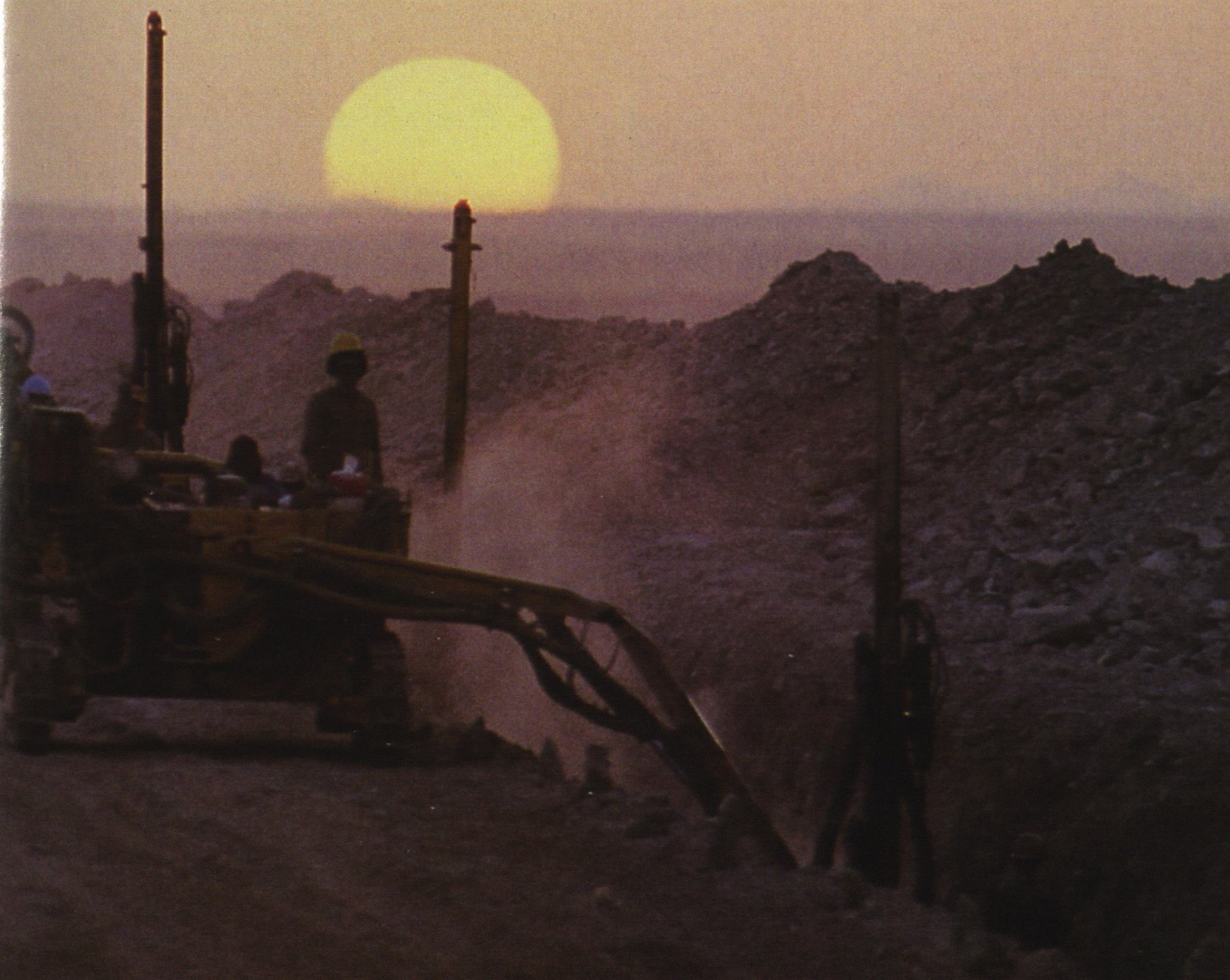


# Atlas Copco 1985

ANNUAL REPORT



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## COVER PHOTO

*Twelve ROC 410 HC hydraulic drilling carriers from Atlas Copco for construction of a 13-kilometer pipeline between Riyadh and Yambu in Saudi-Arabia were purchased by the Italian contractor, SAIPEM.*

## FINANCIAL INFORMATION FROM ATLAS COPCO

Atlas Copco will publish the following financial reports for 1986:  
The Group President's Report at the Annual General Meeting April 24  
Report on first-quarter operations ..... Mid-May || Report on first six months of operations ..... | End of August |
Report on first nine months of operations .....	Mid-November
Year-end Report on 1986 operations .....	February 1987
Annual Report 1986 .....	April 1987

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*The continued strong improvement in profits during 1985 is attributable to a favorable volume increase and a substantial increase in administration and capital management efficiency. This is reflected in the profit per share trend.*

# 1985

## Sales exceed SEK 10 billion

Invoiced sales increased by 11 percent to SEK 10,062 m. (9,100)

## Profit hits all-time high

Profit after financial items rose SEK 255 m. to SEK 828 m.

