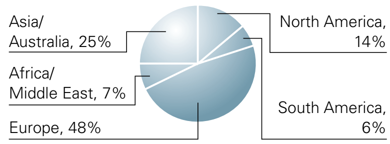
Revenues and operating margin

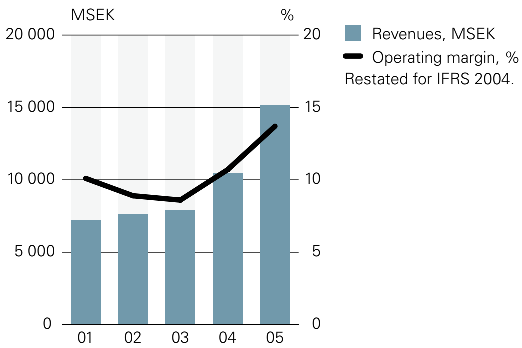
Customers

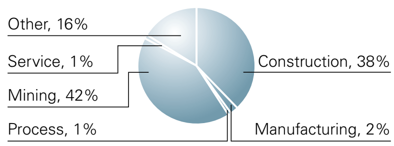
Markets

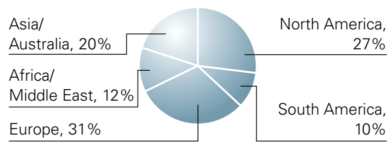


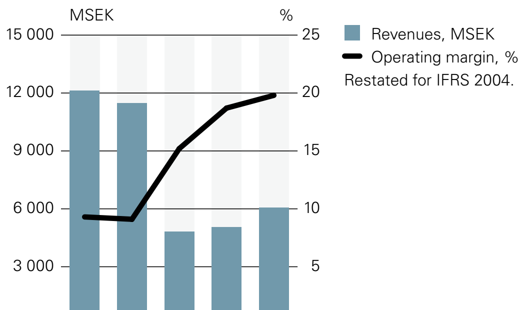




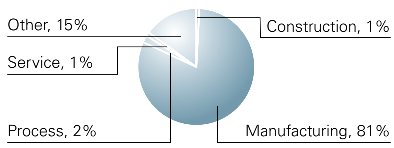


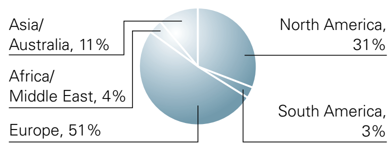


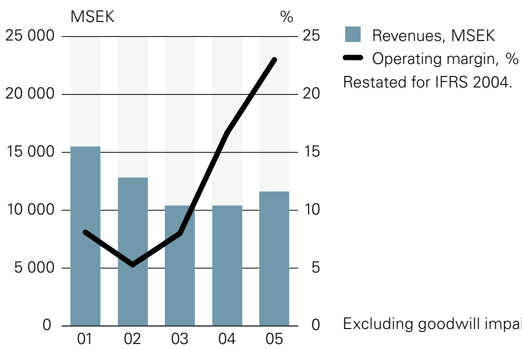




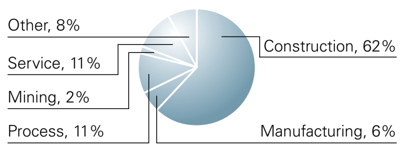
Excluding professional electric tools from 2003.

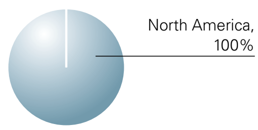






Excluding goodwill impairment charge in 2002.





Mission, Vision and Strategy

Mission

The Atlas Copco Group is a world leading provider of industrial solutions. In close cooperation with its customers, Atlas Copco fulfils its mission to innovate for superior productivity. The offering ranges from compressed air and gas equipment, generators, construction and mining equipment, industrial tools and assembly systems, to related aftermarket services and equipment rental.

Vision

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice™ of its customers and prospects, and of other key stakeholders.

Strategy

Atlas Copco has strong positions globally and is market leader in most segments where it offers products and solutions. The Group concentrates on strengthening its position within segments where it is already strong and has core competence. Within segments where it does not have a market leading position—and has no possibility to get such a position without too much sacrifice—the Group has decided to leave the business.

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:

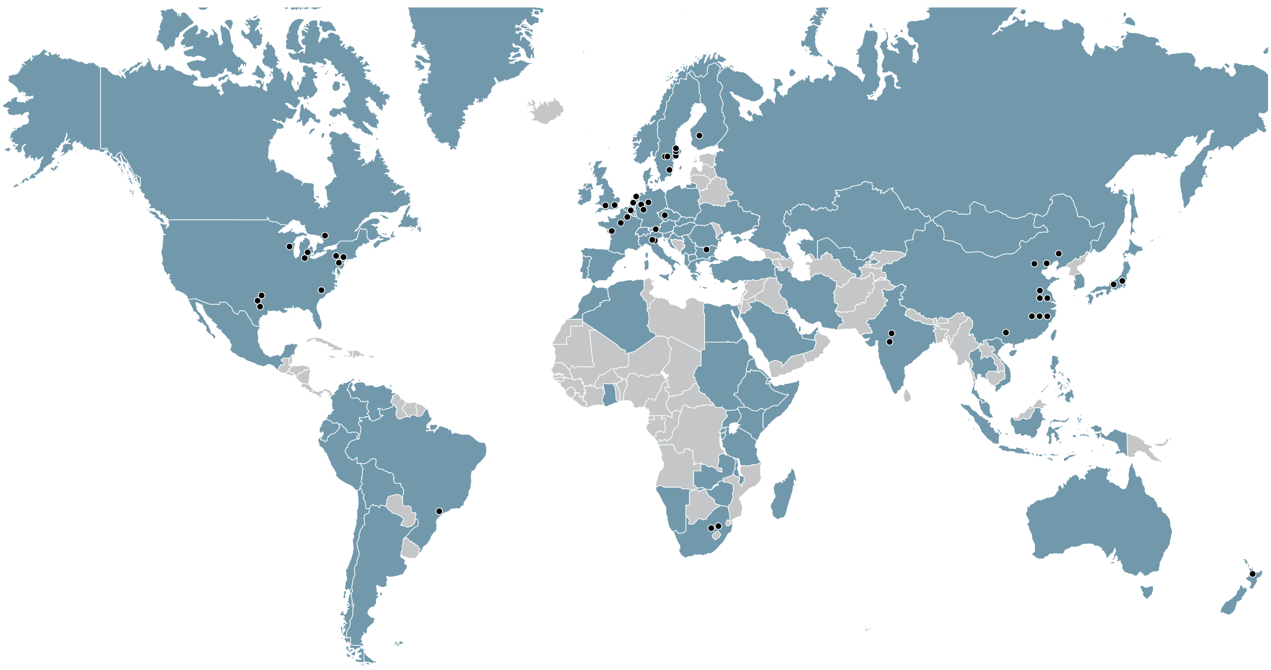
- geographic expansion, by opening additional customer centers
- deeper market penetration, by recruiting more service and sales personnel
- acquiring more channels to the market, for example more brands or more distributor channels
- continuously launching new products for existing applications
- finding new applications for existing products
- 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 first class products and solutions that increase their productivity. The products and solutions should provide extra benefits for the customer compared to their predecessor 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, optimized business processes, and product developers get a better understanding of their customers' needs and wishes.



Countries covered by Atlas Copco Customer Centers

Production sites

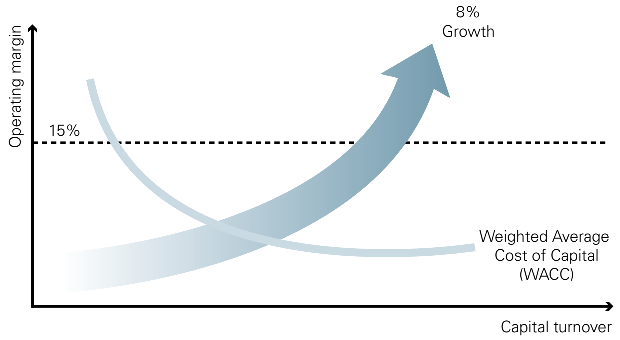
Targets and Primary Drivers of Revenues

Financial targets
The overall objective is to grow and to achieve a return on capital employed that will always exceed the Group's average total cost of capital. The financial targets are:

- to have an annual revenue growth of 8%,
- to reach an operating margin of 15%, and
- to challenge and continuously improve the efficiency of operating capital in terms of fixed assets, stocks, receivables, and rental fleet utilization.

This will have the result that shareholder value is created and continuously increased.

In the past five years, compound annual growth averaged 6.7% excluding currency translation effect. The Group's operating margin averaged 13.7% for the past five years. In 2005, the operating margin was 17.8%.



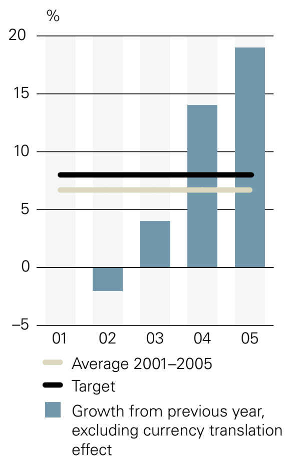
Primary drivers of Atlas Copco Group revenues
Capital goods investment in various private and public sectors, such as manufacturing, infrastructure, and mining are drivers for Atlas Copco's revenues. Important customer groups in manufacturing and process industries demand and invest in compressed air products and solutions, industrial tools and assembly systems. Such industrial machinery investments are influenced by customers' ambitions to improve productivity, quality and capacity.

Customers in the construction and mining industries require equipment, including drill rigs, drilling tools, breakers, portable compressors, and generators. Large infrastructure investments, such as tunnel construction for roads, railways and hydroelectric power plants often depend on political decisions. Private investments from 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.

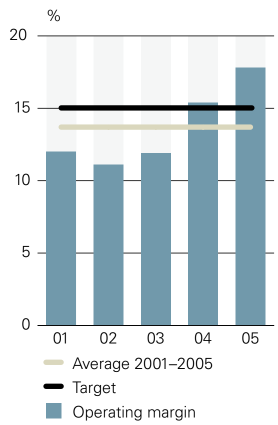
Customers also demand service and maintenance, training, parts, accessories, consumables, and equipment rental. This demand arises during the time the capital goods, equipment, or product is in use, i.e. during industrial production, construction activity and ore production. Additionally, there is an outsourcing trend that is driving demand as customers increasingly look for suppliers that offer additional services or functions rather than only the equipment. Atlas Copco is also looking to offer more services and aftermarket products in line with the Group's aftermarket strategy. Demand for these services and products is relatively stable compared to the demand for equipment. Currently, aftermarket and rental revenues are generating almost half of Atlas Copco's revenues.

	Equipment, 50%	**Rental and aftermarket, 50 %**
Industry	Industrial machinery investment	Industrial production
Construction	Investment in infrastructure	Construction activity/outsourcing
Mining	Mining machinery investment	Metal and ore production

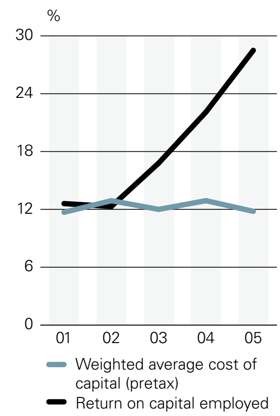
Revenue growth



Operating margin



Return on capital employed



Excluding goodwill impairment charge in 2002.
Restated for IFRS 2004.

Structure

The Group is organized in four separate, focused but still integrated business areas each operating through one or more divisions.

The role of **the business area** is to develop, implement, and follow up on the objectives and strategy within the total business scope, including environmental and social performance as appropriate.

The divisions have their own operational and consolidated profit responsibility and develop their objectives, strategies, and structure within the scope of the business area. The divisions generally conduct business through customer centers and product companies, which are acting on an equal-dignity basis.

Common service providers—internal or external—have been established with the mission to provide internal services faster, to a higher quality, and at a lower cost, thus allowing the divisions to focus on their core businesses.

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
- The corporate culture and the core values: interaction, commitment, and innovation.

Processes

Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are communications and positioning, finance, controlling, accounting, information technology, insurance, legal issues, business code of practice, Group standards, and crisis, people and environmental management. 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 based, 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, in fact that is the only way to reach the vision. With a global business conducted through numerous companies, Atlas Copco works hard with continuous competence development, knowledge sharing and on implementing the core values—interaction, commitment, and innovation. Everybody is expected to contribute by committing themselves to Group objectives and to their own aligned, individual performance targets.

Organization as of January 2006

Board of Directors

President and Chief Executive Officer

Business areas

Executive Group Management and Corporate Functions

Compressor Technique (CT)	Construction and Mining Technique (CMT)	Industrial Technique (IT)	Rental Service (RS)

Divisions – The divisions generally conduct business through product companies, customer centers, and rental stores

Oil-free Air Industrial Air Portable Air Gas and Process Airtec	Underground Rock Excavation Surface Drilling Equipment Drilling Solutions Secoroc Construction Tools Craelius Rocktec	Atlas Copco Tools and Assembly Systems Motor Vehicle Industry Atlas Copco Tools and Assembly Systems General Industry Chicago Pneumatic Industrial Chicago Pneumatic Vehicle Service Tooltec	Rental Service Corporation

Provides productivity solutions in the area of:

Industrial compressors Air treatment equipment Portable compressors Generators Specialty rental Gas and process compressors Services and parts	Drilling rigs Rock drilling tools Construction tools Load-Haul-Dump vehicles (LHDs) Services and parts	Industrial tools Assembly systems Services and parts	Equipment rental Sales of merchandise and parts

Internal and external service providers

Brands

Atlas Copco – the leading global brand

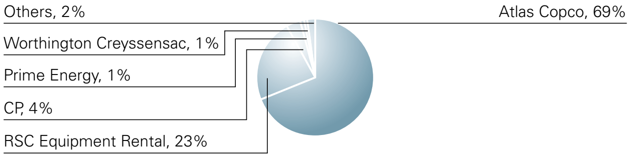
In order to realize its comprehensive vision of First in Mind —First in Choice™, the Group owns more than 20 brands. The Group can better satisfy various customers' specific needs with more brands in its portfolio.

Each brand in the Group is to have a distinct brand promise that expresses the heart of the brand and differentiates it from its competitors. It should also be clearly evident to which industrial segments and geographical markets the various brands are aimed. A variety of distribution channels should also be used to market and sell the various brands.

The Atlas Copco brand offers products of the highest, world-class quality globally. The brand is complemented by several regionally strong brands.

During 2005, efforts were made to further strengthen the Atlas Copco brand promise. Surveys and interviews indicate that Atlas Copco has a very strong corporate culture and a well-known brand in segments where the Group is doing business.

Brands, % of sales



Sustainable Development

It is a huge challenge to balance the economic, environmental, and social dimensions of a business-oriented company. The Atlas Copco Group constantly measures changes within the different dimensions.

Within the *economic dimension*, the challenge lies in continuing to generate and distribute increasing added value to key stakeholders. This is best achieved by developing new and better products and constantly improving productivity while Atlas Copco simultaneously continues to adhere to the reliable leadership model, used by all operational businesses in the Group: stability first, then profitability, and finally growth.

Within the *environmental dimension*, the most important issue is how customers use and dispose of Atlas Copco products. When new products are developed and manufactured, the products should not only be better than earlier products but also better than those offered by the competition. Consideration is also given to limiting the environmental impact compared with earlier generations, while continuously reducing the relative use of resources in the production process.

Within the social *dimension of sustainability*, the largest challenge lies in recruiting, developing and retaining professional employees while simultaneously ensuring that labor laws and human rights are respected.

Major Achievements in 2005

We can characterize 2005 as a year when Atlas Copco took another step towards fulfilling its vision: First in Mind—First in Choice™. Not only did we benefit from good market demand in most parts of the world, but we also succeeded in improving our competitive position in many markets and within most product segments.

The year ended in a strong way with a 24% increase in orders received compared to the previous year. Total revenues reached MSEK 52 742 (43 192), but the year presented some major challenges in the form of substantially increased raw-material and purchased-goods prices. Focused work with price increases and efficiency improvements have contributed to an operating profit of MSEK 9 403 (6 651). This is a 41% increase and corresponds to an operating margin of 17.8%. Profit before tax increased 46% and showed a margin of 17.6%. Earnings per share improved 41% and reached SEK 10.43 (7.41). In total, MSEK 6 078 was distributed to our shareholders through our annual dividend and a share-redemption program.

Strategic initiatives paid off

The general market demand was strong during the year. Most major geographic markets showed very good growth. Atlas Copco has, over the last three years, focused on strategic initiatives and operational activities to grow in four major markets: China, India, Russia, and the United States. This has paid off with very high annual growth rates in all these markets.

From an industry-segment point of view, the mining industry has shown a remarkable strength, underpinned by the strong demand from China. The construction industry demand has, both for heavy and light equipment, had good growth in North America and improved gradually during the year in Europe. General process and manufacturing industries have, in most markets, stepped up their investments in equipment in order to improve their productivity.

Multi-brand strengthens strong Compressor Technique

Our Compressor Technique business area has had yet another year of excellent performance. Strong growth has been achieved in almost all markets and for most product areas. This goes both for the equipment sales and the very important and profitable aftermarket. Particularly strong growth has been recorded in the focus markets, China, India, Russia, and the United States. Market positions have been improved by a steady flow of new products in the oil-free, oil-injected, and portable compressor markets. The business area has also done exceedingly well in the area of compressor systems for liquid natural gas tankers.

A cornerstone in the development of good volume growth has been the multi-brand concept. Wider sales presence and deeper penetration have been achieved by better segmentation, differentiation, and positioning of existing brands and through acquisitions of new brands. Acquisitions play an important role in our growth strategy. During the year, several acquisitions targeted to special applications were made—Lutos, the Czech Republic, for blowers; Intermech, New Zealand, for compressed natural gas; Ketting, the Netherlands, for marine air; Pneumatech Inc., the United States, for air treatment. In addition, several strategic distributors in Europe and the United States were acquired.

Expanding the Business

Acquisitions during 2005, dates for agreements

Year 2005

January

17 — **Lifton Bulgaria EOOD**, Bulgaria, and the business of Lifton Breaker A/S, Denmark. Lifton is a leading manufacturer of hydraulic handheld and mounted breaker equipment and related products, for the global construction, demolition, utility, mining, and rental industries.

February

11 — **GSE tech-motive**, the United States. The company manufactures and distributes specialized tightening solutions for customers with safety-critical assembly applications, primarily in the motor vehicle industry.

March

21 — **BIAB Tryckluft AB**, Sweden. BIAB is a distributor of compressors and compressed air equipment in Sweden.

April

May

June

1

Lutos, Czech Republic. Lutos manufactures and markets a range of air compressors for low pressures, called blowers.

16

Contex AC d.d., Slovenia, and **Contex d.o.o.**, Croatia. The former distributes and services solely Atlas Copco equipment and offers a portfolio of compressors, construction and mining equipment as well as handheld power tools. Contex d.o.o. is mainly a compressor service and rental company.

"Acquisitions play an important role in our growth strategy."

Construction and Mining Technique aims high

Our second largest business area displayed record growth and profitability. Supported by the very strong mining demand and good growth in the construction sector, the business area grew orders received by 48%. Both equipment sales and the aftermarket developed very well. Catalysts to the good performance have been some successful new product introductions, more sales and service engineers in the field, and improved manufacturing and distribution concepts.

Furthermore, important acquisitions were made—Lifton, Bulgaria, and CRM, South Africa—to complement both product and market areas. The business area has today, after successful integration of acquisitions made during 2004/05, a very efficient production and supply structure, spanning the Americas, Europe and Asia. This, coupled with a very efficient aftermarket organization, is an excellent platform for further growth.

Industrial Technique focuses on industrial customers

This business area is today focused on industrial power tools and assembly systems. The professional electric tools business was sold in January 2005 and was thus not part of the business area during 2005.

The major customer segments for our industrial tools are the motor vehicle industry, the automotive aftermarket, and general industry. Overall, demand was relatively good in the Americas and Asia and somewhat lower in Europe.

Industrial Technique devotes considerable resources to product development and many new products were launched in 2005. Substantial investments were also made to increase our presence and the penetration of our sales and service engineers in order to better capture the opportunities that our very strong product portfolio offers. Our market

July — August — September

6

Intermech Ltd, New Zealand. Intermech designs, manufactures, and markets a range of compressed natural gas compressors and related equipment used at filling stations for vehicles fuelled with natural gas.

28

CRM, Consolidated Rock Machinery, South Africa, distributor of surface drill rigs, portable compressors, compact equipment, and rig mounted and handheld construction and demolition equipment, and manufacturer of hydraulic boom systems and pneumatic tools.

10

Fuji Air Tools Co. Ltd., Japan, manufactures pneumatic tools.

shares improved as a consequence of our new product launches and improved sales and service coverage.

Several acquisitions were made to extend and improve our market coverage—GSE tech-motive, the United States; Scanrotor, Sweden; and BLM, Italy. Additionally, an agreement was signed to buy Fuji Air Tools in Japan.

Rental Service focuses on competitive differentiation

Our North American equipment rental operation continued to improve and delivered impressive results. The non-residential construction market showed relatively good demand. This, coupled with improved operating efficiencies and market-share gains, contributed to the good performance.

During the year, much effort has been invested in improving our efficiencies in areas of customer interfaces in order to differentiate ourselves from our competitors and create a lasting brand differentiation.

Our rental revenues have grown 15% during the year supported about equally by price and volume increases. The utilization rates have reached levels that are second to none and corresponding to an all time high of 70%. The fleet unavailable for rent has reached the lowest level ever at 10%, thanks to improved service and delivery efficiency. The fleet age has over the last quarter been reduced to 30 months; it is now one of the youngest fleets in the industry.

We will now explore a divestment of this rental operation. The operating environment and the business characteristics are very different from Atlas Copco's industrial equipment operations and the possibilities to capture and develop synergies are limited.

Important steps forward

2005 was a very successful year for Atlas Copco and much work was devoted to make our leading market positions even stronger and at the same time to strengthen our platform for continued growth. Some of the actions undertaken have been:

- Increased investment in product development to increase the speed of product introductions and, thus, improve the product renewal rate.
- Substantial increase in number of sales and service engineers to improve presence and penetration in both equipment and aftermarket areas. We have today 30–40% more feet on the street, i.e. sales engineers and service technicians serving the customers, than three years ago.
- Intensified acquisition screening and improved execution competence. To have a good acquisition process is a necessity for achieving our growth target of 8% annual revenue growth.

Furthermore, important resources and attention have been directed to the area of Corporate Social Responsibility. Substantial training activities have been carried out to ensure our employees understand and behave according to our Business Code of Practice and to ensure Atlas Copco meets the highest standards of social and ethical responsibility. Our sustainability reporting has been developed even further and we are making progress in important areas. We have also received important recognition for our sustainability achievements.

We believe that we have further developed the company in a direction that will make it possible for us to meet your expectations in 2006. At the same time, the near-term outlook looks positive for Atlas Copco. The demand for our products and services is expected to remain at the current high level from all major customer segments.

All of our stakeholders are important to Atlas Copco. Our ambition is to meet the requirements of those who invest their time, money, and interest in the Group. On behalf of the Board, I would like to thank all colleagues for your dedicated work, and all other stakeholders for your support.

Thank you!

Gunnar Brock
President and CEO
Stockholm, Sweden, February 2, 2006

October | November | December

11 — **Ketting Handel B.V**, the Netherlands, has experience in the design, assembly and maintenance of starting air packages and compressed air systems for use onboard ships.

13 — **Pneumatech Inc** and **ConservAIR Technologies Company LLP**, the United States. Pneumatech Inc. is a manufacturer of compressed air and gas drying and filtration equipment operating in the air treatment industry.

2 — **Creemers Compressors B.V**, the Netherlands, is active in the compressed air business, focusing on the growing automotive aftermarket and wholesale markets.

30 — **BLM s.r.l.** in Italy specializes in torque and tightening testing equipment.

Board of Directors' Report on 2005 Operations

Market Review and Sales Development

The demand for Atlas Copco's products and services improved in 2005. Increased demand from the manufacturing and process industries was noted for production related equipment and aftermarket products, as well as for investment goods. A gradual improvement was seen from the construction industry, whereas the demand from the mining industry continued to show exceptional strength.

Increased market presence and penetration, and successful introductions of new products, including aftermarket products and services, gave further support to the business.

Orders received increased 24%, to MSEK 55 281 (44 659). Volume increased 11% for comparable units attributable to all business areas; Construction and Mining Technique +20%, Compressor Technique +12%, Rental Service + 7% and Industrial Technique +6% . Prices increased 3% and structural changes (acquisitions and divestments) added 6% to the orders received. In addition, a positive currency translation effect contributed with 4%. See also business area sections on page 20-35.

Orders received grew double digit in all geographic regions:

North America

The demand for the Group's products and services improved in North America, which accounted for 37% (37) of Group sales. Increased demand from the manufacturing and process industries was noted for most types of industrial equipment and aftermarket products. The demand from the mining industry was very strong. Demand for rental equipment and services improved as the important non-residential construction segment developed favorably. The activity in the other construction segments: residential building and infrastructure, continued to grow, and supported aftermarket business and demand for new construction equipment. In total, orders received increased 21% in local currency.

South America

In South America, representing 5% (4) of Group sales, strong demand was recorded in all major markets and across most customer segments. The investments from the mining industry continued to be very strong and the demand from manufacturing and process industries was favorable. Good demand was noted for products from businesses acquired in 2004. In total, orders received increased 25% in local currency.

Europe

The demand in Europe, representing 34% (37) of Group sales, was favorable, but the growth was slower than in the other regions. The best development was seen in Eastern Europe, the Nordic countries, and Great Britain. Moderate growth was noted in France while the development in Germany and Italy was rather weak. Industrial and process compressors, industrial tools and the corresponding aftermarket were in good demand from the manufacturing and process industries. Demand from the construction industry for portable compressors, drilling rigs for surface and underground applications, as well as for light construction equipment improved somewhat. Mining equipment demand was strong, primarily from Eastern Europe. In total, orders received increased 15% in local currency.

Africa/Middle East

In the Africa/Middle East region, accounting for 7% (6) of Group sales, the demand for most types of equipment and aftermarket products was good. The mining industry increased its investments in the region. In total, orders received increased 34% in local currency.

Asia/Australia

The demand in Asia/Australia, representing 17% (16) of Group sales, improved. Industrial and process compressors, industrial tools and the corresponding aftermarket were in good demand from the manufacturing and process industries, and demand for construction and mining equipment improved. Strong growth was recorded in Japan, India, South Korea, and China. In total, orders received increased by 24% in local currency.

Significant events and structural changes

The Group completed 14 acquisitions during the year, which added annual revenues of MSEK 775 and 665 employees. The Compressor Technique business area made 10 acquisitions, but also divested assets related to the non-core stationary generator business. The Construction and Mining Technique and Industrial Technique business areas completed 2 acquisitions each in 2005. In addition, they completed 1 acquisition each in January 2006. All acquisitions are integrated into the business structure in order to give the best possibilities for profitable growth and to exploit synergies.

In the spring of 2004 it was announced that the professional electric power tool business, a business within the Industrial

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Rental Service	Group
Geographic distribution of orders received, by business area, %					
North America	14	27	30	100	37
South America	5	9	3		5
Europe	49	31	51		34
Africa/Middle East	7	13	4		7
Asia/Australia	25	20	12		17
Total	100	100	100	100	100

Distribution of orders received, by geographic region, %

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Rental Service	Group
North America	13	21	9	57	100
South America	41	53	6		100
Europe	56	27	17		100
Africa/Middle East	39	55	6		100
Asia/Australia	58	34	8		100

Orders received by customer category, %

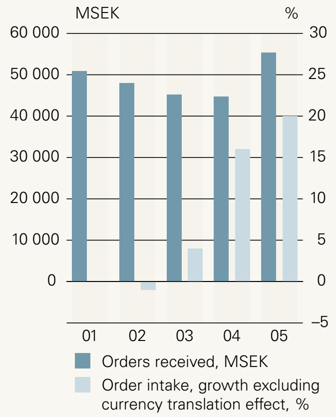
	Compressor Technique	Construction and Mining Technique	Industrial Technique	Rental Service	Group
Construction	12	38	1	62	29
Manufacturing	40	2	81	6	26
Process	27	1	2	11	13
Mining	4	42	0	2	14
Service	7	1	1	11	6
Other	10	16	15	8	12
Total	100	100	100	100	100

Customers are classified according to standard industry classification systems. The classification does not always reflect the industry of the end user.

Technique business area and with products primarily for light construction installation work, was to be divested. On January 3, 2005, the divestment was finalized. The business had revenues of MSEK 5 462 in 2004 and about 3 000 employees. In accordance with IFRS, the divested business is reported as discontinued operations.

On February 2, 2006, it was announced that Atlas Copco, following a thorough strategic review, has decided to explore a divestment of its construction equipment rental operations, i.e. the U.S.-based Rental Service business area. The primary reasons for the decision are that the operating environment and the business characteristics are very different from Atlas Copco's industrial equipment operations and the possibilities to capture and develop synergies are limited. The Atlas Copco Rental Service operation is only active in North America and to grow the business would accentuate the operational differences and lack of synergies vis-à-vis the rest of the Group. It would also change the Atlas Copco Group's business and capital profile in an unwanted direction.

Order intake



Near Term Outlook

The demand for Atlas Copco's products and services, from all major customer segments such as mining, infrastructure and other non-residential construction, manufacturing and process industry, is expected to remain at the current high level.

(Published February 2, 2006)

International Financial Reporting Standards (IFRS) and discontinued operations

As of January 1, 2005, the consolidated accounts of the Atlas Copco Group are prepared in accordance with IFRS. Atlas Copco has restated historical financial information as from January 1, 2004, in order to provide comparative information for the corresponding periods in the 2005 interim and annual reports. Financial information for 2004 excludes discontinued operations (the professional electric tools business), unless otherwise stated. Financial information for periods prior to 2004 has not been restated.

Financial Summary and Analysis

Revenues

The Group's revenues increased 22% to MSEK 52 742 (43 192). Volume increased 11% for comparable units attributable to all business areas; Construction and Mining Technique +20%, Compressor Technique +10%, Industrial Technique +9%, and Rental Service +7%. Prices increased 3% and structural changes (acquisitions and divestments) added 5% to the revenues. In addition, a positive currency translation effect contributed with 3%. See also business area sections on page 20–35 and note 2 and 3.

Operating profit

Operating profit increased 41%, to a record MSEK 9 403 (6 651), and the operating profit margin increased to 17.8% (15.4). Record profits were achieved in all business areas and resulted primarily from higher revenue volumes, price increases, and favorable changes in exchange rates. The positive effects more than offset the effects of higher material costs and increased marketing and sales activities. The positive impact from foreign exchange rate fluctuations was approximately MSEK 650 compared with previous year, and it affected the operating margin with almost 1 percentage point. The preceding year's result included restructuring costs of MSEK 58 in the Construction and Mining Technique business area.

Operating profit for the Compressor Technique business area increased by MSEK 710 to MSEK 4 032 (3 322), corresponding to a margin of 19.5% (18.7). The operating margin benefited from the increase in revenue volume and prices, but was negatively affected by higher material and marketing costs. The return on capital employed remained at a very high level, 70% (70).

Operating profit for the Construction and Mining Technique business area increased by MSEK 958 to MSEK 2 073 (1 115), corresponding to a margin of 13.7% (10.7). The operating profit benefited strongly from higher revenue volume and price increases more than offset increased component costs. The strengthened USD gave a favorable effect on the operating margin of about 1 percentage point. The businesses that were acquired in 2004 and 2005 contributed to the increased profit, also when costs for integration of the acquisitions were taken into account. Return on capital employed was 28% (26).

Operating profit for the Industrial Technique business area increased 27% to MSEK 1 200 (943), corresponding to a margin of 19.8% (18.7). The margin improved, primarily as a result of strong revenue volume and a positive currency effect. These effects more than offset costs related to investments in the market organization. Return on capital employed improved to 66% (59).

Operating profit for the Rental Service business area increased 54% to MSEK 2 666 (1 732). The operating margin improved to 23.0% (16.7). The high leverage effect from increased rental volume, the positive development of rental rates, higher sales of used equipment, and efficiency gains all contributed to the increase in profit. Operating costs were almost unchanged, in spite of the higher activity level. The profit margin before non-cash items such as depreciation and amortization (EBITDA) improved to 40.4% (34.3). Return on capital employed was 16% (10), and 26% (19) on operating capital (excluding goodwill).

Depreciation and EBITDA

Depreciation and amortization totaled MSEK 3 320 (3 121), of which rental equipment accounted for MSEK 2 199 (1 921), property and machinery MSEK 823 (944), and amortization of intangible assets MSEK 298 (256). Previous year's depreciation and amortization includes discontinued operations of MSEK 205. Earnings before depreciation and amortization, EBITDA, was MSEK 12 723 (9 567) corresponding to a margin of 24.1% (22.1).

Net financial items

The Group's net financial items totaled MSEK –103 (–269). Other financial items was MSEK 394 (–7), affected positively by changes in accounting for financial instruments related to share based payments, see note 9. The net financial items for 2004 included net gain of MSEK 135 as a result of the amortization of certain loans and closing of derivative instruments, primarily related to an extension of the Group's average interest-rate period. Financial foreign exchange differences were MSEK 1 (–88), where previous year's figure was affected by the above mentioned gain. Excluding these items, the net interest cost increased to MSEK –498 (–374), primarily as an effect of differences in fair market valuations of debt related derivative instruments and higher USD interest rates. See note 27 for additional information on financial instruments, financial exposure and principles for control of financial risks.

Key figures by business area

	Revenues		Operating profit		Operating profit margin, %		Return on capital employed, %		Investments in tangible fixed assets[1]	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Compressor Technique	20 672	17 787	4 032	3 322	19.5	18.7	70	70	1 052	758
Construction and Mining Technique	15 154	10 454	2 073	1 115	13.7	10.7	28	26	974	530
Industrial Technique	6 064	5 046	1 200	943	19.8	18.7	66	59	121	159
Rental Service	11 604	10 402	2 666	1 732	23.0	16.7	16	10	5 051	3 228
Eliminations/Corporate items	–752	–497	–568	–461					38	7
Total Group	52 742	43 192	9 403	6 651	17.8	15.4	29	22	7 236	4 682

[1] Excluding assets leased.

Key figures

MSEK	2005	2004
Orders received	55 281	44 659
Revenues	52 742	43 192
Operating profit	9 403	6 651
Operating margin, %	17.8	15.4
Profit before tax	9 300	6 382
Profit margin, %	17.6	14.8
Profit for the period	6 581	4 671
Basic earnings per share, SEK	10.43	7.41
Return on capital employed, %	28.5	22.1[1]
Return on equity, %	27.8	21.6[1]

[1] Including discontinued operations.

Sales bridge

MSEK	Orders Received	Orders on hand, December 31	Revenues
2003	45 149	4 095	44 619
Structural change, %	+4		+4
Currency, %	–5		–5
Price, %	+2		+2
Volume, %	+10		+8
Total, %	+11		+9
2004 reported	50 160	5 823	48 654
Discontinued operations	–5 501	–106	–5 462
2004	44 659	5 717	43 192
Structural change, %	+6		+5
Currency, %	+4		+3
Price, %	+3		+3
Volume, %	+11		+11
Total, %	+24		+22
2005	55 281	9 014	52 742

For more details and comments, see also the business area sections on pages 20–35.

Profit before tax

Atlas Copco Group profit before tax increased 46% to MSEK 9 300 (6 382), corresponding to a margin of 17.6% (14.8).

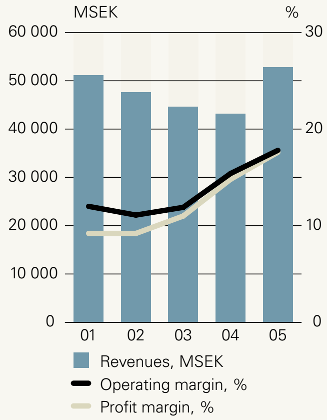
Taxes

Taxes for the year totaled MSEK 2 936 (1 952), corresponding to 31.6% (30.6) of profit before tax. The increased effective tax rate was due to increased profitability in countries with above average tax rates, primarily the United States. See also note 10.

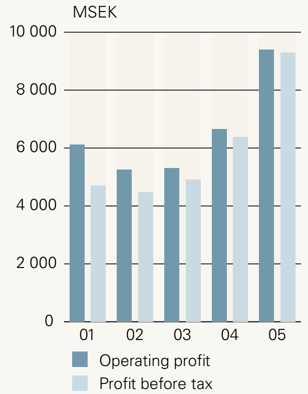
Profit and earnings per share

Profit for the year amounted to MSEK 6 581 (4 671), whereof MSEK 6 560 (4 657) and MSEK 21 (14) are attributable to equity holders and minority interests, respectively. The profit includes net profit from discontinued operations of MSEK 217 (241). The amounts represent profit (2004) and net capital gain (2005) from the divested professional electric tools business. Basic earnings per share were SEK 10.43 (7.41), up 41%. Diluted earnings per share were SEK 10.41 (7.40).

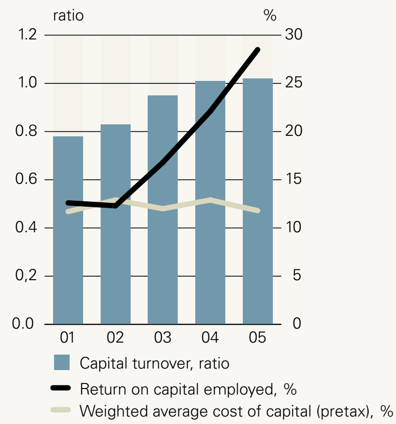
Revenues and profit margin



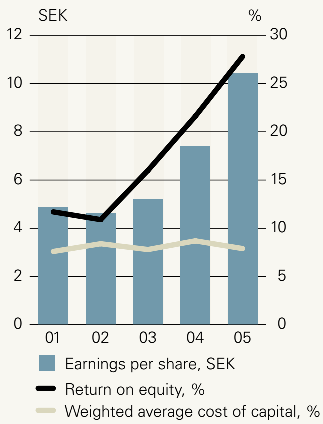
Operating profit and profit before tax



Capital turnover and return on capital employed



Return on equity and earnings per share



Excluding goodwill impairment charge in 2002.
Restated for IFRS 2004.

Financial Summary and Analysis
(continued)

Balance sheet
The Group's total assets increased 14% to MSEK 54 955 (48 168), including positive currency translation effects of 14% primarily from the strengthened USD. The assets at year end 2004 included assets of the professional electric tool business of MSEK 5 774, which were classified as held for sale.

Fixed assets and investments
Fixed assets increased, primarily as a result of increased investments in rental equipment and currency translation effects.

Gross investment in rental equipment was MSEK 6 396 (3 991), while sales of used rental equipment totaled MSEK 2 364 (1 941) Thus, net investments in rental equipment increased to MSEK 4 032 (2 050).

Investments in property and machinery totaled MSEK 840 (691), slightly more than the annual depreciation. The major investments were made in Compressor Technique's plants in Antwerp, Belgium, and in Wuxi, China, in Construction and Mining Technique's plants in Sweden and the United States, and in the Rental Service operations in the United States.

Investments in intangible fixed assets, mainly related to capitalization of certain development costs, were MSEK 369 (265). Investments in financial assets, primarily finance lease, increased to MSEK 422 (152).

Inventories and trade receivables
Inventories and trade receivables increased, affected by increased volumes and currency translation effects. The average value of inventories as a proportion of revenues increased to 12.7% (12.2). Excluding Rental Service, the proportion was 15.9% (15.2). Average trade receivables in relation to revenues increased to 18.5% (18.1). Inventories and trade receivables as a proportion of revenues measured at year-end increased to 13.8% (13.1) and to 20.7% (19.1) respectively.

Cash and cash equivalents
Cash and cash equivalents increased to MSEK 3 727 (2 386). The Group's positive cash flow combined with limited possibilities to repay long-term debt was the main reason for the increase.

Liabilities
The interest-bearing loans, excluding employee benefits, were MSEK 9 519 (7 662). The increase is a result of currency translation effects as these liabilities are predominantly denominated in USD. Provisions for post-employment benefits decreased to MSEK 1 826 (2 079), primarily due to payments made to pension funds in Great Britain and the United States.

Trade payables increased, primarily as an effect of increased investments in rental equipment and 180 days payment terms on these investments. Average trade payables in relation to revenues increased to 10.0% (9.3).

The liabilities at year end 2004 included the liabilities of the professional electric tool business of MSEK 1 703, which were classified as associated with assets held for sale.

Equity
Changes in equity

MSEK	2005	2004
Opening balance	22 601[2]	21 015[1]
Change in accounting principles	419	–694
Opening balance, restated	23 020	20 321
Dividend to equity holders of the parent	–1 886	–1 572
Share redemption	–4 192	
Translation differences	2 535	–851
Other items	–250	32
Profit for the period	6 581	4 671
Closing balance	25 808	22 601
Equity attributable to		
– equity holders of the parent	25 716	22 536
– minority interest	92	65

[1] Swedish GAAP
[2] IFRS December 31, 2004, not including IAS 39.

At year-end, Group equity including minority interests was MSEK 25 808 (22 601). As a result of the implementation of IAS 39 equity as of January 1, 2005 increased by MSEK 419. Excluding this change equity increased MSEK 2 788, affected positively by the record profit and currency translation effects. A total of MSEK 6 078 (1 572) was distributed to shareholders through ordinary dividend and a mandatory share redemption.

Equity per share was SEK 41 (36). Equity accounted for 47% (47) of total assets. Atlas Copco's total market capitalization on the Stockholm Stock Exchange at year-end was MSEK 107 430 (61 312), or 416% (271) of net book value.

Net indebtedness
The Group's net indebtedness amounted to MSEK 7 229 (7 860).

The debt/equity ratio (defined as net indebtedness divided by equity) was 28% (35). Previous year's figures include interest-bearing liabilities attributable to the professional electric tool business. Excluding those, the net indebtedness amounted to MSEK 7 028 and the debt/equity ratio was 31%.

Capital turnover
The capital turnover ratio was 1.02 (1.01). The capital employed turnover ratio improved to 1.51 (1.47).

Return on capital employed and return on equity
Return on capital employed increased to 28.5% (22.1) and the return on equity to 27.8% (21.6). Previous year's figures include discontinued operations. The return on capital employed, excluding discontinued operations, was 24.4% in 2004. The Group uses a weighted average cost of capital (WACC) of 7.8%, corresponding to a pre-tax cost of capital of approximately 11.5%, as an investment and overall performance benchmark.

Balance sheet in summary

MSEK	December 31, 2005		December 31, 2004	
Intangible assets	10 607	19%	8 597	18%
Rental equipment	13 456	25%	9 154	19%
Other property, plant and equipment	4 503	8%	3 714	8%
Other fixed assets	1 818	3%	1 825	4%
Inventories	7 215	13%	5 634	11%
Receivables	13 240	24%	10 757	22%
Current financial assets	389	1%	327	1%
Cash and cash equivalents	3 727	7%	2 386	5%
Assets classified as held for sale	–		5 774	12%
Total assets	54 955		48 168	
Total equity	25 808	47%	22 601	47%
Interest-bearing liabilities	11 345	21%	9 741	19%
Non-interest-bearing liabilities	17 802	32%	14 123	29%
Liabilities associated with assets classified as held for sale	–		1 703	5%
Total equity and liabilities	54 955		48 168	

Key ratios

	2005	2004
Capital turnover ratio	1.02	0.99[1] 1.01[2]
Capital employed turnover ratio	1.51	1.41[1] 1.47[2]
Debt/equity ratio, December 31, %	28	35[1]
Equity/assets ratio, December 31, %	47	47[1]

[1] Including discontinued operations.
[2] Excluding discontinued operations.

Cash flow, including discontinued operations

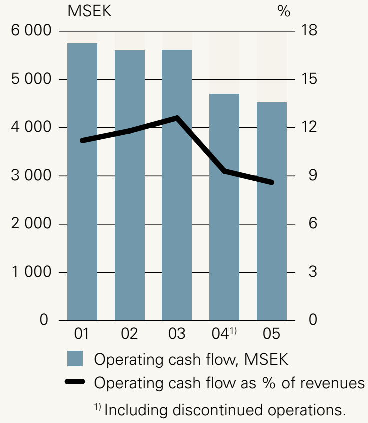
The cash flow before change in working capital (defined as revenues less operating expenses after the reversal of non-cash items, such as depreciation and amortization, and after taxes) totaled MSEK 10 230 (8 305), equal to 19% of Group revenues.

Working capital increased MSEK 231 (445). Trade receivables and inventory increased in line with volume growth, but this was partly offset by increased trade payables. Net investment in property, plant and equipment totaled MSEK 4 688 (2 703), mainly due to increased investments in rental equipment.

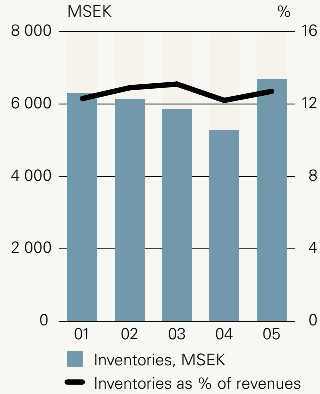
Operating cash flow before acquisitions, divestments and dividends was MSEK 4 521 (4 697), equal to 9% of Group revenues. Net cash flow for company divestments and acquisitions were MSEK 3 482 (–2 405), the majority related to the divestment of the professional electric tool business, see also note 2 and 3.

Dividends paid and mandatory redemption of shares totaled MSEK 6 082 (1 575). Net cash flow before change in interest-bearing liabilities was MSEK 1 921 (719).

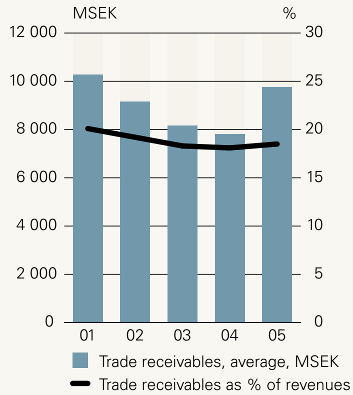
Operating cash flow



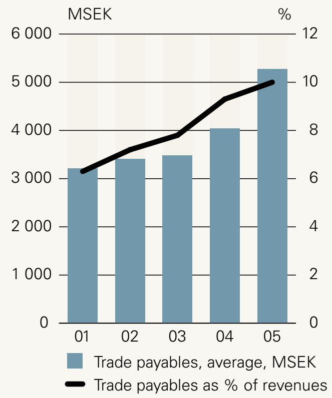
Inventories



Trade receivables



Trade payables



Restated for IFRS 2004.

Financial Summary and Analysis
(continued)

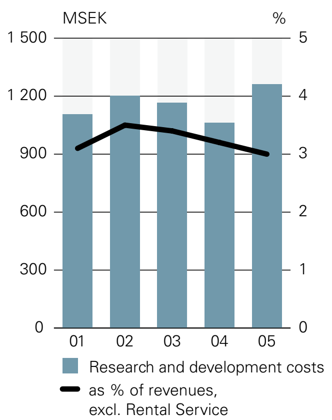
Product Development

MSEK	2005		2004	
Research and development costs				
– expensed during the year	978		849	
– capitalized during the year				
(net of amortization)	283	(93)	213	(56)
Total (net of amortization)	1 261	(1 071)	1 062	(905)
– as a percentage of revenues[1]	3.0	(2.6)	3.2	(2.8)

[1] Excluding Rental Service business area.