## Industry is largest customer category

Through increased emphasis on industrial applications, the manufacturing sector now accounts for half of Group sales.

## Dividend and profit per share

The Board of Directors recommends that the dividend be increased to SEK 6.50 (4.50) per share. Profit per share was 17.05 (11.25).

## Forecast

*The upward sales trend is expected to continue in 1986, resulting in a further improvement in earnings.*

# THIS IS ATLAS COPCO

**Atlas Copco**

Atlas Copco is one of the world's leading companies in the

field of compressors, mining and construction equipment, and industrial automation. The company's large marketing organization sells approximately 3,000 products and services to 250,000 registered customers in more than 120 countries.

Atlas Copco's aim is to supply equipment and specialized competence which increase the productivity of its customers. Complete system solutions and long-term service contracts are therefore being offered to an increasing extent.

In recent years the company has established itself in areas of technology that offer new opportunities for growth. These areas include gas compression, the mining of soft rock, including coal, and heat energy recovery.

Five divisions are responsible for developing, manufacturing and marketing. Manufacturing is conducted in Group-owned facilities in 16 countries.

Atlas Copco has a highly developed marketing organization with own sales companies in 50 countries.

Atlas Copco International AB is responsible for sales of the Group's products in countries where Atlas Copco is not represented by own sales companies.

## ATLAS COPCO AIRPOWER

**13 factories in 10 countries**

**Invoiced sales SEK 4,790 m**

The Division's business concept is to develop, market and manufacture stationary and portable compressors, in both standard and specially designed versions,

- to supply such sectors as the pharmaceuticals, food products, construction, textile, electronics and process industries with clean, compressed air used in production,
- as an energy source for offshore platforms, for aircraft start-up and for train braking systems,
- as an economic and safe energy source in mines, quarries and the construction industry, as well as for sandblasting,
- to provide factories with air for spray-painting, tool operation, automation, etc.,
- as an accessory in printing, packing, collating machines, etc.,
- for the production of industrial gases which are important in many sterilization processes, and to prevent leakage into the production process and attendant product damage.

Atlas Copco Airpower nv  
Boomssesteeweg 957  
B-2610 WILRIJK-ANTWERP  
Tel. Int. +323-8702111

## ATLAS COPCO MCT

**11 factories in 9 countries**

**Invoiced sales SEK 3,443 m**

Based on leading a position in its technological and marketing areas – the Division's business concept is to develop, manufacture and market products and services worldwide

- to customers engaged in surface and underground production drilling, drift mining, blasting, unloading and rock reinforcement,
- to building and construction contractors for road and water works construction, tunneling, foundation reinforcement, demolition, etc,
- to the quarry industry and the coal and soft rock markets, which are important growth areas for MCT.

Cooperation with other well-known manufacturers is part of the Division's strategy of offering the customer complete package and system solutions. This approach is based in part on the experience obtained from many years cooperation with Sandvik.

Atlas Copco MCT AB  
S-10484 STOCKHOLM  
Tel. Int. +468-7438000

## ATLAS COPCO TOOLS

**5 factories in 2 countries**

**Invoiced sales SEK 875 m**

**2 own sales companies**

The Atlas Copco Tools business concept encompasses the development, manufacture and marketing of industrial power tools and systems

- for materials removal and machining such as drilling, grinding, chipping, etc. in the mechanical workshop industry
- for assembly in the automotive industry, using advanced computer-based monitoring and control techniques, and for light-assembly operations in the electronics, aircraft and appliance industries
- for anti-corrosion treatment in car body preservation, automatic painting in the manufacturing industry and spray painting of heavy steel construction.

Atlas Copco Tools AB  
Box 81510  
S-10482 STOCKHOLM  
Tel. Int. +468-7439500

## BEREMA

**6 factories in Sweden**

**Invoiced sales SEK 591 m**

**2 own sales companies**

**35 own agents**

Berema's business idea is based on

- the marketing of gasoline-powered drills/breakers of own design and manufacture
- the manufacture and marketing of products and know-how for well-drilling, thermal heating and heat pumps
- developing through independent subsidiaries, new areas of interest for the Atlas Copco Group. These areas presently include products and systems for manufacturing grammophone records and compact discs, small air compressors and auxiliary equipment, filters for gas masks, shelter chambers, automobiles, etc., as well as stainless steel containers for commercial kitchens, and steel door frames.

Berema AB  
Box 1286  
S-17125 SOLNA  
Tel. Int. +468-290170

## MONSUN-TISON

**3 factories in Sweden**

**Invoiced sales SEK 363 m**

**8 own sales companies**

**2 own agents**

Monsun-Tison's business concept comprises the development, manufacture and marketing of hydraulic and pneumatic components for mobile control systems and industrial automation.

- Electronics applications have achieved an ever-increasing significance. Electro-hydraulic control systems are components in forestry machines, excavating machines, cranes, etc.
- Pneumatic components are used by manufacturers of packaging machines, equipment for the food processing industry, equipment for material handling, vehicles, etc.