Continuous research and development to secure innovative products is critical for maintaining the competitiveness of Atlas Copco's divisions. The amount invested in these activities, including capitalized costs, increased 19% to MSEK 1 261 (1 062), corresponding to 3.0% (3.2) of revenues, excluding Rental Service business area. For further information, see the description under each business area.

Research and development costs



Asbestos cases in the United States

As of December 31, 2005, Atlas Copco had 201 (264) asbestos cases filed with a total of 16 739 (27 410) individual claimants. It is important to note that none of these cases identifies a specific Atlas Copco product. In each case there are several defendants, on average 119 (135) companies per case.

The Group dedicates substantial time and professional resources to monitor and follow each of these cases. Based on a continuous assessment of the actual exposure, the Group has not recorded any provisions related to these pending cases.

Environmental Impact

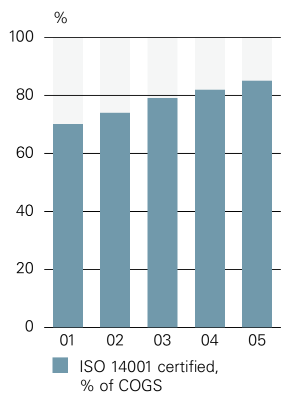
Atlas Copco strives to conduct its business in a manner that does not put the environment at risk, and complies with environmental legislation in its operations and processes world-wide. The Group conducts operations requiring permission based on Swedish environmental regulations in five Swedish companies. These operations mostly involve machining and assembly of components, and the permits relate to areas such as emissions to water and air, as well as noise pollution.

To support environmental efforts, Atlas Copco has a global Environmental Policy. The policy states that all divisions in the Atlas Copco Group must implement an Environmental Management System (EMS) and major sites should be certified in accordance with the international standard ISO 14001 or similar.

During the year 8 new sites achieved ISO 14001 certification. Overall, the manufacturing sites with ISO 14001 certification represent 85% (82) of cost of goods sold (COGS).

Environmental and ergonomic aspects have been integrated into Atlas Copco's product development process for many years, such that compressors, construction and mining equipment and industrial tools are designed and manufactured to become increasingly more energy efficient and ergonomic, to pose less risk of polluting the environment and, thereby, to provide Atlas Copco customers with products that are more environmentally friendly than those of competitors. See also the Sustainability Report.

Environmental performance



Personnel

	2005	2004[1]
Average number of employees, total	26 258	26 828
– Sweden	2 887	2 700
– Outside Sweden	23 371	24 128
Business areas		
– Compressor Technique	10 284	9 469
– Construction and Mining Technique	7 363	6 020
– Industrial Technique	2 848	5 504
– Rental Service	4 996	5 152
– Common Group Functions	767	683

[1] Including discontinued operations.

In 2005, the average number of employees in the Atlas Copco Group decreased by 570, to 26 258 (26 828). At year-end, the number of employees was 27 515 (27 968). For comparable units, the number of employees increased by 1 954. Acquisitions added 665 employees and divestment of businesses reduced the number of employees by 3 072, for a net effect of structural changes of –2 407. Excluding the professional electric tools business, the number of employees on December 31, 2004, was 25 015. See also note 5.

Management resourcing

Competent and committed managers are crucial for achieving 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.

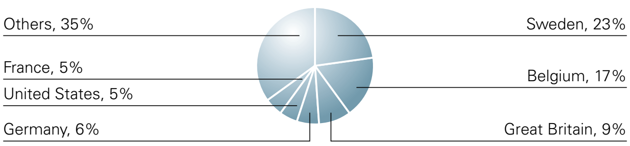
The goal is to have 85% of the managers internally recruited, compared to current levels of 81%.

Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally, published in the Internal Job Market database since 1992. In 2005 some 1 450 positions were advertised, whereof 200 were international positions.

The Group employs 276 expatriates from 38 countries working in 52 countries. The share of Swedish expatriates has decreased from 60% in 1995 to 23% in 2005. The role of the expatriate is to grow local managers and to get international professional experience for even more demanding positions within the Group.

External recruitment of young high potential employees is focused through active promotion of the Atlas Copco employer brand.

Expatriate nationality 2005



Parent Company

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

Earnings

Profit after financial items totaled MSEK 8 906 (2 631). A capital gain of MSEK 5 454 was recognized on sale of Atlas Copco Tools AB to a Group company. Profit for the period after appropriations and taxes amounted to MSEK 8 395 (1 999). Undistributed earnings totaled MSEK 9 505 (6 189).

Financing

The total assets of the Parent Company were MSEK 36 109 (26 709). At year-end 2005, cash and cash equivalents amounted to MSEK 1 899 (438) and interest-bearing liabilities to MSEK 18 051 (11 235). Equity, including the equity portion of untaxed reserves, represented 46% (54) of total assets.

Personnel

The average number of employees in the Parent Company was 93 (76). Fees and other remuneration paid to the Board of Directors, the President, and other members of Group management, as well as other statistics are specified in note 5 in the financial statements for the Group.

Share capital

At year-end, Atlas Copco had share capital totaling MSEK 786 (1 048). The reduction in share capital was a result of the mandatory redemption of shares. For further information, see note 13 in the Parent Company's financial statements.

Appropriation of Profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 4.25 (3.00) per share, equal to MSEK 2 672 (1 886), be paid for the 2005 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described on page 82.

Proposed Mandate for Repurchases of Own Shares

The Board of Directors has decided to propose that the Annual General Meeting approves a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the company over the Stockholm Stock Exchange. Currently the company does not own any of its shares. This authorization would cover the period up to the Annual General Meeting in 2007.

The intention with the proposal is to continuously be able to adapt the capital structure to the capital needs of the company and thus contribute to increased shareholder value.

Compressor Technique

Compressor Technique continued to strengthen its position as world leader in the compressed air business in 2005. The business area showed record sales and profit.

- Strong order volume growth at 12% with double digit growth in all regions.
- Successful introduction of new products, including aftermarket and service products.
- 10 acquisitions completed.

Significant events and structural changes

The business area completed a total of 10 acquisitions during 2005. The acquired businesses improved the presence and penetration in many markets and added products, services, and technical knowledge that will develop the existing business and help build new businesses close to the business area's core competencies.

Lubenecké továrny Svoboda a.s., Czech Republic, referred to as Lutos, was acquired in June. Lutos manufactures and markets a range of air compressors for low pressures, called blowers.

In September, Intermech Ltd., based in New Zealand, was acquired. Intermech designs, manufactures, and markets a range of compressed natural gas compressors and related equipment used at filling stations for vehicles fuelled with natural gas.

Pneumatech Inc. and ConservAIR Technologies Company LLP, of the United States, were acquired in October. Pneumatech Inc. is a manufacturer of compressed air and gas drying and filtration equipment. ConservAIR has developed and patented its proprietary line of compressed air management systems.

Two specialist compressor companies were acquired in the Netherlands in October and November. Ketting Handel B.V. is mainly active in the marine sector and has experience in the design, assembly, and maintenance of starting air packages and compressed air systems for use on board ships. Creemers Compressors B.V. is focusing on the growing automotive aftermarket and wholesale markets.

In addition, the business area acquired distributors in Slovenia, Croatia, Romania, Great Britain, the United States, and Sweden during the year.

In December, assets related to the stationary generator business were sold. Compressor Technique will focus its generator business on portable generators.

In the United States, the sales and service activity was decentralized into four regions. This resulted in improved presence in the regions and improved customer service.

The business area took the strategic decisions to start compressor element manufacturing in Wuxi, China, and to build a new assembly plant in Liuzhou, China. In India, the business area will concentrate its manufacturing to one location in Pune. These investments will be made in 2006 to further support the growth in the Asian region.

Business development

Demand for stationary industrial compressors and related aftermarket products and services continued to be strong and order volumes grew double digit. Standard oil-injected machines for a wide variety of industrial applications and customer segments had good volume growth. Sales also increased strongly for oil-free compressors, utilized in more specialized applications within, for example, the electronics, pharmaceutical, textile and food industries. Customers continued increasingly to favor compressors with low energy consumption, low noise levels and integrated air treatment capabilities. Consequently, sales of energy efficient Variable Speed Drive (VSD) compressors as well as other energy saving products and services, and workplace compressors with low noise levels developed very well. The strong volume growth was well spread geographically with double digit growth in all regions, with the strongest development recorded in North and South America and Eastern Europe. The aftermarket business also grew firmly in all regions, supported by new, innovative service products and an increased local presence.

Orders for gas and process compressors increased significantly, thanks to strong demand and development of new businesses. Large orders were, for example, won for integrally geared turbo compressors for a new application on board ships that will carry liquefied natural gas.

Demand for portable compressors from the construction industry and construction-related customers, such as equipment rental companies, improved significantly. Sales of portable compressors grew strongly, supported by newly introduced products. The specialty rental business, primarily rental of portable air and power, increased steadily.

Revenues totaled MSEK 20 672 (17 787), up 10% in volume. Operating profit increased to MSEK 4 032 (3 322), corresponding to a margin of 19.5% (18.7). The return on capital employed reached 70% (70).

Competence development

Competence development continued to be an important tool in support of short- and long-term developments. Competence mapping is done extensively to establish hiring and resource needs, particularly in core areas. A massive training effort was made locally at customer centers, particularly to develop the skills level of the service organization.

Product development

The business area develops machines, aftermarket products and services, which provide cost-effective solutions for the customers' compressed air needs, including considerable savings on energy costs and reduced environmental impacts. New products were

Key figures

	2005	2004
Orders received	21 770	18 337
Revenues	20 672	17 787
Operating profit	4 032	3 322
Operating margin, %	19.5	18.7
Return on capital employed, %	70	70
Investments	1 052	758
Average number of employees	10 284	9 469

Sales bridge

	Orders Received	Revenues
2003	16 480	16 045
Structural change, %	+1	+1
Currency, %	–3	–3
Price, %	+1	+1
Volume, %	+12	+12
Total, %	+11	+11
2004	18 337	17 787
Structural change, %	+2	+1
Currency, %	+3	+3
Price, %	+2	+2
Volume, %	+12	+10
Total, %	+19	+16
2005	21 770	20 672

continuously launched during 2005. A new range of oil-injected rotary screw compressors from 30–90 kW with improved performance was introduced. Many new innovations have been introduced into the compressor solution and the range consists of three compressor designs at each engine size, including one with energy effective Variable Speed Drive (VSD), which offers customers a greater choice and flexibility.

A dual output, compressed air and nitrogen generation system was introduced for the automotive sector.

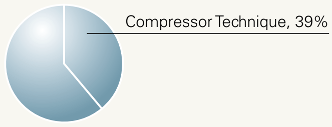
New large oil-free rotary screw and centrifugal compressors with improved capacity were launched as well as a range of rotary blowers suitable for process industry operations with a need for consistent flow of low pressure air. Atlas Copco also introduced a range of small oil-free compressors that provide high quality air for medical purposes, such as breathing air and surgical air.

A number of Quality Air Solutions products, such as coolers, dryers and filters were launched, and aftermarket products and services to optimize compressed air installation and minimize energy use were introduced to more customers.

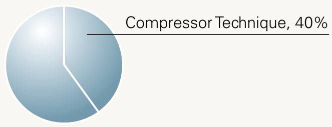
The range of portable compressors with a polymer canopy, which has very good impact resistance, was extended to include larger machines. The new machines incorporate the latest technologies to meet the demand for economical, silent and environmentally friendly operation.

Oil-injected rotary screw compressors.

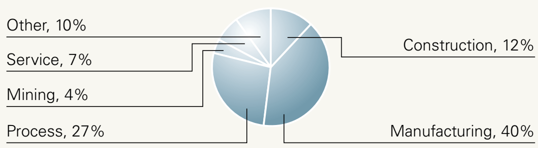
Share of Group revenues



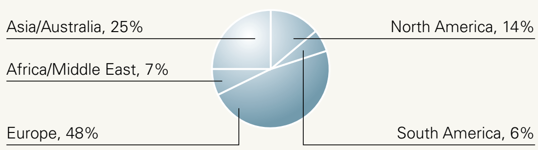
Share of Group operating profit



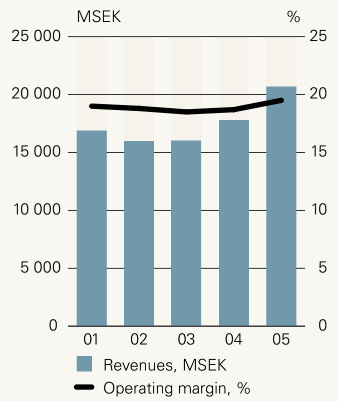
Revenues by customer category



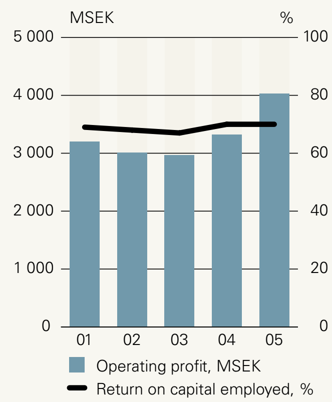
Revenues by geographic area



Revenues and operating margin



Earnings and return



Restated for IFRS 2004.

The Compressor Technique business area consists of five divisions in the following product areas: industrial compressors, compressed air treatment products, portable compressors, generators, gas and process compressors, as well as specialty rental.

Business area management

Business Area President: Bengt Kvarnbäck

Compressor Technique's divisions are:
• Oil-free Air, President Luc Hendrickx
• Industrial Air, President Ronnie Leten
• Portable Air, President Geert Follens
• Gas and Process, President André Schmitz
• Airtec, President Filip Vandenberghe


Bengt Kvarnbäck


Luc Hendrickx


Ronnie Leten


Geert Follens


André Schmitz


Filip Vandenberghe

Compressor Technique

The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electric power generators, air treatment equipment (such as compressed air dryers, coolers, and filters) and air management systems. The business area has in-house resources for basic development in its core technologies. In addition, the business area offers specialty rental services of chiefly compressors and generators. Development, manufacturing, and assembly are concentrated in Belgium, with other units situated in Brazil, China, France, Germany, Great Britain, India, Italy, the Netherlands, and the United States.

Vision and strategy

The business area aims to be First in Mind—First in Choice™ as supplier of compressed air solutions, by being interactive, committed and innovative and offering customers the best value. The strategy is to further develop its leading position in the field of compressed air by capitalizing on its strong market presence worldwide, improving market penetration in Asia, North America, the Middle East, and Eastern Europe, and continuously developing improved products and solutions to satisfy demands from customers. The strategy also includes developing the specialty rental business, generator business for portable power generation and integral gear compressors and expanders for process gas applications.

The multi-brand concept is important for the business area, which owns and uses a number of brands in addition to the Atlas Copco brand. The brands all focus on specific customer segments and/or geographic regions.

Activities

Market presence
• Increase market coverage and the number of people in sales, service and support
• Establish presence in new markets

Product development
• New products offering better value
• Extended offering, including new compressors, air treatment equipment and service

Aftermarket
• Extended offering, development and marketing of aftermarket products
• Focus through a specialist organization, providing uniform service in all markets

Market trends

• Energy efficiency
• Workplace compressors with low noise levels
• Quality Air
• Outsourcing of maintenance and monitoring of compressed air installations
• Auditing of installations
• New applications for compressed air
• Specialty rental

Customers, applications and demand drivers

Compressor Technique has a diversified customer base. The largest customer segments are the manufacturing and process industries, which together represent about two thirds of revenues. The construction industry is also an important segment, primarily for portable compressors and generators. Customers are also found among utility companies and in the service sector.

The products are intended for a wide spectrum of applications in which compressed air is either used as a source of power in manufacturing or the construction industry, or as active air in industrial processes. Clean, dry, oil-free quality air is preferred for applications in which compressed air comes into direct contact with the end-product. In those applications added accessories and services are becoming increasingly important. Portable compressors and diesel-driven electric power generators are reliable power sources for machines and tools in the construction sector as well as in numerous industrial applications. Gas and process compressors are supplied to various process industries,

Products and applications

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

Stationary industrial compressors are available with 1.5–15 000 kW engine size.

Piston compressors

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

Rotary screw compressors

Rotary screw compressors are available as oil-injected and oil-free. They are used in numerous industrial applications and are available as WorkPlace AirSystem with integrated dryers, as well as with energy effective Variable Speed Drive (VSD).

Oil-free tooth and scroll compressors

Oil-free tooth and scroll compressors are used in industrial applications with a demand for high quality oil-free air. Some models are available as Work-Place AirSystem with integrated dryers as well as with energy effective VSD.

Oil-free rotary blowers

Oil-free rotary blowers are used in process industry applications with a demand for a consistent flow of low pressure air.

Oil-free centrifugal compressors

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

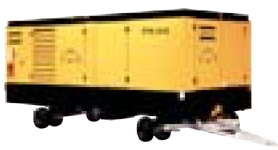
Gas and process compressors

Gas and process compressors are supplied to process industries. The main product category is multi-stage centrifugal, or turbo, compressors which are complemented by turboexpanders.

Portable compressors and generators provide temporary compressed air or electricity. Portable compressors are available with 21.6–354 kW engine size. Generators are available with an output of 12–1 250 kVA.

Portable oil-injected screw compressors

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



Portable oil-free screw compressors

Portable oil-free screw compressors are used to meet a temporary need for oil-free air primarily in industrial applications. The equipment is rented.

Portable generators

Portable generators fulfill a temporary need for electricity, primarily in construction applications.

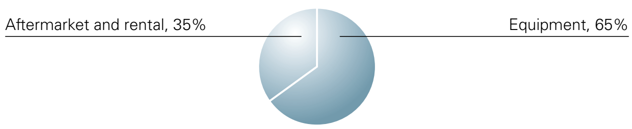
such as air separation plants, power utilities and liquefied natural gas applications.

Stationary industrial air compressors and associated air-treatment products and aftermarket activities represent about 70-75% of sales. The balance is represented by portable compressors, generators and specialty rental, just over 20% of sales, and gas and process compressors. The aftermarket and specialty rental represents approximately 35% of total sales.

Demand drivers

- Investments in machinery
- Industrial production
- Construction activity
- Energy cost

Share of revenues



Market position

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

Competition

Compressor Technique's largest competitor in the market for compressors is Ingersoll-Rand. Other competitors are Kaeser, Hitachi, Gardner-Denver, CompAir, Sullair and regional and local competitors. Aggreko is the main competitor for specialty rental. In the market for compressors for process gas applications, the main competitors are Siemens and MAN Turbo.

Estimated global market position[1)]

Product	Global Position
Stationary industrial air compressors	1
Portable compressors	1
Portable generators	4
Specialty rental, compressors and generators	2
Gas and process compressors	1
Compressed air treatment equipment	1

[1)] In the product categories offered.

Construction and Mining Technique

2005 was a year with strong demand growth, primarily originating from the mining industry but also from a favorable development of the construction industry. Volume growth was strong, both for comparable units and in acquired businesses.

- Record sales and profit.
- Profit margin up significantly, thanks to volume, efficiency improvements and currency.
- Successful integration of businesses acquired.

Significant events and structural changes

The business area finalized 3 acquisitions with excellent strategic fit between June and September 2004. These acquisitions were integrated into the existing business structure in order to give each business the best possibilities for profitable growth and to exploit synergies.

The business area completed 2 strategic acquisitions during 2005 and 1 in January 2006. The acquired businesses improved the presence and penetration in key markets and added products, services and technical knowledge to help build new businesses.

Lifton Bulgaria EOOD, Bulgaria, and the business of Lifton Breaker A/S, Denmark, was acquired in January. Lifton is a leading manufacturer of hydraulic handheld and mounted breaker equipment, and related products, for the global construction, demolition, utility, mining, and rental industries.

Contex AC d.d., Slovenia, was acquired in June. Contex distributes and services solely Atlas Copco equipment and has a market leading position.

In addition, the acquisition of assets of Consolidated Rock Machinery (Pty) Ltd., South Africa, was finalized in January 2006. It is a leading distributor of surface drill rigs, portable compressors, and compact equipment, as well as rig-mounted and handheld construction and demolition equipment, and has its own manufacturing of hydraulic boom systems and a range of pneumatic tools.

An investment of MSEK 40 in an extension of the assembly plant for loaders and mine trucks was made in Örebro, Sweden, in order to improve flow and expand capacity. The assembly plant will be in operation in the beginning of 2006.

A new assembly plant for pneumatic and hydraulic crawlers was built in China. In India, the business area will concentrate its manufacturing to one location and increase capacity during 2006. These investments are made to further support the growth in the Asian region.

Business development

Good demand for raw material, high metal prices and increased ore production influenced investments in the mining sector positively and demand for equipment continued to be very strong. Investments in open pit and underground mines contributed to significantly more sales of rock drilling and loading equipment. Sales of rotary drilling rigs for open pit mining and related applications were particularly strong, whereas demand for exploration equipment was relatively flat. The increased activity in mines, in combination with the trend to outsource non-core activities, led to a favorable development also in the aftermarket. All major mining markets showed strong demand and significant growth was recorded in North America and Eastern Europe.

Development in the construction sector improved. Sales of crawler rigs for surface applications, such as quarries and infrastructure projects, grew strongly, while underground construction activity and the corresponding demand for rock drilling equipment improved only moderately. The trend towards renting equipment rather than buying continued to be strong in large construction projects. The sales of light construction equipment, such as breakers and crushers, continued to increase and the development of the aftermarket business was strong. Growth was achieved in all major markets and the best development was achieved in Asia and North America.

Revenues increased 45% to a record MSEK 15 154 (10 454), up 20% in volume. Operating profit increased to a record MSEK 2 073 (1 115) and operating profit margin to 13.7% (10.7). Costs for integration of the acquisitions had a slightly negative impact on the profit, but less than in the previous year (MSEK –58). Return on capital employed was 28% (26).

Competence development

2005 is characterized by strong growth and continued integration of acquired businesses. Nearly 900 employees have been added to the business area, whereof 750 in sales and service. Competence development therefore has a high priority. A key activity, primarily for the new employees, has been internal training in *The Way We Do Things,* the Group's single most important management tool. Product and sales training for customers and employees has also been conducted. In the second half of 2005, the CMT academy was launched in Luleå, Sweden, where all general managers and sales managers are trained in mining and construction applications.

Product development

The business area continuously invests in product development in order to provide its customers increasingly productive and cost efficient solutions. A number of new and improved machines and aftermarket products were introduced in 2005.

Atlas Copco's first four boom drilling rig, the world's most productive, was commissioned at a tunneling project in Finland. The drill rig was equipped with the 30 kW COP 3038 hydraulic rock drill for tunneling and drifting applications, which was introduced last year, and the COP 3038 was also introduced on several other drill rig models. In addition, new rigs for special ap-

Key figures

	2005	2004
Orders received	16 581	11 177
Revenues	15 154	10 454
Operating profit	2 073	1 115
Operating margin, %	13.7	10.7
Return on capital employed, %	28	26
Investments	974	530
Average number of employees	7 363	6 020

Sales bridge

	Orders Received	Revenues
2003	7 980	7 894
Structural change, %	+23	+20
Currency, %	-3	-3
Price, %	+2	+2
Volume, %	+18	+13
Total, %	+40	+32
2004	11 177	10 454
Structural change, %	+20	+17
Currency, %	+5	+5
Price, %	+3	+3
Volume, %	+20	+20
Total, %	+48	+45
2005	16 581	15 154

plications were also introduced; a scaling rig for underground mining and tunneling applications, an exploration drilling rig and a silenced crawler rig for surface applications.

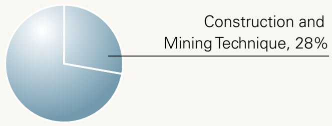
Two new rock drills for heavy production drilling in surface applications were introduced alongside a heavy-duty range of rock drilling tools.

Several hydraulic breakers, crushers, pulverisers as well as pneumatic, gasoline powered and hydraulic hand-held breakers and drills were introduced. The new products are more productive and easier to handle and service. Also, to meet emerging legislation, noise and vibration levels have been cut significantly on several new products.

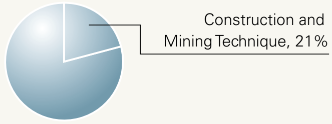
Many new aftermarket products, consumables, and service products were also brought to market.

The silenced crawler rig has a noise level of approximately 10 dB(A) below that of other rigs on the market.

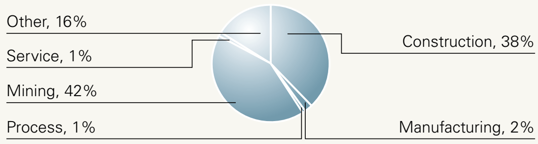
Share of Group revenues



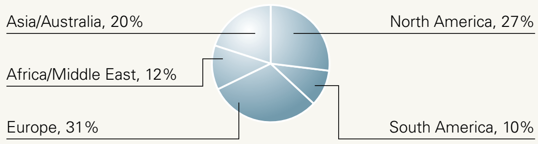
Share of Group operating profit



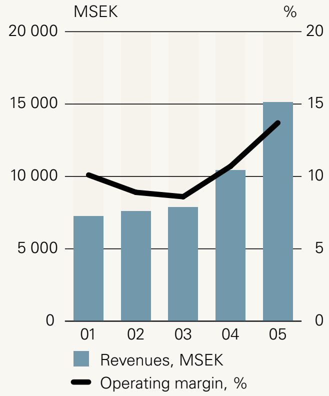
Revenues by customer category



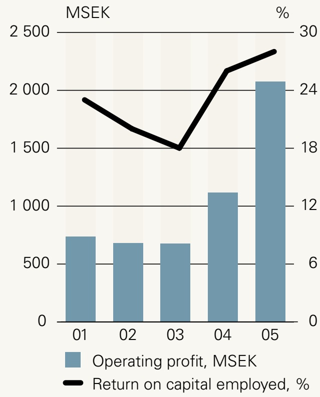
Revenues by geographic area



Revenues and operating margin



Earnings and return



Restated for IFRS 2004.

The Construction and Mining Technique business area consists of seven divisions in the following product areas: drilling rigs, rock drilling tools, exploration equipment, construction tools, and loading equipment.

Business area management

Business Area President: Björn Rosengren

Construction and Mining Technique's divisions are:
• Underground Rock Excavation, President Lars Engström
• Surface Drilling Equipment, President Stephan Kuhn
• Drilling Solutions, President Robert Fassl
• Secoroc, President Johan Halling
• Construction Tools, President Claes Ahrengart
• Craelius, President Patrik Nolåker
• Rocktec, President Roger Sandström


Björn Rosengren


Lars Engström


Stephan Kuhn


Robert Fassl


Johan Halling


Claes Ahrengart


Patrik Nolåker


Roger Sandström

Construction and Mining Technique

The Construction and Mining Technique business area develops, manufactures, and markets rock drilling tools, underground rock drilling rigs for tunneling and mining applications, surface drilling rigs, loading equipment, exploration drilling equipment, and construction tools. The business area has its principal product development and manufacturing units in Sweden and in the United States, with other units in Austria, Canada, China, Finland, Germany, India, Japan, and South Africa.

Vision and strategy

The business area aims to be First in Mind—First in Choice™ as supplier of equipment and aftermarket services for rock excavation and demolition applications to the mining and construction industries.

The strategy is to grow by maintaining and reinforcing its leading market position as a global supplier for drilling and loading applications for the mining and construction industries, by developing its positions in exploration drilling and light construction equipment and by increasing revenues from use-of-products by offering more aftermarket services to customers.

The strategy shall be accomplished through continuous development of products and services that enhance productivity, improved market penetration, and acquisitions of complementary operations.

Activities

Product development

• New products and solutions offering enhanced productivity
• Extend the product offer based on a modular design concept
• Design and ergonomics
• Intelligent product concept

Aftermarket

• Develop a global service concept/competence
• Introduce a fleet management system
• Extend the product offer on aftermarket products
• Focus through a separate organization

Key customer strategy

• New organization to support key customers
• Take more responsibility through aftermarket contracts
• Offer global contracts and support
• Build partnership relations

Market trends

• More productive equipment
• More intelligent products and remote control
• Customer and supplier consolidation
• Supplier integration forward—aftermarket performance contracts

Customers, applications and demand drivers

A key customer segment for the business area is the mining sector, representing about half of revenues, which includes production and development work for both underground and surface mining. This segment requires rock drilling equipment, rock tools, loading and haulage equipment, and exploration drilling equipment.

The other key customer segment is construction, accounting for close to half of revenues. General and civil engineering contractors, often involved in infrastructure projects like tunneling or dam construction, demand rock drilling equipment and rock tools, while special trade contractors and rental companies are important customers for construction tools.

Both mining and contracting customers are vital groups for aftermarket products, such as consumables, maintenance contracts, service, parts, and rental. This part of revenues is steadily increasing. The aftermarket, including consumables, and rental represents approximately 52% of total sales.

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. Raise boring machines are used to drill large diameter holes, 0.6–6.0 meters, which can be used for ventilation, ore- and man transportation etc.

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, and 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 is supplier of 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 survey, ground reinforcement, and water well drilling.

Construction and demolition tools

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

Demand drivers

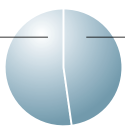
Mining

- Mining machine investments
- Ore production

Construction

- Infrastructure- and public investments
- Non-building construction activity

Share of revenues



Market position

Construction and Mining Technique business area has a leading market position globally in most of its operations.

Competition

Construction and Mining Technique's principal competitor is Sandvik. Other competitors include Furukawa in the market for underground and surface drilling equipment and construction tools; Boart Longyear for underground drilling equipment, exploration drilling equipment and rock drilling tools; and Caterpillar Elphinstone for loading and haulage equipment.

Estimated global market position

Product	Global Position
Underground rock drilling equipment	1–2
Underground loading and haulage equipment	1–2
Surface drilling equipment	1
Rock drilling tools	1
Exploration drilling and ground engineering equipment	1–2
Construction and demolition tools	1

Industrial Technique

In 2005, the business area focused its operations on industrial power tools and assembly systems for industrial manufacturing and the year was characterized by continued strong performance.

- Strong growth and increased market share.
- Record sales, profit and operating margin.
- Strategic acquisitions of complementary businesses.

Significant events and structural changes

In May 2004 it was announced that the professional electric power tool business, with products primarily used for light construction installation work, was to be divested. When assessing the future strategic direction of the business area, it was concluded that the professional electric tools business would not be able to grow value to the extent that the Group requires. The divestment was finalized in January, 2005 and included two divisions: Atlas Copco Electric Tools, Germany, and Milwaukee Electric Tool, the United States. The electric tools divisions were acquired by Techtronic Industries Ltd.

On April 1, 2005, Fredrik Möller was appointed Business Area President. He succeeded Göran Gezelius.

The business area completed 2 strategic acquisitions during 2005 and 1 in January 2006. The acquired businesses improved the presence and penetration in many markets and added products, services and technical knowledge to help build new businesses close to the business area's core competencies.

Scanrotor Global AB, Sweden, was acquired in January 2005. In March, GSE tech-motive, the United States, was acquired. Scanrotor and GSE tech-motive provide specialized tightening solutions for customers with safety-critical assembly applications, primarily in the motor vehicle industry.

In addition, BLM s.r.l., Italy, was acquired in January 2006. BLM specializes in torque and tightening testing equipment with 90% of sales to the motor vehicle industry.

In October, an agreement was signed to acquire Japanese tool manufacturer Fuji Air Tools Co. Ltd. It manufactures and distributes a wide range of standard and specialized air powered tools and accessories. The acquisition is expected to be completed in the first quarter of 2006.

Effective January 1, 2006, the business area refined its structure to support the growth strategy and better serve its worldwide customer base. The new structure consists of 5 divisions, instead of 2 as previously.

Business development

Demand for industrial tools, assembly systems and service remained robust. The business area strengthened its presence and gained market share and sales increased to all major customer segments; the motor vehicle industry, the general industry and the automotive aftermarket. Sales of sophisticated electric industrial tools with control units, sold primarily to the motor vehicle industry but increasingly also to customers within general industry, grew rapidly. The sales of pneumatic industrial tools grew at a healthy pace. The aftermarket business developed very favorably and grew more rapidly than the equipment sales.

Order intake in Asia grew by more than 20%, with strong development in Japan and China. North America grew by nearly 20% and Europe by 7%.

Revenues totaled MSEK 6 064 (5 046), up 9% in volume. Operating profit increased 27% to a record MSEK 1 200 (943), corresponding to a record operating profit margin of 19.8% (18.7). Return on capital employed was 66% (59).

Competence development

Each manager has a mission statement to ensure that the strategic content of his or her assignment is defined and understood. Every employee has an annual performance appraisal during a meeting with his or her manager. At this meeting a competence review takes place and the development plan for the employee is assessed and discussed. Gap analysis is used as a tool for competence development in the Customer Centers linked to the internal training organization.

Training plans are worked out based on the needs of the employee or group of employees. Training hours per employee averaged 48 hours. The divisions emphasized value-based sales training, SAP training, leadership skills for shop floor supervisors, quality-function deployment programs and product training programs. A large part of the training consists of remote learning, interactive computer-based training, that can easily be adapted to the needs and skill level of each participant. The business area also supports initiatives for management training, personal and group development, language training, etc.

Product development

The business area continuously invests in product and process development in order to offer its customers a constant flow of innovative products and services. 2005 was yet another strong year of product introductions featuring a number of new tools and systems.

A new series of electric assembly tools was successfully introduced. The so called Plug & Tighten tools improve the assembly quality, are simple to use, can be set up very quickly, and give high productivity. New tools were added to the range of electric nutrunners and screwdrivers for safety critical fastening, and several improvements were made in the corresponding software. In fixtured assembly systems, the number of modules available

Key figures

	2005	2004
Orders received	6 086	5 180
Revenues	6 064	5 046
Operating profit	1 200	943
Operating margin, %	19.8	18.7
Return on capital employed, %	66	59
Investments	121	159
Average number of employees	2 848	2 525

Sales bridge

	Orders Received	Revenues
2003	4 820	4 808
Structural change, %	0	0
Currency, %	–3	–3
Price, %	+1	+1
Volume, %	+9	+7
Total, %	+7	+5
2004	5 180	5 046
Structural change, %	+7	+7
Currency, %	+3	+3
Price, %	+1	+1
Volume, %	+6	+9
Total, %	+17	+20
2005	6 086	6 064

increased, making the product offer even more flexible and comprehensive. A hydraulic impulse nutrunner with an electric control unit for safety critical fastening was also introduced.

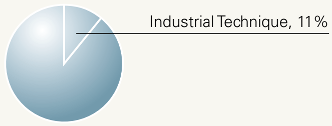
Products and services that will help reduce costs and shorten lead times throughout the customers' product development cycle, such as a joint analysis package, fastening simulation software and a tool cart equipped with electric tools, were introduced.

New models of electric and pneumatic screwdrivers for industrial assembly applications were introduced, and a new range of screwfeeder systems, based on modular components, was developed and brought to the market. In addition, the business area, introduced a number of aftermarket products, for example a digital torque tester and a range of airline accessories.

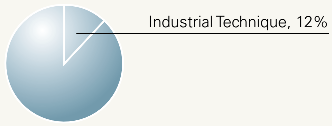

A "Plug & Tighten" tool

The assortment of standard industrial tools for general industry and vehicle service was extended with new impact wrenches, drills and grinders. A range of dampened riveting tools was launched and new air motors, air hoists, and accessories were introduced to the market.

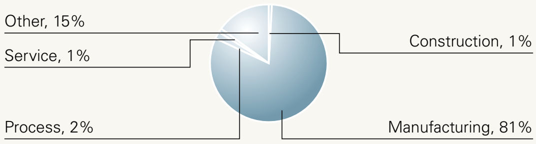
Share of Group revenues



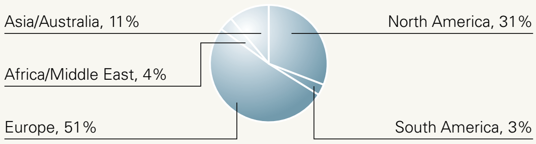
Share of Group operating profit



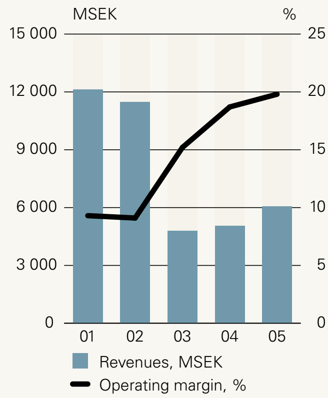
Revenues by customer category



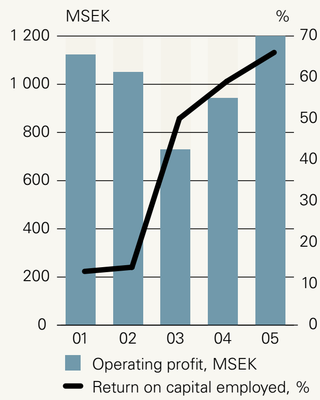
Revenues by geographic area



Revenues and operating margin



Earnings and return



Excluding professional electric tools from 2003. Restated for IFRS 2004.

As of January 1, 2006, the Industrial Technique business area consists of five divisions in the following product areas: industrial power tools, and assembly systems.

Business area management

Business Area President:
Fredrik Möller, from April 1, 2005
Göran Gezelius, until March 31, 2005

Industrial Technique's divisions were until December 31, 2005:
- Atlas Copco Tools and Assembly Systems, Acting President Fredrik Möller
- Chicago Pneumatic, President Charlie Robison

Industrial Technique's divisions are from January 1, 2006:
- Atlas Copco Tools and Assembly Systems Motor Vehicle Industry, Acting President Berthold Peters
- Atlas Copco Tools and Assembly Systems General Industry, President Mats Rahmström
- Chicago Pneumatic Industrial, President Norbert Paprocki
- Chicago Pneumatic Vehicle Service, President Yves Antier
- Tooltec, President Håkan Söderström


Fredrik Möller


Charlie Robison


Berthold Peters


Mats Rahmström


Norbert Paprocki


Yves Antier


Håkan Söderström

Industrial Technique

The Industrial Technique business area develops, manufactures, and markets high quality industrial power tools, assembly systems, and aftermarket products and services. It serves the needs of advanced industrial manufacturing, like the automotive and the aerospace industry, general industrial manufacturing and maintenance and vehicle service. The business area has achieved global market leadership.

Industrial Technique has its principal product development and manufacturing in Sweden, Great Britain, France, the United States, and Italy and has assembly system application centers also in several other markets.

Atlas Copco and CP are the brands used for industrial power tools and assembly systems.

Vision and strategy

The vision is to be First in Mind—First in Choice™ as a supplier of industrial power tools, assembly systems, and aftermarket services to customers in the motor vehicle industry and 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 aftermarket services that improve customers' productivity. To extend the offer, particularly with the motor vehicle industry, and to provide additional services, are important activities. The business area is also increasing its presence in general manufacturing, vehicle service and geographically in targeted markets in Asia and Eastern Europe, and is actively looking at acquiring complementary businesses.

Market trends

- More sophisticated tools and systems, driven by higher requirements for quality
- More power tools with electric motors, partly replacing pneumatic tools
- Productivity and ergonomics

Customers, applications and demand drivers

The motor vehicle industry including sub-suppliers is a key customer segment, representing more than half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been in the forefront in demanding more accurate fastening tools that minimize the errors in production and enable recording and traceability of operations. The business area has successfully developed electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors in production.

Industrial manufacturing, in a broader sense, uses industrial tools for 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 supplied also 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. The aftermarket represents approximately 21% of total sales.

Customer groups, products and applications

The Industrial Technique business area offers the most extensive range of industrial power tools in the market.

Motor vehicle industry

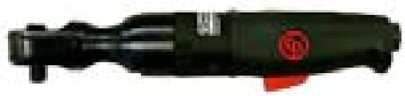
The motor vehicle industry primarily demands sophisticated assembly tools and assembly systems and is offered a broad range of electric assembly tools, control systems and associated software packages for their safety critical tightening. Specialized application centers around the world configure suitable 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.

Pneumatic pistol-grip nutrunner with reaction bar for tightening large bolts.

Sophisticated electric assembly tool with barcode scanner and protective cover.

Vehicle service

The business area offers tools that are tough, powerful and dependable to meet the demands of the vehicle service professional. The tools supplied include impact wrenches, percussive tools, drills, sanders, and grinders.



A quiet high speed pneumatic ratchet for the professional technician.

General industrial manufacturing

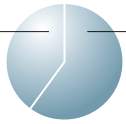
The business area provides a complete range of products, services and production solutions for general industrial manufacturing. It ranges from basic fastening tools, drills and abrasive tools, to the most advanced assembly systems available. A large team of specialists is available to support customers to improve production efficiency.

A pneumatic screwdriver with ergonomically designed grip, high power-to-weight ratio, and perfect balance ensures efficient operation with a minimum of strain.

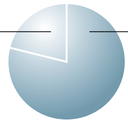
An angle drill for difficult-to-reach places.

Turbine grinder with the most powerful pneumatic motor in the market.

Estimated revenue split within manufacturing



Share of revenues



Demand drivers

- Assembly line investments
- Replacement and service of tools and systems
- Changes in manufacturing methods, e.g. change from pneumatic tools to electric
- Industrial production

Market position

Industrial Technique is the global leader in most of its operations.

Competition

Industrial Technique's competitors in the industrial tools business include Cooper Industries, Ingersoll-Rand, Uruy, Stanley, Bosch and several local or regional competitors from the United States, Europe, and Japan.

Estimated global market position[1]

Product	Global Position
Industrial tools for the motor vehicle industry	1
Assembly systems	1
Industrial tools for general industry	1
Industrial tools for vehicle service	2

[1] In the product categories offered.

Rental Service

Rental Service continued to show an impressive performance in 2005. Revenues and profitability improved substantially as a result of strong rental rate development, volume growth, improved capital efficiency and cost control.

- Rental revenues up 15% in USD, whereof 8% from increased rental rates.
- Fleet utilization at an all time high.
- Operating margin reached 23% and return on operating capital was 26%.

Significant events and structural changes

On January 1, 2005, Tom Zorn was appointed Business Area President for the Rental Service business area, and CEO for Rental Service Corporation. He succeeded Freek Nijdam, who remains in the position of Chairman of the legal entity.

The business area introduced its new brand name, RSC Equipment Rental, representing all existing RSC and Prime Industrial locations, on January 1, 2005.

On February 2, 2006 it was announced that Atlas Copco, following a thorough strategic review, has decided to explore a divestment of its construction equipment rental operations.

Business development

The demand from the important non-residential construction sector continued to improve in 2005, following a slight improvement in 2004 compared with the weak demand seen in 2003. The activity measured as dollars spent increased 5–6% compared with 2004. The clean-up efforts and reconstruction work following the hurricanes on the Gulf Coast and in Florida led to an increased demand in the regions affected. Industrial capacity utilization improved compared with 2004, but was relatively flat during the year at just under 80%.

The increased activity levels affected both construction and industrial rental positively. In addition, the business area developed and implemented a number of innovative services and processes to better support customers in solving their business requirements with the rental equipment and support services they need, where they need it, and when they need it.

Rental Service strengthened its market position and achieved same-store rental revenue growth of 17%. The improved customer service and successful rental rate management helped to increase average rental rates by 8%, while same-store rental volume increased 9%.

Internal benchmarking continued to be an active tool, used on all levels of the business area to set objectives and to follow up achievements, and best practices were shared between stores, districts, and regions.

The business area continued to improve operating and capital efficiency during the year. Operating costs in USD stayed almost unchanged, in spite of the higher activity level, but were reduced significantly as a percentage of revenues. The business area closed 4 stores and opened 2 stores, and had 465 (467) stores at year-end. The number of employees increased during the year and ended the year at 5 098 (4 982). The average number of employees, however, declined to 4 996 (5 152).

The utilization rate of the rental fleet, defined as the share of the total fleet valued at original cost that is on rent, reached a record level of 70% (67). This was made possible by a continued increase in the availability of the rental fleet thanks to improved logistical flow and in-shop processes. Preventive maintenance processes were enhanced, which improved the reliability of the equipment. In addition, investments were made to make the rental equipment safer and easier to use and bar code scanners were introduced for quicker transactions and greater accuracy. The share of the rental fleet that is not available for rent, e.g. being in transit, being serviced or repaired, was reduced by more than 2 percentage points and ended the year at approximately 10%. The improved fleet efficiency enabled the business area to accommodate an increased rental revenue volume of 7% with a rental fleet that was 3% larger.

The sale of used equipment is an integral part of the rental operation, focusing on optimizing the size and quality of the rental fleet. The activity focused on sales of equipment purchased in year 2000 or earlier and the market demand situation for used equipment was favorable.

The business area continued to streamline the sale of merchandise, accessories, and parts that complement the rental activity and provide a service to the rental customer. The sales in 2005 were also affected by the divestment of the non-core IAT business, made in November 2004.

Revenues increased 12% to MSEK 11 604 (10 402). Rental revenues, accounting for 79% (75) of revenues, increased 15% in USD, consisting of an increase in rental rates of 8% and an increase in volume of 7%. Sales of used equipment, accounting for 14% (14) of revenues, increased 17% in USD. Sales of merchandise, accessories and parts, accounting for 7% (11) of revenues, decreased 9% in USD, primarily because of the divested business.

Operating profit was MSEK 2 666 (1 732). The operating margin was 23.0% (16.7). The return on capital employed was 16% (10), and the return on operating capital, excluding goodwill, was 26% (19). The operating cash flow continued to be positive, but at a lower level than previous year as increased fleet investments offset the positive effect of higher operating profits.

Competence development

The business area continued to invest in its people development and training programs at all levels. The Leadership Competency Model that has been developed, along with improved recruiting tools, were used to hire, develop and retain people at all levels of management.

Considerable time and effort were invested in training of all employees. Business area management continued to lead key training activities in the field and conducted several training ses-

Key figures

	2005	2004
Revenues	11 604	10 402
Operating profit	2 666	1 732
Operating margin, %	23.0	16.7
Return on capital employed, %	16	10
Investments	5 051	3 228
Sale of used equipment	1 681	1 421
Average number of employees	4 996	5 152
Number of stores, year end	465	467

Sales bridge

	Revenues	Rental Revenues
2003	10 414	7 815
Structural change, %	–1	0
Currency, %	–9	–9
Price, %	+4	+6
Volume, %	+6	+3
Total, %	0	0
2004	10 402	7 779
Structural change, %	-3	0
Currency, %	+2	+2
Price, %	+6	+8
Volume, %	+7	+7
Total, %	+12	+17
2005	11 604	9 122

sions for managers and key employees in company strategy, pricing and business fundamentals. Other key training activities included: business tactics, recruiting, interviewing and selection, price and profit management, sales tactics and sales management. Additionally, human resource and product and safety training was performed with the ambition to maintain the business area's safety record.

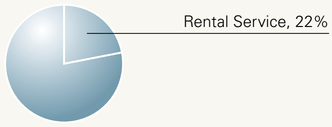
Service development

Considerable investments were made to facilitate the customer experience and increase customer productivity. A dedicated team of professionals focused on continually improving customer service and processes was set up with the objective of creating competitive differentiation vis-a-vis competition.

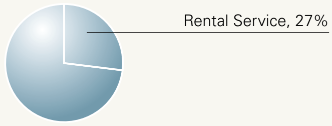
A satellite tracking and management system for delivery vehicles was implemented. All delivery vehicles were equipped with global positioning satellite (GPS) technology and dispatch hubs were created, which enables tracking of pick-ups and deliveries on a real-time basis. The system significantly increased available fleet for rent as pick-up response time was reduced by more than 50% and deliveries could be made more efficiently. As additional benefits, the number of delivery vehicles could be reduced by 100 units and significant fuel savings could be achieved.

Further improvements were made to the proprietary rental management systems; Total Control™ and RSC Online™, which were developed to facilitate the rental and reporting process, allowing customers to produce more tailored reports and make equipment reservations on-line.

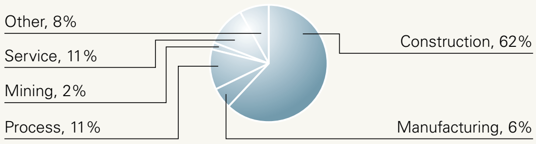
Share of Group revenues



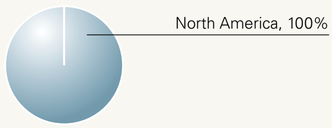
Share of Group operating profit



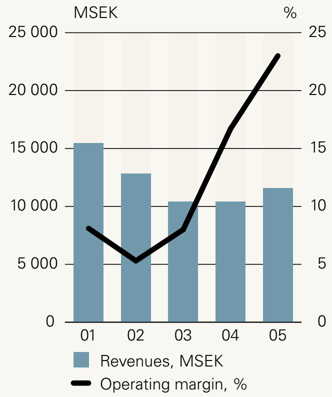
Revenues by customer category



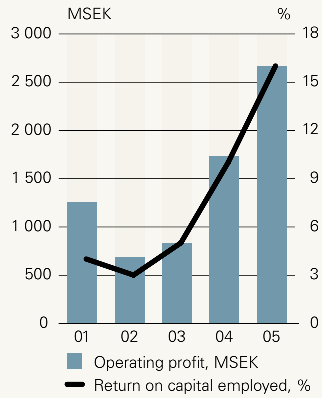
Revenues by geographic area



Revenues and operating margin



Earnings and return



Excluding goodwill impairment charge in 2002.
Restated for IFRS 2004.

The Rental Service business area consists of one division in the equipment rental industry in North America, providing services to construction and industrial markets.

Business area management
Business Area President: Tom Zorn

Tom Zorn

Rental Service
The Rental Service business area, with 465 rental stores in 38 states in the United States, 5 provinces in Canada and in Mexico, provides equipment rental and related services to customers in the construction, industrial manufacturing, and homeowner segments. Sales of used equipment, spare parts, accessories, and merchandise support the business.

The business area operates with two well-respected brands. RSC Equipment Rental serves the general equipment rental market for both construction and industrial customers, while Prime Energy provides oil-free air, generator, and temperature-control services to a broad range of industries.

Vision and strategy
The vision is to be First in Mind—First in Choice™ for customers who rent equipment.

The business area strategy is to expand its market position through competitive differentiation, providing premier products and industry-leading customer service. Growth initiatives will target those areas where the return is greater than the cost of capital. To safeguard a profitable growth, resources will be concentrated to geographical areas and customer segments where the business area already is strong, and build on this to acquire new customers and grow the business with the existing customers. Certain niche markets, like on-site rental, industrial rental and specialty rental, will be targeted and given special attention.

Availability, reliability, and service provide value to the customer and are the key factors for success. In certain geographical areas, the business area applies a supply and service strategy by means of a hub and satellite structure for the general rental activity. While each store is a separate profit center, this strategy connects a central hub location, typically in a metropolitan area, with several surrounding satellites. The smaller satellite stores provide proximity and customer service in areas outside the metropolitan areas, while synergies are achieved in fleet sharing, dispatching and centralized repairs. Thus, the full range of rental equipment and service is available to the customer regardless of the location of his worksite. The network of rental stores will be expanded by opening new satellite stores, so called warm starts, where there are existing customers, and where the potential to grow with the existing customers and by acquiring new customers is good.

The business area will continue to focus on the flow of equipment and to streamline administrative processes in order to improve customer service and add value.

To successfully execute these strategies the business area will continue to put strong emphasis on people programs to safeguard the recruiting, development and retention of the best people in the industry. It is essential to create a corporate culture of professionalism and motivate people to relentlessly focus on customer satisfaction. The business area measures performance through customer satisfaction surveys and the development of customer share.

Market trends
• Customers increasingly prefer renting to owning
• Industrial rental is progressing

Customers and demand drivers
Rental Service has a diverse customer base in North America. The largest customer segment is construction representing approximately 75% of revenues. Non-residential construction is the most important area, representing about 65% of revenues; and about 10% of the customers' activities are associated with residential building and home improvement.

The industrial segment accounts for the remaining 25% of revenues. The business area has a solid presence in the chemical, petrochemical, and oil and gas industries. Other key customer groups in the industrial segment are industrial manufacturing, commercial services, public services and utilities.

Rental revenue represents about 75-80% of the business area's revenues. The largest product groups in the rental fleet are aerial work platforms, forklifts, air compressors, excavators, loaders, backhoes, compaction equipment, and generators. These products account for approximately 85% of rental revenues. Less than 10% of the rental fleet consists of Atlas Copco products.

Sales of used rental equipment account for approximately 15% of the business area's revenues. The majority of used equipment is sold through the rental stores to end-users.

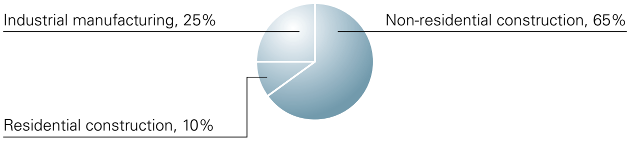
Merchandise, accessories, and spare parts account for less than 10% of total revenues.

Availability and utilization of rental fleet
Utilization, i.e. the percentage of fleet on rent of the total fleet, is the measure used for monitoring the efficient use of the fleet. Given that the rental rate, or price level, is right, the utilization should be as high as possible. At the same time, availability is at the top of the list of customer demands. This requires that there is fleet available for the customer to rent when the need arises. However, to achieve an efficient use of the capital tied up in the rental fleet and a high utilization rate it is necessary to limit, or rightsize, the available fleet, and put emphasis on reducing the non-available fleet. Non-available fleet is fleet which cannot be rented because it is tied up in transit, being serviced or repaired. The non-available fleet can be reduced by improvements in the

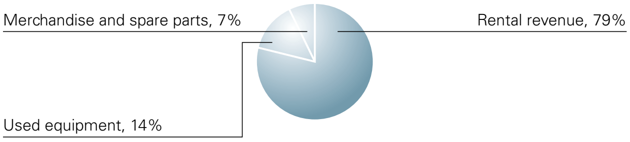
Equipment rental products

Aerial work platforms, forklifts, air compressors, excavators, loaders, backhoes, compaction equipment, and generators account for approximately 85% of rental revenues.

Demand drivers



Share of revenues



flow and lead times bringing back equipment from the customer work sites through the repair shops. This will result in a better availability without increasing the total fleet size.

The strategy is to maximize utilization, optimize the fleet available for rent and minimize the non-available fleet. To execute the strategy efficiently, the process for rental equipment purchasing is decentralized to the field. Based on a combination of demand, rental rates and utilization rates, a maximum fleet size is established by region. Within the boundaries of this maximum fleet size, equipment is only purchased when utilization and rental rates of the product category is sufficiently high to safeguard the return on investment.

Market position

Rental Service is the second largest equipment rental business in North America. Geographically, the business area has the strongest market position in the southern and Midwestern parts of the United States.

Competition

The principal competitor in the North American equipment rental market is United Rentals. Other large rental companies include Hertz, Sunbelt Rentals, NES Rentals and Nationsrent. Distributors of equipment, such as Cat Rental Stores, are also competitors. The equipment rental market is fragmented and numerous local and regional rental companies make up a large portion of the market. The 10 largest competitors represent approximately 25% of the total market. It is estimated that there are more than 14 000 equipment rental companies in North America.

Consolidated Income Statement

For the year ended December 31,

Amounts in MSEK	**Note**	**2005**	**2004**
Revenues	4	52 742	43 192
Cost of sales	7	–33 971	–28 510
Gross profit		**18 771**	**14 682**
Marketing expenses		–5 453	–4 485
Administrative expenses		–3 159	–2 563
Research and development costs		–978	–849
Other income from operations	8	229	145
Other expenses from operations	8	–11	–282
Share of profit of associates	14	4	3
Operating profit	4, 5, 6, 7	**9 403**	**6 651**
Financial income	9	577	513
Financial expenses	9	–680	–782
Net financial items		**–103**	**–269**
Profit before tax		**9 300**	**6 382**
Income tax expense	10	–2 936	–1 952
Profit from continuing operations		**6 364**	**4 430**
Profit from discontinued operations, net of tax	3	217	241
Profit for the period		**6 581**	**4 671**
Attributable to:			
Equity holders of the parent		6 560	4 657
Minority interest		21	14
Basic earnings per share, SEK	11	10.43	7.41
—whereof discontinued operations		*0.35*	*0.38*
Diluted earnings per share, SEK	11	10.41	7.40
—whereof discontinued operations		*0.35*	*0.38*

Consolidated Balance Sheet

As at December 31, Amounts in MSEK	Note	2005	2004
ASSETS			
Non-current assets			
Intangible assets	12	10 607	8 597
Rental equipment	13	13 456	9 154
Other property, plant and equipment	13	4 503	3 714
Investments in associates	14	83	73
Other financial assets	15	868	362
Other receivables		14	54
Deferred tax assets	10	853	1 336
Total non-current assets		**30 384**	**23 290**
Current assets			
Inventories	16	7 215	5 634
Trade receivables	17	10 910	8 404
Income tax receivables		111	83
Other receivables	18	2 219	2 270
Other financial assets	15	389	327
Cash and cash equivalents	19	3 727	2 386
Assets classified as held for sale	3, 31	–	5 774
Total current assets		**24 571**	**24 878**
TOTAL ASSETS		**54 955**	**48 168**
EQUITY	Page 38		
Share capital		786	1 048
Other paid-in capital		4 999	5 733
Reserves		1 675	–823
Retained earnings		18 256	16 578
Total equity attributable to equity holders of the parent		**25 716**	**22 536**
Minority interest		92	65
TOTAL EQUITY		**25 808**	**22 601**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	21, 25	7 652	6 950
Post-employment benefits	22	1 826	2 079
Other liabilities		86	57
Provisions	24	542	193
Deferred tax liabilities	10	3 342	2 917
Total non-current liabilities		**13 448**	**12 196**
Current liabilities			
Interest-bearing loans and borrowings	21, 25	1 867	712
Trade payables		5 985	4 181
Income tax liabilities		1 288	749
Other liabilities	23	5 936	5 292
Provisions	24	623	734
Liabilities associated with assets classified as held for sale	3, 31	–	1 703
Total current liabilities		**15 699**	**13 371**
TOTAL EQUITY AND LIABILITIES		**54 955**	**48 168**

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

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent							
			Reserves					
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Opening balance, Jan.1, 2004[1)]	**1 048**	**5 731**	**–**	**–**	**13 489**	**20 268**	**53**	**20 321**
Translation differences for the period				–846		–846	–5	–851
Hedge of net investments in foreign subsidiaries				32		32		32
Tax on items taken directly to equity				–9		–9		–9
Net income and expense recognized directly in equity	**–**	**–**	**–**	**–823**	**–**	**–823**	**–5**	**–828**
Profit for the period					4 657	4 657	14	4 671
Total recognized income and expense for the period excl. shareholders' transactions	**–**	**–**	**–**	**–823**	**4 657**	**3 834**	**9**	**3 843**
Dividends					–1 572	–1 572	–3	–1 575
Unclaimed shares from bonus issue 1989		2				2		2
Share-based payment, equity settled								
—Expense during the period					4	4		4
Acquisition of subsidiaries							6	6
Closing balance, Dec. 31, 2004	**1 048**	**5 733**	**–**	**–823**	**16 578**	**22 536**	**65**	**22 601**
Effect of change in accounting principle[1)]			171		248	419		419
Restated opening balance, Jan. 1, 2005	**1 048**	**5 733**	**171**	**–823**	**16 826**	**22 955**	**65**	**23 020**
Translation differences for the period				2 522		2 522	13	2 535
Hedge of net investments in foreign subsidiaries				–33		–33		–33
Cash flow hedges			–238			–238		–238
Tax on items transferred from equity			67	9		76		76
Net income and expense recognized directly in equity	**–**	**–**	**–171**	**2 498**	**–**	**2 327**	**13**	**2 340**
Profit for the period					6 560	6 560	21	6 581
Total recognized income and expense for the period excl. shareholders' transactions	**–**	**–**	**–171**	**2 498**	**6 560**	**8 887**	**34**	**8 921**
Dividends					–1 886	–1 886	–4	–1 890
Share redemption	–262	–734			–3 196	–4 192		–4 192
Share-based payment, equity settled								
—Expense during the period					4	4		4
—Exercise of options					–52	–52		–52
Acquisition of minority							–3	–3
Closing balance, Dec. 31, 2005	**786**	**4 999**	**–**	**1 675**	**18 256**	**25 716**	**92**	**25 808**

1) Effect of adoption of IFRS, please see note 31.

Please see note 20 for additional information.

Consolidated Statement of Cash Flows

including discontinued operations

For the year ended December 31,

Amounts in MSEK	**Note**	**2005**	**2004**
Cash flows from operating activities			
Operating profit		9 403	7 112
Depreciation, amortization and impairment	7	3 320	3 121
Capital gain/loss and other non-cash items		–639	–417
Operating cash surplus		12 084	9 816
Net financial items received/paid		60	–321
Dividends from associated companies		–	1
Cash flow from other items		128	137
Taxes paid		–2 042	–1 328
Cash flow before change in working capital		**10 230**	**8 305**
Change in			
Inventories		–712	–749
Operating receivables		–1 326	–1 610
Operating liabilities		1 807	1 914
Change in working capital		**–231**	**–445**
Net cash from operating activities		**9 999**	**7 860**
Cash flows from investing activities			
Investments in rental equipment		–6 396	–3 991
Investments in other property, plant and equipment		–840	–841
Sale of rental equipment		2 364	1 941
Sale of other property, plant and equipment		184	188
Investments in intangible assets		–369	–310
Sale of intangible assets		1	2
Acquisition of subsidiaries	2	–632	–2 530
Divestment of subsidiaries	3	4 114	125
Other investments, net		–422	–152
Net cash from investing activities		**–1 996**	**–5 568**
Cash flows from financing activities			
Dividends paid		–1 890	–1 575
Share redemption		–4 192	–
Unclaimed shares from bonus issue 1989		–	2
Borrowings		78	158
Repayment of borrowings		–1 312	–1 880
Payment of finance lease liabilities		–205	–195
Net cash from financing activities		**–7 521**	**–3 490**
Net cash flow for the period		**482**	**–1 198**
Cash and cash equivalents, Jan. 1		2 618	3 845
Net cash flow		482	–1 198
Exchange-rate difference in cash and cash equivalents		627	–29
Cash and cash equivalents, Dec. 31	19	**3 727**	**2 618**

For information on cash flows for continued and discontinued operations, please see note 3.

Notes to Consolidated Financial Statements

MSEK unless otherwise stated

1. Significant accounting principles

Atlas Copco AB (also referred to as the "Company") is a company headquartered in Stockholm, Sweden. The consolidated financial statements of Atlas Copco have been prepared in accordance with the 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 endorsed by the European Union.

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.

Change in accounting principles

This is the first complete set of financial statements for the Group prepared in accordance with IFRS and using guidance in IFRS 1, First Time Adoption of International Financial Reporting Standards. The financial statements are also prepared in accordance with the Swedish accounting standard RR 30 issued by the Swedish Financial Accounting Standards Council which details certain additional disclosure requirements for Swedish consolidated financial statements, prepared in accordance with IFRS. IAS 39 Financial Instruments: Recognition and Measurement was adopted prospectively from January 1, 2005. Financial instruments are in the 2004 information reported in accordance with accounting standards generally accepted in Sweden (Swedish GAAP). IFRS 5 Assets Held for Sale and Discontinued Operations has been applied retrospectively from January 1, 2004. Please see note 31 for additional information as to the effects of adopting IFRS as of January 1, 2005 including the restatement of historical financial information.

Prior to January 1, 2005, the consolidated financial statements of the Group were prepared in accordance with Swedish GAAP.

Basis of presentation

The financial statements are presented in millions of Swedish kronor. They are prepared on the historical cost basis except for certain financial assets and liabilities that are stated at their fair value; derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies. 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 may vary from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at January 1, 2004 for the purposes of the transition to IFRS, if not otherwise stated. The accounting policies have been applied consistently by Group entities.

Classification

Non-current assets, non-current liabilities and provisions are comprised primarily of amounts that are expected to be realized or paid in periods 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.

Business combinations and consolidation

The consolidated income statement and balance sheet of the Atlas Copco Group include all companies in which the Company, directly or indirectly, exercises 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 purchase method. According to this method business combinations are seen as the Group directly or indirectly acquires the assets and assumes the liabilities and contingent liabilities of the entity acquired. The assets acquired and liabilities and contingent liabilities assumed are recognized in the consolidated financial statements at fair value, when control is established. The cost of a business combination is measured as the aggregate, at the date of control, of the fair value of the assets given, liabilities incurred or assumed and equity instruments issued by the Group to acquire the business. Costs directly attributable to the business combination are also included.

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 combinations. Goodwill is not amortized.

If the acquired interest in the net fair value, at date of control, exceeds the cost of the business combination, the Group, after reassessment, immediately recognizes the excess in the income statement.

Earnings of entities acquired during the year are reported in the consolidated income statement from the date of control. The gain or loss on entities divested during the year is calculated on the basis of the Group's reported net assets in such companies, including earnings to the date of divestment.

Intra-group balances and transactions and any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Business combinations that have occurred since January 1, 2004 have been recognized in accordance with IFRS 3, Business Combinations. Business combinations prior to January 1, 2004 are not restated but accounted for in accordance with Swedish GAAP. According to Swedish GAAP, intangible assets are not separately recognized to the same extent as according to IFRS 3 and contingent liabilities are not valued at fair value on initial recognition of business combinations.

Associated companies

An associate is an entity in which the Group has significant influence over financial and operating policies but not control and that is neither a subsidiary nor an interest in a joint venture. 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, until significant influence ceases. Under the equity method, the investment is initially recognized at cost and subsequently the carrying amount is adjusted for the investor's share of profit or loss, distribution received and depreciation on differences between fair value and the associates' carrying value of assets, when acquired.

Atlas Copco's share of income after tax in associated companies is reported separately in the income statement. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Foreign currency

Foreign currency transactions

Functional currency is the currency of the primary economic environment in which an entity operates.

The functional currency for the Parent Company is the Swedish krona. The Swedish krona is also the presentation currency of the Group.

Transactions in foreign currencies (those which are 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 rate differences on translation to functional currency are reported in the income statement. 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 generally translated to Swedish kronor at the exchange rates ruling at the balance sheet date. The revenues and expenses are translated at average exchange rates which approximate the exchange rate for the respective transaction. Foreign exchange differences arising on translation are recognized as a separate component of equity. On divestment of foreign entities the accumulated exchange differences, net after impact of currency hedges of net investments, are recycled through the income statement, increasing or decreasing the profit or loss of divestments. Accumulated translation differences from before the date of transition to IFRS, which was January 1, 2004, are not reported in the separate component of equity for translation differences and will not be recycled on divestments.

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 for combinations.

Goodwill from acquisitions before January 1, 2004 is stated at cost less amortization until December 31, 2003 and any accumulated impairment losses. Goodwill from acquisitions after December 31, 2003 is stated at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units and is tested annually for impairment.

Technology-based intangible assets
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is expensed in current earnings as incurred. Research projects acquired as part of business combinations are capitalized and carried at cost less amortization and impairment losses.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is 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 an appropriate proportion of overheads. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

Computer software is capitalized and is stated at cost less accumulated amortization and impairment losses.

Marketing and customer related intangible assets
Acquired marketing and customer related intangibles such as trademarks, customer lists and other similar items are capitalized and are stated at cost less accumulated amortization and impairment losses.

Other intangible assets
Expenditure on acquired intangible assets relating to contract-based rights such as licenses or franchise agreements is capitalized, stated 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 stated 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 current earnings when incurred.

Rental equipment
The rental fleet includes a broad selection of equipment ranging from small items such as pumps, generators and electric hand tools to larger equipment such as air compressors, dirt equipment, aerial manlifts, skid-steer loaders and backhoes. Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a salvage value of 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, unless the useful life is indefinite. Parts of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately, when the useful life of the part does not coincide with the useful life of other parts of the item.

The following useful lives are normally used for depreciation and amortization:

	Years
Technology-based intangible assets	3–15
Marketing and customer related intangible assets	5–10
Buildings	25–50
Machinery and equipment	3–10
Vehicles	4–5
Computer hardware and software	3–5
Rental equipment	1–12

The residual value is reassessed annually.
Land is not depreciated.

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. 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 the income statement, 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. The lease payments are included in earnings 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. Lease payments are recognized as interest income and repayment of the lease receivable.

Inventories
Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price less the estimated costs of completion and selling expenses. Inventories are based on the first-in, first-out principle and include the costs in acquiring them and bringing them to the existing location and condition. Inventories manufactured by the Group and work in progress include an appropriate share of overheads. Inventories are reported net of deductions for obsolescence and internal profits arising in connection with deliveries from the production companies to the customer centers.

1. Continued

Trade receivables

Trade receivables are classified as loans and receivables (see financial instruments, page 43). The receivables are carried at the amount at which they are expected to be settled. Uncollectability is assessed regularly. In most cases, the receivables are not carried at discounted values due to short expected time to payment.

Cash and cash equivalents

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 on acquisition only has three months or less to maturity.

Impairment

The carrying amount of the Group's assets excluding inventories, non-current assets and disposed groups held for sale, plan assets for employee benefit plans and deferred taxes are reviewed at least at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. This includes goodwill and other assets that have an indefinite useful life where impairment tests are performed on at least an annual basis. Annual impairment tests are also carried out for intangible assets not yet ready for use.

If a largely independent cash inflow cannot be linked to an individual asset, impairment is tested 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 purposes.

The recoverable amount for the financial asset categories held to maturity and loans and receivables is stated at amortized cost, which is the discounted present value discounted with the effective interest rate prevailing when the asset was initially recognized.

The recoverable amount for other assets is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. 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) pro rata. Impairment losses are recognized in the income statement.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

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 and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

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 as expected future pay increases, rate of inflation, increases in medical cost and 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 unexpected changes in the fair value of plan assets result in actuarial gains or losses. Such gains or losses within a 10% 'corridor' of the obligation or asset value are not immediately recognized. Gains or losses exceeding the 10% corridor are amortized over the remaining estimated service period of the employees. Gains and losses before January 1, 2004 have been reported in equity.

Plan assets are measured at fair value. Funded plans with net assets, that is with assets exceeding the commitments, are reported as financial fixed 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 is not classified as an operating expense but is shown as interest expense for both Swedish and foreign companies. See notes 9 and 22 for additional information.

Share-based payments

The Group has a share-based incentive program, which is offered to certain employees based on position and performance, consisting of share options and share appreciation rights (rights). These were awarded during 2000 to 2003 and expire after six years. The vesting period is one third per year from the date of grant.

The fair value of the share options is recognized as an employee expense with a corresponding posting in equity. The fair value is calculated using the Black-Scholes formula and is measured at grant date and spread over the vesting period, taking into account terms and conditions upon which the instruments are granted.

The liability for rights is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying the Black-Scholes formula and the extent to which the employees have rendered service to date. Changes in fair value are recognized in profit or loss. When the Black-Scholes formula is applied all the terms and market conditions upon which the instruments were granted are taken into account. The employees are assumed to have provided services on a straight-line basis over the vesting period.

Social security charges are paid in cash. Therefore they are accounted for consistent with the share appreciation rights, regardless if they are related to the share options or to the rights. 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.

Revenue recognition

Revenues are recorded net of sales taxes, discounts and other similar deductions. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Goods sold and services rendered
Revenue from sale of goods is recognized when delivery has occurred and 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 installation is a significant part of the contract, revenue is recognized when the installation is completed. Buy-back commitments can lead to that sales revenue cannot be recognized, if the substance of the agreement is that the customer only has leased the product for a certain period of time.

Revenue from services is recognized in current earnings in proportion to the stage of completion of the transaction at the balance sheet dates providing that a reliable profit estimate can be made.

Rental operations
Revenues are derived and recognized from the rental of equipment on a daily, weekly or monthly basis, as well as from sales of parts, supplies and new and used equipment. Rental income is recognized on a straight-line basis.

Other revenue
Revenue in the form of interest, royalty, and dividend is recognized when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue can be measured reliably. Interest is recognized using the effective interest rate method. Royalty is recognized on an accrual basis in accordance with the financial substance of the agreement. Dividend is recognized when the shareholders' right to receive payment is established.

Government grants
A government grant is recognized in the balance sheet 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 the income statement on a systematic basis in the same periods in which expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in the income statement on a systematic basis over the useful life of the assets.

Borrowings and borrowing costs
Interest-bearing liabilities are initially recognized at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs are recognized as an expense in the period in which they are incurred regardless of how the borrowings are used.

Financial instruments as of and after January 1, 2005
The Group adopted IAS 39 Financial instruments: Recognition and Measurement as of January 1, 2005. This standard was adopted prospectively and the 2004 comparative financial information included in the financial statements in regards to financial instruments have been accounted for in accordance with Swedish GAAP.

Recognition and derecognition
Financial assets and liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Trade receivables are recognized when they have been invoiced. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay.

Derecognition of a financial asset (or part 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 transferred. The Group derecognizes a financial liability (or a part of a financial liability) when the obligation specified in the contract is discharged or otherwise expires.

Trade date accounting is applied for acquisition and disposal of financial assets, which is the day when the Group contractually commits to acquire or dispose of the assets.

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
Financial instruments are at initial recognition measured at fair value with addition or deduction of transaction cost in the case of a financial asset or a financial liability not measured at fair value through profit or loss.

Financial instruments are upon initial recognition classified in accordance with the categories in IAS 39. This determines the subsequent measurement. Financial assets and financial liabilities are designated to different categories upon initial recognition, depending on the purpose. The financial instruments are reported as follows:

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 provision for impairment.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. When the Group has the positive intent and ability to hold bonds or similar investments to maturity, they may be classified as held-to-maturity and stated at amortized cost using the effective interest rate method. With respect to the definition of held-to-maturity investments, 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.

Financial liabilities are initially measured at fair value less transaction cost and subsequently at amortized cost, using the effective interest rate method.

Derivative instruments are measured at fair value. Fair value changes on derivatives are recognized in the income statement unless the derivatives are designated as hedging instruments in cash flow or net investment hedges. Currency derivatives and some interest rate derivatives held by the Group do not qualify for hedge accounting according to IAS 39. Changes in fair values of cross currency swaps are divided into three components; Interest is recognised as interest income/expense, the foreign exchange effect in foreign exchange difference and changes in fair values are recognized in the income statement as other financial income/expense. Interest payments for interest swaps are recognised in the income statement as interest income/expense, whereas changes in fair value of future payments are presented as other financial income/expense. Effects from interest swaps used for hedge accounting are recognized as interest income/expense. Changes in fair values of foreign exchange contracts are recognized as foreign exchange income/expense and the interest component is recognized in the income statement as interest expense.

The Group has not designated any financial instruments as a financial asset or a financial liability at fair value through profit or loss nor have any financial instruments been classified as available-for-sale financial assets.

Hedge accounting
In order to qualify for hedge accounting according to IAS 39, the hedging relationship must be 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 secured by the hedging instrument.

The Group uses interest rate swaps in fair value hedge accounting of liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 the income statement to offset the effect of gain or loss on the hedging instrument.

The Group's policy is to on an ongoing basis hedge forecasted foreign currency cash flows against the risk of fluctuations in the exchange rates, the derivative instruments currently used do however not qualify for hedge accounting according to IAS 39.

The Group's policy is generally not to hedge the exchange-rate risks related to net investments in foreign operations. In case net investments are

1. Continued

hedged, gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity. Gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement on disposal of foreign operations.

For derivatives which are not part of hedge accounting, 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.

Derivative financial instruments and hedging prior to January 1, 2005
Derivative instruments not held for hedging purposes were accounted for at the lower of cost or fair value on a portfolio basis. Derivative instruments with positive fair value were reported in the balance sheet as current receivables while adjustments for derivatives with negative fair value were reported as current liabilities.

Forward contracts and foreign exchange options prior to January 1, 2005
The Group enters into hedges whereby forward contracts or foreign exchange options are used to hedge certain future transactions based on forecasted cash flows. Gains and losses on these instruments were deferred and recognized in the income statement in the same period as the hedged transaction was recognized.

The agreements with banks related to employee share options and share appreciation rights to hedge the risks of increases in the share prices required Atlas Copco to reimburse the bank in cases where the share price is less than the acquisition cost at the end of option program. The effects of such declines in price were recorded as a provision with a corresponding amount being recorded directly to equity. Reversals of such provisions were also recorded directly to equity.

Interest rate and cross currency interest rate swaps prior to January 1, 2005
When a loan in a foreign currency was converted to a different currency through the use of a swap agreement, the loan was translated using the foreign exchange rate at the balance sheet date. The related swap agreement was also valued to year-end exchange rate for the instrument as of the balance sheet date. The items were recorded separately in the financial statements but the net effect was to value the loan to the year-end exchange rate for the swapped currency. Adjustments to fair value related to changes in interest rates were deferred.

Income taxes
Income taxes include both current and deferred taxes in the consolidated accounts. Income taxes are reported in the income statement unless the underlying transaction is reported directly in equity. In those cases the related income tax is also reported directly in equity. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current or prior years.

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: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences related to investments in subsidiaries 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 tax rates are used for the individual tax jurisdictions.

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.

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.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, noncurrent assets and disposal groups are recognized at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal group assets and liabilities, are reported separately in the balance sheet. Post-tax profits or losses and gains and losses recognized on measurement to fair value less cost to sell or on disposal are reported separate in the income statement for discontinued operations.

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 IFRS standards and IFRIC interpretations
The following standards, interpretations and amendments to standards have been issued, but have not become effective before December 31, 2005 and have not been applied by the group:

- Amendments to IAS 19 Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, endorsed by the E.U., effective January 1, 2006.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement
  – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, endorsed by the E.U., effective January 1, 2006.
  – The Fair Value Option, endorsed by the E.U., effective January 1, 2006.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts, endorsed by the E.U., effective January 1, 2006.
- IFRS 7 Financial Instruments: Disclosures, endorsed by the E.U., effective January 1, 2007.
- IFRIC 4 Determining whether an Arrangement Contains a Lease, endorsed by the E.U., effective January 1, 2006.

Based on review to date, so far the Group does not foresee any impact from initial application of the new standards, interpretations or amendments to standards on the Group's financial statements. The amendments to IAS 19 and IFRS 7 will have an effect on disclosures.

2. Acquisitions

The following summarizes the significant acquisitions during 2004 and 2005:

Closing date		Country	Business area	Revenues[1]	Number of employees[1]
2005 Nov. 2	Creemers Compressors	Netherlands	Compressor Technique	56	22
2005 Oct. 31	Pneumatech Inc. and ConservAIR Technologies	U.S.A./China	Compressor Technique	140	175
2005 Oct. 11	Ketting Handel	Netherlands	Compressor Technique	35	13
2005 Sept. 6	Intermech	New Zealand	Compressor Technique	100	45
2005 June 16	Contex[2]	Croatia/Slovenia	Compressor Technique/ Construction & Mining	72	23
2005 June 1	Lutos	Czech Republic	Compressor Technique	41	87
2005 March 21	BIAB Tryckluft[2]	Sweden	Compressor Technique	15	8
2005 March 3	GSE tech-motive	U.S.A.	Industrial Technique	170	67
2005 Jan. 17	Lifton	Bulgaria/Denmark	Construction & Mining	55	141
2005 Jan. 10	Scanrotor	Sweden and others	Industrial Technique	71	33
2004 Sept. 30	Kolfor Plant	Great Britain	Compressor Technique	49	36
2004 Sept. 20	Rotex	Finland	Construction & Mining	73	16
2004 Sept. 14	Baker Hughes Mining Tools	U.S.A. and others	Construction & Mining	300	176
2004 Aug. 23	Qianshao (Qingdao) Power Tools	China	Industrial Technique	50	80
2004 June 30	Ingersoll-Rand Drilling Solutions	U.S.A. and others	Construction & Mining	2 200	950
2004 June 22	Guimerá	Spain	Compressor Technique	147	132

[1] Annual revenues and number of employees at time of acquisition.
[2] Distributor of Atlas Copco products.

Certain of the above acquisitions were made through the direct purchase of net assets with the Group gaining full control of the operations at the date of the acquisition. In other cases, the Group acquired 100% of the shares and voting rights with the exception of Qianshao (Qingdao) Power Tools in 2004 where 80% of the voting rights were acquired. All acquisitions were accounted for using the purchase method of consolidation. No equity instruments have been issued as part of consideration paid for acquisitions.

The amounts recognized have been aggregated by business area as the relative amounts of the individual acquisitions are not considered material. The carrying amounts before the acquisition in accordance with IFRS and fair value adjustments of assets and liabilities from companies acquired in the business areas are as follows:

Compressor Technique

	Carrying amounts	Fair value adjustments	Recognized values
Intangible assets	3	89	92
Property, plant and equipment	33	2	35
Current assets	169		169
Interest-bearing loans and borrowings	–26		–26
Other liabilities and provisions	–118	–17	–135
Net identifiable assets	61	74	135
Goodwill			207
Consideration paid			**342**

The Compressor Technique business area completed 10 acquisitions during 2005. These include the Lutos operations in the Czech Republic which manufactures and markets a range of air compressors for low pressures called blowers; Intermech in New Zealand which designs, manufactures and markets a range of compressed natural gas compressors used at filling stations; Pneumatech which is a manufacturer of compressed air and gas drying and filtration equipment; ConservAIR which has developed and patented its proprietary line of compressed air management systems. Two specialist compressor companies were acquired in the Netherlands; Ketting which is active in the marine sector and Creemers which is focused on the automotive aftermarket and wholesale markets. Additionally, the business area acquired distributors in Slovenia, Croatia, Romania, Great Britain, the United States and Sweden.

2. Continued

Construction and Mining Technique

	Carrying amounts[1]	Fair value adjustments[1]	Recognized values[1]
Intangible assets	2	–14	–12
Property, plant and equipment	–7	1	–6
Current assets	55		55
Interest-bearing loans and borrowings	–12		–12
Other liabilities and provisions	11	4	15
Net identifiable assets	49	–9	40
Minority interest			3
Goodwill			60
Consideration paid			**103**

[1] Includes minor adjustments from 2004 acquisitions.

The Construction and Mining business area acquired two operations in 2005; the Lifton operations in Bulgaria and Denmark which manufactures hydraulic handheld and mounted breaker equipment and related products, and Contex in Slovenia and Croatia which previously served as an exclusive distributor for Atlas Copco products and service in its market.

Industrial Technique

	Carrying amounts	Fair value adjustments	Recognized values
Intangible assets	2	49	51
Property, plant and equipment	8	2	10
Current assets	102		102
Interest-bearing loans and borrowings	–3		–3
Other liabilities and provisions	–33	–4	–37
Net identifiable assets	76	47	123
Goodwill			70
Consideration paid			**193**

The Industrial Technique business area acquired Scanrotor in Sweden and Techmotive in the United States which specialize in tightening solutions for customers with safety-critical assembly applications, primarily in the motor vehicle industry.

Total fair value of assets and liabilities for acquisitions

	Carrying amounts	Fair value adjustments	2005 Recognized values	2004 Recognized values
Intangible assets	7	124	131	453
Property, plant and equipment	34	5	39	621
Other non-current assets				11
Inventories	102		102	708
Receivables	218		218	653
Cash and cash equivalents	6		6	18
Interest-bearing loans and borrowings	–41		–41	–
Other liabilities and provisions	–138		–138	–395
Deferred tax liabilities, net	–2	–17	–19	–47
Net identifiable assets	186	112	298	2 022
Minority interest			3	–6
Goodwill			337	532
Consideration paid			**638**	**2 548**
Cash and cash equivalents acquired			–6	–18
Net cash outflow			**632**	**2 530**

The total consideration paid amounted to 638 including directly attributable costs of 7. For all acquisitions, the net outflow totaled 632 excluding cash and cash equivalents acquired of 6. The major part of the goodwill results from various synergies which the Group expects to achieve from the respective acquisitions, for example related to marketing, that do not meet the criteria for recognition as intangible assets and are therefore classified as goodwill.

Contribution from companies acquired in 2005 by Business Area

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Group
Contribution from date of control				
Revenues	134	67	229	430
Operating profit	2	7	21	30
Profit for the year				25
Contribution if the acquisition had ocurred on January 1, 2005				
Revenues	440	80	255	775
Operating profit	10	8	25	43
Profit for the year				32

3. Non-current assets held for sale and discontinued operations

The following summarizes the significant divestments during 2004 and 2005:

Closing date		Country	Business Area	Revenues[1)]	Number of employees[1)]
2005 Dec. 7	Stationary generator business	U.K and other	Compressor Technique	200	28
2005 Jan. 3	Electric Tools	U.S.A./Germany, other	Industrial Technique	5 462	3 000
2004 Nov. 1	Industrial Air Tool	U.S.A.	Rental Service	375	90

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

In the spring of 2004, the Group decided to sell its electric tools business and the transition was completed on January 3, 2005. The divestment included two divisions within the Industrial Technique business area; Atlas Copco Electric Tools headquartered in Germany and Milwaukee Electric Tool in the United States. Since the electric tools operations represented a significant line of business within the Industrial Technique Business Area, they have been accounted for as assets held for sale and discontinued operations. The other divestments are relatively insignificant components of other operations and have been included in continuing operations until the time of disposal.

An analysis of revenues and expenses of discontinued operations for 2004 is included in note 31. Revenues and expenses of discontinued operations for 2005 consists of the pretax gain on the disposal of 278 and the related income tax amounting to 61.

Carrying value of assets and liabilities for divestments

	2005	2004
Intangible assets	118	
Property, plant and equipment	979	2
Other non-current assets	66	89
Inventories	824	
Receivables	881	48
Cash and cash equivalents	204	
Interest-bearing loans and borrowings	–836	
Other liabilities and provisions	–619	–24
Deferred tax liabilities, net	–64	
Net identifiable assets	1 553	115
Capital gain	211	10
Hedging gain and translation differences	–104	
Goodwill	2 658	
Consideration received	**4 318**	
Cash and cash equivalents divested	–204	
Net cash received	**4 114**	**125**

Cash flows from continuing and discontinued operations

	2005			2004		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flows from						
—operating activities	9 999		9 999	7 239	621	7 860
—investing activities	–6 103	4 107	–1 996	–5 363	–205	–5 568
—financing activities	–7 521		–7 521	–3 298	–192	–3 490
Net cash flow	**–3 625**	**4 107**	**482**	**–1 422**	**224**	**–1 198**
Cash and cash equivalents, Jan. 1			2 618	3 832	13	3 845
Exchange-rate difference in cash and cash equivalents			627	–24	–5	–29
Cash and cash equivalents, Dec. 31			**3 727**	**2 386**	**232**	**2 618**

The cash flows from discontinued operations in 2005 represent the proceeds on the final divestment of the professional electric tools business.

4. Segment information

Atlas Copco's operations are managed on a worldwide basis in four business areas. These business areas coincide with the definition for business segment reporting in that they offer different products and services to different customer groups. These business segments are also the basis for the Group's management and internal reporting structure. The Group comprises the following business areas:

- The Compressor Technique business area develops, manufactures, markets, distributes, and services oil-free and oil-injected stationary air compressors, portable air compressors, gas and process compressors, turbo expanders, electrical power generators, air treatment equipment (such as compressed air dryers, coolers, and filters) and air management systems.
- The Construction and Mining Technique business area develops, manufactures, and markets rock drilling tools, tunneling and mining equipment, surface drilling rigs, loading equipment, exploration drilling equipment, and construction tools.
- Industrial Technique's business concept is to develop, manufacture, and market industrial power tools and assembly systems.
- The Rental Service business area provides equipment rental and related services to the construction and industrial markets via stores located throughout the United States, Canada, and Mexico.

Common Group Functions includes those operations, which serve all business areas or the Group as a whole. The accounting policies of the segments are the same as those described in note 1. Atlas Copco's intersegment pricing is determined on a commercial basis.

4. Continued

2005

	Compressor Technique	Construction and Mining Technique	Industrial Technique	Rental Service	Common Group Functions	Elimina-tions	Group
Revenues from external customers	20 165	14 887	6 049	11 593	48		52 742
Inter-segment revenues	507	267	15	11		–800	–
Total revenues	**20 672**	**15 154**	**6 064**	**11 604**	**48**	**–800**	**52 742**
Operating profit	**4 032**	**2 073**	**1 200**	**2 666**	**–529**	**–39**	**9 403**
—whereof share of profit of associates			*4*				*4*
Net financial items							–103
Income tax expense							–2 936
Profit from discontinued operations, net of tax							217
Profit for the period							**6 581**
Non-cash expenses							
Depreciation/amortization/impairment	631	510	128	2 022	76	–47	3 320
Other non-cash expenses	61	29	–14	–17	86		145
Segment assets	11 435	10 861	3 189	22 661	2 185	–1 320	49 011
—whereof goodwill	*591*	*1 179*	*306*	*7 161*			*9 237*
Investments in associates		17	65		1		83
Unallocated assets							5 861
Total assets							**54 955**
Segment liabilities	5 029	2 719	1 226	3 394	2 037	–1 234	13 171
Unallocated liabilities							15 976
Total liabilities							**29 147**
Capital expenditure							
Property, plant and equipment	1 082	1 000	125	5 439	144	–104	7 686
—whereof assets leased	*30*	*26*	*4*	*388*	*2*		*450*
Intangible assets	182	93	91		3		369
Goodwill	207	60	70				337
Total capital expenditure	**1 471**	**1 153**	**286**	**5 439**	**147**	**–104**	**8 392**

2004

	Compressor Technique	Construction and Mining Technique	Industrial Technique continuing operations	Industrial Technique discontinued operations	Rental Service	Common Group Functions	Elimina-tions	Group
Revenues from external customers	17 482	10 297	5 008	5 462	10 399	6		48 654
Inter-segment revenues	305	157	38		3		–503	–
Total revenues	**17 787**	**10 454**	**5 046**	**5 462**	**10 402**	**6**	**–503**	**48 654**
Operating profit	**3 322**	**1 115**	**943**	**461**	**1 732**	**–449**	**–12**	**7 112**
—whereof share of profit of associates			*3*					*3*
Net financial items								–328
Income tax expense								–2 113
Profit for the period								**4 671**
Non-cash expenses								
Depreciation/amortization	558	375	108	205	1 836	24	–21	3 085
Goodwill impairment	24		12					36
Other non-cash expenses	–28	30	–10	–21	5	12		–12
Segment assets	9 052	8 506	2 646	5 409	16 515	3 429	–2 071	43 486
—whereof goodwill	*345*	*1 023*	*209*	*2 629*	*5 940*			*10 146*
Investments in associates		14	58			1		73
Unallocated assets								4 609
Total assets								**48 168**
Segment liabilities	4 020	2 250	879	808	2 444	4 281	–2 963	11 719
Unallocated liabilities								13 848
Total liabilities								**25 567**
Capital expenditure								
Property, plant and equipment	788	539	160	268	3 479	63	–56	5 241
—whereof assets leased	*30*	*9*	*1*	*118*	*251*			*409*
Intangible assets	137	70	56	45		2		310
Goodwill	52	466		14				532
Total capital expenditure	**977**	**1 075**	**216**	**327**	**3 479**	**65**	**–56**	**6 083**

Segment assets comprise the sum of property, plant and equipment, intangible assets, other non-current receivables, inventories, and current receivables. Segment liabilities comprise 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, intangible assets as well as goodwill but excludes the effect of intangible assets and property, plant and equipment through acquisitions.

Revenues from external customers are comprised of the following categories:

	2005	2004
Sale of equipment	26 415	25 321
Service (incl. spare parts, consumables and accessories)	15 727	14 412
Rental	10 600	8 921
	52 742	**48 654**
Less: discontinued operations		–5 462
Continuing operations	**52 742**	**43 192**

All business areas are managed on a worldwide basis with their own sales operation and strive to maintain close and long-term relations with their customers. The revenues presented for the geographical segments are based on the location of the customers while assets and capital expenditures are based on the geographical location of the assets.

	2005	2004
Revenues by geographic area		
North America	19 787	19 752
South America	2 918	1 825
Europe	17 647	17 080
—of which Sweden	*971*	*922*
Africa/Middle East	3 465	2 802
Asia/Australia	8 925	7 195
	52 742	**48 654**
Less: discontinued operations		–5 462
Continuing operations	**52 742**	**43 192**
Segment assets by geographic area		
North America	27 858	23 809
South America	537	632
Europe	14 670	14 642
—of which Sweden	*4 330*	*3 685*
Africa/Middle East	979	711
Asia/Australia	4 967	3 692
	49 011	**43 486**
Less: discontinued operations		–5 409
Continuing operations	**49 011**	**38 077**
Capital expenditure by geographic area		
North America	6 481	4 105
South America	141	77
Europe	1 386	1 300
—of which Sweden	*436*	*227*
Africa/Middle East	71	52
Asia/Australia	313	549
	8 392	**6 083**
Less: discontinued operations		–327
Continuing operations	**8 392**	**5 756**

5. Employees and personnel expenses

Average number of employees

	2005			2004		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	47	46	93	35	41	76
Subsidiaries						
North America	873	6 859	7 732	1 603	7 437	9 040
South America	174	1 280	1 454	137	1 097	1 234
Europe	1 763	9 620	11 383	1 819	9 764	11 583
—of which Sweden	*444*	*2 350*	*2 794*	*358*	*2 266*	*2 624*
Africa/Middle East	250	1 149	1 399	240	1 105	1 345
Asia/Australia	737	3 460	4 197	573	2 977	3 550
Total in subsidiaries	**3 797**	**22 368**	**26 165**	**4 372**	**22 380**	**26 752**
Grand total	**3 844**	**22 414**	**26 258**	**4 407**	**22 421**	**26 828**
Less: discontinued operations				–1 074	–1 905	–2 979
Continuing operations	**3 844**	**22 414**	**26 258**	**3 333**	**20 516**	**23 849**

Women in Atlas Copco Board and Management, %

	2005	2004
Parent Company		
Board of Directors excl. union representatives	22	22
Group Management	22	22
Group companies		
Boards of Directors	5	5
Management	9	9

Absence due to illness, %

	2005	2004
Parent Company	3.3	1.2
Swedish companies	3.8	4.4
Long-term absence due to illness, in percent of total absence	*31.3*	*46.1*
Group	2.2	2.4

Salaries and other remuneration

	2005		2004	
	Board & President	Other employees	Board & President	Other employees
Parent Company				
Sweden	37	66	26	41
—of which variable compensation	*13*		*9*	
Subsidiaries	280	9 101	237	9 017
—of which variable compensation	*50*		*27*	
Grand total	**317**	**9 167**	**263**	**9 058**
Less: discontinued operations				–1 017
Continuing operations	**317**	**9 167**	**263**	**8 041**

5. Continued

	Group		Parent Company	
	2005	2004	2005	2004
Salaries and other remuneration	9 484	9 321	103	67
Contractual pension benefits for Board members and Presidents	34	22	13	5
Contractual pension benefits for other employees	739	634	17	10
Other social costs	1 749	1 790	43	25
Grand Total	**12 006**	**11 767**	**176**	**107**
Less: discontinued operations		–1 406		
Continuing operations	**12 006**	**10 361**	**176**	**107**
Pension obligations to Board members and Presidents	50	28	39	20

Remuneration and other benefits

SEK	Fee	Base salary	Variable compensation[1]	Other benefits[2]	Pension fees[1]	Other fees[3]	Total
Chairman of the Board	1 112 500					150 000	1 262 500
Vice Chairman	425 000					50 000	475 000
Other members of the Board	2 017 500					300 000	2 317 500
President and CEO		7 150 000	6 435 000	505 637	2 522 088		16 612 725
Other members of Group Management		20 849 459	16 423 384	1 847 904	6 029 457		45 150 204
	3 555 000	**27 999 459**	**22 858 384**	**2 353 541**	**8 551 545**	**500 000**	**65 817 929**

[1] The CEO has exercised the option to have his variable compensation for 2005 as an additional pension contribution. The variable compensation to other members of Group Management for 2005 include amounts resulting from final adjustments for 2004.