Monsun-Tison AB  
Box 817  
S-50110 BORÅS  
Tel. Int. +4633-169100

Atlas Copco's Group sales companies have 8,175 employees in 50 countries – Distributors in an additional 85 countries

*The Atlas Copco Avos plant in Örebro (Sweden) is one of the Group's most complex production units. After major investments in computer technology and automation, a completely new factory was inaugurated in the autumn of 1985 for production of drilling rig components, loading machines and winches.*



# BOARD OF DIRECTORS' REPORT ON 1985 OPERATIONS

SEK millions unless otherwise noted

## ATLAS COPCO GROUP

Invoiced sales of the Atlas Copco Group increased 11 percent in 1985 to SEK 10,062 m. (9,100). Sales volume increased 6 percent (8). Markets outside Sweden accounted for 91 percent of sales. Order bookings increased 9 percent (16) to SEK 10,400 m. (9,581), representing an increase of approximately 3 percent (11) in volume.

Earnings of the Atlas Copco Group in 1985, after financial income and expense but before extraordinary items, appropriations and taxes, rose by 45 percent to SEK 828 m. (573), equal to 8.2 percent (6.3) of invoicing.

	1985	1984
Invoicing	10,062	9,100
Profit after financial items	828	573

## MARKET DEVELOPMENT

	1985	1984
Order bookings	10,400	9,581
Increase in value, percent	+ 9	+ 16
Change in volume, percent	+ 3	+ 11

Growth in the *manufacturing industry* continued to be strong in Western Europe during 1985 but was only marginal in the United States. Due to increased capacity utilization, investments in machinery increased in all major markets of the industry. Atlas Copco benefited from this situation, increasing sales of industrial compressors. Sales of tools rose in response to the higher rate of industrial production. Expanding sectors included machine manufacturing, transportation, electronics, chemical and food products. The industrial markets accounted for approximately 50 percent of total sales of the Group.

The activity within the *building and construction sector* remained low in most countries. Demand for equipment from this customer category therefore remained largely unchanged from the preceding year. Marginal public financing resulted in low levels of investments in infrastructure projects, especially in developing

countries. However, construction activity increased somewhat in several industrialized countries. On these markets, Atlas Copco noted successes in the sales of tunneling rigs, transportable compressors and demolition equipment. The building and construction market accounted for approximately 35 percent of total Group sales.

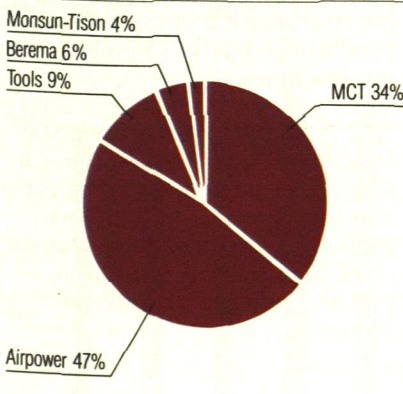
Following three years of growing industrial production and slowly rising metal consumption, the willingness of *mining companies* to invest in new equipment to increase the level of mechanization, among other measures, rose. Atlas Copco had success with its most advanced hydraulic and pneumatic rock drilling equipment. This applies especially to sales to copper mines, but to gold and iron mines as well. The mining market accounted for approximately 15 percent of total Group sales.

## SALES COMPANIES

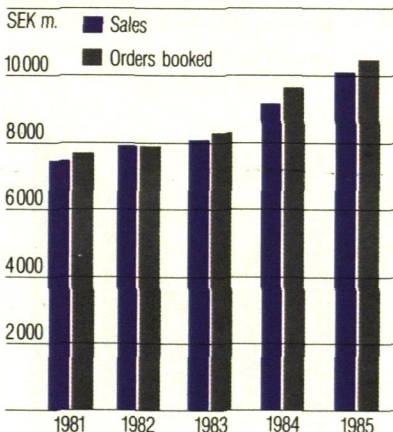
Atlas Copco has a strong sales organization with its own sales companies in 50 countries, and is represented in most other countries through its own technical offices or through local distributors. The sales organization supplies customers with modern machinery and spare parts, not to mention software in the form of technical guidance, trouble-shooting and service. It has gradually strengthened the Group's position on the world market. Market shares are high in Western Europe and in many developing countries. Significant shares have also been attained in Australia, Canada and South Africa. Except for certain products, market shares in the United States and Japan are more limited.