[2] Refers to vacation pay, company car, medical care insurance and disability pension.

[3] Refers to fees for membership in audit- and remuneration committees.

Remuneration and other fees for members of the Board, the President and CEO, and other members of the Group Management

Principles

The Chairman of the Board and the Board Members are remunerated in accordance with the decision taken at the Annual General Meeting.

The remuneration to the President and CEO and other members of Group Management (eight positions) consists of an annual base salary, variable compensation as well as retirement and other benefits. No long-term share-related remuneration program was started in 2004 or 2005. 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 any other compensation for other duties that they may perform outside the immediate scope of their positions.

Board of Directors

In 2005, the Chairman of the Board Sune Carlsson received a director's fee of SEK 1 112 500. The Vice Chairman Jacob Wallenberg received SEK 425 000. The Board members Staffan Bohman, Kurt Hellström, Thomas Leysen, Ulla Litzén, Grace Reksten Skaugen and Anders Ullberg received SEK 331 250. Employee representatives received a total amount of SEK 30 000. Additionally, as members of the audit committee, Sune Carlsson received SEK 100 000, Ulla Litzén SEK 150 000 and Thomas Leysen SEK 100 000. Further, Sune Carlsson, Jacob Wallenberg and Kurt Hellström received SEK 50 000 each as members of the remuneration committee.

President and CEO

The President and Chief Executive Officer (CEO), Gunnar Brock, had an annual base salary of SEK 7 150 000.

The variable compensation for 2005 can reach maximum 50% of the annual base salary when the profit before tax for the Atlas Copco Group reaches certain target amounts. Further, maximum 40% of the annual base salary can be earned for achievement of individual results. According to agreement, the CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution.

Total cost for remuneration and benefits to Gunnar Brock amounted to SEK 16 612 725 in 2005.

The CEO is a member of Atlas Copco Group 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 survivor's pension. No pension benefits are paid on variable compensation. In addition he is entitled to a disability pension of 50% of his base salary. The cost for the disability pension in 2005 was SEK 281 904. These pension plans are vested and are lifetime payments upon retirement.

Other members of the Group Management

As a principle, base salary is for position and general performance, whereas variable compensation is for a combination of the financial performance of the Group and individual results. The variable compensation amounts to maximum 60 or 70% of the base salary. In 2005, the total cost for remuneration and benefits to other Group Management members amounted to SEK 45 150 204 of which SEK 20 849 459 was base salaries and SEK 16 423 384 variable compensation.

All Swedish members of the Group Management have a defined contribution pension plan, with contribution ranging from 25% to 35% of base salary, percentage varying according to age. Also, the executives not based in Sweden have a defined contribution plan. These pension plans are vested and are lifetime payments upon retirement.

The retirement age is 65 with the exception of one of the executives who is entitled to retire at the age of 60, with an early retirement pension payable from the early retirement date to the age of 65. The amount of pension depends on when the agreement is invoked, but is maximized to 60% of the pensionable salary. After age 65, this payment ceases and the pension, as per the defined contribution plan, takes over. As a prerequisite, maximum 20% of full time unpaid consultancy work for the company between early retirement and age of 65 is required.

Options/share appreciation rights, holdings for Group Management
The number of stock options/share appreciation rights holdings as at December 31, are detailed below:

Stock options/Share appreciation rights holdings as at Dec. 31, 2005

Grant year	2000	2001	2002	2003	Total
CEO	–	–	70 559	70 559	141 118
Other members of Group Management	17 640	17 640	50 271	105 822	191 373

Please see note 22.

Termination of employment
The principle for termination of the CEO's employment is that, if either party intends to terminate the contract, a notice period of six months is stipulated. 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 the Group Management are entitled to severance pay, if the Company terminates their employment. The amount of severance pay is depending 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.

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 committee
In 2005 the Chairman of the Board, Sune Carlsson, Vice Chairman, Jacob Wallenberg, and Board member, Kurt Hellström 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.

6. Remuneration to auditors

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

	2005	2004
KPMG		
—Audit fee	31	42
—Other	14	12
Other audit firms		
—Audit fee	2	1
	47	**55**

The 2004 audit fee includes fee for audits performed in connection with the sale of the Electric Tools business. Other fees to KPMG are comprised primarily of consultancy on tax and accounting matters.

7. Operating expenses

Amortization, depreciation and impairment	**2005**	**2004**
Product development	191	167
Marketing and customer related assets	48	25
Other technology and contract based assets	59	28
Buildings	110	107
Machinery and other technical plant	518	612
Equipment	195	225
Rental equipment	2 199	1 921
	3 320	**3 085**
Goodwill impairment	–	36
	3 320	**3 121**
Less: discontinued operations		–205
Continuing operations	**3 320**	**2 916**

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

	2005		2004	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	9	2	2	45
Marketing expenses	1	48	–	29
Administrative expenses	9	8	5	4
Research and development costs	190	31	167	4
	209	**89**	**174**	**82**

Impairment charges of 36 in 2004 are recorded as cost of sales.

Cost of sales
The amount of inventories recognized as expense amounted to 20 923 (16 835).

8. Other income and expenses from operations

	2005	**2004**
Other income from operations		
Commissions received	15	14
Income from insurance operations	21	62
Capital gain on sale of fixed assets	53	54
Capital gain on divestment of business	–	10
Exchange-rate differences	133	–
Other operating income	7	9
	229	**149**
Less: discontinued operations		–4
Continuing operations	**229**	**145**
Other expenses from operations		
Restructuring costs	–	–58
Capital loss on divestment of business	–6	–
Exchange-rate differences	–	–226
Other operating expenses	–5	–4
	–11	**–288**
Less: discontinued operations		6
Continuing operations	**–11**	**–282**

The 2005 income from insurance operations include charges for hurricane-related losses totaling 78 in the United States.

Information related to the changes in fair value of financial instruments using a valuation technique is included in note 27.

9. Financial income and expenses

	2005	2004
Financial income		
Interest income	174	513
Gains from financial instruments including fair value adjustments	402	–
Exchange-rate differences	1	–
	577	**513**
Less: discontinued operations		–
Continuing operations	**577**	**513**

	2005	2004
Financial expenses		
Interest expense	–584	–627
Net interest expense on pension provision	–88	–119
Losses from financial instruments including fair value adjustments	–8	–
Impairment loss on investments	–	–7
Exchange- rate differences	–	–88
	–680	**–841**
Less: discontinued operations		59
Continuing operations	**–680**	**–782**

Due to the adoption of IAS 39 effective January 1, 2005, there are differences in the accounting for financial instruments in 2005 as compared to 2004. Please see note 1. Information related to the changes in fair value of financial instruments using a valuation technique is included in note 27.

The gains from financial instruments for 2005 include 381 (–) related to the financial instruments entered into in connection with the employee stock option program.

The financial items for 2004 were affected positively from the amortization of certain loans and the closing of certain derivative instruments which were related to the extension of the Group's average interest rate period. The most significant effects were an increase in interest income of 200 and increase in foreign exchange difference of –65.

10. Taxes

Income tax expense

	2005	2004
Current taxes	–2 473	–1 630
Deferred taxes	–463	–483
	–2 936	**–2 113**
Less: discontinued operations		161
Continuing operations	**–2 936**	**–1 952**

The tax on the divestment in 2005 of the professional electric tools operations which are classified as discontinued operations totaled 61.

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:

	2005	2004	Discontinued operations	Continuing operations
Profit before tax	9 300	6 784	402	6 382
Weighted average tax based on national rates	–3 088	–2 285		
—In %	*33.2*	*33.7*		
Tax effect of:				
Intangible assets amortization/ impairment	–	9		
Non-deductible expenses	–86	–68		
Imputed interest on tax allocation reserve	–17	–		
Withholding tax on dividends	–16	–18		
Tax-exempt income	219	231		
Adjustments from prior years				
—Current taxes	–2	–6		
—Deferred taxes	–19	20		
Effects of tax losses/ credits utilized	61	9		
Change in tax rate, deferred tax	–1	–1		
Tax losses not valued	–6	–9		
Other items	19	5		
Income tax expense	**–2 936**	**–2 113**	**–161**	**–1 952**
Effective tax in %	*31.6*	*31.1*	*40.0*	*30.6*

The Group's total tax expense, compared to Swedish corporate tax rate of 28%, is affected by its strong position in countries with higher tax rates, including Belgium, France, Germany and the United States.

Previously unrecognized tax losses/credits and temporary differences which have been recognized against current tax expense amounted to 54 (9). No material unrecognized tax losses/credits or temporary differences have been used to reduce deferred tax expense. There is no significant deferred tax expense arising from a write-down of a previously recognized deferred tax asset.

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

	2005			2004		
Group	**Assets**	**Liabili-ties**	**Net balance**	**Assets**	**Liabili-ties**	**Net balance**
Intangible assets	8	438	–430	40	307	–267
Property, plant and equipment	133	2 824	–2 691	149	2 613	–2 464
Other financial assets	30	44	–14	–	35	–35
Inventories	422	23	399	277	53	224
Current receivables	71	146	–75	68	60	8
Operating liabilities	292	13	279	443	158	285
Provisions	170	3	167	150	3	147
Employee benefits	416	5	411	567	4	563
Interest-bearing loans and borrowings	338	–	338	255	–	255
Loss/credit carry forwards	13	–	13	605	–	605
Other items	16	902	–886	76	1 036	–960
Deferred tax assets/ liabilities	**1 909**	**4 398**	**–2 489**	**2 630**	**4 269**	**–1 639**
Netting of assets/ liabilities	–1 056	–1 056	–	–1 155	–1 155	–
Net deferred tax balances	**853**	**3 342**	**–2 489**	**1 475**	**3 114**	**–1 639**
Less: discontinued operations				–139	–197	58
Continuing operations	**853**	**3 342**	**–2 489**	**1 336**	**2 917**	**–1 581**

Other items primarily include tax deductions (tax allocation reserve etc.) which are not related to specific balance sheet items.

At December 31, 2005, the Group had tax loss carry-forwards of 396, of which 12 was recognized in calculating deferred taxes. Tax losses of 357 are available to reduce tax expense in future years but have not been recognized as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. Of the tax loss carry-forwards not recognized, approximately 369 expire within five years.

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

	2005	**2004**
Net balance, Jan. 1	–1 581	–1 238
Effect of change in accounting principle	–165	
Acquisition of subsidiaries	–19	–47
Divestment of subsidiaries	6	
Charges to profit of the period	–463	–483
Translation differences	–267	129
Net balance, Dec. 31	–2 489	–1 639
Less: discontinued operations		58
Continuing operations, Dec. 31	**–2 489**	**–1 581**

In aggregate deferred tax of 9 was charged to equity in 2004, 67 was charged to equity in the opening balance for 2005, on implementing IAS 39, and 76 was credited to equity in 2005.

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

	2005	**2004**
Intangible assets	–140	–76
Property, plant and equipment	78	–363
Other financial assets	14	2
Inventories	108	61
Current receivables	95	4
Operating liabilities	–10	84
Provisions	23	–6
Employee benefits	–110	34
Interest-bearing loans and borrowings	6	–
Other items	129	–17
Changes due to temporary differences	**193**	**–277**
Loss/Credit carry-forward	–656	–206
Total Group	**–463**	**–483**

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

11. Earnings per share

	Basic earnings per share		Diluted earnings per share	
Amounts in SEK	**2005**	**2004**	**2005**	**2004**
Earnings per share	10.43	7.41	10.41	7.40
—*whereof continuing operations*	*10.08*	*7.03*	*10.06*	*7.02*
—*whereof discontinued operations*	*0.35*	*0.38*	*0.35*	*0.38*

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

Basic earnings per share
The 2005 earnings per share are calculated based on the profit for the period available to the shareholders of the Parent Company totaling 6 560 (4 657) and the weighted average number of shares outstanding during 2005 totaling 628 806 552 (628 806 552). The weighted average number of shares has been calculated as follows:

	2005	**2004**
Total shares outstanding at January 1	209 602 184	209 602 184
Stock split 4:1, adding to the number of shares	628 806 552	628 806 552
Redemption of shares	–209 602 184	–209 602 184
Basic weighted average number of shares outstanding	628 806 552	628 806 552

In accordance with IAS 33, no adjustments for the effects of the redemption shares issued and redeemed during 2005 have been included in calculating the basic weighted average number of shares outstanding.

Diluted earnings per share
Diluted earnings per share are calculated in accordance with IAS 33. The dilutive effects arise from the stock options in the share based incentive programs.

The 2005 earnings per share are calculated based on the profit for the period available to the shareholders of the parent comany totaling 6 560 (4 657) and the weighted average number of shares outstanding during 2005 totaling 629 941 488 (629 512 160). The weighted average number of shares has been calculated as follows:

	2005	**2004**
Basic weighted average number of shares outstanding	628 806 552	628 806 552
Effect of employee stock options	1 134 936	705 608
Diluted weighted average number of shares outstanding	629 941 488	629 512 160

12. Intangible assets

	Internally generated intangible assets		Acquired intangible assets				
	Product development	Other technology and contract based	Product development	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost							
Opening balance, Jan. 1, 2004	564	45		184	143	10 533	11 469
Investments	259	37			14		310
Acquisition of subsidiaries				221	233	532	986
Disposals		–8			–15		–23
Translation differences for the period	–13			–18	–21	–884	–936
Closing balance, Dec. 31, 2004	**810**	**74**		**387**	**354**	**10 181**	**11 806**
Less: discontinued operations	–82	–16		–44	–17	–2 629	–2 788
Continuing operations, Dec. 31, 2004	**728**	**58**		**343**	**337**	**7 552**	**9 018**
Amortization and impairment losses							
Opening balance, Jan. 1, 2004	78	27		46	81		232
Amortization for the period	167	7		25	21		220
Impairment charge						36	36
Acquisition of subsidiaries					1		1
Disposals		–8			–13		–21
Translation differences for the period	–4	1			–2	–1	–6
Closing balance, Dec. 31, 2004	**241**	**27**		**71**	**88**	**35**	**462**
Less: discontinued operations	–8	–15		–12	–6		–41
Continuing operations, Dec. 31, 2004	**233**	**12**		**59**	**82**	**35**	**421**
Carrying amount							
At Jan. 1, 2004	486	18		138	62	10 533	11 237
At Dec. 31, 2004	569	47		316	266	10 146	11 344
Less: discontinued operations	–74	–1		–32	–11	–2 629	–2 747
Continuing operations, Dec. 31, 2004	**495**	**46**		**284**	**255**	**7 517**	**8 597**
Cost							
Opening balance, Jan. 1, 2005	728	58		343	337	7 552	9 018
Investments	283	74			12		369
Acquisition of subsidiaries			3	86	42	337	468
Disposals	–1				–5	–24	–30
Reclassifications	2				–1		1
Translation differences for the period	28	2		44	42	1 385	1 501
Closing balance, Dec. 31, 2005	**1 040**	**134**	**3**	**473**	**427**	**9 250**	**11 327**
Amortization and impairment losses							
Opening balance, Jan. 1, 2005	233	12		59	82	35	421
Amortization for the period	190	19	1	48	40		298
Disposals	–1				–4	–24	–29
Reclassifications	2				–2		–
Translation differences for the period	13			6	9	2	30
Closing balance, Dec. 31, 2005	**437**	**31**	**1**	**113**	**125**	**13**	**720**
Carrying amount							
At Jan. 1, 2005	495	46	–	284	255	7 517	8 597
At Dec. 31, 2005	**603**	**103**	**2**	**360**	**302**	**9 237**	**10 607**

Other technology and contract based intangible assets include computer software, patents and contract based rights such as licenses and franchise agreements. Please see notes 2 and 3 for information on acquisitions and divestments.

All intangible assets besides goodwill are amortized. For information regarding amortization, please see note 1 and 7.

Impairment tests for cash-generating units containing goodwill
The impairment tests have been conducted at divisional level where the divisions are identified as the cash-generating units (CGU). The recoverable amounts of the CGUs have been calculated as value in use, based on management's five-year forecasts for net cash flows. A moderate steady rate of growth of cash flows is used beyond the forecasted period.

Carrying value of goodwill by cash-generating unit for continuing operations

	2005	2004
Compressor Technique		
Oilfree Air	226	126
Industrial Air	193	94
Portable Air	135	94
Business area level	37	31
	591	**345**
Construction and Mining Technique		
Underground Rock Excavation	44	121
Surface Drilling Equipment	106	2
Drilling Solutions	228	327
Secoroc	115	45
Construction Tools	482	418
Craelius	189	98
Business area level	15	12
	1 179	**1 023**
Industrial Technique		
Chicago Pneumatic	301	204
Business area level	5	5
	306	**209**
Rental Service	**7 161**	**5 940**
Total	**9 237**	**7 517**

The only significant carrying amount of goodwill is in Rental Service. For this division the following key assumptions have been used:

- Approximately 8% annual revenue growth for the coming five years. In determining assumptions for the projected period, the company focused on various public forecasts for the US construction industry and particularly the private non-residential construction segment.
- The operating profit margins are expected to continue to improve over 2005 results, albeit at a slower rate than over the last three years.
- The rate of growth of cash flows beyond the forecasted period is 2%.
- A discount rate of 7% (~12% pre-tax) has been used based on historical debt and equity returns adjusted for the financial risk profile of the US equipment rental industry.

For all remaining impairment tests of goodwill the annual average revenue growth for the coming five years has been estimated for each of the divisions based on their market position and the characteristics and development of their end markets. The assumed revenue growth is within a range of 3-12%, which, on average, is in line with the Group's growth target. The operating profit margins are assumed to be in line with the reported levels of 2005. The long term growth rate in cash flows beyond the forecasted period is 2-3%. The Group's 2005 weighted average cost of capital 8% (~12% pre-tax) has been used as discount rate to determine the recoverable amounts.

For all divisions the recoverable amounts are in excess of their carrying amounts. Any reasonable adverse change of the assumptions would not reduce the recoverable amount below its carrying amount.

There are no intangible assets with indefinite useful lives other than goodwill.

13. Property, plant and equipment

	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1, 2004	2 722	8 877	254	11 853	15 024
Investments	258	925	67	1 250	3 991
Acquisition of subsidiaries	296	266	6	568	489
Divestment of subsidiaries		–4		–4	–1
Disposals	–88	–600		–688	–3 489
Reclassifications		9	–24	–15	22
Translation differences for the period	–119	–371	–16	–506	–1 284
Closing balance, Dec. 31, 2004	**3 069**	**9 102**	**287**	**12 458**	**14 752**
Less: discontinued operations	–647	–2 179	–84	–2 910	–1
Continuing operations, Dec. 31, 2004	**2 422**	**6 923**	**203**	**9 548**	**14 751**
Depreciation and impairment losses					
Opening balance, Jan. 1, 2004	1 237	6 201		7 438	5 901
Depreciation for the period	107	837		944	1 921
Acquisition of subsidiaries	78	166		244	189
Divestment of subsidiaries		–2		–2	–1
Disposals	–47	–506		–553	–1 953
Reclassifications	1	–8		–7	12
Translation differences for the period	–46	–246		–292	–471
Closing balance, Dec. 31, 2004	**1 330**	**6 442**		**7 772**	**5 598**
Less: discontinued operations	–196	–1 742		–1 938	–1
Continuing operations, Dec. 31, 2004	**1 134**	**4 700**		**5 834**	**5 597**
Carrying amounts					
At Jan. 1, 2004	1 485	2 676	254	4 415	9 123
At Dec. 31, 2004	1 739	2 660	287	4 686	9 154
Less: discontinued operations	–451	–437	–84	–972	–
Continuing operations, Dec. 31, 2004	**1 288**	**2 223**	**203**	**3 714**	**9 154**

13. Continued

Property, plant and equipment

	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1, 2005	2 422	6 923	203	9 548	14 751
Investments	100	1 108	71	1 279	6 407
Acquisition of subsidiaries	18	66	2	86	4
Disposals	–79	–822		–901	–4 043
Reclassifications	–5	–10	–2	–17	–4
Translation differences for the period	234	714	27	975	2 996
Closing balance, Dec. 31, 2005	**2 690**	**7 979**	**301**	**10 970**	**20 111**
Depreciation and impairment losses					
Opening balance, Jan. 1, 2005	1 134	4 700		5 834	5 597
Depreciation for the period	103	713		816	2 199
Impairment charge	7			7	
Acquisition of subsidiaries	1	34		35	16
Disposals	–50	–720		–770	–2 207
Reclassifications	–5	–10		–15	–5
Translation differences for the period	108	452		560	1 055
Closing balance, Dec. 31, 2005	**1 298**	**5 169**		**6 467**	**6 655**
Carrying amounts					
At Jan. 1, 2005	1 288	2 223	203	3 714	9 154
At Dec. 31, 2005	**1 392**	**2 810**	**301**	**4 503**	**13 456**

See note 25 for information on finance leases.

	2005	2004
Carrying amounts continuing operations		
Buildings and land	1 392	1 288
Machinery and other technical plant	2 207	1 779
Equipment, etc.	603	444
Construction in progress and advances	301	203
Other property, plant and equipment	**4 503**	**3 714**
Rental equipment	13 456	9 154
	17 959	**12 868**
Tax assessment value, buildings and land	150	148

The tax assessment values reported for the Group pertain exclusively to buildings and land in Sweden. The net book value of these is 180 (181).

For information regarding depreciation, please see note 1 and 7.

14. Investments in associates

	2005	2004
Accumulated capital participation		
Opening balance, Jan. 1	73	65
Acquisitions		11
Dividends		–1
Profit for the period after income tax	4	3
Translation differences for the period	6	–5
Closing balance, Dec. 31	**83**	**73**

Summary of financial information for associates

	Country	Assets	Liabilities	Equity	Revenues	Profit for the period	Percentage of capital
2004							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	11	1	10	3		25
Shenyang Rui Feng Machinery Ltd.	China	24	12	12	20		25
Toku-Hanbai KK	Japan	89	41	48	272	3	50
Others				3			
Total				**73**		**3**	
2005							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	13	1	12	8		25
Shenyang Rui Feng Machinery Ltd.	China	30	15	15	21		25
Toku-Hanbai KK	Japan	104	51	53	287	4	50
Others				3			
Total				**83**		**4**	

The above table is based on the most recent financial reporting available and represents Atlas Copco's share of the respective company.

15. Other financial assets

	2005	2004
Non-current		
Pension and other similar benefits assets (note 22)	218	114
Fair value derivatives		
—no hedge accounting, included in earnings	4	–
—hedge accounting, included in earnings	101	–
Other non-current securities	–	12
Finance lease receivables	313	34
Other non-current receivables	232	231
	868	**391**
Less: discontinued operations		–29
Continuing operations	**868**	**362**
Current		
Government bonds	308	308
Finance lease receivables	79	19
Other financial receivables	1	–
Other financial receivables, associates	1	–
	389	**327**
Less: discontinued operations		–
Continuing operations	**389**	**327**

See note 25 for information on finance leases.

16. Inventories

	2005	2004
Raw materials	266	185
Work in progress	1 399	1 067
Semi-finished goods	1 843	1 849
Finished goods	3 707	3 337
	7 215	**6 438**
Less: discontinued operations		–804
Continuing operations	**7 215**	**5 634**

Provisions for obsolence and other write-downs of inventories recorded as cost of sales amounted to –227 (–154). Reversals of write-downs which were recognized in earnings totaled 28 (33).

17. Trade receivables

Trade receivables are reported net of provisions for doubtful accounts and other impairments. Provisions for doubtful accounts and impairment losses recognized in current earnings totaled 115 (204). For credit risk information please see note 27.

18. Other receivables

	2005	2004
Fair value derivatives		
—no hedge accounting, included in earnings	572	495
Other receivables	1 168	949
Prepaid expenses and accrued income	479	869
	2 219	**2 313**
Less: discontinued operations		–43
Continuing operations	**2 219**	**2 270**

Prepaid expenses and accrued income include items such as rent, insurance premiums, and commissions.

19. Cash and cash equivalents

	2005	2004
Cash	2 129	1 493
Cash equivalents	1 598	1 125
	3 727	**2 618**
Less: discontinued operations		–232
Continuing operations	**3 727**	**2 386**

Guaranteed, but unutilized, credit lines equaled 5 385 (3 371).

20. Equity

The Parent Company has 628 806 552 shares outstanding consisting of 419 697 048 class A shares and 209 109 504 class B shares. Class A shares entitle the holder to one voting right and class B shares entitle the holder to one-tenth of a voting right per share. The shares have a nominal value of SEK 1.25.

Based on the resolution adopted at the Annual General Meeting of the shareholders in Atlas Copco AB held on April 27, 2005, each class A and B share were split into 4 shares representing a split of 4:1. One of the shares was a mandatory redemption share. The redemption shares were automatically redeemed in June 2005 with SEK 20 paid for each.

In order to pay the shareholders for the redemption share, a number of transactions were initiated. Equity was reduced by redemption of 139 899 016 class A shares and 69 703 168 class B shares reducing share capital by SEK 262 002 730 and share premium reserve by SEK 733 607 644. The remaining amount of SEK 3 196 433 306 reduced retained earnings. However, in order to enable a prompt payment of the redemption amount to the shareholders and to comply with the requirements in the Swedish Companies Act, a directed issue of new class C shares was made to Svenska Handelsbanken AB. The issue of C shares was temporary and the shares were redeemed and a corresponding reduction of equity made after a formal approval by the district court of Nacka August 31, 2005.

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.

Appropriation of profit
The Board of Directors propose a dividend of SEK 4.25 per share totaling SEK 2 672 427 846.

21. Interest-bearing loans and borrowings

Interest-bearing liabilities to credit institutions and others are as follows:

	2005	2004
Non-current		
Bank loans	6 964	6 538
Finance lease liabilities	688	537
	7 652	**7 075**
Less: discontinued operations		–125
Continuing operations	**7 652**	**6 950**
Current		
Current portion of bank loans	787	58
Short-term loans	826	476
Finance lease liabilities	254	188
	1 867	**722**
Less: discontinued operations		–10
Continuing operations	**1 867**	**712**
Total interest-bearing loans and borrowings	**9 519**	**7 662**

See note 25 for information on finance leases.

Bank loans	2005	2004
Parent Company		
Bond loan MUSD 375	2 969	2 476
Bond loan MUSD 392.5	3 164	2 592
Promissory notes MUSD 75	597	495
Promissory notes MSEK	43	48
Available under "MSEK 5 000 Medium Term Note Program"		
—Outstanding MSEK 500	500	500
—Outstanding MEUR 15	141	135
Available under "MEUR 500 Medium Term Note Program"		
—Outstanding MUSD 10	80	66
Less: current portion	–726	–5
The Parent Company's bank loans	**6 768**	**6 307**
Subsidiaries		
Other non-current loans	257	284
Less: current portion	–61	–53
Group bank loans	**6 964**	**6 538**
Less: discontinued operations		–
Group bank loans continuing operations	**6 964**	**6 538**

Additional information about the Group's future maturities of loan liabilities, exposure to interest rate and foreign currency risk are detailed in note 27.

Atlas Copco has currently a long-term debt rating of A-/A3.

Atlas Copco AB 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 4 000 (corresponding to a total of 15 940). No amounts were outstanding under these programs as of December 31, 2005 or 2004. These programs have a K1 rating in Sweden and an A2/P2 rating internationally.

The Atlas Copco Group's short-term and long-term loans are distributed among the following currencies. The table also reflects the effect of derivatives at year end.

Current and non-current interest-bearing loans and borrowings distribution

Currency	Amount (M)	MSEK	2005, %	2004, %
USD	1 062	8 452	88.7	88.6
EUR	18	171	1.8	3.1
INR	670	118	1.2	2.1
CAD	13	90	1.0	0.3
HKD	62	64	0.7	0.3
AUD	11	62	0.7	0.9
SEK	48	48	0.5	0.7
GBP	1	16	0.2	0.5
Others		498	5.2	3.5
		9 519	**100.0**	**100.0**

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

22. Employee Benefits

Defined benefit obligations and plan assets

2005	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	4 836	1 543	277	6 656
Fair value of plan assets	–4 445			–4 445
Present value of net obligations	**391**	**1 543**	**277**	**2 211**
Unrecognized actuarial losses (–) / gains (+)	–435	–139	3	–571
Recognized liability for defined benefit obligations (see below)	**–44**	**1 404**	**280**	**1 640**
Other long-term service liabilities			22	22
Net amount recognized in balance sheet	**–44**	**1 404**	**302**	**1 662**

2004	Funded pension	Unfunded pension	Other unfunded	Total
Defined benefit obligations	3 786	2 035	380	6 201
Fair value of plan assets	–3 234			–3 234
Present value of net obligations	**552**	**2 035**	**380**	**2 967**
Unrecognized actuarial losses (–) / gains (+)	–158	–107	–15	–280
Recognized liability for defined benefit obligations (see below)	**394**	**1 928**	**365**	**2 687**
Other long-term service liabilities			35	35
Net amount recognized in balance sheet	**394**	**1 928**	**400**	**2 722**

The amount has been recorded in the balance sheets as follows:

	2005	2004	Discontinued operations	Continuing operations
Financial assets (note 15)	218	114		114
Post-employment benefits	1 826	2 776	–697	2 079
Other provisions (note 24)	54	60		60
Total, net	**1 662**	**2 722**	**–697**	**2 025**

Post-employment benefits

The Group provides post-retirement defined benefit pensions and benefits in most of its major locations. The most significant countries in terms of size of such plans are Belgium, Canada, Germany, Great Britain, Italy, 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 benefits from these plans are paid by the Group as they fall due.

The Belgian plans are for early retirement, jubilee and termination indemnity benefits with all plans being unfunded.

In Canada, Atlas Copco provides a pension plan, a supplemental retirement pension benefit for executives, both funded, and a post-retirement benefit plan.

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

There is a final salary pension plan in Great Britain and the plan is funded.

In Italy, Atlas Copco provides the statutory termination indemnity benefit (TFR) which pays a lump sum benefit to members when they leave the company. The plan is unfunded.

There are three defined benefit pension plans in Sweden. 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 other 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 subject to IAS 19 relates to former senior employees now retired. These pension arrangements are provided for.

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 partially funded while the other plans are unfunded.

The defined benefit obligations for employee benefits are comprised of plans in the following geographic markets

	2005	2004
Europe	4 964	4 813
North America	1 637	1 323
Rest of the world	55	65
Total	**6 656**	**6 201**

Plan assets do not include any of the Group's financial instruments or property which is occupied by members of the Group.

Movements in the net liability for defined benefit obligations recognized in the balance sheet

	Funded pension	Unfunded pension	Other unfunded	Total
Net liability for defined obligations at Jan. 1, 2004	539	1 946	397	2 882
Expenses recognized in the income statement 2004	91	143	29	263
Contributions received	–212	–141	–32	–385
Acquisitions/divestments	2	1		3
Exchange rate differences	–26	–21	–29	–76
Net liability for defined obligations at Dec. 31, 2004	**394**	**1 928**	**365**	**2 687**
Less: discontinued operations	–	–568	–129	–697
Continuing operations	**394**	**1 360**	**236**	**1 990**
Expenses recognized in the income statement 2005	129	113	22	264
Contributions received	–642	–129	–17	–788
Exchange rate differences	75	60	39	174
Net liability for defined obligations at Dec. 31, 2005	**–44**	**1 404**	**280**	**1 640**

22. Continued

Expenses recognized in the income statement

	2005	2004
Current service costs	155	143
Interest	290	316
Expected return on plan assets	–202	–197
Employee contributions	–16	–15
Past service costs	21	–
Amortization of unrecognized actuarial loss (+)/ gain (–)	10	21
Settlement loss (+)/ gain (–)	6	–5
Total benefit expense	**264**	**263**

The actual return on plan assets totaled 446 (297). Of the total benefit expense of 264 (263), an amount of 176 (144) has been charged to operating expense and an amount of 88 (119) has been charged to financial expense.

Defined contribution plans

In addition to the defined obligation plans, the Group also provides post-employment pensions and other benefits through defined contribution schemes. The expense for defined contribution plans was 597 (512).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2005	2004
Discount rate		
Europe	4.18	4.77
North America	5.38	5.72
Rest of world	3.65	4.15
Expected return on plan assets		
Europe	4.94	5.72
North America	5.73	6.25
Rest of world	2.87	3.97
Future salary increases		
Europe	3.29	3.21
North America	3.42	3.41
Rest of world	2.66	2.97
Medical cost trend rate		
North America	10.0	10.5
Future pension increases		
Europe	2.23	2.21
North America	1.68	2.41
Rest of world	n/a	1.86

Share value based incentive programs

In 2000 the Board of Directors resolved to implement a worldwide incentive plan aimed at key employees in the Group. The plan mainly includes stock options, which entitle holders to acquire Atlas Copco A shares at a pre-determined exercise price. In some countries (the United States, Belgium, Brazil, Canada, India, Malaysia and the Philippines) Share Appreciation Rights (rights) were instead granted due to legal and tax reasons. Rights do not entitle the holder to acquire shares, but only to receive the difference between the price of the A-share at exercise and a fixed price, corresponding to the exercise price of the stock options. Stock option/right grants were offered each year during the period of 2000–2003. No stock options or rights were granted in 2004 and 2005.

The terms of the stock options/rights are mainly the following. They are issued by Atlas Copco AB, have a term of 6 years from grant date and vest at rates of one third per year as from the date of grant. Unvested stock options/rights expire at termination of employment, while vested stock options/rights are exercisable within one month (grant year 2000 and 2001) or three months (grant year 2002 and 2003) after termination of employment (12 months in case of retirement). They have been granted free of charge as a part of the compensation package and are not transferable. The exercise price/grant value is equal to 110% of the average share price during a limited period before the grant date. There are no further performance conditions.

Summary of share value based incentive programs[1]

	Stock options				Share appreciation rights			
Grant year	**2000**	**2001**	**2002**	**2003**	**2000**	**2001**	**2002**	**2003**
Initial number of employees	120	142	145	138	28	118	125	127
Initial number of options	1 278 889	1 411 188	1 437 648	1 420 008	299 877	1 164 230	1 261 249	1 234 789
Expiration date	April 26, 06	May 13, 07	May 12, 08	May 11, 09	April 26, 06	May 13, 07	May 12, 08	May 11, 09
Exercise price, SEK	72	76	86	68	72	76	86	68
Type of share	A	A	A	A	A	A	A	A
Number of options/rights 2004								
Outstanding January 1, 2004	995 662	1 248 370	1 396 490	1 420 008	194 038	873 185	1 173 050	1 208 330
Exercised during the period	–557 953	–382 199	–172 024	–132 318	–67 617	–408 662	–249 456	–191 160
Forfeited during the period	–26 459	–2 942	–41 160	–8 814	–	–11 749	–23 521	–29 396
Outstanding December 31, 2004	411 250	863 229	1 183 306	1 278 876	126 421	452 774	900 073	987 774
—whereof vested	*411 250*	*863 229*	*733 637*	*347 426*	*126 421*	*452 774*	*526 828*	*197 102*
Remaining period, months	16	29	41	53	16	29	41	53
Average stock price for exercised options, SEK	92	91	93	92	90	90	93	91
Number of options/rights 2005								
Outstanding January 1, 2005	411 250	863 229	1 183 306	1 278 876	126 421	452 774	900 073	987 774
Exercised during the period	–267 559	–595 964	–618 671	–376 433	–99 757	–321 796	–511 999	–273 864
Forfeited during the period	5 744	–8 682	–5 875	–20 581	–17 640	–26 463	–28 940	–20 566
Outstanding December 31, 2005	149 435	258 583	558 760	881 862	9 024	104 515	359 134	693 344
—whereof vested	*149 435*	*258 583*	*558 760*	*420 436*	*9 024*	*104 515*	*359 134*	*311 139*
Remaining period, months	4	17	29	41	4	17	29	41
Average stock price for exercised options, SEK	109	111	116	121	109	113	128	132

[1] All numbers have been adjusted for the effect of the share split in June 2005.

Provisions for social costs are recorded for both types of instruments and are classified as personnel costs.

In accordance with IFRS 2, the net expense in 2005 for the share-based incentive programs including social costs amounted to 145 (38). Provisions for share appreciation rights and social costs as per December 31, 2005 amounted to 144 (58).

23. Other liabilities

	2005	2004
Advances from customers	826	498
Fair value derivatives		
—no hedge accounting, included in earnings	68	17
Other operating liabilities	1 964	1 863
Accrued expenses and prepaid income	3 078	3 271
	5 936	**5 649**
Less: discontinued operations		–357
Continuing operations	**5 936**	**5 292**

Accrued expenses and prepaid income include items such as social costs, vacation pay liability and accrued interest.

24. Provisions

2004	Product warranty	Restructuring	Service contracts	Other	Total provisions
Opening balance, Jan. 1	449	198	135	293	1 075
During the period					
—provisions made	263	39	175	241	718
—provisions used	–251	–145	–174	–130	–700
—provisions reversed	–20	–3	–1	–6	–30
Acquired subsidiaries	3			2	5
Translation differences for the period	–13	–4	–3	–10	–30
Closing balance, Dec. 31	**431**	**85**	**132**	**390**	**1 038**
Less: discontinued operations	–49	–6		–56	–111
Continuing operations	**382**	**79**	**132**	**334**	**927**
Non-current	66	26	8	115	215
Current	365	59	124	275	823
	431	**85**	**132**	**390**	**1 038**
2005					
Opening balance, Jan. 1	382	79	132	334	927
During the period					
—provisions made	274	33	203	308	818
—provisions used	–198	–56	–196	–178	–628
—provisions reversed	–20	–5	–7	–13	–45
Acquired subsidiaries	5	2		1	8
Translation differences for the period	40	10	11	24	85
Closing balance, Dec. 31	**483**	**63**	**143**	**476**	**1 165**
Non-current	158	33	61	290	542
Current	325	30	82	186	623
	483	**63**	**143**	**476**	**1 165**

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 replacement. As warranty periods are limited, the majority of the provision is classified as a current liability. Provisions for service contracts relate primarily to amounts which have been invoiced but service has not yet been performed. Other provisions consist of amounts related to share-based payments including social fees, jubilee benefits (see note 22) and environmental remediation obligations.

25. Leases

Operating leases – lessee

The leasing costs for assets under operating leases, such as rented premises, machinery, and significant computer and office equipment are reported as operating expenses and amounted to 694 (223). Future payments for non-cancelable leasing contracts amounted to 1 947 (1 545). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2005	2004
Less than one year	588	462
Between one and five years	1 253	1 030
More than five years	106	195
	1 947	**1 687**
Less: discontinued operations		–142
Continuing operations	**1 947**	**1 545**

Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2005	2004
Less than one year	124	63
Between one and five years	211	114
More than five years	32	10
	367	**187**

25. Continued

Finance leases—lessee

Assets utilized under finance leases

	Buildings and land	Machinery and equipment	Total	Rental equipment
Carrying amounts, Jan. 1, 2004	22	553	575	14
Carrying amounts, Dec. 31, 2004	134	596	730	14
Less: discontinued operations	–134	–	–134	–
Continuing operations, Dec. 31, 2004	**–**	**596**	**596**	**14**
Carrying amounts, Jan. 1, 2005	–	596	596	14
Carrying amounts, Dec. 31, 2005	**–**	**893**	**893**	**13**

Future payments will fall due as follows:

	2005			2004		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	294	40	254	201	13	188
Between one and five years	727	123	604	483	76	407
More than five years	117	33	84	202	72	130
	1 138	**196**	**942**	**886**	**161**	**725**
Less: discontinued operations				–146	–11	–135
Continuing operations	**1 138**	**196**	**942**	**740**	**150**	**590**

Finance leases—lessor
The Group offers leases financing to customers via Atlas Copco Customer Finance and certain other subsidiaries.

Future lease payments to be received fall due as follows:

	2005		2004	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	117	76	21	19
Between one and five years	311	294	36	32
More than five years	12	11	1	1
	440	**381**	**58**	**52**
Unearned finance income		47		5
Unguaranteed residual value		12		1
	440	**440**	**58**	**58**

26. Assets pledged, contingent liabilities and unrecognized contractual commitments

	2005	2004
Assets pledged for debts to credit institutions		
Real estate mortgages	62	13
Chattel mortgages	61	135
	123	**148**
Less: discontinued operations		–
Continuing operations	**123**	**148**
Contingent liabilities		
Notes discounted	51	58
Sureties and other contingent liabilities	2 660	2 221
	2 711	**2 279**
Less: discontinued operations		–3
Continuing operations	**2 711**	**2 276**

Sureties and other contingent liabilities relate primarily to guarantees to customers and 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

Objectives

In line with its overall targets for growth, operating margin, and return on capital, the objective of Atlas Copco's financial risk policy is to control the financial risks to which the Group is exposed. The policy is designed to enhance stability in Group earnings and contribute to steady growth in equity and dividends, while protecting the interests of creditors.

Currency risk

Changes in exchange rates affect Group earnings and equity in various ways:

- Group earnings—when revenues from sales and costs for production and sourcing are denominated in different currencies (transaction risk).
- Group earnings—when current year earnings of foreign subsidiaries are translated into SEK (translation risk).
- Group equity—when the net assets of foreign subsidiaries are translated into SEK (translation risk).

Transaction risk

The Group's annual net cash flows in foreign currencies which are equivalent to approximately MSEK 8 000 give rise to transaction risks. The largest surplus currencies, i.e. those in which inflows exceed outflows, and deficit currencies, are shown in graph 1. Graph 2 indicates the effects on Group pre-tax earnings of one-sided variations in USD and EUR against all other currencies, if no hedging transactions had been undertaken to cover the exposure and before any impact of price adjustments and similar measures. Atlas Copco's 16 most important foreign currencies versus SEK constitute a currency basket (currency index), which is used to hedge the overall impact of adverse currency movements.

The transaction exposure for the Group as a whole is managed centrally. Decisions about hedging exposure for the coming 1–2 years are made at regular meetings of a committee. An important principle is to protect the Group from large downside movements of the currency index.

In addition to the above, certain major orders for capital equipment are hedged on an individual basis.

Translation risk

Seen in a long-term perspective, the Group's operating cash flows in different currencies should be matched by loans in those currencies. As the Group predominantly has positive cash flows in USD, the loan portfolio is USD denominated. Apart from this, the translation risk is not hedged with financial instruments.

The value of the net assets of foreign subsidiaries at year-end 2005 corresponded to approximately MSEK 14 600 and is shown in graph 3, by main currencies.

Graph 4 shows the approximate sensitivity to currency translation effects of Group annual earnings when the earnings of foreign subsidiaries are translated to SEK.

Interest rate risk

Atlas Copco's net interest expenses as well as its overall competitive position are affected by changes in market interest rates. The impact of a change in the interest rate level on Group earnings depends on the duration of the fixed interest rate periods of loans and financial investments.

According to the financial risk policy the objective of Atlas Copco's interest risk management is to keep the total interest cost at a level consistent with the company's earnings potential. Ultimately the interest cost limit for the Group is derived from an EBITDA multiple. Currently this strategic interest cost tolerance is set to one sixth of EBITDA.

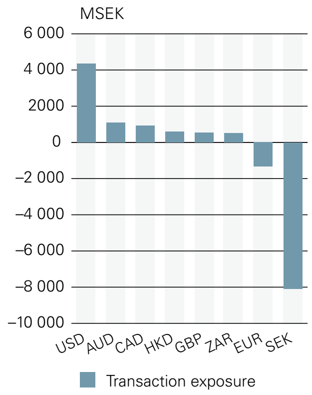
In order to have a more effective management of Group debt also a tactical interest cost tolerance is established annually. The tactical interest cost is derived by applying a Value at Risk methodology to the actual debt portfolio.

As of year end 2005, the average interest period of the actual debt portfolios was around 2.4 years. The actual debt portfolio is well within both the tactical and strategic interest cost limits.

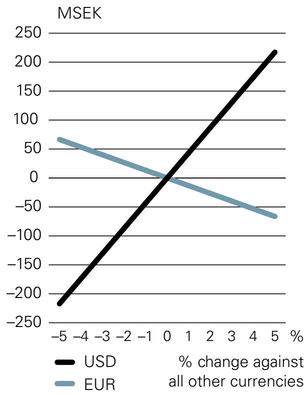
Funding risk

Atlas Copco's financial policy states there should always be sufficient funds in cash and committed credit facilities to cover expected requirements for the next 12 months. Furthermore, a substantial portion of the total debt shall always be long-term.

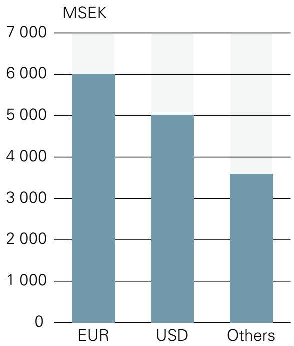
Graph 1
Estimated annual transaction exposure in the Group's most important currencies



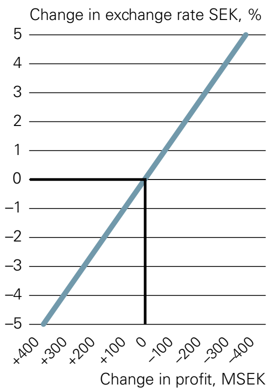
Graph 2
Transaction exposure—effect of USD and EUR fluctuations before hedging



Graph 3
Net assets in foreign currency



Graph 4
Translation effect on Group profit before tax



27. Continued

The funding risk is controlled by limiting the amount of debt maturing in any single year, as well as by always keeping the average tenor of outstanding debt above a minimum YTFM (years to final maturity). According to policy, the Group's interest-bearing debt should have a minimum average YTFM of 3 years, and a maximum of MUSD 500 of interest-bearing debt is allowed to mature in any single 365 days period (rolling basis). In December 2005, average YTFM was about 4 years and the Group had committed unutilized credit facilities of MSEK 5 385.

Credit rating

Atlas Copco's long-term interest-bearing debt is currently rated by Standard & Poor's (A-) and Moody's (A3). The short-term debt is rated by Standard & Poor's (A2) and Moody's (P2).

Credit risk

Customers

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. To mitigate this risk, all customer centers apply credit policies limiting the amounts and credit periods outstanding for any single customer at any moment in time. The average outstanding receivables are approximately 2 months, and as a result of the very high geographical and industry diversification in sales, no major concentration of credit risk exists. At year end 2005, the provision for bad debt amounted to 3.1% of gross total customer receivables, which is deemed sufficient based upon known cases and general provisions for losses based on historical loss levels incurred and updated on an annual basis. For certain customers who demand long-term financing from the supplier, a centralized financing operation called Atlas Copco Customer Finance has been created. Its credit portfolio at year end 2005 was MSEK 1 048, of which 4% was covered by guarantees from export credit agencies.

Other counterparties

Credit risk is also incurred when investing liquidity surpluses. The majority of such investments are handled by the Group Internal Bank (see further below), and are governed by policies stipulating minimum rating, maximum limit and maximum tenor on each counterparty.

Cash and cash equivalents and financial investments totaled MSEK 4035 at December 31, 2005, which comprised primarily short-term deposits with highly rated banks. Certain investments were also made in government bonds and fixed-income instruments issued by highly-rated mortgage institutes.

The use of financial derivatives implies taking risk on the counterparties with which the transactions are made. The resulting credit risk, which is calculated taking into account the nominal value of the transaction, a time add-on and the market value (if positive for Atlas Copco) and which is monitored daily amounted to MSEK 800 at year end 2005. ISDA (International Swaps and Derivatives Association) master agreements are in force with all derivative counterparties.

Market valuation of financial instruments

Fair values are based on market prices or—in case such prices are not available—derived from an assumed yield curve. Amounts are indicative and will not necessarily be realized.

The table on page 65 shows book values and fair values of the Group's financial instruments.

Valuation methods

Derivatives. Fair values of futures, FRA's (forward rate agreements) and interest rate options are calculated based on quoted markets rates.
Interest rate swaps and Cross currency swaps are valued by using discounted cash flows.
Foreign exchange contracts are valued with the forward exchange rate.
Standard currency options are calculated by using the Garman & Kohlhagen option valuation model.
Interest bearing liabilities. Fair values are calculated by using discounted cash flows.
Financial leasing contracts. Fair values are based on the present value of future cash flows discounted to the market rate for similar contracts.

The total net amount of the change in fair value estimated using a valuation technique that was recognized in the income statement during 2005 was approximately MSEK 21.

Parent Company debt

Of Atlas Copco AB's debt, 99% is either denominated in USD or swapped into USD. Derivative instruments are also actively used to control interest-rate exposure, for example by extending or reducing the average interest-rate period without replacing the underlying loan or deposit. The extent is shown in the following table.

Notional amounts of derivative instruments related to Atlas Copco AB's debt as at December 31	2005	2004
Interest rate swaps	3 980	2 321
Cross currency swaps	502	635
Other interest related derivatives	–	1 651

Sensitivity of financial instruments to shifts in interest and exchange rates

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 Atlas Copco AB's loan portfolio (net of investments and including derivatives) by about MSEK 227 as at December 31, 2005. A one percentage point weakening of the SEK against all other currencies would have increased the fair value of the same portfolio by MSEK 73.

Financial instruments

	2005 Group		2004 Group		2005 Parent Company		2004 Parent Company	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial assets								
Other financial assets	536	550	261	269	5	5	5	5
Other receivables	14	14	54	54	10	10	3	3
Interest rate swaps, incl. swaptions	101	101	–	–	–	–	–	–
FX options	4	4	–	–	8	4	–	–
Long-term receivables from Group companies	–	–	–	–	5 394	5 394	5 197	5 197
Less: discontinued operations	–	–	–29	–29	–	–	–	–
Total non-current financial assets, continuing operations	**655**	**669**	**286**	**294**	**5 417**	**5 413**	**5 205**	**5 205**
Trade receivables	10 910	10 910	9 211	9 211	–	–	–	–
Financial assets	389	389	327	327	–	–	–	–
Other receivables	1 168	1 168	949	949	23	23	19	19
Receivables from Group companies	–	–	–	–	19 009	19 009	11 594	11 594
Forward contracts	30	30	185	202	19	19	177	194
Interest rate swaps, incl. swaptions	1	1	48	255	26	96	48	255
Cross currency interest rate swaps	151	151	226	235	148	152	226	235
FX options	8	8	36	109	23	9	–	–
Employee stock options—bank agreement	382	382	–	194	–	382	–	194
Cash and cash equivalents	3 727	3 727	2 618	2 619	1 899	1 899	438	438
Less: discontinued operations	–	–	–1 060	–1 060	–	–	–	–
Total current financial assets, continuing operations	**16 766**	**16 766**	**12 540**	**13 041**	**21 147**	**21 589**	**12 502**	**12 929**
Total financial assets, continuing operations	**17 421**	**17 435**	**12 826**	**13 335**	**26 564**	**27 002**	**17 707**	**18 134**

	2005 Group		2004 Group		2005 Parent Company		2004 Parent Company	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities								
Liabilities to credit institutions	7 652	8 256	7 075	7 944	6 744	7 348	6 307	7 176
FX options	–	–	–	–	20	10	–	–
Interest rate swaps, incl swaptions	6	6	–	–	–	–	–	–
Other liabilities	80	80	81	81	15	15	13	13
Less: discontinued operations	–	–	–149	–149	–	–	–	–
Total non-current financial liabilities, continuing operations	**7 738**	**8 342**	**7 007**	**7 876**	**6 779**	**7 373**	**6 320**	**7 189**
Liabilities to credit institutions	826	827	476	476	1	1	–	–
Current portion of interest-bearing liabilities	1 041	1 063	246	246	726	735	5	5
Liabilities to Group companies	–	–	–	–	10 535	10 510	4 891	4 891
Less: discontinued operations	–	–	–10	–10	–	–	–	–
Total current financial interest bearing liabilities, continuing operations	**1 867**	**1 890**	**712**	**712**	**11 262**	**11 246**	**4 896**	**4 896**
Forward contracts	67	67	17	12	45	45	33	33
Interest rate swaps, incl swaptions	–	–	–	29	1	1	–	29
Cross currency interest rate swaps	–	–	3	3	–	–	3	3
FX options	1	1	–	–	–	–	–	–
Other accrued expenses	3 078	3 078	3 268	3 268	215	215	186	186
Trade payables	5 985	5 985	4 361	4 361	13	13	13	13
Other liabilities	2 790	2 790	2 361	2 361	24	24	28	28
Less: discontinued operations	–	–	–537	–537	–	–	–	–
Total current financial operating liabilities, continuing operations	**11 921**	**11 921**	**9 473**	**9 497**	**298**	**298**	**263**	**292**
Total financial liabilities, continuing operations	**21 526**	**22 153**	**17 192**	**18 085**	**18 339**	**18 917**	**11 479**	**12 377**

27. Continued

The difference between fair value and carrying value on long-term loans is explained by the decline in market interest rates and tightening of Atlas Copco AB's corporate spread since the date of issuance.

As of December 31, 2005 the Group's interest-bearing borrowings had the maturity structure as shown in the following table.

Maturity structure of interest-bearing liabilities

	Group			Parent Company		
Maturity	**Fixed**	**Float**	**Total**	**Fixed**	**Float**	**Total**
2006	647	394	1 041	646	80	726
2007	5	872	877	5	597	602
2008	2 204	1 090	3 294	2 221	796	3 017
2009	844	1 331	2 175	796	1 194	1 990
2010		97	97			–
Later years	1 127	82	1 209	1 135		1 135
Total	**4 827**	**3 866**	**8 693**	**4 803**	**2 667**	**7 470**

The effective interest for bank loans including the effect of derivatives is 6.6% (5.2).

Atlas Copco Internal Bank

Centralized management for an international group like Atlas Copco provides clear and obvious advantages in the area of financing and financial risk management. The Atlas Copco Internal Bank, part of Atlas Copco AB, was developed to ensure that these benefits remain in the Group, while recognizing the decentralized operating structure of the Group.

The Internal Bank's mission is to serve the companies within the Group with working capital financing, and hedging of currency and interest rate exposure.

The Internal Bank also manages the inter-company netting system, payments and cash pooling within the Group. It is furthermore the only entity that can take active risk positions in the currency, money, and bond markets. This trading activity is governed by a risk mandate from the Board of Directors and the Internal Bank has provided a steady contribution to the Group's result since its creation.

Exchange rates used in the year-end accounts

		Currency	Year End Rate		Average Rate	
	Value	**Code**	**2005**	**2004**	**2005**	**2004**
Australia	1	AUD	5.85	5.12	5.68	5.39
Canada	1	CAD	6.86	5.46	6.17	5.64
EU	1	EUR	9.42	8.99	9.28	9.12
Great Britain	1	GBP	13.73	12.68	13.54	13.38
Hong Kong	100	HKD	102.65	84.90	95.88	94.10
South Africa	100	ZAR	125.69	116.30	117.94	114.50
United States	1	USD	7.96	6.60	7.46	7.33

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its subsidiaries, its associates and with its Board Members and Group Management. The Company's largest shareholder, the Investor Group, controls approximately 21% of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note 20 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed on pages 116-117. Information about associated companies is found in note 14. Information about Board Members and Group Management is presented on page 100 and 106-107.

Transactions and outstanding balances

The Group has not had any transactions with Investor during the year other than dividends declared and share redemption amounts paid and has no outstanding balances with Investor.

The Investor Group has controlling or significant influence in companies which Atlas Copco may have transactions with in 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 non-consolidated associates:

	2005	**2004**
Revenues	18	4
Goods purchased	146	94
Service purchased	142	129
At Dec. 31:		
Trade receivables	4	5
Trade payables	58	54
Guarantees	13	11

Compensation to key management personnel

Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

The Board of Directors announced on February 2, 2006 that after a thorough strategic review, it had been decided to explore a divestment of the construction equipment rental operations i.e the US-based Rental Service business area. In 2005, the business area had revenues of 11 604 (MUSD 1 556), operating profit of 2 666 (MUSD 357) and 5 100 employees.

30. Accounting estimates and judgments

The preparation of financial reports requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates and judgments which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates or judgments include:

Key sources of estimation uncertainty

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

In accordance with IFRS, goodwill is not amortized but is 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. These tests are based on a review of recoverable amount which is estimated based on management's projections of future cash flows which are made using internal business plans and forecasts. Additional information on the estimates used in this review is included in note 12.

Pension and post-employment benefit valuation assumptions

The pension and post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The assumptions include discount rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates, health care cost trend rates and other factors. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate. Actual results which differ from management's assumptions are accumulated and amortized over future periods and, therefore, affect the recognized expense and recorded obligations in future periods. See note 22 for additional information regarding assumptions used in the calculation of pension and post-retirement obligations.

Legal proceedings

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 advisers 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.

Credit loss reserves

The Group provides for credit losses based on specific provisions for known cases and general provisions for losses based on historical loss levels. Management's judgment also considers rapidly changing market conditions which may be particularly sensitive in customer financing operations.

Inventory obsolescence

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.

Warranty provisions

Warranty costs arise due to free-of-charge repair or replacement of products due to faulty design or manufacturing. The cost provisions include a variety of variables but are primarily based on past experience. The primary factors include historical claim statistics, warranty period, average time lag between product failure and claim as well as estimates of the cost to repair or replace the products. Differences between the estimated and actual warranty claims affect the earnings and provisions recognized in future periods.

Critical accounting judgments

There has been no critical accounting judgments in applying the Group's accounting principles.

31. First-time adoption of International Financial Reporting Standards

From January 1, 2005, the consolidated accounts of the Atlas Copco Group are prepared in accordance with International Financial Reporting Standards (IFRS), which have been endorsed by the European Union. Prior to 2005, Atlas Copco has prepared financial statements in accordance with standards and interpretations issued by the Swedish Financial Accounting Standards Council, hereinafter named Swedish GAAP.

Atlas Copco has restated historical financial information as from January 1, 2004 in order to provide comparative information for the corresponding periods in 2005 with the exception of IAS 39 which was applied prospectively from January 1, 2005. Financial information for periods prior to January 1, 2004 was not restated. The effect of the restatements on the balance sheets as per January 1, December 31, 2004 and January 1, 2005 together with the effect of the restatements on the income statement for 2004 are presented on the following pages. The letters noted in each section, a-m, refer to notes in the tables summarizing the effects of the adoption of IFRS.

First time adoption of IFRS

The principles used in converting to IFRS are included in **IFRS 1 First-time Adoption of International Financial Reporting Standards**. The net effect of the adoption of IFRS is reported as an adjustment to equity. Generally, companies are required to retrospectively comply with all IFRS and IAS standards which had become effective and adopted by the European Commission as of December 31, 2005. In IFRS 1, there are certain transitional provisions, which offer the companies a choice.

The following sections include information describing the most significant changes in accounting principles as a result of the adoption of IFRS as well as information on those standards where Atlas Copco has elected not to apply a complete retrospective application of the standard. The quantified effects of these changes are presented for the financial position as of January 1, 2004, December 31, 2004 and January 1, 2005 as well as the effect on net earnings for the year 2004.

a. Share-based payments

Atlas Copco has issued employee stock options and share appreciation rights which have defined vesting periods. In accordance with **IFRS 2 Share-based Payments,** such benefits are required to be classified as cash-settled transactions or equity-settled transactions. Atlas Copco's share appreciation rights are classified as cash-settled transactions while the employee stock options are classified as equity-settled.

Cash-settled transactions are measured at fair value in current earnings and recognized over the vesting period. The fair value is re-measured at each balance sheet date until exercised or expired. A provision is successively recorded which will be equal to the fair value of the share appreciation rights when they are exercised or expires. From the vesting period until the date the option is exercised or expires, the changes in fair value are included in current earnings.

For equity-settled payment transactions, the fair value of the instrument at grant date is recognized in the income statement linearly over the vesting period.

Provisions for social costs are recorded for both types of instruments and are classified as personnel costs.

The effect of the adoption of IFRS 2 has increased expenses for 2004 by 14, net of related deferred taxes. Equity as of January 1, 2004, and December 31, 2004, has decreased by 25 and 34 respectively, for provisions related to cash-settled benefits.

b. Business combinations and goodwill

In accordance with **IFRS 3 Business Combinations** goodwill is not amortized but tested for impairment on an annual basis at a minimum, or more frequently if events or changes indicate that goodwill might be impaired. Additionally, a more comprehensive allocation of the purchase price is required for business combinations. Intangible assets will to a greater extent be identified and reported separately. Provisions for restructuring costs in connection with business combinations are no longer allowed. As a result, restructuring costs in connection with acquisitions will affect the earnings of the acquiring company.

Based on IFRS 1, Atlas Copco has elected not to restate acquisitions of subsidiaries and associated companies made before January 1, 2004, in accordance with IFRS 3. Goodwill from acquisitions before January 1, 2004, is accounted for at the net book value as of December 31, 2003, adjusted for the reclassifications of intangible assets which have been accounted for as goodwill but meet the criteria for separate recognition. Acquisitions as from January 1, 2004 have been accounted for in accordance with IFRS 3.

The earnings for 2004 in accordance with IFRS do not include amortization of goodwill. No significant indications of impairment of goodwill were noted in tests performed in accordance with IFRS. Of the net value of goodwill of 10 672 as of December 31, 2003, an amount of 139 was reclassified to other intangible assets in the restated balance sheet as of January 1, 2004. Other net intangible assets increased by 100 since certain assets which were reclassified were assigned a shorter estimated useful life than previously accounted for as goodwill. The difference of 24, net after deferred taxes, has been recorded directly to equity.

In the restated balance sheet as of December 31, 2004, goodwill increased by 175, other intangible assets by 185 and equity by 366, including the effects of application of IFRS 3 for acquisitions during 2004, reclassifications from goodwill to other intangible assets and the discontinued amortization of goodwill. Earnings for 2004 increased by a net amount of 422 as a net result of goodwill not being amortized, impairment during the year of goodwill from two minor acquisitions, and increased amortization on other intangible assets.

c. Non-current assets held for sale

Atlas Copco has chosen to apply **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**, restating 2004 financial statements for assets held for sale and as discontinued operations, as the professional electric tools operation, a major line of business, has been divested during January 2005.

For a discontinued operation an entity shall disclose a single amount on the face of the income statement comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the discontinued operation. An entity shall present the assets and liabilities held for sale separately from other assets and liabilities in the balance sheet. Assets held for sale are, according to IFRS 5, measured at the lower of its carrying value and fair value less costs to sell.

In accordance with the decision made in the spring of 2004, the professional electric tools operation, which was sold in January 2005, has in the restated financial statements for 2004 according to IFRS been presented as assets held for sale and as a discontinued operation for 2004, and presented separately in the balance sheet and income statement in accordance with IFRS 5. Assets classified as held for sale amounted to 6 325 as of January 1, 2004 and 5 774 as of December 31, 2004 and liabilities classified as held for sale amounted to 2 383 as of January 1, 2004 and 1 703 as of December 31, 2004. Equity was not affected. Of the profit (after tax) for 2004, 241 is accounted for as discontinued operations. Operating profit in 2004 for the discontinued operation was 461.

d. Minority interests

In accordance with **IAS 1 Presentation of Financial Statements** and **IAS 27 Consolidated and Separate Financial Statements**, minority interests are classified as a separate component of equity in the balance sheet rather than being presented separately after equity. The earnings from the minority interest are no longer deducted from earnings but are included in the consolidated income statement and the profit or loss attributable to equity holders of the parent and that attributable to minority interests are presented separately under the statement of earnings. Due to this, the total equity increased by 53 as of January 1, 2004 and 65 as of December 31, 2004. The earnings for 2004 increased by 14.

e. Cash flow statements

In addition to bank deposits, Atlas Copco included short-term investments in cash and cash equivalents. In accordance with **IAS 7 Cash Flow Statements,** only investments which at the acquisition had a maturity of 3 months or less are classified as cash and cash equivalents. As a result, cash and cash equivalents in the cash flow statement decreased by 333 as of January 1, 2004 and 308 as of December 31, 2004. Other investments increased with the corresponding amounts.

f. Property, plant and equipment

IAS 16 Property, Plant and Equipment requires that the amounts recognized as property, plant and equipment are allocated to their significant components. Each significant component shall be depreciated over its estimated useful life. This standard applies to buildings as well as machinery and equipment, and rental equipment. The restatement in accordance with this standard reduced total assets by 89 as of January 1, 2004 and 95 as of December 31, 2004. Equity decreased by 58 and 63 as of January 1, 2004 and December 31, 2004, respectively. There was no significant effect on earnings for 2004.

g. Leases

In accordance with **IAS 17 Leases** certain lease agreements have been reclassified as finance leases. Total assets have increased by 532 as of January 1, 2004 and 549 as of December 31, 2004. The operating profit for 2004 is improved while financial expenses increased. The net effect on equity and earnings is not significant.

h. Employee benefits

As of January 1, 2004, the Group implemented the Swedish accounting standard RR 29, which is based on **IAS 19 Employee benefits**. According to the initial calculations the change of accounting principle increased pension provisions by 773 and reduced equity by 424 as of January 1, 2004. After additional review in connection with the IFRS implementation, the one-time reduction in equity, as of January 1, 2004, increased by 217 and the pension provision increased by 294. The adjustment was made in the Q4 2004 report. In the restated statements as of January 1, 2004, the adjustment has been done retrospectively. The total gross effect on pension provisions was 1 067.

i. Foreign exchange rate differences

The net exchange differences arising from foreign operations are required to be reported as a separate component of equity in accordance with **IAS 21 The Effects of Changes in Foreign Exchange Rates**. On disposal of a foreign operation, the cumulative amount of the exchange rate differences related to the foreign operation shall be recognized in earnings. In accordance with the provisions of IFRS 1, Atlas Copco has elected not to include accumulated translation differences in the translation reserve as of December 31, 2003. Translation differences from prior periods have been classified as retained earnings. The capital gain from the disposal of the professional electric tools operation was affected by this decision.

j. Financial instruments and hedging

IAS 39 Financial Instruments: Recognition and Measurement was adopted effective January 1, 2005. Based on IFRS 1, Atlas Copco has elected not to restate 2004 with regards to financial instruments in accordance with IAS 39. Financial instruments are, consequently, accounted for in accordance with Swedish GAAP in the restated 2004 financial statements.

In accordance with IAS 39 derivatives are measured at fair value in the balance sheet. Changes in the fair value of derivatives are recognized in the income statement unless the derivatives are used as hedging instruments for cash flow hedges or to hedge net investments in foreign operations. In those cases, the effective part of changes in the fair value of the derivatives is recognized in equity, until the hedged items affect the income statement. At that time the amounts previously recognized in equity are moved to the income statement. Changes in the fair value of derivatives used for fair value hedges and changes in the fair value of the hedged items, being part of fair value hedges, are recognized directly in the income statement. The changes in values of the hedged item and the derivative will offset each other to the extent that the hedges are effective.

Other financial investments than derivatives are according to IAS 39 valued at fair value or amortized cost. If investments are classified as available for sale the changes in fair value are recognized in equity and moved to the income statement when the investments are divested or impaired. Currently Atlas Copco has no financial instruments classified as available for sale. Changes in the fair value of other financial investments are recognized directly in the income statement.

The Group's policy is to hedge expected future cash flows against the risk of large foreign currency rate fluctuations, using derivative instruments. The derivatives which are currently used by the Group do not qualify for hedge accounting in accordance with IAS 39. As a result, changes in fair value of those derivatives are recognized directly in the income statement.

Atlas Copco had as of December 31, 2004 outstanding loans in USD amounting to MUSD 923. For these, the Group uses derivatives to manage interest rate risks in accordance with its policies. Hedge accounting is applied for those hedges where the hedge instrument qualifies for hedge accounting in accordance with IAS 39.

Atlas Copco has issued employee stock options and share appreciation rights which have defined vesting periods. Linked to the programs for shared-based payments, the Group has entered into agreements with banks, managing the Group for the risk of higher costs for these programs that would be caused by increases in the price of the Atlas Copco share.

If at the end of the option terms the price of the Atlas Copco share is lower than the banks´ acquisition cost for the stock under the arrangements, the company reimburses the banks for the difference. These agreements are derivative instruments, but do not qualify as hedge instruments and can accordingly not be used for hedge accounting. The derivatives have, as of January 1, 2005, been recognized at fair value. Subsequent changes in fair value will be recognized in the income statement. A final review of the accounting for the fair value of the agreements with banks was performed in the fourth quarter resulting in a revised accounting as compared to the IFRS statements initially presented in 2005.

If IAS 39 had been adopted as of January 1, 2004, the annual earnings for 2004 would have been influenced only marginally.

The effect of the differences between IAS 39 and Swedish GAAP has in the balance sheet as at January 1, 2005 been recognized in equity in accordance with the transitional rules in IFRS 1. As a result of this, equity has increased by 419, primarily related to hedge accounting of sales proceeds for the professional electric tools operation 171 and related to agreements with banks connected to share-based payments 140. The remaining amount is mainly related to changes in hedge accounting.

k. Factoring

The Group has previously derecognized trade receivables sold under factoring arrangements in accordance with Swedish GAAP, which according to IAS 39, cannot be derecognized until paid by customers. In the restated balance sheets these receivables and related liabilities are included. This has increased assets and liabilities by 118 as of January 1, 2004 and with 119 as of December 31, 2004.

l. Provisions

According to IAS 1 provisions are presented as liabilities and not under separate caption. Provisions shall be presented as current or non-current liabilities. Atlas Copco has reclassified all provisions as current or non-current liabilities based on when they are expected to be settled, with the exemption of provisions for pensions and deferred taxes which have been classified as non-current liabilities.

m. Other IFRS standards

A review of all other IFRS standards not described in the previous sections was performed. The adoption of those standards did not have a material effect on the Group's financial position or earnings.

31. Continued

Explanation of transition to IFRS—Income statement 2004

Amounts in MSEK	Swedish GAAP	Effect of transition to IFRS	Restated according to IFRS	Discontinued operations	Continuing operations according to IFRS
Revenues	48 654	–	48 654	–5 462	43 192
Cost of sales	–32 837	465	–32 372	3 862	–28 510
Gross profit	**15 817**	**465**	**16 282**	**–1 600**	**14 682**
Marketing expenses	–5 139	–15	–5 154	669	–4 485
Administrative expenses	–2 847	–20	–2 867	304	–2 563
Research and development costs	–1 016	3	–1 013	164	–849
Other income from operations	160	–11	149	–4	145
Other expenses from operations	–278	–10	–288	6	–282
Share of profit of associates	3	–	3	–	3
Operating profit	**6 700**	**412**	**7 112**	**–461**	**6 651**
Financial income	495	18	513	–	513
Financial expenses	–815	–26	–841	59	–782
Net financial items	**–320**	**–8**	**–328**	**59**	**–269**
Profit before tax	**6 380**	**404**	**6 784**	**–402**	**6 382**
Income tax expense	–2 112	–1	–2 113	161	–1 952
Minority interest	–14	14	–	–	–
Profit from continuing operations	**4 254**	**417**	**4 671**	**–241**	**4 430**
Profit from discontinued operations, net of tax	–	–	–	241	241
Profit for the period	**4 254**	**417**	**4 671**	**–**	**4 671**
Attributable to:					
Equity holders of the parent	4 254	403	4 657	–	4 657
Minority interest	–	14	14	–	14
Basic earnings per share, SEK	6.77	0.64	7.41	–	7.41
—whereof discontinued operations	–	–	–	*0.38*	*0.38*
Diluted earnings per share, SEK	6.76	0.64	7.40	–	7.40
—whereof discontinued operations	–	–	–	*0.38*	*0.38*

Summary of effects of transition to IFRS

	Note	2004
Operating profit, Swedish GAAP		6 700
IFRS adjustments:		
Cost for share–based payments	a	–17
Amortization intangible assets, incl. goodwill	b	432
Depreciation property, plant and equipment	f	–8
Decreased leasing costs, net after depreciation	g	26
Other standards	m	–21
Discontinued operations	c	–461
Operating profit 2004, IFRS		**6 651**
Financial income and expenses, Swedish GAAP		–320
IFRS adjustments:		
Interest expense – leasing	g	–26
Interest income – other standards	m	18
Discontinued operations, financial income and expenses	c	59
Profit before tax, IFRS		**6 382**
Taxes, Swedish GAAP		–2 112
Minority interest, Swedish GAAP		–14
IFRS adjustments:		
Deferred tax	a, b, f, g, h, m	–1
Discontinued operations, taxes	c	161
Minority interest	d	14
Profit for the period from continuing operations		**4 430**
Profit for the period from discontinued operations		241
Profit for the period, IFRS		**4 671**

Explanation of transition to IFRS—Balance sheet as at January 1, 2004

Amounts in MSEK	Note	Swedish GAAP	Effects of transition to IFRS	Restated according to IFRS
ASSETS				
Non-current assets				
Intangible assets	b	11 276	–39	11 237
Rental equipment	f	9 127	–4	9 123
Other property, plant and equipment	f, g	3 971	444	4 415
Investments in associates	m	63	2	65
Other financial assets	g, h	273	19	292
Other receivables		–	–	–
Deferred tax assets	a, b, f, g, h	1 434	299	1 733
Total non-current assets		**26 144**	**721**	**26 865**
Current assets				
Inventories	m	5 412	–27	5 385
Trade receivables	k	7 810	112	7 922
Income tax receivables		172	–	172
Other receivables	m	2 146	17	2 163
Other financial assets	e, g	531	–193	338
Cash and cash equivalents	e	3 647	198	3 845
Total current assets		**19 718**	**107**	**19 825**
TOTAL ASSETS		**45 862**	**828**	**46 690**
EQUITY				
Share capital		1 048	–	1 048
Other paid-in capital		3 994	1 737	5 731
Reserves		5 435	–5 435	–
Retained earnings		10 538	2 951	13 489
Total equity attributable to equity holders of the parent		**21 015**	**–747**	**20 268**
Minority interest	d	–	53	53
TOTAL EQUITY		**21 015**	**–694**	**20 321**
Minority interest	d	**53**	**–53**	**–**
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	g	6 957	475	7 432
Post-employment benefits	h	1 792	1 067	2 859
Other liabilities		191	–1	190
Provisions	a, b, h, l	1 100	–986	114
Deferred tax liabilities	a, b, f, g, h	3 075	–104	2 971
Total non-current liabilities		**13 115**	**451**	**13 566**
Current liabilities				
Interest-bearing loans and borrowings	g, k	3 042	174	3 216
Trade payables		3 451	–	3 451
Income tax liabilities		562	–	562
Other liabilities	m	4 624	–11	4 613
Provisions	l	–	961	961
Total current liabilities		**11 679**	**1 124**	**12 803**
TOTAL EQUITY AND LIABILITIES		**45 862**	**828**	**46 690**

31. Continued

Explanation of transition to IFRS—Balance sheet as at December 31, 2004

Amounts in MSEK	Note	Swedish GAAP	Effect of transition to IFRS	Restated balance according to IFRS	Discontinued operations	Continuing operations according to IFRS
ASSETS						
Non-current assets						
Intangible assets	b	10 984	360	11 344	–2 747	8 597
Rental equipment	f	9 162	–8	9 154	–	9 154
Other property, plant and equipment	f, g	4 227	459	4 686	–972	3 714
Investments in associates	m	71	2	73	–	73
Other financial assets	g, h	393	–2	391	–29	362
Other receivables		54	–	54	–	54
Deferred tax assets	a, b, f, g, h	1 459	16	1 475	–139	1 336
Total non-current assets		**26 350**	**827**	**27 177**	**–3 887**	**23 290**
Current assets						
Inventories	m	6 484	–46	6 438	–804	5 634
Trade receivables	k	9 111	100	9 211	–807	8 404
Income tax receivables		84	–	84	–1	83
Other receivables	m	2 267	46	2 313	–43	2 270
Other financial assets	e, g	298	29	327	–	327
Cash and cash equivalents	e	2 628	–10	2 618	–232	2 386
Assets classified as held for sale	c	–	–	–	5 774	5 774
Total current assets		**20 872**	**119**	**20 991**	**3 887**	**24 878**
TOTAL ASSETS		**47 222**	**946**	**48 168**	**–**	**48 168**
EQUITY						
Share capital		1 048	–	1 048	–	1 048
Other paid-in capital		3 996	1 737	5 733	–	5 733
Reserves		5 773	–6 596	–823	–	–823
Retained earnings		11 450	5 128	16 578	–	16 578
Total equity attributable to equity holders of the parent22 267		**269**	**22 536**	**–**	**22 536**	
Minority interest	d	–	65	65	–	65
TOTAL EQUITY		**22 267**	**334**	**22 601**	**–**	**22 601**
Minority interest	d	**65**	**–65**	**–**	**–**	**–**
LIABILITIES						
Non-current liabilities						
Interest-bearing loans and borrowings	g	6 595	480	7 075	–125	6 950
Post-employment benefits	h	2 776	–	2 776	–697	2 079
Other liabilities		81	–	81	–24	57
Provisions	a, b, h, l	995	–780	215	–22	193
Deferred tax liabilities	a, b, f, g, h	3 148	–34	3 114	–197	2 917
Total non-current liabilities		**13 595**	**–334**	**13 261**	**–1 065**	**12 196**
Current liabilities						
Interest-bearing loans and borrowings	g, k	534	188	722	–10	712
Trade payables		4 361	–	4 361	–180	4 181
Income tax liabilities		751	–	751	–2	749
Other liabilities		5 649	–	5 649	–357	5 292
Provisions	l	–	823	823	–89	734
Liabilities associated with assets classified as held for sale	c	–	–	–	1 703	1 703
Total current liabilities		**11 295**	**1 011**	**12 306**	**1 065**	**13 371**
TOTAL EQUITY AND LIABILITIES		**47 222**	**946**	**48 168**	**–**	**48 168**

Explanation of transition to IAS 39 —Balance sheet as at January 1, 2005

Amounts in MSEK	Note	Balance Dec. 31, 2004	Effect of transition to IAS 39	Restated opening balance
ASSETS				
Non-current assets				
Intangible assets		8 597		8 597
Rental equipment		9 154		9 154
Other property, plant and equipment		3 714		3 714
Investments in associates		73		73
Other financial assets	j	362	–9	353
Other receivables		54		54
Deferred tax assets	j	1 336	–2	1 334
Total non-current assets		**23 290**	**–11**	**23 279**
Current assets				
Inventories		5 634		5 634
Trade receivables		8 404		8 404
Income tax receivables		83		83
Other receivables	j	2 270	475	2 745
Other financial assets		327		327
Cash and cash equivalents		2 386		2 386
Assets classified as held for sale		5 774		5 774
Total current assets		**24 878**	**475**	**25 353**
TOTAL ASSETS		**48 168**	**464**	**48 632**
EQUITY				
Share capital		1 048		1 048
Other paid-in capital		5 733		5 733
Reserves		–823	171	–652
Retained earnings		16 578	248	16 826
Total equity attributable to equity holders of the parent		**22 536**	**419**	**22 955**
Minority interest		65		65
TOTAL EQUITY		**22 601**	**419**	**23 020**
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	j	6 950	84	7 034
Post-employment benefits		2 079		2 079
Other liabilities		57		57
Provisions		193		193
Deferred tax liabilities	j	2 917	163	3 080
Total non-current liabilities		**12 196**	**247**	**12 443**
Current liabilities				
Interest-bearing loans and borrowings		712		712
Trade payables		4 181		4 181
Income tax liabilities		749		749
Other liabilities	j	5 292	–202	5 090
Provisions		734		734
Liabilities associated with assets classified as held for sale		1 703		1 703
Total current liabilities		**13 371**	**–202**	**13 169**
TOTAL EQUITY AND LIABILITIES		**48 168**	**464**	**48 632**

Changes in equity

	Jan. 1, 2004	Dec. 31, 2004	Jan. 1, 2005
Opening balance, Swedish GAAP	**21 015**	**21 015**	**22 601**
Change in accounting principles	–694	–694	419
Opening balance, IFRS	**20 321**	**20 321**	**23 020**
Dividend to equity holders of the parent	–	–1 572	–
Unclaimed shares from bonus issue 1989	–	2	–
Share-based payments, equity settled	–	4	–
Translation differences, equity	–	–823	–
Dividend to minority	–	–3	–
Increase of minority through acquisitions	–	6	–
Translation differences, minority	–	–5	–
Profit for the period	–	4 671	–
Closing balance	**20 321**	**22 601**	**23 020**
Equity attributable to:			
Equity holders of the parent	20 268	22 536	22 955
Minority interest	53	65	65

Summary of effects on cash of the adoption of IFRS

	Jan. 1, 2004	Dec. 31, 2004	Jan. 1, 2005
Liquid funds, Swedish GAAP	**4 178**	**2 926**	**2 386**
Investments with maturity above 3 months	–333	–308	–
Cash and cash equivalents according to IFRS	3 845	2 618	–
—whereof assets classified as held for sale	–	–232	–
Cash and cash equivalents for continuing operations	**3 845**	**2 386**	**2 386**

Parent Company

Income statement

For the year ended December 31

Amounts in MSEK	Note	2005	2004
Administrative expenses		–289	–206
Other income from operations	3	96	66
Other expenses from operations	3	–1	–7
Operating loss		**–194**	**–147**
Financial income	4	10 157	3 165
Financial expenses	4	–1 057	–387
Profit after financial items		**8 906**	**2 631**
Appropriations	5	161	–268
Profit before tax		**9 067**	**2 363**
Taxes	6	–672	–364
Profit for the period		**8 395**	**1 999**

Statement of Cash Flows

For the year ended December 31

Amounts in MSEK	2005	2004
Cash flows from operating activities		
Operating loss	–194	–147
Depreciation	3	3
Capital gain/loss and other non-cash items	62	22
Operating cash surplus	–129	–122
Net financial items received/paid	3 639	2 778
Taxes paid	–410	–233
Cash flow before change in working capital	**3 100**	**2 423**
Change in		
Operating receivables	1 235	486
Operating liabilities	95	–144
Change in working capital	**1 330**	**342**
Net cash from operating activities	**4 430**	**2 765**
Cash flows from investing activities		
Investments in tangible assets	–2	–2
Investments in subsidiaries	–75	–402
Divestment of subsidiaries	329	16
Other investments, net	–7	10
Net cash from investing activities	**245**	**–378**
Cash flows from financing activities		
Dividends paid	–1 886	–1 572
Share redemption	–4 192	
Unclaimed shares from bonus issue 1989	–	2
Change in interest-bearing liabilities	2 864	–2 814
Net cash from financing activities	**–3 214**	**–4 384**
Net cash flow for the period	**1 461**	**–1 997**
Cash and cash equivalents at Jan. 1	438	2 435
Net cash flow	1 461	–1 997
Cash and cash equivalents at Dec. 31	**1 899**	**438**

Balance Sheet

As at December 31

Amounts in MSEK	Note	2005	2004
ASSETS			
Non-current assets			
Tangible assets	7	8	9
Financial assets			
Deferred tax assets	8	45	25
Shares in Group companies	9	8 084	7 576
Other financial assets	10	6 757	6 552
Total non-current assets		**14 894**	**14 162**
Current assets			
Current receivables	11	19 316	12 109
Cash and cash equivalents	12	1 899	438
Total current assets		**21 215**	**12 547**
TOTAL ASSETS		**36 109**	**26 709**
EQUITY	Page 75		
Restricted equity			
Share capital		786	1 048
Share premium reserve		–	3 996
Legal reserve		4 999	1 737
Total restricted equity		**5 785**	**6 781**
Non-restricted equity			
Retained earnings		1 110	4 190
Profit for the year		8 395	1 999
Total non-restricted equity		**9 505**	**6 189**
TOTAL EQUITY		**15 290**	**12 970**
Untaxed reserves	14	**1 896**	**2 056**
PROVISIONS			
Employee benefits	15	45	32
Other provisions	16	144	58
Total provisions		**189**	**90**
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	17	6 744	6 307
Non-interest-bearing liabilities		35	13
Total non current liabilities		**6 779**	**6 320**
Current liabilities			
Interest-bearing liabilities	17	11 262	4 896
Operating liabilities	18	693	377
Total current liabilities		**11 955**	**5 273**
TOTAL EQUITY AND LIABILITIES		**36 109**	**26 709**
Assets pledged	19	**10**	**3**
Contingent liabilities	19	**5 427**	**349**

Statement of Changes in Equity

MSEK, unless otherwise stated	Numbers of shares	Share capital	Share premium reserve	Legal reserve	Retained earnings	Total
Opening balance, Jan. 1, 2004	**209 602 184**	**1 048**	**3 994**	**1 737**	**5 783**	**12 562**
Change in accounting principles					–25	–25
Restated opening balance, Jan. 1, 2004	**209 602 184**	**1 048**	**3 994**	**1 737**	**5 758**	**12 537**
Dividends					–1 572	–1 572
Unclaimed shares from bonus issue 1989			2			2
Share-based payment, equity settled						
– Expense during the period					4	4
Profit for the period					1 999	1 999
Closing balance, Dec. 31, 2004	**209 602 184**	**1 048**	**3 996**	**1 737**	**6 189**	**12 970**
Opening balance, Jan. 1, 2005	**209 602 184**	**1 048**	**3 996**	**1 737**	**6 189**	**12 970**
Dividends					–1 886	–1 886
Split of shares 4:1	628 806 552					
Share redemption	–209 602 184	–262	–734		–3 196	–4 192
Reclassification of share premium reserve			–3 262	3 262		–
Share-based payment, equity settled						
– Expense during the period					4	4
Profit for the period					8 395	8 395
Closing balance, Dec. 31, 2005	**628 806 552**	**786**	**–**	**4 999**	**9 505**	**15 290**

Please see note 13 for additional information.

Notes to Parent Company Financial Statements

MSEK unless otherwise stated

1. 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 holding company functions as well as the Group internal bank. The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the accounting standard RR 32, "Accounting for Legal Entities", hereafter referred to as "RR 32", issued by the Swedish Financial Accounting Standards Council. In accordance with RR 32 all 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, have been applied by the Parent Company within the framework of Swedish Annual Accounts Act and after consideration of relevant tax legislation. RR 32 states which exceptions from and amendments to IFRS that are applicable.

The financial statements are presented in Swedish kronor (SEK), rounded to the nearest million. 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 below.

For accounting estimates and judgments, see note 30 in the consolidated financial statements.

Change in accounting principles

The changes in accounting principles have been accounted for applying transitional rules in accordance with RR 32 that where published in November 2005 and in IAS 8. Changes in accounting principles have been accounted for on a retroactive basis. In accordance with transitional rules stated in RR 32, the Parent Company has elected not to adopt the principles described in section 4:14 a-e of the Swedish Annual Accounts Act which allows valuation of certain financial instruments at their fair value. The effect of changes in accounting principles is included in note 21.

Effective from January 1, 2006 the provisions of section 4:14 a-e of the Swedish Annual Accounts Act will be adopted. The estimated effect upon the adoption of the new accounting principles and the net effect on equity as of January 1, 2006 are estimated to 307.

Subsidiaries and associated companies

Participations in subsidiaries and associated companies are accounted for by the Parent Company at historical cost. Dividend income is only recognized in earnings to the extent that these originate from profits which arose after the date of acquisition. Dividends that exceed these profits are accounted for as a repayment of the investment and a reduction in the historical cost of the investment.

Financial instruments

The Parent Company does not measure financial instruments, nor apply hedge accounting in accordance with IAS 39 but in other respects; the Parent Company follows the same accounting principles as the Group in regards to financial instruments. Non-current financial assets are measured at historical cost less any impairment losses and current financial assets are valued at the lower of cost or market. Interest-bearing liabilities are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost.

Forward contracts and foreign exchange options

The Parent Company enters into hedges whereby forward contracts or foreign exchange options are used to hedge certain future transactions based on forecasted cash flows. Gains and losses on these instruments are deferred and recognized in the income statement in the same period that the hedged transaction is recognized.

Interest rate and cross currency interest rate swaps

When a loan in a foreign currency has been converted to a different currency through the use of a swap agreement, the loan is translated using the foreign exchange rate at the balance sheet date. The related swap agreement is also adjusted to year-end exchange rate for the instrument as of the balance sheet date. The adjustments are recorded separately in the financial statements but the net effect is to value the loan to the year-end exchange rate for the swapped currency. Adjustments to fair value related to changes in interest rates are deferred.

Share-based payments – swap agreements

In connection with the employee option and share appreciation right programs, Atlas Copco has entered into an agreement with banks. The agreement hedges the risk of increases in the share price but requires Atlas Copco to reimburse the bank in case the share price is less than the acquisition cost at the end of the option program. The effects of the declines in the price of Atlas Copco shares are recorded as a provision with a corresponding amount being recorded directly to equity. Subsequent reversals of provisions are also recorded directly to equity. All other costs for the employee option/share appreciation right programs are included in current earnings.

Lease contracts

All lease contracts entered into by the Parent Company are accounted for as operating leases.

1. Continued

Employee benefits
Defined benefit plans
Defined benefit plans are not accounted for in accordance with IAS 19 but are accounted for according to Swedish accounting standards based on the Swedish law on pensions, "Tryggandelagen" and regulations prescribed by the Swedish Financial Supervisory Authority. The primary differences as compared to IAS 19 are how the discount rate is 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 earnings as they occur.

Income taxes
Allocations to untaxed reserves are reported on a gross basis in the Parent Company accounts. In the consolidation, these reserves are allocated to deferred taxes and equity with changes in the reserves being recorded as deferred taxes in current earnings.

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

Shareholder's contributions and group contributions with the same objective as shareholder's contributions are capitalized as investments in subsidiaries, in the Parent Company's balance sheet, subject to impairment tests. Group contributions to minimize tax within the Swedish tax group, are credited directly to equity net of tax. Group contributions which are equivalent to dividends are classified as such and included in earnings together with the related tax.

Assets held for sale and discontinued operations, IFRS 5
The Parent Company applies IFRS 5, but do not separately present the assets held for sale (disposal groups) on a separate line in the balance sheet and not discontinued operations separately in the income statement.

2. Employees and personnel expenses

Average number of employees

	2005			2004		
	Women	Men	Total	Women	Men	Total
Sweden	47	46	93	35	41	76

Women in Atlas Copco Board and Management, %

	2005	2004
Board of Directors excl. union representatives	22	22
Group Management	22	22

Salaries and other remuneration

	2005		2004	
	Board & President	Other employees	Board & President	Other employees
Sweden	37	65	25	40
of which variable compensation	*13*		*9*	

	2005	2004
Salaries and other remuneration	102	65
Contractual pension benefits for Board members and Presidents	13	5
Contractual pension benefits for other employees	9	10
Other social costs	43	25
Grand total	**167**	**105**
Capitalized pension obligations to Board members and Presidents	37	20

In 2005 the amounts include remuneration to former president Tom Wachtmeister.

2. Continued

Absence due to illness, %

	2005	2004
Total	3.3	1.2
for men	4.4	1.8
for women	2.5	0.7
long-term absence due to illness, in percent of total absence	53.0	13.2
Absence due to illness, men		
employees under 30 years old	0.9	0.7
employees 30-49 years old	0.5	0.7
employees 50 and older	12.8	[1]
Absence due to illness, women		
employees under 30 years old	0.1	0.2
employees 30-49 years old	3.3	1.0
employees 50 and older	2.1	0.4

[1] Not disclosed as number of employees is below minimum.

Remuneration to auditors
Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2005	2004
KPMG		
Audit fee	4	3
Other	2	2
	6	**5**

3. Other income and expenses from operations

	2005	2004
Commission received	81	49
Other	15	17
Total other operating income	**96**	**66**
Total other operating expenses	**–1**	**–7**

4. Financial income and expenses

	2005	2004
Financial income		
Profit from shares in Group companies		
Dividends received	1 292	1 133
Group contribution	2 095	1 049
Write-down of shares	–22	–
Capital gain on divestment of shares	5 461	–
	8 826	**2 182**
Profit from financial fixed assets		
Interest income from:		
—Group companies	68	400
—Others	1	–
	69	**400**
Other interest income		
Interest income from:		
—Group companies	1 122	142
—Others	140	441
	1 262	**583**
Total financial income	**10 157**	**3 165**
Financial expenses		
Interest and similar expenses from:		
—Group companies	–530	–72
—Others	–540	–544
Impairment loss of investments	–	–7
Foreign exchange differences	13	236
Total financial expenses	**–1 057**	**–387**

4. Continued

A capital gain of 5 454 was recognized on the sale of Atlas Copco Tools AB to a group company. An external appraisal confirmed that the transfer price did not exceed the fair market value of shares.