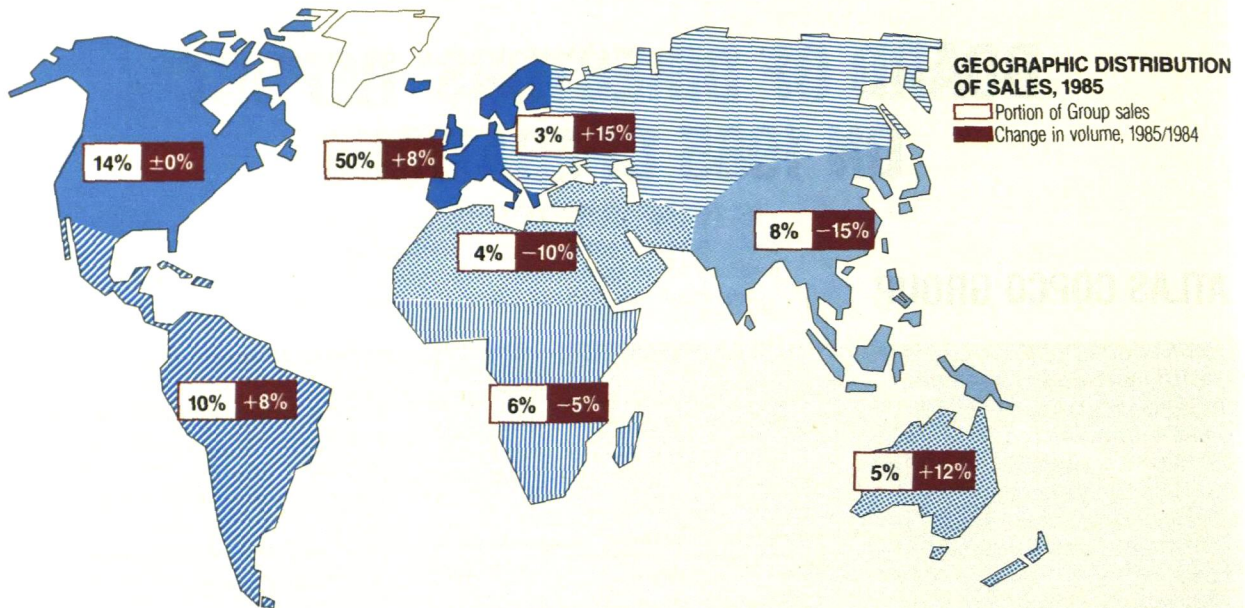
Invoiced sales rose approximately 11 percent in 1985. Western Europe accounted for the greater part of this increase. The sales companies in Italy, West Germany and Norway recorded the largest successes, however, sales com-

## SALES BY DIVISION



## SALES AND ORDERS BOOKED





panies in the Netherlands, Belgium, Switzerland, Austria and Denmark also showed favorable sales increases.

Sales in Australia and Canada increased, while sales volume in the other industrial markets outside Europe remained largely unchanged compared with 1984. The United States is the Group's largest individual market.

Sales rose considerably in several developing countries, especially Brazil, Chile, Zaire and India. Sales continued to decline in most of the oil-exporting countries. A slight reduction in sales was also noted in the important South African market, mainly due to the low level of activity in its manufacturing industry. The decline in East Asia is primarily attributable to South East Asia. Atlas Copco (China) Ltd. secured orders on the expanding Chinese market also in 1985. However, sales did not reach the same high level as in 1984.

Notable major single orders included Atlas Copco International's order to the Soviet Union for drilling rigs for a copper mine, at an approximate value of SEK 100 m.

**EARNINGS**

	1985	1984
Profit margin, percent	8.2	6.3
Return on capital employed, percent	18.9	16.8
Return on risk-bearing equity capital, percent	15.8	11.1

Definitions, p. 21.

Earnings after financial income and expense for the Atlas Copco

Group increased by SEK 255 m., to SEK 828 m. (573). The profit margin was 8.2 percent (6.3). Earnings per share after a standard tax rate was SEK 17.05 (11.25). Calculated after full tax, earnings per share amounted to SEK 17.35 (12.60).

The return on capital employed before tax rose from 16.8 percent to 18.9 percent. Return on risk-bearing equity capital, after paid taxes, increased to 15.8 percent (11.1).

As in 1984, the improvement in earnings in 1985 was due, among other things, to increased sales volume which led to a more efficient utilization of capacity in both production and sales operations. The ongoing rationalization program was also a contributing factor. Net interest expense was reduced as a result of continued improvement of capital utilization. Exchange rate differences amounted to SEK -11 m. (+5).

The MCT, Tools and Monsun-Tison Divisions reported significant earnings improvements, while Airpower's and Berema's earnings remain on a high level.

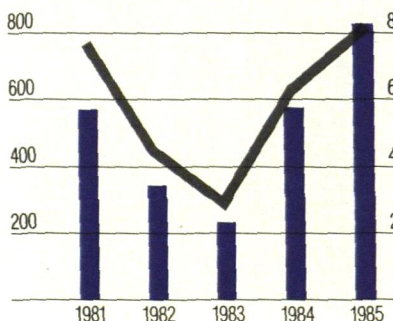
*THE AIRPOWER DIVISION* accounted for slightly more than half of Group earnings. The improvement over the preceding year is primarily attributable to a higher sales volume. This earnings improvement was affected negatively by costs for a comprehensive modernization and automation program at the Arpic factory in Belgium. Furthermore, Airpower carried the costs for the restructuring of the gas and process compressor operations in West Germany. These operations have increased due to the acquisition of the West German company, Linde AG's, compressor sector in 1984, but are still reporting a loss.

*THE MCT DIVISION* improved earnings substantially. This large improvement emanates from an increased capacity utilization, primarily in the Underground sector. Another contributing factor was the restructuring of marketing and production of Jarva's tunnel boring machines.

*THE TOOLS AND MONSUN-TISON DIVISIONS'* favorable trend in earnings continued in 1985. The earnings improvement in both divisions is due to increased volume and a high capacity utilization, as well as a reduced net interest expense.

**EARNINGS AND PROFIT MARGIN**

SEK m. ■ Earnings after financial items, SEK m. %  
 1000 ■ Earnings after financial items as a percentage of sales. 10



## EARNINGS AND RETURN BY DIVISION

	Earnings <sup>1)</sup> (SEK m.)		Return <sup>2)</sup> (percent)	
	1985	1984	1985	1984
Airpower	450	390	22	23
MCT	185	35	15	11
Tools	91	66	22	20
Berema	47	50	16	20
Monsun-Tison	55	32	31	23
Total	828	573	19	17

<sup>1)</sup> After net financial items

<sup>2)</sup> On capital employed.

## EARNINGS BY QUARTER

	1985	1984
First quarter	202	144
Second quarter	220	152
Third quarter	123	64
Fourth quarter	283	213
Total	828	573

**THE BEREMA GROUP** reported strong earnings despite large development expenses in Toolex Alpha and Atlas Copco Energy. Both companies have good prospects for strong volume growth.

Many **SALES COMPANIES** were able to increase their earnings due to the higher sales volume and lower costs. The largest gains were noted in Western Europe, including Sweden, Belgium, France, Italy, Spain and West Germany. Portugal, which suffered losses in recent years, also reported a positive operating result.

In other markets, the sales companies in the United States, Brazil, Chile and Peru showed good earnings improvements. Markets with weak earnings included Mexico, Iran, Saudi-Arabia and Singapore.

The rationalization work and restructuring of production units still continues. Despite an increase in volume, the total number of employees in the Group could be maintained at the same level. The cost for this restructuring amounted to SEK 40 m. (90), and is reported as operating expenses.

## FINANCING

	1985	1984
Net interest expense	- 193	- 285
Degree of self-financing, percent	207	148
Share of risk-bearing equity capital, percent	40.6	37.3

The Group's liquid funds increased by SEK 287 m. during the year, totaling SEK 1,418 m. (1,131). Granted but not utilized credits in Swedish and foreign banks amounted to SEK 1,705 m. (1,758).

The Group's tied-up capital in fixed assets, inventories and trade receivables was reduced this year through a determined effort.

Funds generated from operations amounted to SEK 671 m. (462). This exceeded the Group's

financing requirement for investments in fixed assets, which amounted to SEK 329 m. (332). Of this amount, expenditures for property, plant and equipment accounted for SEK 325 m. (311), investments in shares and participations totaled SEK 1 m. (13), and acquired goodwill amounted to SEK 3 m. (8).

Atlas Copco sold all of its shares in Boliden AB, with a capital gain of SEK 72 m. This is reported as extraordinary income.

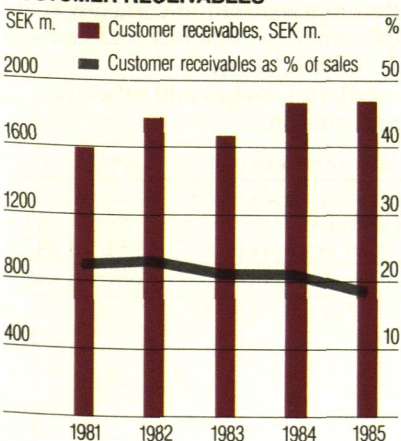
Trade receivables and notes receivable increased by only SEK 13 m. (205), amounting at year-end to SEK 1,884 m. (1,871), or 19 percent (21) of invoicing. Inventories were also maintained at an unchanged level, amounting to SEK 2,897 m. (2,884), or 29 percent (32) of invoicing. Therefore, the rate of capital turnover was improved to 1.18 (1.16).

Including the effects of exchange rate fluctuations during the year, as well as an increase in pension liabilities, interest-bearing debt was reduced by SEK 94 m. (13).

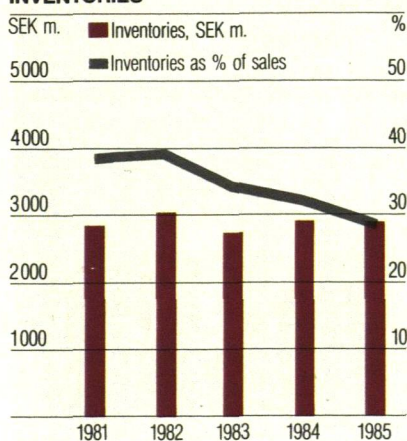
Net interest expense was reduced from SEK 285 m. to SEK 193 m., equal to 1.9 percent (3.1) of invoicing. This was primarily due to lower interest rates, but also to increased liquidity.