The interest portion of provision for pensions is not classified as operating expense but is shown as interest expense. The amount is based on the average of the opening and closing pension provisions. The interest portion for 2005 amounted to 1(2).

5. Appropriations

	2005	2004
Appropriation to tax allocation reserve, net	161	–268
	161	**–268**

Tax legislation in Sweden allows companies to retain untaxed earnings through tax-deductible allocations to untaxed reserves. The untaxed reserves created in this manner cannot be distributed as dividends.

If the Parent Company reported deferred tax on appropriations as reported in the consolidated accounts, deferred tax expense would have amounted to 45 (–75).

6. Taxes

	2005	2004
Current taxes	–692	–372
Deferred taxes	20	8
	–672	**–364**
The Swedish corporate tax rate, %	28.0	28.0
Profit before taxes	9 067	2 363
National tax based on profit before taxes (28 %)	–2 539	–663
Tax effects of:		
—Non-deductible expenses	–8	–4
—Tax exempt income	1 892	318
—Tax imputed interest, tax allocation reserve	–16	
—Controlled Foreign Company taxation	–7	–15
Adjustments from prior years	6	0
	–672	**–364**
Effective tax in %	**7.4**	**15.4**

The Parent Company's effective tax rate of 7.4 % (15.4) is primarily affected by non taxable dividends, but also non taxable capital gains in 2005.

7. Tangible assets

	2005			2004		
	Land improve-ments	Equip-ment, etc.	Total	Land improve-ments	Equip-ment, etc.	Total
Accumulated cost						
Opening balance, Jan. 1	4	22	26	4	22	26
Investments	–	2	2	–	2	2
Disposals	–	–1	–1	–	–2	–2
Closing balance, Dec. 31	**4**	**23**	**27**	**4**	**22**	**26**
Accumulated depreciation						
Opening balance, Jan. 1	1	16	17	1	15	16
Depreciation for the year	0	3	3	0	3	3
Disposals	–	–1	–1	–	–2	–2
Closing balance, Dec. 31	**1**	**18**	**19**	**1**	**16**	**17**
Net book value						
Closing balance, Dec. 31	3	5	8	3	6	9
Opening balance, Jan. 1	3	6	9	3	7	10

Depreciation of equipment is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, and major computer and office equipment are reported among operating expenses and amounted to 5 (6). Future payments for non-cancelable leasing contracts amounted to 20 (16). Future payments for non-cancelable operating leasing contracts fall due as follows:

7. Continued

	2005	2004
Due within one year	10	5
Due 1-5 years from year-end	10	11
Due later than 5 years from year end	–	–
Total	**20**	**16**

The Parent Company has no finance leases.

8. Deferred tax assets

	2005			2004		
	Assets	Liabi-lities	Net balance	Assets	Liabi-lities	Net balance
Pensions and similar commitments	12	–	12	8	–	8
Other provisions	31	–	31	13	–	13
Operating liabilities	2	–	2	4	–	4
	45	**–**	**45**	**25**	**–**	**25**

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

	2005	2004
Net balance, Jan. 1	25	7
Effect of change in accounting principle		10
Charges to profit of the year	20	8
Net balance, Dec. 31	**45**	**25**

9. Shares in Group companies

	2005	2004
Accumulated cost		
Opening balance, Jan. 1	8 345	7 951
Investments	872	402
Sale	–9	–
Capital redemption	–321	–8
Closing balance, Dec. 31	**8 887**	**8 345**
Accumulated write-up		
Opening balance, Jan. 1	612	620
Sale	–12	–
Capital redemption	–	–8
Closing balance, Dec. 31	**600**	**612**
Accumulated write-down		
Opening balance, Jan. 1	–1 381	–1 381
Write down	–22	–
Closing balance, Dec. 31	**–1 403**	**–1 381**
	8 084	**7 576**

For further information about Group companies, see note 20.

10 Other financial assets

	2005	2004
Receivables from Group companies	6 718	6 521
Shares and participations in associated companies	0	0
Other long-term securities	5	5
Other long-term receivables	34	26
	6 757	**6 552**

Shares and participations in associated companies	**2005**	**2004**
Accumulated cost	72	72
Accumulated write-down	–72	–72
Book value, Dec. 31	**0**	**0**

Shares and participations in associated companies	**Number of shares**	**Percentage of capital**	**Book value, Dec. 31**
AVC Intressenter AB, 556506-8789, Göteborg	6 750 250	50	0

11. Current receivables

	2005	2004
Receivables from Group companies	19 009	11 594
Other receivables	23	19
Prepaid expenses and accrued income	284	496
	19 316	**12 109**

12. Cash and cash equivalents

	2005	2004
Cash	429	308
Cash equivalents	1 470	130
	1 899	**438**

The Parent Company's guaranteed, but unutilized, credit lines equalled 4 776 (3 302).

13. Equity

On 27 April 2005 the Annual General Meeting of shareholders in Atlas Copco AB approved a share split and a mandatory redemption of shares in accordance with the Board of Directors proposal. The resolution on split and mandatory redemption of shares principally included the following:

The nominal value of each share was reduced from SEK 5 to SEK 1.25, representing a split of 4:1. Each Atlas Copco share was split into four shares, of which one share was classified as a mandatory redemption share.

In order to repay the shareholders SEK 20 for each redemption share the following took place. A reduction of Atlas Copco´s share capital by way of redemption of 139 899 016 class A shares and 69 703 168 class B shares. The share capital was reduced with SEK 262 002 730 and the share premium reserve with SEK 733 607 644. The remaining amount of SEK 3 196 433 306 reduced retained earnings. However, in order to enable a prompt payment of the redemption amount to the shareholders and to comply with the requirements in the Swedish Companies Act, a directed issue of new class C shares was made to Svenska Handelsbanken AB. The new shares were issued temporarily and were redeemed after a decision of the District Court of Nacka. The formal approval was granted on August 31, 2005 and the C shares were thereafter redeemed.

As a result, Atlas Copco AB's share capital as at December 31, 2005, amounted to SEK 786 008 190 distributed among 628 806 552 shares (419 697 048 class A shares and 209 109 504 class B shares), each with a nominal value of SEK 1.25 (5). Class A shares entitle the holder to one voting right and class B shares entitle the holder to one-tenth of a voting right per share.

Legal reserve is not available for distribution.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 4.25 (3.00) totaling SEK 2 672 427 846.

For further information, see appropriation of profit on page 82.

14. Untaxed reserves

	2005	2004
Additional tax depreciation equipment	1	1
Tax allocation reserve	1 895	2 055
	1 896	**2 056**

Provisions have been made to tax allocation reserves as shown below:

	2005	2004
1999	–	154
2000	325	325
2001	393	393
2002	419	419
2003	321	321
2004	437	443
	1 895	**2 055**

15. Employee benefits

	2005			2004		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	3	29	32	–	38	38
Provision made	7	9	16	3	–	3
Provision used	–	–3	–3	–	–1	–1
Provision paid out to Atlas Copco pension foundation	–	–	–	–	–8	–8
Closing balance, Dec. 31	**10**	**35**	**45**	**3**	**29**	**32**

	2005			2004		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Asset pledged for pension commitments						
Endowment insurances	10	–	10	3	–	3
	10	**–**	**10**	**3**	**–**	**3**

Pension expenses for the year, which are included within administrative expenses, amount to 22 (–4). The expenses for 2005 have been reduced with compensation from the Atlas Copco pension foundation of 20 (36). Excluding the compensation from the pension foundation the pension expenses amount to 42 (32), of which the Board of Directors and the President 13 (5) and others 29 (27).

During the fourth quarter 2005, an agreement was made with previous president, Tom Wachtmeister regarding his final settlement of pension benefits under his prior employment contract. The settlement amounted to 15 of which 9 pertained to remuneration for pension.

Description of defined benefit pension plans

There are two defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of salaried employees in Atlas Copco AB which benefits is financed through the Atlas Copco pension foundation. Atlas Copco has also obligations for family pensions for salaried employees, which are funded through a third-party insurer. The second plan relates to former senior employees now retired. These pension arrangements are provided for.

	2005			2004		
	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Defined benefit obligations	160	35	195	167	29	196
Fair value plan assets	–200	0	–200	–198	0	–198
Present value net liability	**–40**	**35**	**–5**	**–31**	**29**	**–2**
Not recognized surplus	40		40	31		31
In the balance sheet recognized net liability	**0**	**35**	**35**	**0**	**29**	**29**

Reconciliation of defined benefit obligations

	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Defined benefit obligations at Jan. 1	167	29	196	166	30	196
Current service cost	1	9	10	8	0	8
Interest obligation	7	1	8	9	1	10
Pensions paid out	–15	–4	–19	–16	–2	–18
Defined benefit obligations at Dec. 31	**160**	**35**	**195**	**167**	**29**	**196**

Reconciliation of plan assets

	Funded Pension	Unfunded Pension	Total	Funded Pension	Unfunded Pension	Total
Fair value plan assets at Jan. 1	198	0	198	205	0	205
Return on plan assets	22		22	21		21
Contributions paid in/out	–20		–20	–28		–28
Fair value plan assets at Dec. 31	**200**	**0**	**200**	**198**	**0**	**198**

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.

16. Other provisions

	2005	2004
Opening balance, Jan. 1	58	6
Effect of change in accounting principle	–	35
Provision made	141	34
Provision used	–55	–17
Closing balance, Dec. 31	**144**	**58**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and URA 46.

17. Interest bearing liabilities

Non current interest-bearing liabilities[1)]	2005	2004
Bond loan MUSD 375	2 985	2 476
Bond loan MUSD 392.5	3 124	2 592
Promissory notes MUSD 75	597	495
Promissory notes MSEK	43	48
Available under:		
"MSEK 5 000 Medium Term Note Program"		
—Outstanding MSEK 500	500	500
—Outstanding MEUR 15 (15)	141	135
Available under:		
—"MEUR 500 Medium Term Note Program"		
—Outstanding MUSD 10	80	66
Less: current portion	–726	–5
	6 744	**6 307**

Current interest-bearing liabilities	2005	2004
Liabilities to credit institutions	1	0
Current portion of long-term liabilities	726	5
Liabilities to Group companies	10 535	4 891
	11 262	**4 896**

1) For further information regarding liabilities and financial exposure, see note 27 in the notes to the consolidated financial statements.

18. Operating liabilities

	2005	2004
Accounts payable	13	13
Income tax liability	395	114
Other operating liabilities	24	28
Accrued expenses and prepaid income	261	222
	693	**377**

Accrued expenses and prepaid income include items such as social costs, vacation pay liability and accrued interest.

19. Assets pledged and contingent liabilities

	2005	2004
Assets pledged for pension commitments		
Endowment insurances	10	3
	10	**3**
Contingent liabilities		
Sureties and other contingent liabilities		
—for external parties	5	5
—for Group companies	5 422	344
	5 427	**349**

Sureties and other contingent liabilities include bank and commercial guarantees as well as performance bonds. Of the contingent liabilities reported for group companies 4 939 (–) relates to a letter of guarantee issued to a Group company with no liability to a third party.

20. Directly owned companies

	Number of shares	Percent held	Book value
Product Companies			
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	352
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	20
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	139
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	100
Atlas Copco MAI Gmbh, Feistritz an der Drau	1	100	124
Sales Companies			
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/80	0
Atlas Copco Drilling Solutions AG, Studen/Biel	5 997	100	37
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	10
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	0
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	10
Atlas Copco Ges.m.b.H., Vienna	1	100	7
Atlas Copco Services Middle East OMC, Bahrain	500	100	1
Atlas Copco Brasil Ltda., Sao Paulo	22 909 086	100	65
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	6
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	2
Atlas Copco (India) Ltd., Pune	7 395 556	66/84	184
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	36
Atlas Copco KK, Tokyo	375 001	100	23
Atlas Copco Eastern Africa Ltd., Nairobi	14 999	100	5
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	700 000	70	2
Atlas Copco Maroc SA., Casablanca	3 852	96	1
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	3
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	22
Atlas Copco (South East Asia) Pte.Ltd., Singapore	2 500 000	100	8
Atlas Copco (Schweiz) AG., Studen/Biel	7 997	100	12
Atlas Copco Venezuela S.A., Caracas	38 000	100	14
BIAB Tryckluft AB, 556439-1208, Ludvika	5 000	100	6
Holding Companies and others			
Oy Atlas Copco Ab, Vantaa	150	100	30
Atlas Copco France Holding S.A., Saint Ouen l'Aumône	221 112	100	118
Atlas Copco Holding Gmbh, Essen	1	99/100	258
Atlas Copco UK Holdings Ltd., Hemel Hempstead	28 623 665	100	294
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	604
Power Tools Distribution, Hoeselt	1	0/100	0
Atlas Copco A/S Langhus	2 498	100	15
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	2 692
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	981
Atlas Copco Industrial Technique AB, 556207-8898, Nacka	40 000	100	5
Atlas Copco North America Inc., Pine Brook, NJ	35 506	40/100	1 389
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	357
Industria Försäkrings AB, 516401-7930, Nacka	50 000	100	5
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	8
Atlas Copco PAIR Ltd., London	3	100	10
CP Scanrotor Global AB, 556337-5897, Hamburgsund	1 000	100	40
Econus S A, Montevideo	21 582 605	100	63
12 dormant companies		100	26
Total Book Value			**8 084**

21. Change in accounting principles

The adoption of RR 32 as described in note 1 Accounting principles has implied changes in accounting principles. While the previously adopted RR 1-RR 29 in the Parent Company in all material aspects have been comparable to IAS/IFRS, the change in accounting principles has been limited to standards that has not been represented in RR1-RR29, primarily IFRS2 and IAS 39. The effects of the adoption of IFRS 2 is stated below and for description of these accounting principles, see note 1 to the consolidated financial statements. IAS 39 will be adopted as from January 1, 2006, see note 1 to the Parent Company financial statements.

Reconciliation of profit for 2004

	Swedish GAAP	Effects of change in accounting principles	Restated income statement 2004
Administrative expenses	–189	–17	–206
Other income from operations	66		66
Other expenses from operations	–7		–7
Operating loss	–130	–17	–147
Financial income	3 165		3 165
Financial expenses	–387		–387
Profit after financial items	2 648	–17	2 631
Appropriations	–268		–268
Profit before taxes	2 380	–17	2 363
Taxes	–367	3	–364
Profit for the period	**2 013**	**–14**	**1 999**

Reconciliation of equity Jan. 1 and Dec. 31, 2004

	Swedish GAAP	Effect of change in accounting principles	Jan. 1, 2004	Swedish GAAP	Effect of change in accounting principles	Dec. 31, 2004
ASSETS						
Deferred tax assets	7	10	17	12	13	25
Total non-current assets	**14 760**	**10**	**14 770**	**14 149**	**13**	**14 162**
Total current assets	**12 141**	**0**	**12 141**	**12 547**	**0**	**12 547**
TOTAL ASSETS	**26 901**	**10**	**26 911**	**26 696**	**13**	**26 709**
EQUITY						
Total restricted equity	**6 779**	**0**	**6 779**	**6 781**	**0**	**6 781**
—Retained earnings	3 734	–25	3 709	4 211	–21	4 190
—Profit for the year	2 049		2 049	2 013	–14	1 999
Total non-restricted equity	**5 783**	**–25**	**5 758**	**6 224**	**–35**	**6 189**
TOTAL EQUITY	**12 562**	**–25**	**12 537**	**13 005**	**–35**	**12 970**
Untaxed reserves	**1 788**		**1 788**	**2 056**		**2 056**
Other provisions	6	35	41	10	48	58
Total provisions	**44**	**35**	**79**	**42**	**48**	**90**
Total non current liabilities	**6 904**	**0**	**6 904**	**6 320**	**0**	**6 320**
Total current liabilities	**5 603**	**0**	**5 603**	**5 273**	**0**	**5 273**
TOTAL EQUITY AND LIABILITIES	**26 901**	**10**	**26 911**	**26 696**	**13**	**26 709**

22. Related parties

Relationships

The Parent Company has related party relationships with the Parent Company's 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 21% of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note 20 and other indirectly owned subsidiaries are listed on pages 116–117.

Information about associated companies is found in note 10.

Information about Board Members and Group Management is presented on page 100 and 106–107.

Transactions and outstanding balances

The Group has not had any transactions with Investor during the year other than dividends declared and share redemption amounts paid 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 its subsidiaries:

	2005	2004
Revenue		
Dividends	1 292	1 133
Group Contribution	2 095	1 049
Interest income	68	400
Expenses		
Interest expenses	1 122	142
Receivables	25 757	18 115
Liabilities	10 535	4 891
Guarantees		
Group companies	5 422	344

Appropriation of Profit

Proposed appropriation of profit
As shown in the balance sheet of Atlas Copco AB, the following funds are available for appropriation by the Annual General Meeting:

Unappropriated earnings from preceding year	SEK 1 110 242 633
Profit for the year	SEK 8 394 793 162
	SEK 9 505 035 795

The Board of Directors and the President propose that these earnings be appropriated as follows:

To the shareholders, a dividend of SEK 4.25 per share	SEK 2 672 427 846
To be retained in the business	SEK 6 832 607 949
	SEK 9 505 035 795

The Board of Directors and the President certify that, to the best of our knowledge, the financial reporting is prepared in accordance with generally accepted accounting principles for a publicly listed company in Sweden. The information presented is consistent with the actual conditions and nothing of a significant nature has been omitted that would be required for the fair presentation of the Group and Parent Company in the financial reporting.

Nacka, February 2, 2006

Sune Carlsson
Chairman

Jacob Wallenberg

Kurt Hellström

Ulla Litzén

Thomas Leysen

Grace Reksten Skaugen

Anders Ullberg

Staffan Bohman

Gunnar Brock
President and CEO

Bengt Lindgren

Håkan Hagerius

The consolidated and Parent Company financial statements are subject to the approval of the Annual General Meeting of Shareholders to be held on April 27, 2006.

Audit Report

To the annual meeting of the shareholders of Atlas Copco AB (publ)
Corporate identity number 556014-2720

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Atlas Copco AB (publ) for the year 2005. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

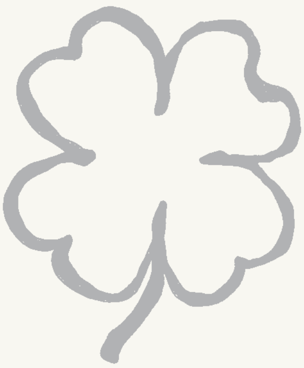
Nacka, February 20, 2006
KPMG Bohlins AB

Stefan Holmström
Authorized Public Accountant

Sustainability

Commitment to Progress

The Atlas Copco Group's vision to become and remain First in Mind—First in Choice™ for its key stakeholders, is also the driving force of the Group's sustainability strategy. Long term sustainability is a central part of Atlas Copco's strategy, where this ambition is symbolized by the illustration of a 'lucky' four-leaf clover. The leaves represent a focus on the economic (profit), the environmental (planet) and the social (people) dimensions of sustainability and the pride of behaving in accordance with Group values.



During 2005, Atlas Copco has increased the proportion of its manufacturing facilities which have been ISO 14001 certified, to 85% (82). Significantly increased environmental efficiency is reported. On average, the number of training hours has increased, whilst accidents and sick leave have reduced.

International guidelines and standards

Atlas Copco supports the following voluntary international ethical guidelines;

— United Nations Universal Declaration of Human Rights
— International Labour Organization Declaration on Fundamental Principles and Rights at Work
— United Nations Global Compact
— OECD's Guidelines for Multinational Enterprises

This Sustainability Report includes information regarding all four aspects of the Group's sustainability strategy and covers the areas of the Global Reporting Initiative (GRI), as shown in the table, with a focus on the 10 principles of the United Nations Global Compact. Further details are available on the Group's web site www.atlascopco.com/csr.

	GRI Indicator	Page(s)
1	Vision and Strategy	4, 7, 8–11, 84–85
2	Profile	2–13, 20–35, 84–85, 104–105
3	Governance Structure and Management Systems	97–108
4	GRI Content Index	84
5	Performance Indicators;	
	— Economic	14–82, 86–87
	— Environmental	18, 88–91
	— Social	49–51, 86, 92–95
	— Social: Products	20–35, 90–91, 95

Report

Business code

The Group's Business Code of Practice details the values and policies which underpin Atlas Copco's corporate social responsibilities and commitments, both within its own global organization and in its interaction with external stakeholders. The Business Code is signed by the Group's CEO and approved by the Board of Directors.

In recognition of the fact that environmental or social considerations may, at times, override purely commercial considerations, guidance documents and training material, have been developed during 2005, to assist operations with the implementation of these sustainability policies, within the context of their commercial responsibilities.

Implementing the Business Code of Practice

During 2005, Atlas Copco added to its Control Self Assessment process (CSA) by launching a questionnaire related specifically to the Group's policies defined in the Business Code of Practice. This annual process applies to all operational units in the Group. See also page 109.

Business Code Guidance Documents and Training Material

Health and Safety Guideline
Environmental Policy, processes and guidance documents (updated)
Diversity Guideline
Risk Evaluation Check Lists
Reporting Violations Process
Supplier Evaluations Guideline and Check Lists

Business Code of Practice—Training Modules including business ethics in the sales process

Business partners

Business partners are selected and evaluated partly on the basis of their commitment to social and environmental performance and development. Group companies report in which countries their suppliers are located and the status of environmental and social evaluations. A common ten point check list is used to clarify the Group's expectations on its business partners in accordance with the Business Code of Practice and based on the ten principles in the Global Compact. Statistics pertaining to risks and development opportunities are recorded.

Stakeholder engagement and dialogues

The Group has regular dialogues with a number of stakeholders. The objective is to compare performance with other multinational companies, identify opportunities to improve social and environmental aspects of sustainability and to take account of other stakeholders' views and perspectives of the Group. As an extension to these dialogues, Atlas Copco encourages contact with other stakeholders through its website.

Regular dialogues are held with the following:

- Key Shareholders (specifically the main Ethical Funds)
- Amnesty Business Group (member since 2005)
- Transparency International
- Companies, including customers and suppliers
- Students
- CSR focused networks, mainly in the Nordic countries.

Sustainability ratings

Atlas Copco was rated by a number of ratings institutes during 2005 and was listed by Corporate Knights and Innovest Strategic Value Advisors as one of "The 2006 Global 100 Most Sustainable Corporations in the World".

Further information about Atlas Copco's participation in external sustainability ratings is available upon request.

Economic Performance — Adding Value

The Atlas Copco Group is a global business which contributes to the growth and welfare of local communities and country economies by creating economic value from its activities.

The Group has ambitious growth targets to create and continuously increase shareholder value. When achieved, this growth clearly adds value both to the local and global economies.

In 2005, the Group's added value increased by 14% to MSEK 24 463 (21 466), largely as a result of increased revenues generated by the business and a positive currency effect.

Atlas Copco assesses its economic sustainability progress in terms of the added value to key stakeholders. This is partly to track trends of how this economic value is distributed between stakeholders, but also to review its relative growth or decline.

In 2005, mainly as a result of an increased value of revenues, the cost of goods and services, as well as value added, increased in comparison with both 2004 and 2003. The following table includes economic data for the whole Group. Figures for 2003 and 2004 include the divested professional electric tools business and are not restated according to IFRS, to maintain consistency with the reporting of environmental and workplace performance in this Sustainability Report.

Adding value

MSEK		2005	2004[1]	2003[1]
Generation of value added;				
Customers	Revenues	52 742	48 654	44 619
Suppliers	Cost of goods and services	–28 279	–27 188	–25 048
Value Added	*of which;*	*24 463*	*21 466*	*19 571*
	Distributed to stakeholders	21 053	15 179	14 172
	Retained in the business	3 410	6 287	5 399
Distribution of value added;				
Employees	Salaries and other remuneration	9 014	8 821	8 537
Public Sector	Taxes and social costs	5 459	4 558	4 030
Creditors	Interest payments	498	225	386
Shareholders	Dividend payments	1 890	1 575	1 219
	Redemption of shares	4 192		

[1] Interest payments restated to be net of interest received and paid.

Employees

Atlas Copco employed on average 26 258 (26 828) people around the world and generated further employment and financial growth for other organizations by subcontracting manufacturing and other activities.

Salaries and other remuneration paid by the Group increased 2% to MSEK 9 014 (8 821).

Employees

	Total 2005	Total 2004	% of Total 2005	% of Total 2004	Men 2005	% of Total 2005	% of Total 2004	Women 2005	% of Total 2005	% of Total 2004
North America	7 732	9 040	29	34	6 859	89	82	873	11	18
South America	1 454	1 234	6	5	1 280	88	89	174	12	11
Europe	11 476	11 659	44	43	9 666	84	84	1 810	16	16
Africa/ Middle East	1 399	1 345	5	5	1 149	82	82	250	18	18
Asia/ Australia	4 197	3 550	16	13	3 460	82	84	737	18	16
Total	**26 258**	**26 828**			**22 414**	**85**	**84**	**3 844**	**15**	**16**

Customers

Atlas Copco strives to be the preferred supplier to current and potential customers, by developing, manufacturing, and delivering quality solutions. 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.

Atlas Copco customer centers track their performance in terms of customer share, as a measure of how customers value the products and services offered by the Group. Furthermore, in accordance with the Group's Quality Policy, all divisions shall conduct customer surveys to measure how satisfied customers are with Atlas Copco.

Business partners

Atlas Copco strives to be the preferred associate for its suppliers, sub-contractors, joint venture partners and agents and is committed to working closely with them. The ultimate aim is that through such close working relationships, the Group should be able to deliver high quality products and services, whilst meeting its commitments to environmentally and socially sound business practices.

In 2005, payments made to suppliers, for goods and services, amounted to MSEK 28 279 (27 188), an increase of 4%.

Shareholders and creditors

Atlas Copco shareholders and creditors provide funds to finance the asset base that is used to create added value. In turn the Group adds value to these stakeholders through interest payments, annual dividends and the value of its shares.

In 2005, net interest costs amounted to MSEK 498, which represents an increase of 121%. See also note 9 in the Annual Report.

Dividend payments increased 20% to MSEK 1 890 (1 575) and an addition of MSEK 4 192 was paid to shareholders for the redemption of shares, such that the value retained in the business reduced by 46% compared with 2004. See also page 110.

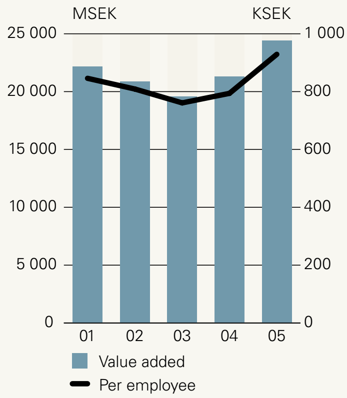
Society and the environment

The Group contributes to economic development within the regions where it operates, through payment of taxes, social costs and other duties.

In 2005, taxes and social costs amounted to MSEK 5 459 (4 558), an increase of 20%. The Group's payment of social costs, contribution towards pension funds and other employee benefits, provide an amount of social security and financial value to both employees and their families, thereby contributing towards the sustainability of the local communities.

Social costs amounted to MSEK 2 522 (2 446), an increase of 3%.

Development of value added



Environmental Performance — Limiting Resource Consumption

Eight additional product companies were certified in accordance with the ISO 14001 standard, during 2005, bringing the total to 85% (82) of manufacturing companies certified as a proportion of Cost of Goods Sold (COGS).

The Group's CO_2 emissions, water consumption, use of packaging materials and waste have reduced, both in absolute values and in relation to Cost of Goods Sold (COGS).

Environmental reporting considerations

Atlas Copco Group impacts the environment directly as a result of its product development, manufacturing, distribution and customer support activities, in its use and disposal of natural resources and waste. The Group also has an indirect influence on the environment, during the application of its products. As such, the Group follows the reporting structure defined by GRI, but reports only relevant environmental performance information for its operations and for the use of its products.

Legal matters and disclosure of environmental incidents

Atlas Copco follows applicable environmental laws in countries where it 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 occurred during 2005.

Group operations

In 2005, a total of 54 (43) companies reported environmental performance data. This represents an additional 11 companies and includes 5 customer centers. It also includes 8 newly acquired and 2 divested manufacturing companies, all with a material impact on the environmental data. The divested electric tools companies were the most significant contributors to all environmental impacts within the Industrial Technique business area, and an average of 10–15% of the overall environmental impact for the Group in 2004. The absence of these impacts in the 2005 reporting offsets a substantial part of the added environmental impact of the new manufacturing companies acquired by the Construction and Mining business area, which are included in the reporting for 2005. The reporting units contributed a growth of COGS of 15%, compared with 2004.

The stability of the Group's energy consumption figure, compared with 2004, and the decrease in absolute figures for CO_2 emissions, water usage, packaging and waste are partly a result of the divestment of the electric tools business, but more so from the significant increases in environmental efficiencies within the Group's established operations. Water usage reduced encouragingly as a result of the elimination of water leaks and improved water monitoring and usage in three major manufacturing units in India, China, and South Africa.

In 2005, Atlas Copco reports CO_2 emissions which include transports associated with its manufacturing and distribution operations. Transports have a more significant effect on total emissions than the total energy used in manufacturing and in the operation of customer centers. The largest impact on the energy figures from manufacturing operations is from endurance testing of machines, which does not change with increased sales. As such, the consolidated use of energy for the Group, excluding Rental Service, remains constant compared with 2004 at 322 GWh.

The significant improvement in total CO_2 emissions related to COGS, is consequently the result of increased efficiencies in transports. These efficiencies have primarily been achieved by strategic changes to manufacturing and distribution operations, particularly in the Compressor Technique business area. As a result of initiatives to decentralize manufacturing and localize both this and distribution centers closer to customers, major reductions in airfreight have been possible. The resulting reduction in CO_2 emissions from Compressor Technique has also helped to offset some of the increased impacts from the additional reporting companies acquired by Construction and Mining Technique. Increased sales have also made it possible to improve the efficiency of road transports.

Waste decreases compared with 2004 are almost entirely due to reduced impact from the Industrial Technique business area. This is mainly explained by the absence of the extraordinary excavations of contaminated soil from one of the industrial tools manufacturing sites reported in 2004, and to a lesser extent the divestment of the electric tools manufacturing operations, which generated substantially more waste than the remaining Industrial Technique manufacturing sites.

Reductions in the use of packaging in 2005 are largely a result of the absence of reported figures from the divested companies, which more than compensates the marginal increases from the other business areas. Importantly, solid improvements have been made in the efficient use of packaging material as a result of the strategic changes to transporting of goods, as mentioned above.

Environmental performance indicators for all business areas, excluding Rental Service, are shown in the table below.

	2005	2004	2003
ISO 14001 in% of COGS[1]	85	82	79
Energy use in GWh	322	322	313
— in relation to COGS	10	11.7	14
CO_2 emissions '000 tonnes (energy)	89	94	86
— in relation to COGS	2.8	3.4	3.8
CO_2 emissions '000 tonnes (energy & transports)[2]	273	265	225
— in relation to COGS	8.4	9.6	10
Water use '000 m^3	513	588	488
— in relation to COGS	16	21	22
Packaging materials '000 tonnes	26	30	20
— in relation to COGS	0.8	1.1	0.9
Waste '000 tonnes	24	29	26
— in relation to COGS	0.7	1.1	1.1

[1] Figures for operating production units only.

[2] Emissions from both energy and transports—not reported previously.

Rental Service business area

The nature of the Rental Service business is different to that of the other business areas, as there is no production or assembly within this business which only rents and maintains equipment. As such, Rental Service reports environmental key performance indicators separately. (The Group is currently exploring a divestment of this business area.)

	2005	2004	2003
Energy use in GWh[1]	302	286	295
— in relation to COGS[1]	38	37	36
CO_2 emissions '000 tonnes[2]	170	170	176
— in relation to COGS[2]	21	22	21
Water use '000 m^3	275	228	284
— in relation to COGS	34	29	34
Waste '000 tonnes	7.7	5.5	4,9
— in relation to COGS	1.0	0.7	0,6

[1] Transports not included.

[2] Emissions from both energy and transports—not reported previously.

As a result of the highly efficient transport system introduced during the latter part of 2004, CO_2 emissions from energy and transports were reduced by 5%.

Water consumption increased significantly, and energy to a lesser extent, as a direct result of increased sales. Fuel filled prior to renting out machinery, is included in the reported figures, as is water to wash the equipment between rentals. Closed loop wash racks, which enable recycling of the water used for washing the equipment, have been installed in several rental depots, and have enabled a higher efficiency in the use of water for this operation.

Solvent free parts washers, installed in 2004, contributed to the reduction of hazardous waste. Waste increased in total, partly as a result of better accuracy of reporting, and partly because of the 5S program, introduced during 2005, which lead to the removal of extraordinary waste material as part of local, one-off, clean-up operations.

The continued implementation of the Spill Prevention Control and Countermeasure plans (SPCC), now covering 290 sites, and involving also training and awareness building, resulted in an encouraging development of annual spills reducing to 32 (41).

Environmental performance indicators for Rental Service, covering 94% of the business area's facilities, are as shown in the table. Data is reported based on an extrapolation of information collected from the 26 major rental depots.

2005 is the second year of reporting for the Rental Service business area in its entirety, and the extrapolation for the performance indicators covers 455 rental units. The environmental impact from this business area is significant for the Atlas Copco Group, for all reporting parameters apart from packaging, which is used only to a marginal extent in this business.

Environmental Management System (EMS)
According to the Group's Environmental Policy, each division shall implement an EMS on the basis of an ambition to continuously reduce negative environmental impact. As of 2005, the Group increased its target regarding ISO 14001 certification, to include not only manufacturing sites, but all major units. As a result of this increased target, a total of 5 new companies reported environmental impacts. In 2005, 8 new product companies were ISO 14001 certified.

Products and services
It is during the life and use of the products that the largest environmental impact takes place. Life cycle assessments show energy consumption, oil leakage, noise and dust emissions to be the most significant environmental impacts during the useful life of the products manufactured by Atlas Copco.

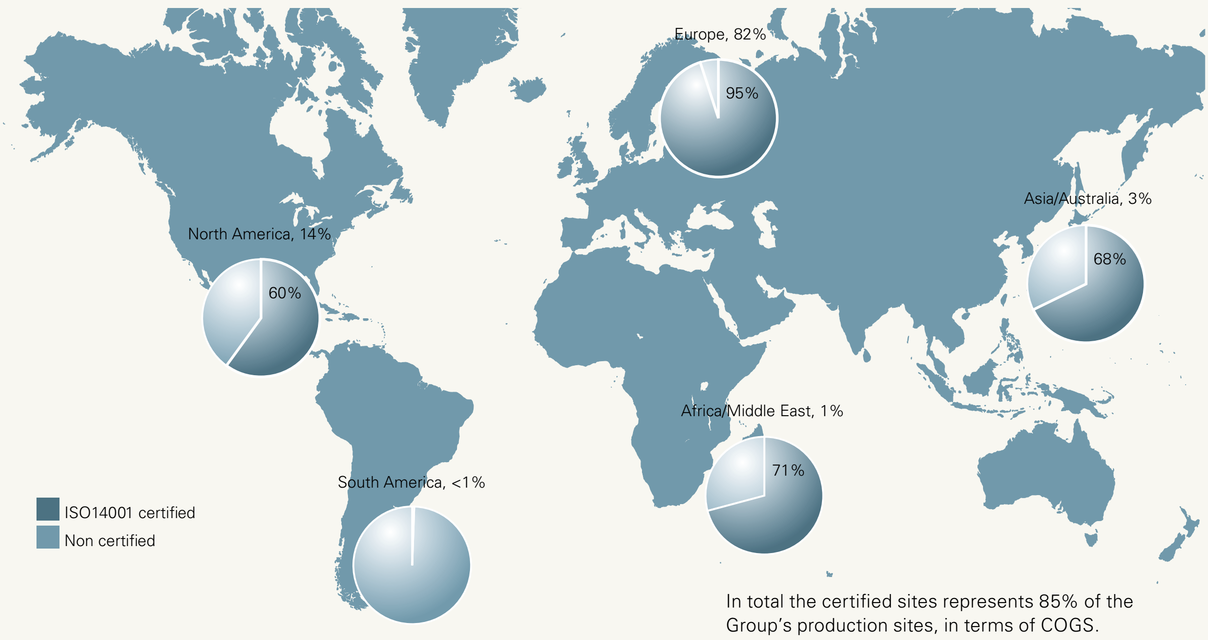
Use of energy, measured as CO_2 emissions, is identified as a key indicator in the Group's ambition to minimize the negative environmental effects from the design of its products, and during their manufacture and use.

Since the Group manufactures a wide variety of products, it is difficult to report a meaningful consolidated figure for their environmental impact. However, all divisions specify and report these impacts on an annual basis for their main product groups. Some of the most important examples of these initiatives are summarized in the table.

In line with the Group's ambition to meet or exceed customer expectations, products are developed in order to attain a market leadership position in areas of reduced noise, vibration and energy consumption and, as a minimum, to comply with EU directives or appropriate legislation.
Examples of such developments are as follows:

Business Area	Environmental Initiatives; Product Development and Rental
Compressor Technique	— Increased efficiency of compressor element and compressor — Improved fuel efficiency — Progress towards TierIII engine replacements for diesel engines (Reduced VOC, NO_X and SO_X emissions) — Noise reduction — Use of recyclable and durable materials — Extending useful life – refurbishment of 2nd hand machines
Construction and Mining Technique	— Progress towards TierIII engine replacements (Reduced VOC, NOx and SOx emissions) — Noise reduction (primarily surface drilling equipment) — Improved fuel efficiency — Reduced risk of oil spillage — Increased use of biodegradable oils
Industrial Technique	— Improvement of ergonomics in tool and system design — Replacement of hazardous materials in line with RoHS directive
Rental Service	— Continued implementation of SPCC, spill prevention program — Installation of closed loop wash racks — Installation of solvent free parts washers

Distribution of the Group's ISO 14001 certified production sites



In total the certified sites represents 85% of the Group's production sites, in terms of COGS.

Increasing sales of the variable speed drive compressors continues to be an important factor in the Group's contribution towards reducing energy consumption during the use of its products. The average specific energy of compressors sold is measured in order to demonstrate the effects of activities to reduce energy consumption of products in the market. This measure is used not only to track the increased energy efficiency of the products developed, but also of the organization's focus and successful promotion of these products to customers, in favor of less energy efficient alternatives.

Refrigerant dryers, using less ozone depleting refrigerants, are being developed to employ working fluids that have a reduced global warming potential (GWP). These refrigerants will thereby have a less damaging effect on the environment, when used in dryers which replace current products in the market.

During 2005, a fuel management system was introduced on portable compressors to optimize fuel consumption according to working conditions. For large compressors, the fuel savings can be in excess of 16 000 liters of fuel per year, or in the region of 200 000 liters saved during the average life of a machine, when compared to those without the system installed. Other innovative environmentally friendly initiatives include the replacement of painted steel housings on some portable compressors, with a recyclable polyethylene material, which is extremely resistant to damage and does not require re-painting.

Significant efforts continued in 2005 to redesign and convert drill rigs and portable compressors to comply with applicable noise and emissions directives. Construction and Mining Technique also introduced a new silenced surface drill rig, with noise reduction of 10dB(A), thereby significantly reducing noise pollution, which is very important on construction sites near populated areas.

In early anticipation of coming EU directives, Construction and Mining Technique has already introduced a program to replace all lead bronze materials with approved bronze alloys.

Within the Industrial Technique business area, tools and assembly systems are being reviewed in line with the EU directive RoHS. This directive restricts the use of certain hazardous substances in electrical and electronic equipment. As part of the review process, the whole product range, most of which is beyond the scope of the legislation, is also being evaluated, illustrating the Group's proactive approach to minimizing the negative environmental impact of its existing and new products.

In conclusion, by increasing its share of the available market with products such as those mentioned above, it can be argued that Atlas Copco will continue to contribute to lowering the global environmental impact.

Business partners

Business partners are selected and evaluated partly on the basis of their commitment to environmental performance and development. In 2005, in line with ISO 14001 requirements on certified Group companies, more than 1 500 suppliers were reported to have been evaluated from an environmental perspective. One was rejected on environmental grounds. The remaining companies were categorized as accepted, or as requiring development. In certain markets it is necessary to work with suppliers that do not have the same standards as the Group. In such cases, Atlas Copco can contribute further to reducing environmental impacts by providing experience and know-how.

Society and the environment

Atlas Copco encourages learning and development through cooperation with local communities. This involves active participation in local environmental networks and engaging in environmental activities where this is seen to add value both to the community at large and to local companies. Examples include tree-planting projects and water harvesting in India.

Within the workplace environment, employees are encouraged to develop environmentally friendly initiatives and during 2005, a new Environmental Award was presented for the first time. The award will, on an annual basis, honor outstanding performance by employees in preserving the environment for future generations.

Social Performance —the Workplace and Beyond

During 2005, Atlas Copco has continued to focus on offering a safe, healthy and inclusive working environment for all employees. Consequently, both accidents and sick leave have reduced and training has increased. Atlas Copco has also focused on extending its responsibility to social initiatives in the wider community.

Atlas Copco employs 26 258 people around the world, with 89% of its workforce based outside Sweden. New acquisitions brought 665 new employees to the Group, and divestments resulted in 3 072 employees leaving.

In 2005, Atlas Copco achieved a strong improvement in the average number of training hours, partly as a result of the increased focus on training in the newly acquired companies and due to increased product and application training for new products launched. The number of accidents and sick-leave reduced encouragingly, despite significant people movement within the organization due to acquisitions and divestments. The average number of women in the organization reduced as a result of the divestments.

	2005	2004	2003
Number of accidents per million hours worked	23.8	26.2[1]	24.2
Sick-leave, %	2.2	2.4	2.8
Average training hours per employee	33.7	27.7	30.0
Proportion of women, %	14.5	16.0	17.0
Proportion of women in Management positions	9.0	10.0	10.0

[1] Figures restated to correct for earlier reporting errors.

Social responsibility strategy

Atlas Copco is a truly global citizen, with ambitious business growth targets in regions where social standards and cultures vary significantly.

The Business Code of Practice is therefore an important tool in the implementation of the Group's social responsibility.

Atlas Copco's people management strategy is to attract, develop and keep motivated people, whilst expecting managers to take responsibility for developing themselves and their organizations for new positions. One of the key success factors of this strategy has been the encouragement of diversity as well as the intergration of the Group's basic beliefs and values, with local culture.

In society, Atlas Copco wishes to demonstrate its long term commitment to its local stakeholders, by being seen as a good and reliable corporate citizen, that acknowledges the needs of the community and encourages learning and development through engagement.

Human rights and ethics

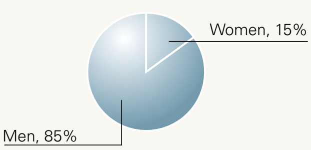
The Group does not accept any forms of child or forced labor, actively discourages discrimination, and encourages equality and diversity. These basic principles are also promoted to business partners around the world. In order to identify areas where there are risks related to human rights abuses, Atlas Copco takes advice from Amnesty Business Group. The Group can thereby provide support to its own companies, active in such areas. These companies are encouraged to evaluate business processes and relationships, and to act in order to minimize such risks, wherever possible. To support the local companies' work in this area, Atlas Copco has issued a set of guidance documents, to help identify and deal with such risks.

The Atlas Copco workplace

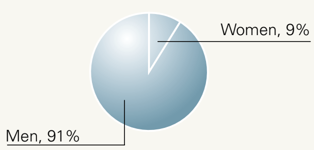
Atlas Copco has a vision to become and remain First in Mind — First in Choice™ for potential, as well as for its existing, employees. Wages and benefits are determined in accordance with market forces. The goal is to be fair, consistent and competitive, but to remain above the industry average, in order to retain and attract the best people.

Employee surveys are conducted to evaluate the Group's relative attractiveness as an employer. In 2005, the 'Employer Branding' project, which focuses on understanding how to maintain and promote Atlas Copco as a preferred employer, has strengthened its contacts with several universities. The key workplace initiatives undertaken within the Group, are listed in the table on the following page.

Proportion of men and women



Proportion of men and women in management positions



Rights of workers

All employees have access to information regarding the Group's People Management processes, which include guidance on recruitment, compensation, performance reviews and development.

Atlas Copco's policy is that all employees should have the right to decide whether or not to be represented by a trade union, and reporting units specify whether or not they have trade union representation on site.

Health, safety and well-being

Atlas Copco aims to offer a safe and healthy working environment in all operations. In support of this, the Group measures numbers of accidents and sick leave days per employee and seeks actively to ensure that these numbers reduce over time. Based on a number of local activities to improve the working environment and to support health initiatives, the relative number of work-related accidents decreased to 23.8 (26.2) accidents per million hours worked. Sick leave also decreased to 2.2% (2.4).

During 2005, the Group issued its Health and Safety Guideline. This guideline not only requires that all safety and health critical issues, processes and procedures are identified, but also that the 'well-being' of employees should be considered and addressed specifically in the formation of a local policy.

An example of such a policy in action is the initiative taken in South Africa for improving the health and well-being of those suffering with HIV Aids. In recognition of the huge burden to individuals who are HIV+, the local companies support not only the employee with counseling and antiretroviral drugs, but also one family member. All employees and certain key contractors are provided with free testing by the company. This program started early in 2004 and by the end of 2005, in excess of 65% of those estimated to be HIV+, have registered for drugs and counseling.

Competence development

The Group's target is to provide employees with an average of 40 hours training per year. A focus on training during 2005 resulted in good growth of average training hours, to 33.7 hours (27.7).

Training provided from a corporate perspective, includes workshops and seminar modules that are developed to help implement Group policies and processes. Business Areas provide targeted skills based training in accordance with the needs of the organization. Whilst training seminars and workshops remained the most popular way of offering training within Atlas Copco, e-learning is being developed as an increasingly efficient tool for disseminating and sharing knowledge, both within the Group and between product experts and customers.

A further measure of success of the focus on competence building within Atlas Copco, is the percentage of employees with university (or higher) degrees. This is currently at 37.8%, having increased from close to 35% during both 2003 and 2004.

Mobility and organization dynamics

Atlas Copco encourages mobility across geographical, organizational and cultural boundaries. This is important for successful integration of newly acquired companies. During 2005, a total of 665 new employees joined the Group, as a result of acquisitions. Experienced Atlas Copco managers lead the integration process and make it possible to establish the Group's business code, values and vision in an efficient and pragmatic manner.