For several years, the Parent Company has had high financial

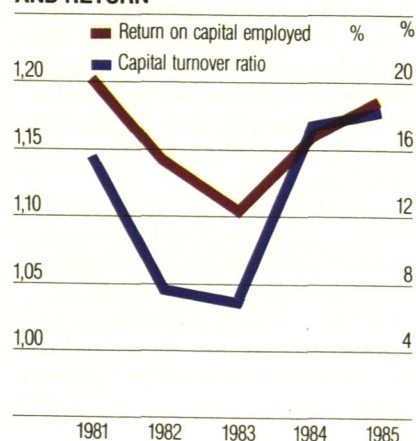
## CUSTOMER RECEIVABLES



## INVENTORIES



## CAPITAL TURNOVER RATIO AND RETURN





expenses for the foreign loans that could not be amortized due to currency exchange regulations. To reduce these expenses, Atlas Copco AB signed a seven-year credit agreement for a Euronote of USD 50 m. with a group of international banks in the beginning of the year. With this agreement, the existing multi-currency loans could be refinanced at a considerably lower cost. To further reduce the Group's exposure to exchange rate differences, Atlas Copco AB entered into a "swap" agreement. This agreement means that CHF 40 m. from the private placement in 1985 of CHF 75.5 m. will be exchanged for European Currency Units (ECU).

#### INVESTMENTS

	1985	1984
Investments in machinery and buildings	325	311
In Sweden	95	66
Outside Sweden	230	245
Total, as percent of invoiced sales	3.2	3.4

Investments in buildings and machinery in 1985 amounted to SEK 214 m. (203) in the production sector and to SEK 111 m. (108) in marketing operations.

A large part of the year's capital expenditures was attributable to the Airpower Division's expansion program to modernize and automate its production plant in Antwerp. The year's investments also included renovation and modernization of the Avos' workshops in Örebro, Sweden, and modernization of the machinery at the Brazilian plant.

Investments in the marketing sector mainly involved the modernization of the service centers and the continuing program to develop automated data processing facilities. A new office building was built for the sales company in Spain.

#### RESEARCH AND DEVELOPMENT

	1985	1984
Number of employees in direct R & D work	735	730
Direct investments in R & D work	312	270

The generally increasing orientation of the Atlas Copco Group towards automation and the industrial manufacturing technology sector also affected the research and development program in 1985.

Development in electronics for a number of various applications in the company's area of operations continued, and a new laboratory was placed in operation during the year for this purpose. In connection with the rapid development in electronics, standardization efforts were also intensified.

Atlas Copco Energas and Cerac, Atlas Copco's research institute in Switzerland, continued work with basic research and development of various components for gas and process compressors as well as heat pumps. The world's largest heat pump compressors were delivered to a district heating plant in Gothenburg during the year.

A comprehensive effort was carried out with the aim of developing documented systems for

quality assurance, which are increasingly requested for special applications, including nuclear power plants and offshore platforms.

Atlas Copco's first CAD/CAM system was started up in 1983. Since then, extensive CAD/CAM systems have been installed in several areas of the Group. These measures have already contributed to higher productivity, greater speed and improved quality. Great importance is placed on the exchange of experience and communication matters between CAD units.

#### PERSONNEL

	1985	1984
Average number of employees	16,659	16,484
Head office	68	63
Sales companies	8,175	8,415
Divisions	8,416	8,006

The restructuring of the Atlas Copco Group continued during 1985. The number of employees in Sweden and foreign countries was reduced as a result of the close down of various units.

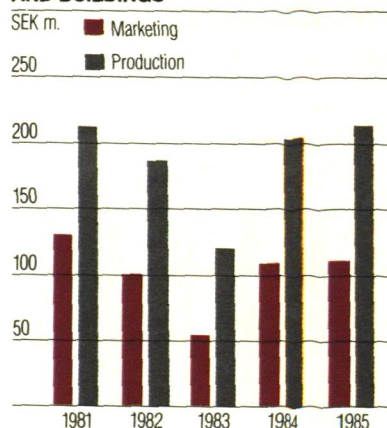
At year-end, the Group had 16,320 employees (16,303).

Atlas Copco signed a "development agreement" with the local chapters of union organizations in the Group's Swedish units. The agreement is aimed at furthering development of the company's efficiency, profitability and competitive strength.

Salaries, wages and other remuneration,

Atlas Copco Group	1985	1984
Directors and senior executives	58.6	50.4
Other employees	1,932.5	1,842.2
Total	1,991.1	1,892.6

#### INVESTMENTS IN MACHINERY AND BUILDINGS



## PARENT COMPANY

### EARNINGS

Operating results of the Parent Company, Atlas Copco AB, include Atlas Copco International AB and Atlas Copco Management Consulting AB, both of which are operated on a commission basis.

Atlas Copco International AB, which is responsible for marketing in countries where the Group is not represented by its own sales companies, had invoiced sales of SEK 334 m. (374) in 1985.

Atlas Copco Management Consulting AB, which sells its services within the Group, had invoiced sales of SEK 110 m. (105).

The Parent Company's net interest expense improved by SEK 18 m., mainly as the result of increased liquidity. Lower interest rates and the decline in rate of the U.S. dollar also had a favorable effect on the net interest expense.

Exchange rate differences amounted to a net total of SEK 43 m. (-55), and were attributable for the most part to unrealized exchange profits on long-term loans in foreign currencies.

Dividends from subsidiaries amounted to SEK 111 m. (110), including SEK 0 m. (10) from Swedish companies.

All shares in Boliden were sold during the year. The resulting capital gain of SEK 72 m. is reported as extraordinary income.

The Parent Company's purchases from subsidiaries account for 90 percent of the total purchase value. Invoicing relates exclusively to customers outside the Group.

### FINANCING

Cash, bank deposits, and other short-term investments increased from SEK 744 m. to SEK 894 m.

Increases in share capital were effected during the year in Mon-sun-Tison AB, Atlas Copco Holding GmbH West Germany, Atlas Copco A/S Norway, Atlas Copco North America Inc., Atlas Copco GmbH Austria and Atlas Copco France S.A. The minority holding in Atlas Copco Gadelius, Japan, was acquired in connection with an increase in capital.

### PERSONNEL

The average number of employees in the Parent Company during the year was 68 (63). The average number in Atlas Copco International was 110 (111), and in Atlas Copco Management Consulting, 171 (197).

Salaries, wages and other remuneration,

Parent Company	1985	1984
Directors and senior executives, including bonus payments of 2.9 (1.3)	6.3	4.3
Other employees	67.5	65.8
Total	73.8	70.1

### DIVIDEND AND FORECAST

The Board of Directors proposes a dividend of SEK 6.50 (4.50) per share.

According to OECD's forecasts, the industrial economy in Western Europe will most likely remain at a high level for most of 1986. This is true for Japan as well. However, in North America, the rate of growth is more uncertain. Investments for increased mechanization are expected to continue within the mining industry, while no significant improvement is anticipated in the construction sector.

Based on this estimation, Atlas Copco's sales should continue to rise in 1986. Assuming that costs can be held to a reasonable level in Sweden and that currency rate fluctuations have no adverse effect, the increasing level of efficiency in the Group should result in an improvement in earnings.



*Envoy Kurt-Allan Belfrage (left), President of Atlas Copco from 1957 to 1970 and thereafter Vice Chairman of the Board of Directors, receives thanks for his services from Board Chairman, Peter Wallenberg, in connection with his resignation from the Board in the Spring of 1985.*

# CONSOLIDATED INCOME STATEMENT

Amounts in SEK m.

		1985	1984
Invoiced sales		10 062.0	9 099.6
	Cost of goods sold, technical development, sales, administration, etc (NOTE 1)	- 8 852.7	-8 087.4
Operating profit before depreciation		1 209.3	1 012.2
Cost depreciation (NOTE 2)	Goodwill	- 4.6	- 5.1
	Machinery and equipment	- 143.5	- 127.4
	Buildings	- 37.2	- 34.5
Operating profit after depreciation		1 024.0	845.2
Financial income and expense	Interest received	235.6	190.8
	Interest paid (NOTE 3)	- 428.6	- 475.5
	Dividends received	7.9	7.4
	Foreign exchange differences (NOTE 4)	- 10.8	5.1
Profit after financial income and expense		828.1	573.0
	Extraordinary income and expense (NOTE 5)	98.0	2.0
Profit before appropriations and taxes		926.1	575.0
Appropriations (NOTE 6)		- 215.4	- 29.9
Profit before taxes		710.7	545.1
Taxes (NOTE 7)		- 304.2	- 242.1
Minority interest (NOTE 8)		- 14.2	- 21.9
<b>NET PROFIT</b>		<b>392.3</b>	<b>281.1</b>

# CONSOLIDATED BALANCE SHEET

Amounts in SEK m.