Atlas Copco Workplace and Business Partners

Initiatives 2005		Ambitions 2006–2008	
Workplace			
Employee satisfaction surveys, continued from 2004.		Employee satisfaction surveys should be embedded in operational routines.	●
Competence development – Management Training; Development of global training modules for Group policies and procedures on the following; Legal, finance, people management, communications, business code. Global International Development Program for potential future senior managers.	●	To achieve Group target of 40 hrs training per employee, per year. To maintain a high level of internal recruitment for senior management-positions.	●
Competence development – Local initiatives; Atlas Copco Academy in China. Leadership development for acquired companies in USA. Ongoing sales and product training.		To achieve Group target of 40 hrs training per employee, per year.	●
Safety – Awareness and competence training. Examples; Introductional Safety and Environmental Care committee in China, Safety Award in USA, various risk reduction projects in Belgium.		Local Health and Safety policies should be defined, implemented and followed up.	●
Health and Wellbeing – Programs to support a healthy workforce. Examples; HIV Aids project in South Africa, various health training initiatives in USA and Belgium, ergonomic workstations projects in Sweden and China.		Local Health and Safety policies should be defined, implemented and followed up.	●
Gender Diversity – Female mentorship program, in its 2nd year.	●	Expand female mentorship program and embed it in local operations.	●
Affirmative Action – various programs in place to support minorities.		Embed the Group's policy to encourage diversity and support minorities represented in the organization.	●
Business Ethics; Business Code of Practice training modules developed to deal with ethical dilemmas.	●	Program to embed these in ongoing training delivered to managers and new employees.	●
Business Partners			
Common Group standard, ten point check list launched for environmental and social evaluation criteria.	●	Checklist to be adopted and used by major product companies.	●
Supplier Excellence in Manufacturing Program – for suppliers in China.		Continued development.	

● Indicates that the activity is global, all other activities are local.

Internal mobility within the Group was 10%, and 9 to 13% in the period 2002 to 2004. External recruitment, which is a measure of the Group's need for new talent increased from a run rate of between 10 and 14%, since 2002, to a rate of 17% in 2005. This is seen as largely positive and a result of the strong growth of the Group's business.

Fairness and diversity

Equal opportunities, fairness, and diversity are fundamental pillars of the Group's People Development policy. Atlas Copco companies report and comment on the relative number of males and females in their organizations. The Group has developed a Diversity Guideline, which guides managers as to how to attract and maintain diversity within their organizations and how to encourage support of minority groups. One of the projects piloted to achieve this in 2005 was the formation of a minority network for female managers, to allow regular discussion forums on subjects chosen by the women participating and to help encourage a sense of belonging for those in minority groups.

The total number of women within the Group and those in management positions has remained fairly constant over the past 5 years until the divestment of the electric tools divisions last year. This resulted in the number of women reducing to 14.6% (16). This is not considered to be satisfactory and efforts to improve this continued during 2005. Examples are: Continuation of the Female Mentorship program, the launch of the Diversity Guideline document, and the new policy that managers should ensure they always have at least one female candidate when recruiting university graduates and for new management positions. During 2005, of the university graduates recruited, 40% were female.

Another diversity initiative developed further during 2005, was Broad Based Black Economic Empowerment in South Africa. In support of the initiative Atlas Copco reports a balanced scorecard, developed to encourage a greater participation of indigenous black South African's in the management and ownership of business in the country.

In society

Atlas Copco recognizes that its social responsibility extends beyond its own work place and evaluates the social, environmental, political and reputation risks it faces when operating globally. Whilst striving to be a good and reliable corporate citizen, and as one of its three core values, the Group considers interaction to be an important success factor and therefore wants constructive dialogues with its key stakeholders in society.

Stakeholder dialogues

Atlas Copco encourages learning and development through cooperation with local communities; — key stakeholders, that can provide important contributions to the development of the Group's sustainability performance.

Atlas Copco Group encourages its local companies to engage in constructive dialogues with local stakeholders, such as universities, health authorities and others where such dialogues can add value.

Business integrity

As a global citizen with a valuable brand, Atlas Copco is mindful of the importance of working actively to build awareness for, and compliance with, principles of integrity in its business dealings. As regards corruption, Atlas Copco instructs its operations not to give or receive anything of more than 'token value' to or from any stakeholder, to avoid the risk of creating an unhealthy loyalty.

In recognition of the fact that the definition of 'token value' varies from country to country, practical training material is made available. Local companies are encouraged to run training

Atlas Copco in Society

Initiatives 2005		Ambitions 2006–2008	
'Water for All' – An employee run and Group supported initiative to provide clean water to needy communities.	●	'Water for All' to be promoted and supported by the Group globally and within all Business Areas.	●
Disha Orphanage in India		Continued funding and support	
Atlas Copco childrens club, India		Continued funding and support	
City Childrens House, China		Company funding and voluntary work by local employees to continue	
University scholarship program in China		Continued funding and support	
Local educational support (local school) programs in Africa and Brazil. Example; Don Bosco Boys craftsman training and mentoring in Kenya		Continued funding and support for existing programs. Benchmarking of experience and success stories between Group companies	
HIV / Aids program support to communities in South Africa		To be continued	
Tsunami Disaster Relief efforts raised SEK 1 Million from the Group and SEK 500,000 from employees. Example of local project: Fishermen support program in Kenya to regain livelihoods	●	Local programs to continue	
Hurricane Katarina disaster relief programs supported by employees and Group companies in USA		Group Policy, launched in 2005, encourages local companies to support local disaster relief efforts where appropriate	●

● Indicates that the activity is global, all other activities are local.

workshops which deal pragmatically with business integrity and possible ethical dilemmas. The Group has also implemented a 'Whistle Blowing' process.

The Group is committed to supporting fair competition and specifically forbids discussions or agreements with competitors concerning pricing or market sharing.

Atlas Copco is committed to transparency and openness and, as part of this policy, is committed not to take a political stand.

The new CSA, self audit questionnaire launched during 2005 (see also Implementing the Business Code page 85), includes questions to safeguard the Group's policies on integrity. (See also Corporate Governance page 109).

Business partners

Suppliers, sub-contractors, joint venture partners and agents, are selected and evaluated partly on the basis of their commitment to social performance and development. The Group recognizes an increasing need to take a more active role in dialogues and assessments of such stakeholders from a social perspective. Although the implementation of this will take time, progress was made during 2005 to develop a guideline with expectations related to social standards. Atlas Copco reporting units provide quantitative data of evaluated, approved and rejected suppliers and those requiring development, based on the Group's social expectations.

Customers

Atlas Copco strives to be the preferred supplier to its current and potential customers by delivering consistently high quality products and services which aim to meet their safety, ergonomic and environmental needs, as well as their requirements for productivity and prosperity. The Group recognizes its reputation risks related to the association with certain customers. In 'high risk' areas, Atlas Copco seeks to minimize these risks by first and foremost safeguarding that the Group's own commitments are met regarding the safety and technological leadership of its products and services, and regarding its business practices, and secondly, by building awareness for the ethical guidelines supported by the Group.

Community engagement and charity

Several Atlas Copco companies have a long history of local engagement in the societies where they operate. During 2005, the Group's Community Engagement Policy was extended to encourage companies to support natural and humanitarian disasters. A further enhancement of the policy included identifying the value of supporting employee lead initiatives, by following the financial 'matching' principle, which was so effective in the Group's response to the Asian Tsunami disaster at the end of 2004. This principle says that Group companies should seek to match financial donations made by employees, with company funds.

Group companies share experience and success stories regarding community engagement and charity projects on the intranet.

Water for All: For more than 20 years Atlas Copco has supported the employee run organization Water for All, which raises funds to finance water well drilling activities and equipment in order to supply clean drinking water to needy communities. By the end of 2005, the organization had almost 1000 members in Europe. Estimates indicate that up to 50 000 people were provided with a sustainable source of clean drinking water, during 2005, as a result of the financial contributions made by Water for All. In 2006 the Group will support the drive to find new members and to encourage the spirit of philanthropy which employees and companies pride themselves on. The Group's ambition is to make it possible for all employees, regardless of location, to become part of the organization and part of the growing Atlas Copco 'net of water' which will thereby become increasingly effective in providing clean drinking water to thousands of people every year. Water for All continues to be the Group's priority corporate and global charity activity.
See also www.water4all.org.

Local charity initiatives: Following the immediate disaster relief granted in terms of both equipment and financial support, by Atlas Copco Group and its employees at the end of 2004 and early in 2005, ongoing support efforts have continued in 2005, mainly spearheaded by local companies and employees in India, Thailand, and Indonesia. In both India and Thailand, the Group and its employees sponsor local orphanages.
See also www.atlascopco.com/csr for more information.

Sponsorship

Atlas Copco has a policy which details rules on sponsorship, which is almost always a local activity. Initiated in 2005 and continuing through 2006, the Group has one global sponsorship activity, the Swedish Ship Götheborg, currently bound for China. Further details are available from www.soic.se.

Sustainability Definitions

Carbon dioxide (CO_2)
The most common greenhouse gas found in the atmosphere.

Cost of Goods Sold (COGS)
All costs incurred to manufacture goods (and provide services) to be sold, including costs for material, salaries, and depreciation of equipment, but excluding costs for marketing, administration and product development.

Environmental Management Systems (EMS)
The part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing, and maintaining the environmental policy. An EMS involves a systematic and documented approach to environmental management.

Fossil fuels
Fuels originating from organisms of an earlier geological age, including coal, oil, natural gas and peat.

ISO 14001
An international standard, developed by the International Organization for Standardization (ISO), for setting up and certifying environmental management systems.

Life Cycle Assessment (LCA)
A method for assessing the total environmental impact of a product or service "from cradle to grave," including all phases of production, use, and final disposal.

Megawatt hour (MWh)
A measure of electrical energy equal to the power provided by one megawatt in one hour. Mega is the metric prefix for one million. In the report, gigawatt hour (GWh) is also used as a measurement unit. Giga is the prefix for one billion.

Sick-leave
Absence from work due to the employee's own illness, and does not include absence due to child care or care of relatives and next-of-kin. The sick-leave indicator used in the Atlas Copco Group is measured as number of sick-leave days in relation to total number of working days.

Stakeholder
An individual or group who can affect or is affected by the activities of an organization.

Sustainability
Meeting the needs of the present without compromising the ability of future generations to meet their own needs. Improving quality of life for everyone, now and for generations to come. Sustainability has three dimensions: economic, environmental, and social sustainability.

Value added
A measure of the company's productive contribution, that is, the value added through processing and other activities. Calculated by deducting costs for the purchase of raw materials, wholly and semi-finished goods and services from revenues.

Work-related accident
Includes illness or injury resulting in loss of consciousness, restriction of work or motion, or transfer to another job, and requiring medical treatment beyond first aid. This does not include accidents occurring when travelling to or from work.

Corporate Governance Report

Atlas Copco AB is a publicly listed company incorporated under the laws of Sweden. Corporate governance of Atlas Copco is based on Swedish legislation, consisting foremost of the Swedish Companies Act, the Listing Agreement with the Stockholm Stock Exchange and other relevant regulations and guidelines. As of July 1, 2005 Atlas Copco also follows the Swedish Code of Corporate Governance as incorporated in the Stockholm Stock Exchange's regulations. The company's Corporate Governance Report, has not been reviewed by the company's auditors.

Atlas Copco's Articles of Association are available on the Group's website www.atlascopco.com/ir.

Shareholders

Atlas Copco had 37 200 shareholders according to VPC AB's, the Swedish Central Securities Depository, shareholders' register as of year-end 2005. Foreign investors held about 51% of the shares, representing 57% of the voting rights. The 10 largest shareholders registered directly or as a group with VPC by voting rights, accounted for 29% of the voting rights and 26% of the share capital.

10 largest shareholders, December 31, 2005

	% of votes	% of capital
Investor	21.1	15.0
Nordea funds	1.8	1.5
Handelsbanken funds	1.6	2.3
AP 1	1.5	1.0
AP 4	0.9	0.9
Robur funds	0.8	2.3
AP 2	0.6	1.0
XACT funds	0.5	0.5
Länsförsäkringar funds	0.3	0.4
SEB funds	0.3	1.3
Other	70.8	73.8
Total	**100.0**	**100.0**

The table shows the largest shareholders, by voting rights, registered directly or as a group with the VPC, the Swedish Central Securities Depository.

Share capital and voting rights

To adjust the Group's Consolidated Balance Sheet to a more effective structure, the 2005 Annual General Meeting resolved to carry out a share split 4:1 combined with the mandatory redemption of every fourth share.

Atlas Copco's share capital at year-end 2005 amounted to 628 806 552 shares distributed among 419 697 048 Class A shares and 209 109 504 Class B shares. Class A shares entitle the holder to one voting right, while Class B shares entitle the holder to one tenth of a voting right. One trading lot on the stock exchange consists of 200 shares.

All shares carry the same rights to the company's assets and profits and entitle the holders to equal dividends. The Atlas Copco Group's dividend policy states that the dividend is to reflect the company's profit and cash flow trend as well as future growth potential. The Board of Directors' opinion is that the dividend should correspond to 40–50% of earnings per share.

Trading and market capitalization

Trading of Atlas Copco shares takes place primarily on the Stockholm Stock Exchange. The shares are also available as depository receipts in the United States without being formally registered on a United States stock exchange.

During 2005 the company's shares were delisted from the London and Frankfurt stock exchanges in Great Britain and Germany respectively, where they had a secondary listing. Trading in Atlas Copco's shares on these stock exchanges has not been significant enough to merit continued listing.

Atlas Copco's market capitalization as of December 31, 2005, was MSEK 107 430 (61 312).

Annual General Meeting

The Annual General Meeting shall be held within six months from the close of the financial year. All shareholders registered in the shareholders' register, and who have given due notification to the company of their intention to attend, may attend the meeting and vote for their total share holdings. A shareholder may be accompanied by one assistant. Shareholders who cannot participate personally may be represented by proxy.

Shareholders representing 37.9% of the votes in the company and 38.6% of the shares attended the Annual General Meeting held in April 2005 in Stockholm, Sweden.

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. Board members are nominated in accordance with the process proposed by the Nomination Committee and adopted by the Annual General Meeting.

Nomination process

Election to the Board

The nomination and presentation of Board members for (re)election at the 2006 Annual General Meeting has been performed in accordance with the nomination process adopted at the 2005 Annual General Meeting.

As prescribed by this process, during Q3 2005 the Chairman of the Board, Sune Carlsson, contacted representatives from the four largest shareholders who, under his leadership, prepared a proposal for the Board of Directors to be submitted to the 2006 Annual General Meeting. The committee representatives are Börje Ekholm, Investor AB; Thomas Ehlin, Nordea fonder; William af Sandeberg, Första AP Fonden and Björn C. Andersson, Handelsbanken fonder. These names were made public as soon as the representatives had been appointed. They represent 26% of all votes in the company. The way to contact the nomination committee was also provided. Börje Ekholm was elected chairman of the committee at the first meeting.

The Chairman of the Board of Directors, Sune Carlsson, had individual discussions with each Board Member and, thereafter, evaluated the work of the Board and its Members which was presented to the Nomination Committee. He also presented his assessment of the need for special Board competence and, together with the Nomination Committee compared these needs with the resources presently available within the Board.

Prior to the 2006 Annual General meeting, the committee will submit its proposal for chairman of the Annual General Meeting, number of board members and auditors, chairman of the board, vice chairman, other members and auditors. It will also submit its proposal for remuneration to the chairman, vice chairman, other members, and auditor, as well as its proposal for remuneration for committee work to be distributed as decided by the Board.

No remuneration was paid to either the Chairman or any of the other members of the nomination committee for their work.

Election of auditors

At the 2002 Annual General Meeting, the audit firm KPMG Bohlins AB, Sweden, was elected auditor for the period until the 2006 Annual General Meeting, with Stefan Holmström appointed main responsible auditor. During the autumn, the Nomination Committee began the process which is the basis for the proposal for auditor and fees. According to the rules of FAR, the Institute for the Accounting Profession in Sweden, it will not be possible to retain Stefan Holmström as principal auditor.

Board of Directors

At the 2005 Annual General Meeting in April, nine board members were elected, one of which is the President and Chief Executive Officer. The Board also has two members, with personal deputies, that are appointed by the labor unions. Hans Sandberg, General Counsel of Atlas Copco, was secretary to the Board.

The Board met six times in 2005, once in Garland, Texas, USA and five times in Nacka, Sweden. One per capsulam meeting was also arranged during the year. Seven Board members were present at seven meetings. One member was present at 6 mettings, and one member at 5 meetings. Each meeting was governed by an approved agenda. A list of outstanding issues from previous meetings and supporting documentation for each agenda item was distributed to all Board members prior to each Board meeting.

Members of Group Management have participated in the Board meetings and each business area president presented a review of his area of responsibility during the year. At the February meeting, the company's principal auditor reported his observations from the annual audit, both the September hard close and as per December 31.

Rules of Procedure and Written Instructions

There has been no allocation of areas of responsibility to the various Board members other than those described in the updated Rules of Procedure and Written Instructions, which have been adopted by the Board at each statutory meeting since 1999.

Besides the distribution of responsibilities that apply in general in accordance with the Swedish Companies Act, the rules of procedure primarily provides rules on:

- The minimum number of Board meetings (5), as well as when and where they are to be held during the year.
- The President's authority to sign quarterly reports.
- Board of Directors' delegation of authority.
- Items normally to be included on the agenda for each Board meeting, including business developments from a financial and operative perspective, acquisition and sale of business operations, decisions on investments exceeding MSEK 20, follow-up of major investments, guaranties and appointments.
- When Board documentation is to be available prior to every meeting.
- Keeping of the minutes of the meeting.
- Identification of the Chairman's principal tasks.
- Appointment of the Remuneration Committee and the Audit Committee, and identification of the committees' major tasks.
- The Board's right to vital information, its right to make statements on behalf of the company, and its obligation to observe confidentiality.
- The adoption of an information policy.

The Written Instructions that regulate the distribution of tasks between the Board and the President and the company's reporting process, particularly as it pertains to financial reports, primarily deal with:

- The President's responsibility for daily operations and for maintaining both the company's operative (business) as well as the legal (owner) structure.
- The structure and contents in *The Way We Do Things* cover the Atlas Copco Group's set of principles, guidelines, processes and instructions within the main areas: business code of practice, communication, crisis management, environment, positioning/brand identity, finance/control/accounting, group standards, information technology, insurance, legal issues, and human resources. *The Way We Do Things* is the Group's single most important management tool, and for example contains a detailed plan for financial reporting within the company.
- Issues that always require a Board decision or an application to the Board, such as major investments, changes to the legal structure, certain appointments and guarantees, as well as other commitments to be reported on the Balance Sheet.
- 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 audit.

Board decisions are made after an open discussion lead by the Chairman. 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. Each Board member commented on the market development from his/her perspective at each Board meeting.

Major initiatives taken by the Board during the year include the share split 4:1 coupled with a redemption procedure and 14 corporate acquisitions.

The Board continuously addresses strategic direction, financial goals, and the goal of sustainable growth for the Atlas Copco Group. During the year, special attention was also given to product development of the industrial business areas and improvement of the US-based rental activities.

Remuneration to the Board

The 2005 Annual General Meeting allocated the amount of SEK 3 700 000 which was subsequently divided by the Board so that the Chairman received SEK 1 115 000, the Vice Chairman SEK 450 000 and each of the other Board members not employed by the company received SEK 350 000. The amount of SEK 500 000 was allocated to remuneration for committee work.

Committee for remuneration to Group Management

The Board established a Remuneration Committee in 1999. Chairman of the Board Sune Carlsson, Vice Chairman Jacob Wallenberg, and Board member Kurt Hellström were committee members in 2005. The committee submits its proposals to the Board for remuneration to the President and CEO and its proposal for long-term incentive plans and the distribution of the amount allocated by the Annual General Meeting for committee work. The committee also supports the President and CEO in determining compensation to the other members of Group Management.

In 2003 the committee approved 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 (retirement, notice period, and severance pay). The base salary is determined by position and general performance and the variable compensation is for the achievement of specific results. The Remuneration Policy is assessed every year and will be presented to the 2006 Annual General Meeting for approval.

The Board adopted a Charter for the Remuneration Committee during the year. The committee met twice and all members were present at both meetings.

Audit Committee

The work of the Audit Committee is directed by the Audit Committee Charter which was adopted by the Board in 2003 and revised in 2005. The committee's primary task is to support the Board in the internal and external audits as well as the accounting and financial reporting processes. Work in 2005 focused on following up both the 2004 audit and the hard-close audit carried out per September 30. In addition, a review was made of the Group's transition to new accounting standards in accordance with IFRS. The committee has during the end of 2005 prepared the proposal of auditor for the period 2006–2009, to be put forth to the Nomination Committee.

In 2005, the committee consisted of Board member Ulla Litzén (Chairman), Sune Carlsson and Thomas Leysen and convened 6 times. All members were present at all meetings.

Governance structure

Board of Directors


Sune Carlsson


Jacob Wallenberg


Gunnar Brock


Kurt Hellström


Ulla Litzén


Thomas Leysen


Anders Ullberg

Employee representatives


Staffan Bohman


Grace Reksten Skaugen

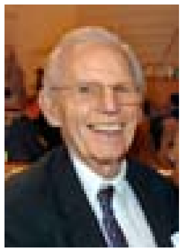

Bengt Lindgren


Lars-Erik Soting


Håkan Hagerius


Mikael Bergstedt

Honorary Chairman


Peter Wallenberg

Board of Directors

The Board of Directors consists of nine elected Board members, one of whom is the President and Chief Executive Officer. The Board also has two additional members, with two personal deputies, appointed by the unions. In addition to the President and CEO and the union representatives, three of the nine Board members are dependent; they are all members of the Board of Investor AB, Sweden, which has the largest amount of votes among Atlas Copco's owners.

Sune Carlsson, Chairman of the Board. M.Sc in Mechanical Engineering, Chalmers University of Technology, Gothenburg, Sweden. Member of the Board of investment company Investor AB, Sweden, automotive safety systems company Autoliv Inc, the United States and truck manufacturer Scania AB, Sweden.

Jacob Wallenberg, Vice Chairman. B.Sc. Economics and MBA, Wharton School, University of Pennsylvania, the United States. Chairman of the Board of investment company Investor AB, Sweden. Vice Chairman of the commercial bank SEB, Sweden, and airline SAS AB, Sweden. Board Member of non-profit foundation The Knut and Alice Wallenberg Foundation, Sweden, capital management company W Capital Management AB, Sweden, power and automation company ABB Ltd, Switzerland, and Nobel Foundation, Sweden.

Gunnar Brock, President and Chief Executive Officer M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Board Member of toy manufacturer Lego A/S, Denmark, forest products company Stora Enso Oyj, Finland, and the trade and employers' organization the Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Kurt Hellström, M.Sc. Royal Institute of Technology Stockholm, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. Former President and Chief Executive Officer of Telefonaktiebolaget L M Ericsson, Sweden.

Ulla Litzén, M.Sc. in Economics and Business Administration, Stockholm School of Economics, MBA, Massachusetts Institute of Technology, the United States. Member of the Board of investment company Investor AB, bearing manufacturer AB SKF, pharmaceutical company Karo Bio AB, logistics and distribution company Posten AB, and mining company Boliden AB, all based in Sweden.

Thomas Leysen, Master of Law University of Leuven, Belgium. Chief Executive Officer of materials technology group Umicore, Belgium. Chairman of the media company VUM Media, Belgium and the European Association of Metals, Eurométaux.

Anders Ullberg, M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden. President and Chief Executive Officer of the steel company SSAB Svenskt Stål AB. Chairman of the Board of mining company Boliden AB and the Swedish Steel Producers' Association, Vice Chairman of the IT-company TietoEnator, and member of the Board of steel company SSAB Svenskt Stål AB, and insurance company Skandia, all based in Sweden.

Staffan Bohman, M.Sc. in Economics and Business Administration, Stockholm School of Economics and Stanford Executive Program, the United States. Vice chairman of the IT group EDB Business Partner ASA, Norway. Member of the Board of the industrial group Trelleborg AB, Sweden, truck manufacturer Scania AB, Sweden, road construction machines manufacturer Dynapac AB, Sweden, holding company Inter-IKEA, Holland, investment company Ratos AB, Sweden, and risk capital company Swedfund International AB, Sweden. Former President and Chief Executive Officer of the aluminum profile company Sapa AB, Sweden.

Grace Reksten Skaugen, MBA BI Norwegian School of Management, PhD Laser Physics Imperial College of Science and Technology London University, Great Britain. Chairman of the Board of the state owned real estate company Entra Eiendom. Vice Chairman in the IT company Opera Software. Member of the Board of the oil company Statoil ASA, insurance company Storebrand ASA, video conferensing company Tandberg ASA, and travel agent Berg-Hansen Holding AS, all based in Norway.

Employee representatives

Bengt Lindgren, Economics. Chairman of Metall's local union branch at Atlas Copco Secoroc in Fagersta, Sweden.

Deputy **Lars-Erik Soting,** Chairman of Metall's local union branch at Atlas Copco Rock Drills in Örebro, Sweden.

Håkan Hagerius, Mechanical engineering. Chairman of SIF's local union branch at Atlas Copco Rock Drills in Örebro, Sweden.

Deputy **Mikael Bergstedt,** Chairman of Ledarna, Atlas Copco Tools in Tierp, Sweden.

Honorary Chairman

Peter Wallenberg, Ph.D. in Economics, h.c. Bachelor of Law, University of Stockholm, Sweden. Held various positions within the Atlas Copco Group, 1953–1974. Chairman of the Board, 1974–1996. Honorary Chairman of the Board of the investment company Investor AB, Sweden. Chairman of the research foundation Knut and Alice Wallenberg Foundation, Sweden.

The Board of Directors and holdings[1] in Atlas Copco

Name	Title	Born	Nationality	Elected	Audit Committee	Remuneration Committee	Independent	Class A shares	Class B shares	Employee stock options
Sune Carlsson	Chairman of the Board	1941	Sweden	1997	Member	Chairman	No		17 142	
Jacob Wallenberg	Vice Chairman	1956	Sweden	1998		Member	No	115 866	7 980	
Gunnar Brock	President and CEO	1950	Sweden	2002			No	23 100	4 500	141 119
Kurt Hellström		1943	Sweden	1999		Member	Yes	3 426		
Ulla Litzén		1956	Sweden	1999	Chairman		No	33 600		
Thomas Leysen		1960	Belgium	2001	Member		Yes	10 500		
Anders Ullberg		1946	Sweden	2003			Yes	4 500		
Staffan Bohman		1949	Sweden	2003			Yes	3 000		
Grace Reksten Skaugen		1953	Norway	2004			Yes			
Bengt Lindgren	Employee representative	1957	Sweden	1990			No			
Håkan Hagerius	Employee representative	1942	Sweden	1994			No			

[1] Holdings as of turn of the year 2005/2006, including those of close relatives or legal entities.

Auditors

At the 2002 Annual General Meeting, the audit firm KPMG Bohlins AB, Sweden, was elected auditor with the Authorized Public Accountant Stefan Holmström as the main responsible auditor for the period until the 2006 Annual General Meeting. KPMG Bohlins AB has a good reputation, the necessary expertise, and a global network that coincides with Atlas Copco's demand for geographical coverage.

Stefan Holmström has led the audit engagement for Atlas Copco since 1993. In addition to Atlas Copco, he audits the following large companies; Active Biotech AB, Länsförsäkringar AB, Posten AB, AB Novestra, and V&S Vin & Sprit AB. He has no active engagements in companies affiliated with Atlas Copco's larger owners or with the President.

The responsible auditor personally reported his observations and presented his views on the quality of internal control in the Group at the February 2005 and 2006 Board meetings. He also met regularly with the audit committee.

Group Management and Structure

Atlas Copco's operations are organized in four business areas and, at year-end, were comprised of 15 divisions. As of January 1, 2006, the number of divisions are 18, as the business area Industrial Technique has divided its operations into five separate divisions. In addition to the business areas, there are four Group functions and a number of internal service providers.

Business areas and divisions

The Group's business 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 objectives; financial, environmental, and social, defined for each business area. The divisions are operative units on the highest level, responsible for operative result and capital employed, strategies, and structures for product development, manufacturing, marketing, sales, and rental, as well as service of those products, services and markets included in the division's responsibility. Further information about the business areas can be found on pages 20–35.

Internal service providers

Part of the efforts to achieve profitable growth includes combining the advantages of a decentralized operative organization with the economies of scale that the Atlas Copco Group can offer. Therefore, as a complement to the operative divisions, a number of internal service providers have been set up to provide service in administration, IT support, finance and banking, insurance, and product distribution. Information technology enables people around the world to work together to improve the quality of these services. These internal service providers are an integral part of the Group's strategy and facilitate, besides realizing internal synergy effects, continuous improvement of processes and routines within these service areas.

In 2005, Atlas Copco Customer Finance AB was set up to provide financial solutions to Atlas Copco' s customers worldwide.

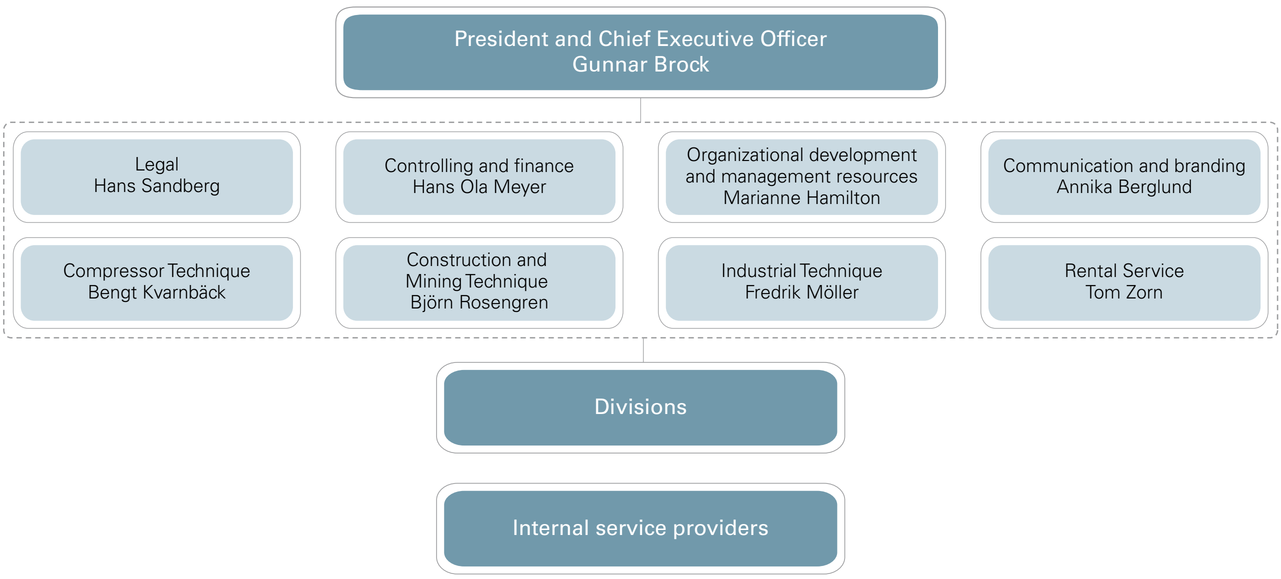
Operational responsibility

In addition to a legal board, the companies have one or more operative boards, called Business Boards. The duty of the Business Board is to serve in an advisory and decision-making capacity concerning operative issues.

A division's business board is to primarily give advice and make decisions concerning strategic matters and ensure the implementation of controls and assessments. A division can have one or more product companies and customer centers. A board for one of these units could concentrate on issues related to for example product development, production or market and sales administration. In a similar way, the board for any one of the Atlas Copco Group's internal service suppliers has a given focus.

The procuration routine is aimed at clarifying how responsibility is delegated to individual positions within the Atlas Copco

Group Management and structure



Group. Each position has a predetermined authority, i.e. rights and obligations, to act both in respect to a third party and internally within a company that is part of the Group. The Board of Atlas Copco AB delegates the decision-making authority concerning business activities to the President and CEO, who in turns delegates the responsibility to the responsible managers for the operative units. The objective is to issue a written power of procuration to every employee.

Common Group processes

Atlas Copco has regularly introduced and fine-tuned processes and control systems to effectively generate profitable growth.

The structure and contents in *The Way We Do Things* include the Atlas Copco Group's set of principles, guidelines, processes and instructions within the main areas: business code of practice, communication, crisis management, environment, positioning/brand identity, finance/control/accounting, group standards, information technology, insurance, legal issues, and people management. *The Way We Do Things* is the Group's single most important management tool. Each process 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.

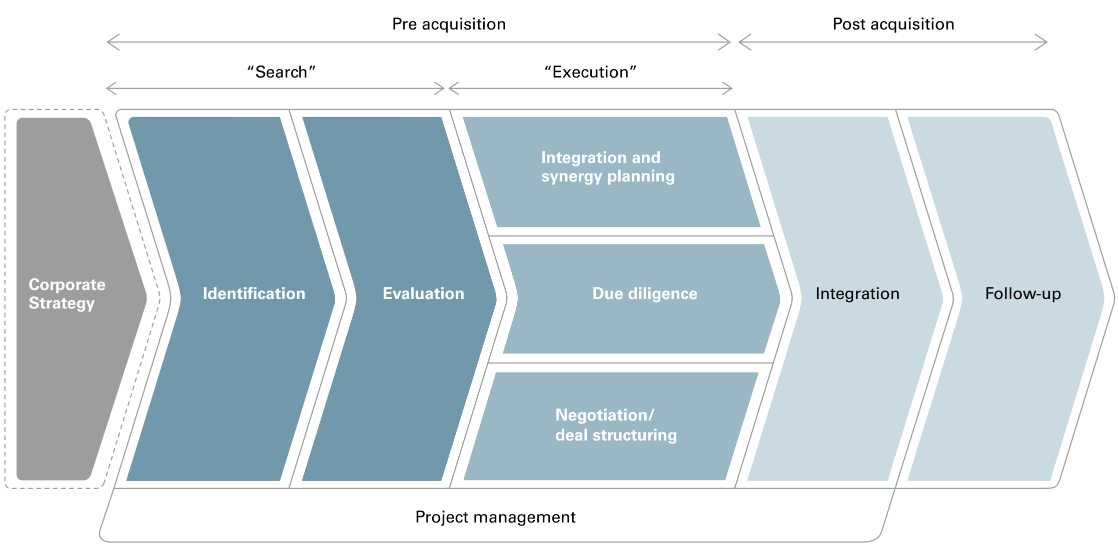
The Atlas Copco Group's ambition is to grow organically and through complementary acquisitions closely affiliated with the Group's core business. The company's policy is to have 100% ownership in all its holdings. To ensure a successful acquisition strategy and integration, the company has designed a three-phase model that includes the search for and mapping of potential acquisitions, executing the acquisition and post acquisition integration and follow-up. The model is used for all Group acquisitions.

With respect to the Group's long-term business sustainability, highest priority is given to Atlas Copco's most crucial stakeholders: customers, business partners, employees, and owners, but also specific stakeholders in regions where the Group operates. Continuous, informal dialogue is conducted with these stakeholders to address relevant issues, and thereby the Group always 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 adhered to 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 ergonomic products that have a minimum impact on the environment.

Atlas Copco Group supports the following international voluntary ethical guidelines; The UN's Global Compact principles, the OECD Guidelines for Multinational Enterprises and the ILO, International Labor Organization, and the Declaration on Fundamental Principles and Rights at Work.

Acquisition process



Objectives

Atlas Copco Group's vision is to be First in Mind—First in Choice™, to its customers and other principal stakeholders. The operative units adopt objectives that are modified to suit their respective business operations. The set objectives reflect the ambition to realize the vision; therefore, objectives are followed up carefully.

The Board has adopted a limited number of financial and sustainable growth objectives at the Group level. Each business area and division respectively adopts relevant objectives for its operations within the framework of these Group-level objectives.

Financial targets

Atlas Copco Group has defined financial targets that will create and continuously increase shareholder value. The overall objective is to grow and achieve a return on capital employed that always exceeds the Group's average total cost of capital.

The financial targets are:

- To have an annual revenue growth of 8%
- To reach an operating margin of 15%, and
- To challenge and continuously improve the efficiency of operating capital in terms of fixed assets, inventories, receivables, and rental fleet utilization.

To reach these objectives all operative units within the Group follow a proven development process; stability first, then profitability, and finally growth.

Targets for sustainable development

Atlas Copco Group's target is that all units shall have an environmental management system. Furthermore, all major units are to be certified in accordance with ISO 14001, or an equivalent system (Rental Service).

One objective within the social area is that every employee is to receive an average of 40 hours of competence development per year. Another objective is that every employee will have an annual personal appraisal.

Risk management

An important part of the Atlas Copco Group's internal control includes identifying and measuring risks, preventing these risks, and continuously making improvements and thereby minimizing such risks. Risks can be strategic, operational, financial, legal or can threaten the company's good standing and reputation.

Strategic and operational risks: The Atlas Copco Group's principles, guidelines, and instructions that are documented in *The Way We Do Things* provide executives with tools to monitor and follow up business operations and growth to quickly detect deviations. Managers at various levels are in charge of developing strategies and operations, identifying opportunities and risks, and monitoring and following up, both formally by using available tools and informally through continuous communication with employees, customers, and other stakeholders. This work process contributes to making well-founded and correct business decisions.

Risks that are continuously monitored include, but are not limited to, product, price and cost trends, competition, financing, technical development, production, environmental issues, marketing, administration, patents, product liability, warranties, insurances, and political risks.

Financial risks: In line with the overall objectives with respect to growth, operating margin, and return on capital, Atlas Copco has adopted a financial risk policy to control the financial risks to which the Group is exposed. The policy is designed to enhance stability in Group earnings and contribute to steady growth in equity and dividends while simultaneously protecting the interests of creditors.

The financial risk policy is described in note 27.

Legal risks: Responsibility for monitoring and steering legal risk management within the Group rests with the legal function, lead by a general counsel located at Atlas Copco AB. The legal function is managed from Stockholm, but also has functions in Atlas Copco North America Inc, the United States, and Atlas Copco (China) Investment Company Ltd., China. In addition to continuous follow-up of legal risk exposure carried out within the operative structure and supported by the legal function, a special annual review of all companies within the Group has been performed from this perspective for several years. With particular consideration to risk area trends, the results are compiled, analyzed, and reported to both the Board and to the external auditor.

Reputational risks: The Group's reputation is a valuable asset that 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 strives to avoid actions that could pose a risk to the Group's reputation. To minimize the risk to the Group's reputation through the actions of other stakeholders, Atlas Copco strives to be a good citizen of all communities in which it operates, and the Group is positive towards constructive dialogues with stakeholders.

To ensure good business practice on all markets, managers are continuously educated about Atlas Copco's *Business Code of Practice*. The Code consists of internal policy documents and guidelines that address business ethics as well as social and environmental aspects. Visit www.atlascopco.com/csr for the *Business Code of Practice*.

Corruption, bribery and human rights crimes exist in markets where Atlas Copco conducts its business. To increase employee awareness of such unacceptable behaviour and thereby learn to avoid them, the Group uses information from Transparency International to map countries with significant risks associated with corruption and bribery and Amnesty Business Group to identify the countries where human rights crimes commonly occur.

Atlas Copco and its principal stakeholders

Provide long-term investment returns that surpass the industry average.

Operate worldwide with a long-term commitment to customers in each market.

Provide high-quality products and services with an increasing value/cost relation.

Develop safe, ergonomic, reliable and functional products and services that enhance customer productivity and have a minimum impact on the environment.

Provide a working environment where the rights of people are respected.

Competence development.

Recognize and reward achievement and performance.

Invited to participate in the work for a better environment.

Strive to be a good, reliable corporate citizen.

Conduct business with a strictly professional approach.

Conduct activities in a manner that preserves the environment for future generations.

Group Management


Gunnar Brock


Bengt Kvarnbäck


Björn Rosengren


Fredrik Möller


Tom Zorn


Hans-Ola Meyer


Marianne Hamilton


Hans Sandberg


Annika Berglund

Group Management

Besides the President and Chief Executive Officer, Group Management consists of four business area executives and four persons responsible for the Group functions; Controlling and Finance, Organizational Development and Management Resources, Communication and branding and Legal.

President and Chief Executive Officer

Gunnar Brock received his M.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden, in 1974. He assumed his position as President and Chief Executive Officer of Atlas Copco on July 1, 2002.

Between 1974 and 1992, Brock held various positions within the packaging systems company Tetra Pak, including Managing Director in Europe and Asia, as well as Executive Vice President of the Tetra Pak Group. Between 1992 and 1994, he was President and Chief Executive Officer of industrial company Alfa Laval Group and held the same position for the Tetra Pak Group between 1994 and 2000. Before assuming his current position, Brock was Chief Executive Officer for the load carrier company Thule International, Sweden.

Besides his holdings in Atlas Copco, neither Brock nor any member of his immediate family, have shares/partnerships in companies with which the Atlas Copco Group has significant business connections.

External directorships: forest products company Stora Enso Oyj, Finland, toy manufacturer Lego A/S, Denmark, and the trade and employers' organization the Association of Swedish Engineering Industries. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Business Area Executives

Bengt Kvarnbäck, Senior Executive Vice President of Atlas Copco AB and Business Area President for Compressor Technique, graduated from the Royal Institute of Technology in Stockholm, Sweden, Metallurgical Engineering, in 1970. Between 1970 and 1982, Bengt Kvarnbäck held various positions within the industrial company Sandvik AB, Sweden. Bengt Kvarnbäck was then President of the rock drilling tools company Secoroc AB, Sweden, and later of investment group Invik & Co AB, Sweden. He held the position as Executive Vice President for investment company Industriförvaltnings AB Kinnevik, Sweden, prior to joining Atlas Copco in 1992 as Senior Executive Vice President Atlas Copco AB and Business Area President Industrial Technique. In 1997, Bengt Kvarnbäck assumed his current position.

External directorships: marine and industrial engines manufacturer Volvo Penta AB, Sweden, and road construction machines manufacturer Dynapac AB, Sweden.

Björn Rosengren, Senior Executive Vice President for Atlas Copco AB and Business Area President for Construction and Mining Technique, earned his M.Sc. Technology from Chalmers University of Technology in Gothenburg, Sweden, in 1985. Between 1985 and 1995, Björn Rosengren held various positions within the welding company Esab Group, Sweden, including international assignments as Marketing Manager in Switzerland and Sweden and other international positions in the field of marketing. From 1995 he was General Manager for the hydraulic firm Nordhydraulic, Nordwin AB, Sweden. In 1998 he joined Atlas Copco as President, Atlas Copco Craelius division and, prior to when he assumed his present assignment in 2002, he was President of Rock Drilling Equipment division.

Fredrik Möller, Senior Executive Vice President for Atlas Copco AB and Business Area President for Industrial Technique. Fredrik Möller holds a Masters of Science degree from Linköping Institute of Technology, Sweden and an MBA from Weatherhead School of Management, Cleveland, Ohio, the United States. He joined Atlas Copco in 1990 and has held managerial positions in sales, marketing, and product development in Sweden and has been General Manager of a Customer Center in the United States. Between 2003 and 2005, Fredrik Möller was President of the Atlas Copco Tools and Assembly Systems division within business area Industrial Technique. Fredrik Möller assumed his present position in April 2005.

Tom Zorn, Business Area President for Rental Service. Tom Zorn has a degree in Economics and Business Administration and an MBA from the University of Michigan, the United States. He held various positions within the car manufacturer Ford Motor Company, the United States, between 1988 and 1996. Tom Zorn has an extensive background in rental operations and was head of the division Budget Truck Rental in the United States from 1996. Following one year as Vice President in charge of global strategies of the Security Capital Group (a subsidiary to GE Capital), the United States, Tom Zorn returned in 1998 to Budget Rental Car as head of Ryder Truck Rental and Budget Truck Rental, the United States. Tom Zorn joined Rental Service Corporation in 2003 and assumed his present position in January 2005.

Group functional responsibles

Hans Ola Meyer, Senior Vice President Controlling and Finance, earned his M.Sc. in Economics and Business Administration from Stockholm School of Economics in Stockholm, Sweden, in 1977. Hans Ola Meyer 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 Penningsmarknadsmäklarna (later JP Bank), Sweden, among them Head of Asset Management. Hans Ola Meyer returned to Atlas Copco in 1991 as Financial Manager in Spain and in 1993 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.

Marianne Hamilton, Senior Vice President Organizational Development and Management Resources, earned her Bachelor of Arts at the Stockholm University, Sweden, in 1972. Marianne Hamilton was employed in 1973 by the pharmaceutical company Astra, Sweden, where she performed market analysis. Between 1975 and 1990, she was a consultant for the international consultant agency, Mercuri Urval, Sweden. Marianne Hamilton joined Atlas Copco in 1990 as Vice President Organizational Development for the Atlas Copco Industrial Technique Business Area and assumed her current position in 1991.
External directorship: Retirement pension fund Alecta, Sweden.

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. In 1972 Hans Sandberg began as an Assistant Judge at Södra Roslagen District Court, Sweden, and was later employed at the Lagerlöf Law firm, Sweden. Hans Sandberg joined Atlas Copco in 1975 as Corporate Counsel. In 1980 he was appointed General Counsel for Atlas Copco North America Inc. He was promoted in 1984 to his current position and has been a member of Group Management since 1989. Hans Sandberg has been Secretary of the Board of Directors for Atlas Copco AB since 1991.
External directorship: Chairman of the Board for legal matters of the Association of Swedish Engineering Industries.

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 with marketing analysis in Atlas Copco in 1979. Since then, she has had a number of positions in the Group related to marketing, sales, and business controlling in Europe. Prior to her current position assumed in 1997, Annika Berglund was Marketing Manager for the electronic company Atlas Copco Controls (Inmotion). Annika Berglund has been a member of Group Management since 1999.

Group Management

Name	Born	Nationality	Employed	Function	Class A shares	Class B shares	Employee stock options
Gunnar Brock	1950	Sweden	2002	President and CEO	23 100	4 500	141 119
Bengt Kvarnbäck	1945	Sweden	1992	President Compressor Technique	34 113	171	50 277
Björn Rosengren	1959	Sweden	1998	President Construction and Mining Technique	0	0	11 759
Fredrik Möller	1963	Sweden	1990	President Industrial Technique	0	0	–
Tom Zorn	1962	USA	2003	President Rental Services	0	0	5 878
Hans Ola Meyer	1955	Sweden	1991	Controlling and Finance	1 713	3 900	70 559
Marianne Hamilton	1947	Sweden	1990	Organizational Development and Management Resources	11 625	0	17 633
Hans Sandberg	1946	Sweden	1975	General Counsel	3 600	200	17 633
Annika Berglund	1954	Sweden	1979	Corporate Communications	7 515	1 695	17 633

Remuneration to Group Management
Remuneration covers an annual base salary, variable compensation, pension premiums, 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 any other compensation for other duties that they may perform outside the immediate scope of their positions.

President and Chief Executive Officer: The variable compensation can give maximum 90% of the base salary paid, in this case, a maximum of 50% based on the Group's profit before tax and a maximum of 40% for various projects. The variable compensation is not included in the basis for pension benefits.

The President and CEO is a member of the Atlas Copco Group 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 survivors' pension. In addition, he is entitled to a disability pension corresponding to 50% of his base salary. These pension plans are vested and pension payments are planned to be for lifetime. See also note 4.

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 60% or 70% 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. These pension plans are vested and pension payments are planned to be for lifetime.

The retirement age is 65 with the exception of one of the executives who is entitled to retire at the age of 60 with an early retirement pension payable from the early retirement date to the age of 65. The amount of pension depends on when the agreement is invoked, but is maximized to 60% of the pensionable salary. After age 65, this plan ceases and the pension, as per the defined contribution plan, becomes effective. As a prerequisite, a maximum of 20% of full time, unpaid consultancy work for the company between early retirement and the age of 65 is required.

Termination of employment
The basis for severance pay for all members of Group Management is base salary only. No member has the possibility 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 Chief Executive Officer: 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.

Other members of Group Management: The principle is that other members of the Group 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 to 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 Stockholmsbörsen. Financial reports are prepared in line with legal and International Financial Reporting Standards (IFRS). Quarterly reports and annual reports are sent to the entire Board before publication. In addition to the audit of the annual report the company's auditor has in 2005 reviewed the third quarter report in accordance with the Swedish Corporate Governance Code. The Board also receives a monthly report with summarized results and trends.

Financial information is regularly presented to the market in the form of:

- Annual report
- Quarterly reports
- Press releases concerning events that may to a not insignificant extent have an affect on the share price
- 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 on the Group's website www.atlascopco.com.

Internal Control over Financial Reporting

This is a description of the most essential internal control procedures related to the financial reporting. With reference to statement from the 'Board of Swedish Corporate Governance' it does not carry an opinion by the Board of Directors on its effectiveness during the year and has not been examined by the company's auditor.

The base for the internal control over the financial reporting consists of the overall control environment that the Board of Directors and the 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 guiding documents like internal policies, guidelines, manuals and codes.

The company applies different processes for risk assessment and identification of the principle risks. The risk assessment is continuously 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 company, division, business area and Group level. These include among others procuration and attesting instructions, controls in business systems as well as accounting and reporting routines.

The company has information and communication channels designed to safeguard that the financial reporting is complete and accurate. Instructions and guidelines are communicated and made known to personnel concerned, for example through management training programs.

The company 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 has established the following main internal control processes related to the financial reporting:

Financial reporting: Monthly operative reports are prepared to measure profitability per company, division and business area. Each division consolidates its units and reports division adjustments and eliminations to Atlas Copco AB. All legal entities submit quarterly reports in accordance with a standardized reporting routine. These reports constitute the basis for the Group's consolidated reports.

To ensure the proper implementation of IFRS, the Group has during the year implemented and trained an internal international network of qualified accountants to provide regional support and act as ambassadors of Group accounting.

The Group uses a common system for consolidation of both legal and operative reports. Information is stored in a central database from which it can be retrieved for analysis and follow-up at Group, business area, division, and unit levels. The analysis package includes a series of standardized scorecards used to follow up key indicators in relation to the set targets.

Business control: Each unit has a business controller responsible for ensuring that, among other things, there are adequate internal control routines, the Group's control processes are implemented, and any risk exposures are reported. The controller is also responsible to ensure that *The Way We Do Things* is followed in all respects and that the financial reports—produced for many companies by the internal service provider ASAP—are correct, complete, and delivered on time. In addition, there are controllers at division, business area and Group levels, with corresponding responsibilities for these aggregated levels.

Business boards: An internal board structure, organized according to operational responsibilities, i.e. parallel to the legal company board structure, is an essential tool to follow up the adherence to internal policies, guidelines, instructions and codes as well as the efficiency in the control activities.

Internal audit: Constitutes a complement to external audits and local internal control. In addition to the routines for financial reports and other internal controls, the audit covers all business processes within the company and other important areas including people management and information technology. Internal audits are normally initiated by the division in charge of operations or the responsible holding company. An internal audit is routinely performed every time a unit changes manager, but an internal audit may be carried out for other reasons in between such transitions, for instance; after major negative events or structural changes, comments from external auditors, if a long time has passed since the last audit, or when it is proposed by an employee. There are standardized tools for planning and risk assessment before an audit, as well as checklists and forms for reports and follow-ups. The controlling function at Atlas Copco AB has the overall responsibility for the internal audit process. There are, however, no dedicated internal audit resources in the Group, except in North America where an internal audit department has as its primary task to conduct audits in Rental Service operation. Internal audits are otherwise performed in the Group by a team of people appointed from various parts of the organization with suitable competence for the audit to be conducted.

Post-acquisition audit: This audit is conducted approximately 18 months after an acquisition in accordance with a special review for following up synergies, integration activities, and the acquisition process as such. The audit is performed by a team consisting of at least two persons, of which at least one should have practical experience of acquisitions. The audit is initiated by and reported to a steering committee for the acquisition process, appointed by Group Management.

Control Self Assessment: The objective of this process is primarily to support local unit managers in understanding and clarifying their responsibilities. One of them is internal control. Legal, branding, and Business Code of Practice are also included in the assessment. Unit managers annually review extensive questionnaires to measure personally 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.

The Atlas Copco Share

At December 31, 2005, the price of the Atlas Copco A share was SEK 177. During 2005, the price of the A share increased 77%, while the Stockholm Stock Exchange's Industrial Index and General Index gained 45% and 33%, respectively. The annual total return on the Atlas Copco A share, equal to dividend plus the appreciation of the share price, averaged 21.9% for the past 10 years and 25.5% for the past 5 years. The corresponding total yield for the Stockholm Stock Exchange as a whole was 14.2% (1996–2005) and 3.8% (2001–2005).

Dividend and dividend policy

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 4.25 (3.00) per share be paid for the 2005 fiscal year. This corresponds to a total of MSEK 2 672 (1 886).

The dividends to shareholders shall reflect the company's profit and cash flow development as well as growth targets.

The Board of director's opinion is that the dividend should correspond to 40–50% of earnings per share. If the shareholders approve the Board of Directors' proposal for a dividend of SEK 4.25 per share, the average dividend growth for the five-year period 2001–2005 will equal 19.4%. During that period, the dividend has averaged 41.5% of basic earnings per share.

Proposed mandate for repurchases of own shares

The Board of Directors has decided to propose that the Annual General Meeting approves a mandate for the repurchase of a maximum of 10% of the total number of shares issued by the Company over the Stockholm Stock Exchange. Currently the Company does not own any of its shares. This authorization would cover the period up to the Annual General Meeting in 2007.

The intention with the proposal is to continuously be able to adapt the capital structure to the capital needs of the Company and thus contribute to increased shareholder value.

Share split and mandatory redemption of shares

A share split and a mandatory redemption of shares was resolved during 2005. Every share was split into 3 ordinary shares and 1 redemption share. The redemption share was then redeemed at SEK 20.00 per share. The redemption corresponded to a total payment of MSEK 4 192. Combined with the dividend, shareholders received MSEK 6 078.

Tax issues for shareholders in Sweden

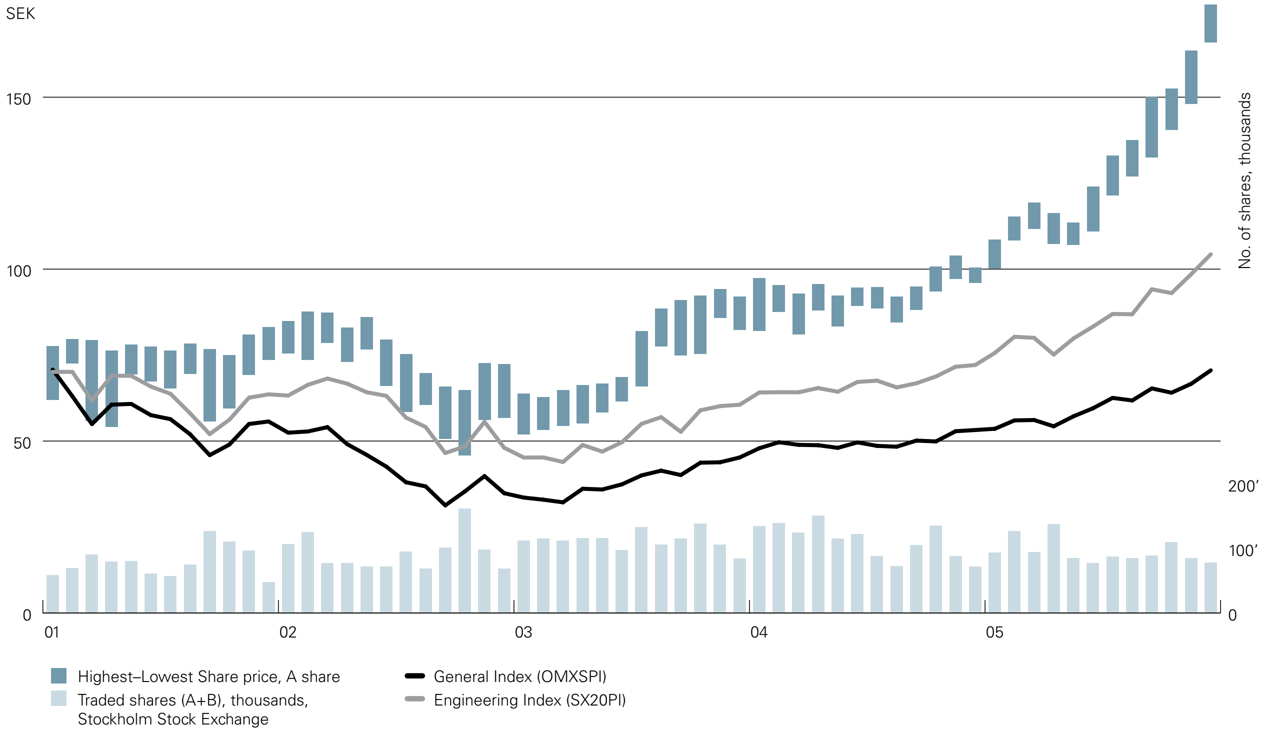
The Swedish Tax Agency has published information about the redemption and general advice on allocation of acquisition costs for the taxation year 2006. Redemption of shares is considered a disposal of the redeemed shares. A capital gain or capital loss shall be computed, in which the acquisition cost of the shares redeemed can be deducted.

The general advice of the Swedish Tax Agency:

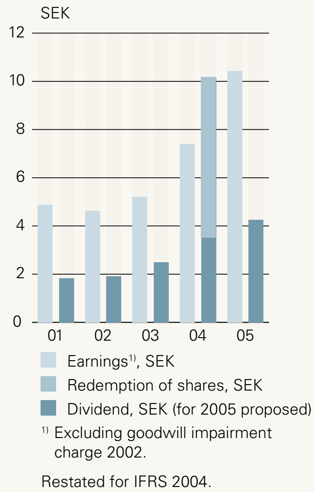
- Of the acquisition cost of an original class A share, 94% should be allocated to the remaining shares of the same class and 6% to the redemption share.
- Of the acquisition cost of an original class B share, 93.5% should be allocated to the remaining shares of the same class and 6.5% to the redemption share.

For more information, please turn to the Swedish Tax Agency, www.skatteverket.se.

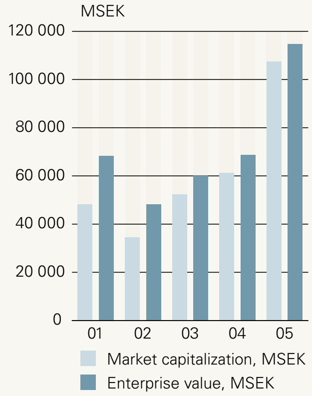
Share price



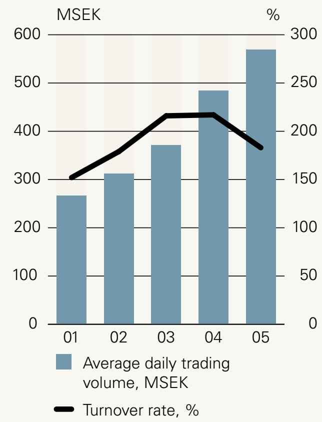
Earnings and dividend per share



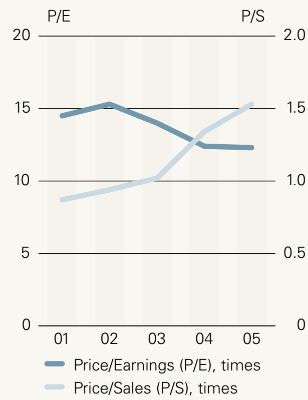
Market capitalization and enterprise value



Liquidity



Valuation



Symbols and tickers

	A-share	B-share
Stockholm Stock Exchange	ATCO A	ATCO B
Round lot	200 shares	200 shares
ISIN code	SE0000101032	SE0000122467
Reuters	ATCOa.ST	ATCOb.ST
Bloomberg	ATCOA SS	ATCOB SS
ADR	ATLKY.OTC	ATLSY.OTC

Share capital

Atlas Copco's share capital at year-end 2005 amounted to SEK 786 008 190 distributed among 628 806 552 shares, each with a nominal value of SEK 1.25. Class A shares entitle the holder to one voting right, and class B shares entitle the holder to one-tenth of a voting right. Each round lot consists of 200 shares.

Distribution of shares, December 31, 2005

Class of share	Shares outstanding	% of votes	% of capital
A shares	419 697 048	95.3	66.7
B shares	209 109 504	4.7	33.3
Total	628 806 552	100.0	100.0

Statutory limitations on coupon shares

Non-VPC registered shares from 1974 have been sold and the right to these shares has been transformed to a right to receive the proceeds. These rights will expire in 2010.

Market capitalization

Atlas Copco's market capitalization at December 31, 2005 was MSEK 107 430 (61 312), which corresponds to 3.1% (2.3) of the total market value of the Stockholm Stock Exchange.

Trading

Trading of the Atlas Copco AB shares primarily takes place on the Stockholm Stock Exchange. In 2005, Atlas Copco shares were the 7th (6th) most actively traded shares. A total of 1 151 331 774 shares were traded, whereof 917 008 371 A shares and 234 323 403 B shares, corresponding to a value of MSEK 143 976 (122 417). On average, 4 550 718 shares (5 346 591) were traded each business day, corresponding to a value of MSEK 569 (484). The turnover rate was 183% (217), compared with the stock market average of 124% (134). Foreign trading in the Atlas Copco shares showed a net export of MSEK 1 267 (1 312).

Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A-shares, are listed on the Stockholm Stock Exchange. In 2005, 318 036 (304 688) option contracts were traded. Since the options grant the holder the right to buy or sell existing shares only, they have no dilution effect.

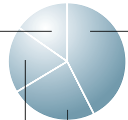
Ownership structure

At year-end 2005, Atlas Copco had 37 200 shareholders (33 773). The 10 largest shareholders registered directly or as a group with VPC, the Swedish Central Securities Depository, by voting rights, accounted for 29% (31) of the voting rights and 26% (27) of the number of shares. Non-Swedish investors held 51% (50) of the shares and represented 57% (57) of the voting rights.

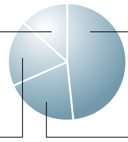
Ownership structure, December 31, 2005

Number of shares	% of shareholders	% of capital
1–500	51.6	0.6
501–2 000	31.7	1.9
2 001–10 000	12.6	3.0
10 001–50 000	2.4	3.1
50 001–100 000	0.6	2.4
>100 000	1.1	89.0
Total	**100.0**	**100.0**

Shareholders by country, December 31, 2005 % of votes



Shareholders by country, December 31, 2005 % of capital



10 largest shareholders, December 31, 2005

	Number of shares	A-shares	B-shares	% of votes	% of capital
Investor	94 364 913	92 721 613	1 643 300	21.08	15.01
Nordea funds	9 507 957	7 760 637	1 747 320	1.80	1.51
Handelsbanken funds	14 403 241	6 029 688	8 373 553	1.56	2.29
AP 1	6 410 346	6 410 346	0	1.45	1.02
AP 4	5 535 200	3 925 200	1 610 000	0.93	0.88
Robur funds	14 664 727	2 340 250	12 324 477	0.81	2.33
AP 2	6 320 042	2 049 249	4 270 793	0.56	1.01
XACT funds	3 044 930	1 934 506	1 110 424	0.46	0.48
Länsförsäkringar funds	2 208 740	1 121 680	1 087 060	0.28	0.35
SEB funds	7 949 130	372 390	7 576 740	0.26	1.26
Others	464 397 326	295 031 489	169 365 837	70.80	73.85
Total	**628 806 552**	**419 697 048**	**209 109 504**	**100.00**	**100.00**

The table shows the largest shareholders, by voting rights, registered directly or as a group with VPC, the Swedish Central Securities Depository.

Share issues 1973–2005

			Change of share capital, MSEK	Amount paid, 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 nominal value SEK 5		
1999	New issue	1:7 SEK 160	130.4	4 173.8
2005	Split	4:1 nominal value SEK 1.25		
	Share redemption	209 602 184 shares at SEK 20	–262.0	–4 192.0

[1] Pertains to 1987/1993 convertible debenture loan.
[2] In connection with the acquisition of The Robbins Company.

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 2005, there were 2 221 908 (2 758 725) ADRs outstanding, of which 1 973 934 represented A shares and 247 974 B shares.

Cancellation of listings in London and Frankfurt

Atlas Copco have had secondary listings on the stock exchanges in London, Great Britain, and Frankfurt, Germany, but the trading of Atlas Copco shares on these exchanges were negligible and therefore did not support listings. The listings were discontinued in 2005.

Key figures per share[1)]

SEK	2001	2002	2002[2)]	2003	2004	2005	Average growth 5 years, %
Basic earnings	4.88	–6.18	4.63	5.21	7.41	10.43	17.5
Diluted earnings					7.40	10.41	
Dividend	1.83	1.92	1.92	2.50	3.00	4.25[3)]	19.4
– as a percentage of basic earnings	37.6	Neg	41.4	48.0	40.5	40.7	
Dividend yield, %	2.6	2.7	2.7	3.4	3.3	3.3	
Redemption of shares[4)]					6.67		
Operating cash flow	9.13	8.90	8.90	8.92	7.47	7.19	
Equity	44	32	42	34	36	41	
Share price, December 31, A	78	57	57	86	100	177	20.7
Share price, December 31, B	73	52	52	78	93	159	19.2
Highest share price quoted, A	83	88	88	94	104	177	
Lowest share price quoted, A	54	46	46	52	81	100	
Average share price quoted, A	71	71	71	73	92	128	
Price/earnings	14.5	neg	15.3	14.0	12.4	12.3	
Price/sales	0.87	0.94	0.94	1.02	1.34	1.53	
Market capitalization, December 31, MSEK	48 176	34 552	52 369	52 369	61 312	107 430	
Number of shares[1)]	209 602 184	209 602 184	209 602 184	209 602 184	209 602 184	628 806 552	

1) Historical data per share have been adjusted for share split and the figures for 2004 have been restated in accordance with IFRS.
2) Excluding goodwill impairment charge.
3) Proposed by the Board of Directors.
4) An extra distribution of MSEK 4 192 through mandatory redemption was resolved at the AGM and executed in 2005.

Analysts following Atlas Copco

ABG Sundal Collier . . . . . Klas Andersson
ABN AMRO – Alfred Berg . . . . . Johan Trocmé
Bear Stearns International . . . . . Daniel Cunliffe
Carnegie . . . . . Anders Idborg
Cazenove . . . . . Glen Liddy
Cheuvreux . . . . . Johan Wettergren
Citigroup Smith Barney . . . . . Tim Adams
CSFB . . . . . Patrick Marshall
Danske Bank . . . . . Henrik Breum
Deutsche Bank . . . . . Peter Reilly
Dresdner Kleinwort . . . . . Colin Grant
Enskilda . . . . . Anders Eriksson
Evli Bank . . . . . Magnus Axén
Exane BNP Paribas . . . . . Xavier Le Roy
Fischer Partners . . . . . Henrik Moberg
Goldman Sachs . . . . . James Moore
Handelsbanken . . . . . Kenneth Toll
H&Q Research . . . . . Hans-Olov Öberg
HSBC . . . . . Edward Stacey
JP Morgan . . . . . Nick Paton
Kaupthing Bank . . . . . Peder Frölén
Lehman Brothers . . . . . Brian Hall
Merrill Lynch . . . . . Mark Troman
Morgan Stanley . . . . . Gustaf Lindskog
SG Securities . . . . . Gaël de Brey
Standard & Poors/Nordea . . . . . Tobias Ottosson
Swedbank . . . . . Mats Liss
UBS Warburg . . . . . Michael Hagmann
Öhman . . . . . Anders Roslund

Five Years in Summary

MSEK	2001	2002	2002[1]	2003	2004	2005
Orders received	50 916	47 946	47 946	45 149	44 659	55 281
Revenues and profit						
Revenues	51 139	47 562	47 562	44 619	43 192	52 742
—Change, %	10	–7	–7	–6	9	22
—Change, excluding currency, %	0	–2	–2	4	14	19
—Change, organic from volume and price, %	0	–4	–4	3	10	14
EBITDA	10 686	9 217	9 217	8 623	9 567	12 723
—EBITDA margin, %	20.9	19.4	19.4	19.3	22.1	24.1
Operating profit	6 130	–1 689	5 261	5 310	6 651	9 403
—Operating profit margin, %	12.0	–3.6	11.1	11.9	15.4	17.8
Net interest expense	–1 402	–722	–722	–386	–374	–498
—as a percentage of revenues	*–2.7*	*–1.5*	*–1.5*	*–0.9*	*–0,9*	*–0.9*
Interest coverage ratio	3.9	–1.3	5.1	7.5	9.1	14.9
Profit before tax	4 700	–2 469	4 481	4 913	6 382	9 300
—Profit margin, %	9.2	–5.2	9.4	11.0	14.8	17.6
Profit for the period	3 067	–3 889	2 909	3 274	4 671	6 581
Cash Flow[2]						
Operating cash surplus	10 175	8 770	8 770	8 291	9 816	12 084
Cash flow before change in working capital	6 771	6 922	6 922	6 799	8 305	10 230
Change in working capital	385	377	377	863	–445	–231
Cash flow from investing activities	–1 712	–2 412	–2 412	–2 823	–5 568	–1 996
Gross investments in other property, plant and equipment	–951	–965	–965	–724	–841	–840
—as a percentage of revenues	*–1.9*	*–2.0*	*–2.0*	*–1.6*	*–1.9*	*–1.6*
Gross investments in rental equipment	–2 751	–2 144	–2 144	–2 681	–3 991	–6 396
Net investments in rental equipment	–606	–742	–742	–1 175	–2 050	–4 032
—as a percentage of revenues	*–1.2*	*–1.6*	*–1.6*	*–2.6*	*–4.7*	*–7.6*
Cash flow from financing activities	–5 405	–4 733	–4 733	–1 895	–3 490	–7 521
—of which dividends paid	–1 125	–1 165	–1 165	–1 219	–1 575	–6 082
Operating cash flow	5 744	5 599	5 599	5 609	4 697	4 521
Financial position [2]						
Total assets	64 357	48 668	54 684	45 862	48 168	54 955
—Capital turnover ratio	0.78	0.83	0.80	0.95	0.99	1.02
Capital employed	49 210	35 404	41 420	32 859	33 174	37 153
—Capital employed turnover ratio	1.02	1.34	1.12	1.33	1.41	1.51
Return on capital employed, %	12.6	–3.2	12.3	16.8	22.1	28.5
Equity	27 568	20 194	20 194	21 015	22 601	25 808
—Debt/equity ratio, %	72.3	67.3	51.9	36.1	34.8	28.0
—Equity/assets ratio, %	43.2	41.8	48.2	45.9	46.9	47.0
Return on equity, %	11.7	–16.2	10.9	16,0	21.6	27.8
Employees						
Average number of employees	26 201	25 787	25 787	25 707	23 849	26 258
Revenues per employee, kSEK	1 952	1 844	1 844	1 736	1 811	2 009

Per share data, SEK	2001	2002	2002[1]	2003	2004	2005
Basic earnings	4.88	–6.18	4.63	5.21	7.41	10.43
Dividend	1.83	1.92	1.92	2.50	3,00	4.25[3]
—Dividend as % of basic earnings	37.6	neg	41.4	48.0	40.5	40.7
—Dividend yield, %	2.6	2.7	2.7	3.4	3.3	3.3
Redemption of shares [4]					6.67	
Operating cash flow	9.13	8.90	8.90	8.92	7.47	7.19
Equity	44.2	32.4	42.0	33.5	36.0	41.0

Figures for 2004 have been restated in accordance with IFRS. For definitions see page 118.

Key financial data in USD and EUR is published on www.atlascopco.com

[1] Excluding impact of goodwill impairment charge.

[2] Including discontinued operations and net assets classified as held for sale in 2004.

[3] Proposed ordinary dividend by the Board of Directors.

[4] An extra distribution of MSEK 4 192 through mandatory redemption was resolved at the AGM and executed in 2005.

Quarterly Data

Revenues by Business Area

				2004				2005
MSEK	1	2	3	4	1	2	3	4
Compressor Technique	4 116	4 549	4 525	4 597	4 423	5 207	5 247	5 795
Construction and Mining Technique	2 024	2 359	2 827	3 244	3 212	3 771	3 817	4 354
Industrial Technique	1 183	1 251	1 248	1 364	1 340	1 464	1 544	1 716
Rental Service	2 344	2 669	2 836	2 553	2 370	2 812	3 083	3 339
Eliminations	–72	–148	–111	–166	–177	–192	–212	–171
Atlas Copco Group	9 595	10 680	11 325	11 592	11 168	13 062	13 479	15 033

Operating profit by Business Area

				2004				2005
MSEK	1	2	3	4	1	2	3	4
Compressor Technique	747	808	884	883	813	962	1 047	1 210
– as a percentage of revenues	*18.1*	*17.8*	*19.5*	*19.2*	*18.4*	*18.5*	*20.0*	*20.9*
Construction and Mining Technique	193	245	314	363	347	485	559	682
– as a percentage of revenues	*9.5*	*10.4*	*11.1*	*11.2*	*10.8*	*12.9*	*14.6*	*15.7*
Industrial Technique	213	215	244	271	262	280	311	347
– as a percentage of revenues	*18.0*	*17.2*	*19.6*	*19.9*	*19.6*	*19.1*	*20.1*	*20.2*
Rental Service	228	414	600	490	388	621	789	868
– as a percentage of revenues	*9.7*	*15.5*	*21.2*	*19.2*	*16.4*	*22.1*	*25.6*	*26.0*
Common Group Functions	–63	–93	–77	–216	–116	–77	–179	–157
Eliminations	3	–5	–3	–7	1	–30	–15	5
Operating profit	1 321	1 584	1 962	1 784	1 695	2 241	2 512	2 955
– as a percentage of revenues	*13.8*	*14.8*	*17.3*	*15.4*	*15.2*	*17.2*	*18.6*	*19.7*
Net financial items	–90	–82	–111	14	14	–71	13	–59
Profit before tax	1 231	1 502	1 851	1 798	1 709	2 170	2 525	2 896
– as a percentage of revenues	*12.8*	*14.1*	*16.3*	*15.5*	*15.3*	*16.6*	*18.7*	*19.3*

Legal Entities

(Holding and operating companies – excluding branches)

Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	ALGER
Argentina	Atlas Copco Argentina S.A.C.I	BUENOS AIRES
	Atlas Copco Servicios Mineros S.A.	BUENOS AIRES
Australia	Atlas Copco Australia Pty Limited	BLACKTOWN
	Atlas Copco South Pacific Holdings Pty Ltd	BLACKTOWN
Austria	Atlas Copco Ges.m.b.H.	WIEN
	Atlas Copco MAI GmbH	FEISTRITZ AN DER DRAU
Bahrain	Atlas Copco Services Middle East OMC	BAHRAIN
Belgium	Atlas Copco Airpower n.v.	WILRIJK
	Atlas Copco ASAP n.v.	WILRIJK
	Atlas Copco Belgium n.v.	OVERIJSE
	Atlas Copco Compressor International n.v.	WILRIJK
	Atlas Copco Coordination Center n.v.	WILRIJK
	Atlas Copco Rental Europe n.v.	RUMST
	Atlas Copco Tools Europe n.v.	OVERIJSE
	Power Tools Distribution n.v.	TONGEREN
	Scanrotor n.v.	GENT
Bolivia	Atlas Copco Boliviana SA	LA PAZ
Botswana	Atlas Copco (Botswana) (Pty) Ltd	GABORONE
Brazil	Atlas Copco Brasil Ltda	SAO PAULO
	Chicago Pneumatic Brasil Ltda	SAO PAULO
Bulgaria	Atlas Copco Lifton Eood	RUCE
Canada	Atlas Copco Canada Inc.	LASALLE
	Chicago Pneumatic Tool Co. Canada Ltd	TORONTO, ONT
	Rental Service Corporation Canada Ltd	CALGARY
Chile	Atlas Copco Chilena S.A.C.	SANTIAGO
	Drillco S A	SANTIAGO
China	Atlas Copco (China) Investment Co Ltd	SHANGHAI
	Atlas Copco (Shanghai) Trading Co Ltd	SHANGHAI/PUDONG
	Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	NANJING
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd	SHENYANG
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	ZHANGJIAKOU
	CP Qianshao (Qingdao) Power Tools Ltd.	QINGDAO
	Liuzhou Tech Machinery Co Ltd	LIUZHOU
	Nanjing Atlas Copco Construction Machinery Ltd.	NANJING
	Wuxi-Atlas Copco Compressor Co Ltd	WUXI
	Wuxi-Hobic Diamond Bit Co., Ltd.	WUXI
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd	WUXI
Colombia	Atlas Copco Colombia Ltda	BOGOTA

Country	Company	Location (City)
Croatia	Contex d.o.o.	SPLIT
Cyprus	Atlas Copco (Cyprus) Ltd.	NICOSIA
Czech Republic	Atlas Copco s.r.o.	PRAHA
	Lubenecké továrny Svoboda, a.s.	LUBENEC
Denmark	Atlas Copco Kompressorteknik A/S	COPENHAGEN
Egypt	Atlas Copco Equipment Egypt S.A.E.	CAIRO
Finland	Oy Atlas Copco Ab	VANTAA
	Oy Atlas Copco Kompressorit Ab	VANTAA
	Oy Atlas Copco Louhintatekniikka Ab	VANTAA
	Oy Atlas Copco Rotex Ab	TAMPERE
	Oy Atlas Copco Tools Ab	VANTAA
France	Atlas Copco France Holding S.A.	ST. OUEN L'AUMÔNE
	Atlas Copco Applications Industrielles S.A.S.	ST. OUEN L'AUMÔNE
	Atlas Copco Compresseurs S.A.S	ST. OUEN L'AUMÔNE
	Atlas Copco Crépelle S.A.S.	LILLE
	Atlas Copco Drilling Solutions S.A.S	ST OUEN L'AUMÔNE
	Atlas Copco Forage et Démolition S.A.S.	ST. OUEN L'AUMÔNE
	Compresseurs Mauguière S.A.S.	MERU
	Compresseurs Worthington Creyssensac S.A.S.	MERU
	ETS Georges Renault S.A.S.	NANTES
Germany	Atlas Copco Holding GmbH	ESSEN
	IRMER + ELZE Kompressoren GmbH	BAD OEYNHAUSEN
	Atlas Copco Application Center Europe GmbH	ESSEN
	Atlas Copco Construction Tools GmbH	ESSEN
	Atlas Copco Energas GmbH	COLOGNE
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	ESSEN
	Atlas Copco MCT GmbH	ESSEN
	Atlas Copco Tools Central Europe GmbH	ESSEN
	Desoutter GmbH	MAINTAL
Ghana	Atlas Copco Ghana Ltd.	ACCRA
Great Britain	Atlas Copco UK Holdings Ltd.	HEMEL HEMPSTEAD
	Atlas Copco Compressors Ltd.	HEMEL HEMPSTEAD
	Atlas Copco Construction & Mining Ltd.	HEMEL HEMPSTEAD
	Atlas Copco PAIR Ltd	LONDON
	Atlas Copco Tools Ltd.	HEMEL HEMPSTEAD
	Desoutter Ltd.	HEMEL HEMPSTEAD
	Desoutter Sales Ltd.	HEMEL HEMPSTEAD
	Kolfor Plant Ltd.	DUNDEE
	Worthington Creyssensac Air Compressors Ltd.	HEMEL HEMPSTEAD
Greece	Atlas Copco Hellas AE	RENTIS
Hong Kong	Atlas Copco China/Hong Kong Ltd	KOWLOON
Hungary	Atlas Copco Kft.	BUDAPEST
India	Atlas Copco (India) Ltd.	PUNE

Country	Company	Location (City)
Indonesia	P T Atlas Copco Indonesia	JAKARTA
Ireland	Atlas Copco (Ireland) Ltd.	DUBLIN
Italy	Atlas Copco Italia S.p.A.	MILANO
	Ceccato Aria Compressa S.p.A.	VICENZA
	Desoutter Italiana S.r.l.	MILANO
	Worthington Aria Compressa S.p.A	MILANO
Japan	Atlas Copco KK	TOKYO
Kenya	Atlas Copco Eastern Africa Limited	NAIROBI
Korea	Atlas Copco Mfg. Korea Co. Ltd.	SEOUL
Luxemburg	Atlas Copco Reinsurance SA	LUXEMBURG
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	KUALA LUMPUR
Mexico	Atlas Copco Mexicana SA de CV	TLALNEPANTLA
	Inversora Capricornio SA de CV	TLALNEPANTLA
	Prime Equipment SA de CV	MONTERREY
Mongolia	Atlas Copco Mongolia LLC	ULAANBAATAR
Morocco	Atlas Copco Maroc SA	CASABLANCA
Namibia	Atlas Copco Namibia (Pty) Ltd.	WINDHOEK
Netherlands	Atlas Copco Beheer B.V.	ZWIJNDRECHT
	Atlas Copco Internationaal B.V.	ZWIJNDRECHT
	Atlas Copco Ketting Marine Center B.V.	IJMUIDEN
	Atlas Copco Nederland B.V.	ZWIJNDRECHT
	Creemers Compressors B.V.	EINDHOVEN
	Grass-Air Compressoren B.V.	OSS
	Technische Handelmaatschappij ABIRD B.V.	ROTTERDAM
New Zealand	Atlas Copco (N.Z.) Ltd.	MT. WELLINGTON, AUCKLAND
	Intermech Ltd	AUCKLAND
Norway	Atlas Copco A/S	LANGHUS
	Atlas Copco Anlegg- og Gruveteknikk A/S	LANGHUS
	Atlas Copco Kompressorteknikk A/S	LANGHUS
	Atlas Copco Tools A/S	LANGHUS
	Berema A/S	LANGHUS
Peru	Atlas Copco Peruana SA	LIMA
Philippines	Atlas Copco (Philippines) Inc.	PARANAQUE
Poland	Atlas Copco Polska Sp. z o. o.	WARSAW
Portugal	Sociedade Atlas Copco de Portugal Lda	LISBON
Romania	Atlas Copco Romania S.R.L.	OTOPENI
	Scanrotor SRL	PITESTI
Russia	ZAO Atlas Copco	MOSCOW
Serbia/ Montenegro	Atlas Copco A.D.	NOVI BEOGRAD
Singapore	Atlas Copco (South East Asia) Pte. Ltd	SINGAPORE
Slovenia	Atlas Copco d.d.	LJUBLJANA
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd	WITFIELD
	Atlas Copco Secoroc (Pty) Ltd	SPRINGS
	Atlas Copco South Africa (Pty) Ltd	BOKSBURG
Spain	Atlas Copco S.A.E.	MADRID
	Desoutter S.A.	MADRID
	Guimerá, S.A.	BARCELONA
	Puska Pneumatic S.A.	VIZCAYA
	Worthington Internacional Compresores S.A.	MADRID
Sweden	Atlas Copco AB	NACKA
	Atlas Copco CMT Sweden AB	NACKA
	Atlas Copco Compressor AB	NACKA
	Atlas Copco Construction Tools AB	NACKA
	Atlas Copco Craelius AB	MÄRSTA
	Atlas Copco Customer Finance AB	NACKA
	Atlas Copco Iran AB	NACKA
	Atlas Copco Rock Drills AB	ÖREBRO
	Atlas Copco Secoroc AB	FAGERSTA
	Atlas Copco Tools AB	NACKA
	BIAB Tryckluft AB	LUDVIKA
	CP Scanrotor Aktiebolag	TANUM
	Industria Försäkrings AB	NACKA
	Atlas Copco Nacka Holding AB	NACKA
	Atlas Copco Sickla Holding AB	NACKA
	Atlas Copco Industrial Technique AB	NACKA
	Atlas Copco Lugnet Treasury AB	NACKA
Switzerland	Atlas Copco Drilling Solutions AG	STUDEN/BIEL
	Atlas Copco (Schweiz) AG	STUDEN/BIEL
Taiwan	Atlas Copco Taiwan Ltd.	TAIPEI
Thailand	Atlas Copco (Thailand) Limited	BANGKOK
	Atlas Copco Service (Thailand) Limited	BANGKOK
Turkey	Atlas Copco Makinalari Imalat AS	ISTANBUL
	Scanrotor Otomotiv Ticaret A.S.	BURSA
USA	Atlas Copco North America Inc	PINE BROOK, NJ
	Atlas Copco ASAP North America LLC	PINEBROOK, NJ
	Atlas Copco Assembly Systems Inc	AUBURN HILLS, MI
	Atlas Copco BHMT Inc.	GRAND PRAIRIE, TX
	Atlas Copco Compressors Inc	HOLYOKE, MA
	Atlas Copco Comptec Inc.	VOORHEESVILLE, NY
	Atlas Copco Construction Mining Technique USA Inc	COMMERCE CITY, CO
	Atlas Copco Construction Tools Inc	WEST SPRINGFIELD, MA
	Atlas Copco Customer Finance USA Inc.	PINE BROOK, NJ
	Atlas Copco Drilling Solutions Inc.	GARLAND, TX
	Atlas Copco Tools & Assembly Systems Inc	AUBURN HILLS, MI
	Chicago Pneumatic Tool Company	ROCK HILL, SC
	Pneumatech Inc.	KENOSHA (WI)
	Rental Service Corporation	SCOTTSDALE, AZ
Venezuela	Atlas Copco Venezuela SA	CARACAS
Vietnam	Atlas Copco Vietnam Company Ltd	HANOI
Zambia	Atlas Copco (Zambia) Ltd	CHINGOLA
Zimbabwe	Atlas Copco Zimbabwe (Private) Ltd.	HARARE

Financial Definitions

Capital employed
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 minority interest.

Dividend yield
Dividend divided by the average share price quoted.

Earnings before depreciation and amortization (EBITDA)
Operating profit plus depreciation, impairment and amortization.

Earnings per share
Profit for the period, attributable to equity holders of the parent divided by the average number of shares outstanding.

EBITDA margin
Earnings before depreciation, impairment and amortization as a percentage of revenues.

Equity/assets ratio
Equity including minority interest, as a percentage of total assets.

Equity per share
Equity including minority interest divided by the number of shares.

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 indebtedness
Interest-bearing liabilities/provisions less cash and cash equivalents and current financial assets.

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 financial items and taxes.

Operating profit margin
Operating profit as a percentage of revenues.

Price/earnings
The average share price quoted divided by earnings per share.

Price/sales
The average share price quoted divided by revenues per share.

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 average capital employed.

Return on equity
Profit for the period, attributable to equity holders of the parent as a percentage of average equity, excluding minority interest.

Return on operating capital
Operating profit excluding goodwill amortization as a percentage of average capital employed, excluding goodwill.

Weighted average cost of capital (WACC)

$$\frac{\text{interest-bearing liabilities x i} + \text{market capitalization x r}}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

i: The Swedish risk-free interest rate (10-year government bonds) plus 0.5 percentage points to compensate for the premium Atlas Copco pays on borrowings compared to that of the Swedish state.
r: The Swedish risk-free interest rate, plus a risk premium (5.0%).

Financial Information

Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Thursday, April 27, 2006, at 5 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, 2006	Q1–first quarter results
July 17, 2006	Q2–second quarter results
October 24, 2006	Q3–third quarter results
February 1, 2007	Q4–fourth quarter results
March, 2007	Annual Report 2006

Order the Annual Report from

Atlas Copco AB
Corporate Communications
SE-105 23 Stockholm, Sweden
www.atlascopco.com
Phone: +46 (0)8 743 80 00
Fax: +46 (0)8 643 37 18

Contacts:

Investor Relations: Mattias Olsson, Investor Relations Manager, ir@se.atlascopco.com
Sustainability: Heidi Oram, Vice President Public Affairs, csr@se.atlascopco.com

www.atlascopco.com

The Atlas Copco Group site serves the financial markets with information. Here, 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. A comprehensive overview of the company and its operations can also be found on the site, with links to the Group's brands and the different countries where the Group has operations.

Addresses

Atlas Copco Group Center
Atlas Copco AB (publ)
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 8000
Fax: +46 8 644 9045
atlascopco.com
Corp. id. no: 556014-2720

Atlas Copco Compressor Technique
Airpower
P O Box 100
BE-2610 Wilrijk, Belgium
Phone: +32 3 870 2111
Fax: +32 3 870 2443

Atlas Copco
Airtec
P O Box 101
BE-2610 Wilrijk, Belgium
Phone: +32 3 870 2111
Fax: +32 3 870 2443

Atlas Copco
Industrial Air
P O Box 103
BE-2610 Wilrijk, Belgium
Phone: +32 3 870 2111
Fax: +32 3 870 2576

Atlas Copco
Oil-free Air
P O Box 104
BE-2610 Wilrijk, Belgium
Phone: +32 3 870 2111
Fax: +32 3 870 2443

Atlas Copco
Portable Air
P O Box 102
BE-2610 Wilrijk, Belgium
Phone: +32 3 870 2111
Fax: +32 3 870 2443

Atlas Copco
Gas and Process
Am Ziegelofen 2
DE-50999 Cologne, Germany
Phone: +49 2236 965 00
Fax: +49 2236 965 05 22

Atlas Copco Construction and Mining Technique
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 8000
Fax: +46 8 644 9045

Atlas Copco
Underground Rock Excavation
SE-701 91 Örebro, Sweden
Phone: +46 19 670 7000
Fax: +46 19 670 7070

Atlas Copco
Surface Drilling Equipment
SE-701 91 Örebro, Sweden
Phone: +46 19 670 7000
Fax: +46 19 670 7298

Atlas Copco
Rocktec
SE-701 91 Örebro, Sweden
Phone: +46 19 670 7000
Fax: +46 19 670 7513

Atlas Copco
Drilling Solutions
PO Box 462288
Garland TX 75046-2288, USA
Phone: +1 972 496 7400
Fax: +1 972 496 7425

Atlas Copco
Secoroc
Box 521
SE-737 25 Fagersta, Sweden
Phone: +46 223 461 00
Fax: +46 223 461 01

Atlas Copco
Construction Tools
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 9600
Fax: +46 8 743 9650

Atlas Copco
Craelius
SE-195 82 Märsta, Sweden
Phone: +46 8 587 785 00
Fax: +46 8 591 187 82

Atlas Copco Industrial Technique
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 8000
Fax: +46 8 644 9045

Atlas Copco Tools and Assembly Systems
Motor Vehicle
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 95 00
Fax: +46 8 640 05 46

Atlas Copco Tools and Assembly Systems
General Industry
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 95 00
Fax: +46 8 640 05 46

Chicago Pneumatic
Industrial
199, Route de Clisson
B.P. 13627 FR-44236
Saint-Sébastien-sur-Loire Cédex
France
Phone: +33 2 40 80 20 00
Fax: +33 2 40 33 27 07

Chicago Pneumatic
Vehicle Service
1800 Overview Drive, Rock Hill, South Carolina 29730-7463, USA
Phone: +1 803 817 7000
Fax: +1 803 817 7006

Atlas Copco
Tooltec
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 95 00
Fax: +46 8 640 05 46

Atlas Copco Rental Service
6929 E. Greenway Parkway, Suite 200
Scottsdale, Arizona 85254, USA
Phone: +1 480 905 3300
Fax: +1 480 905 3400

Rental Service Corporation
6929 E. Greenway Parkway, Suite 200
Scottsdale, Arizona 85254, USA
Phone: +1 480 905 3300
Fax: +1 480 905 3400

Atlas Copco Customer Centers Worldwide

Algeria	+213 (0)21 69 35 58
Argentina	+54 (0)11 47 17 22 00
Australia	+61 (0)2 96 21 99 99
Austria	+43 (0)1 76 01 20
Bahrain	+973 17 22 15 51
Belgium	+32 (0)2 689 05 11
Bolivia	+591 (0)3 343 68 68
Brazil	+55 (0)11 41 96 87 00
Bulgaria	+359 (0)82 81 05 55
Canada	+1 514 366 26 26
Chile	+56 (0)2 442 36 00
China	+86 (0)21 62 55 13 31
Colombia	+57 (0)1 291 54 90
Cyprus	+357 22 48 07 40
Czech Republic	+420 (0) 225 43 40 00
Denmark	+45 43 45 46 11
Egypt	+20 (0)2 610 03 37
Finland	+358 (0)9 29 64 41
France	+33 (0)1 39 09 30 00
Germany	+49 (0)201 217 70
Ghana	+233 (0)21 77 45 12
Great Britain	+44 (0)1442 26 12 01
Greece	+30 (0)210 349 96 00
Hong Kong	+852 27 97 66 00
Hungary	+36 (0)1 237 30 20
India	+91 (0)20 27 14 64 16 17
Indonesia	+62 (0)21 780 10 08
Iran	+98 (0)21 669 377 11
Ireland	+353 (0)1 450 59 78
Italy	+39 02 61 79 91
Japan	+81 (0)3 57 65 78 01
Kazakhstan	+7 (0)3272 58 85 34
Kenya	+254 (0)20 82 52 65
Korea	+82 (0)2 21 89 40 00
Macedonia	+389 (0)2 311 23 83
Malaysia	+60 (0)3 51 23 88 88
Mexico	+52 (0)55 553 21 06 00
Mongolia	+ 976 (1)1 99 11 48 16
Morocco	+212 (0)22 60 00 40
Namibia	+264 (0)61 26 13 96
Netherlands	+31 (0)78 623 02 30
New Zealand	+64 (0)9 579 40 69
Norway	+47 64 86 08 60
Peru	+51 (0)1 411 61 00
Philippines	+63 (0)2 823 81 78
Poland	+48 (0)22 572 68 00
Portugal	+351 21 416 85 00
Romania	+40 021 351 37 62
Russia	+7 495 933 55 50
Saudi Arabia	+966 (0)2 693 33 57
Serbia and Montenegro	+381 (0)11 311 66 18
Singapore	+65 68 62 28 11
Slovakia	+421 (0)32 743 80 01
Slovenia	+386 (0)1 234 27 10
South Africa	+27 (0)11 821 90 00
Spain	+34 91 627 91 00
Sweden	+46 (0)8 743 80 00
Switzerland	+41 (0)32 374 14 14
Taiwan	+886 (0)3 479 68 38
Thailand	+66 (0)38 56 29 00
Turkey	+90 (0)216 581 0 581
Ukraine	+380 (0)44 205 37 28
United States	+1 973 439 34 00
Uzbekistan	+998 (0)711 20 47 64
Venezuela	+58 (0)212 256 23 11
Viet Nam	+84 (0)8 898 96 38
Zambia	+260 (0)2 31 12 81
Zimbabwe	+263 (0)4 62 17 61

Production: Atlas Copco AB and n3prenör. Photo: Atlas Copco AB and Steven Quigley/Qimage. Print: Strokirk-Landströms, Lidköping, Sweden. 9851 6539 01

Atlas Copco AB
(publ)
SE-105 23 Stockholm, Sweden
Phone: +46 8 743 8000
Corp.id.no: 556014-2720
atlascopco.com