ASSETS		Dec. 31 1985		Dec. 31 1984	
Current assets	Cash, bank and short-term investments (NOTE 9)	1 417.8		1 131.4	
	Receivables (NOTE 10)	2 389.6		2 356.7	
	Inventories (NOTE 11)	2 896.8	6 704.2	2 884.3	6 372.4
Blocked accounts in Bank of Sweden (NOTE 12)			47.4		8.8
Fixed assets	Shares and participations (NOTE 13)	27.2		123.1	
	Goodwill (NOTE 14)	9.7		11.5	
	Long-term receivables (NOTE 15)	260.6		222.1	
	Construction work in progress	37.2		17.1	
	Machinery and equipment (NOTE 16)	658.1		558.1	
	Buildings (NOTE 17)	738.3		740.8	
	Land (NOTE 18)	191.8	1 922.9	162.7	1 835.4
<b>TOTAL ASSETS</b>			<b>8 674.5</b>		<b>8 216.6</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities	<i>Non-interest bearing liabilities</i>				
	Notes payable	165.6		216.9	
	Suppliers	602.4		616.8	
	Provision for taxes	204.8		109.4	
	Accrued expenses and prepaid income	462.1		422.2	
	Other short-term liabilities	532.2		504.7	
	<i>Interest-bearing liabilities</i>				
	Bank loans and notes payable	975.9		1 107.4	
	Current portion of long-term liabilities	337.5		286.0	
	Other short-term liabilities	11.1	3 291.6	44.4	3 307.8
Long-term liabilities	<i>Non-interest bearing liabilities</i>				
	Other long-term liabilities	112.2		114.1	
	<i>Interest-bearing liabilities</i>				
	Debenture and bond loans (NOTE 19)	291.1		314.7	
	Mortgage and other long-term loans (NOTE 19)	848.8		865.0	
	Provision for pensions (NOTE 20)	609.2	1 861.3	549.9	1 843.7
<b>TOTAL LIABILITIES</b>			<b>5 152.9</b>		<b>5 151.5</b>
Untaxed reserves (NOTE 21)			739.5		511.6
Minority interest (NOTE 8)			139.4		165.6
Shareholders' equity	<i>Restricted equity</i>				
	Share capital (PAGE 56)	586.5		586.5	
	Restricted reserves (NOTE 27)	1 230.2	1 816.7	1 322.7	1 909.2
	<i>Unrestricted equity</i>				
	Retained earnings (NOTE 28)	433.7		197.6	
	Net profit for the year	392.3	826.0	281.1	478.7
<b>TOTAL SHAREHOLDERS' EQUITY</b>			<b>2 642.7</b>		<b>2 387.9</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>8 674.5</b>		<b>8 216.6</b>
Assets pledged (NOTE 29)			485.5		516.7
Contingent liabilities (NOTE 30)	Notes discounted		103.5		147.5
	Other contingent liabilities		593.8		461.3

# STATEMENTS OF CHANGES IN FINANCIAL POSITION

Amounts in SEK m.

	GROUP		ATLAS COPCO AB	
	1985	1984	1985	1984
<b>SOURCES OF FUNDS</b>				
Internal funds supplied*	670.6	461.9	170.8	100.2
Sales of fixed assets	201.0	136.0	242.3	17.0
Decrease in long-term receivables	-	26.1	-	12.5
Increase in interest-bearing liabilities	-	-	132.3	145.9
Minority interest in shareholder's equity	- 0.9	- 36.2	-	-
Translation differences <sup>1)</sup>	- 59.5	- 27.4	-	-
<b>TOTAL FUNDS SUPPLIED</b>	<b>811.2</b>	<b>560.4</b>	<b>545.4</b>	<b>275.6</b>
<b>APPLICATION OF FUNDS</b>				
Investments in property, plant and equipment	324.7	311.2	6.4	6.8
Investments in shares and participations	1.2	13.2	220.9	48.6
Goodwill acquired	2.8	8.1	-	-
Increase in long-term receivables	38.5	-	210.2	-
Decrease in interest-bearing liabilities	93.8	13.0	-	-
Reserves transferred to subsidiaries	-	-	4.8	17.6
Dividend from Parent Company	105.6	70.4	105.6	70.4
Dividend to minority interests in subsidiaries	8.0	7.1	-	-
<b>TOTAL FUNDS APPLIED</b>	<b>574.6</b>	<b>423.0</b>	<b>547.9</b>	<b>143.4</b>
<b>CHANGE IN WORKING CAPITAL</b>				
	+ 236.6	+ 137.4	- 2.5	+ 132.2
Change in inventories	+ 12.5	+ 184.9	+ 3.2	- 6.7
Change in short-term receivables	+ 32.9	+ 174.4	- 159.4	- 43.4
Change in non-interest-bearing liabilities	- 95.2	- 435.3	+ 4.5	- 6.2
Change in liquid funds	+ 286.4	+ 213.4	+ 149.2	+ 188.5
<b>TOTAL CHANGE</b>	<b>+ 236.6</b>	<b>+ 137.4</b>	<b>- 2.5</b>	<b>+ 132.2</b>
<b>*) Internal funds supplied</b>				
Profit before appropriations and taxes	926.1	575.0	229.9	19.8
Depreciation	185.3	167.0	6.6	6.5
Capital gain/loss on fixed assets sold	- 98.0	- 29.2	- 71.6	- 9.3
Intra-group transfers	-	-	42.8	85.2
Taxes	- 304.2	- 242.1	- 14.0	-
Withdrawals/deposit from blocked accounts	- 38.6	- 8.8	- 22.9	- 2.0
	<b>670.6</b>	<b>461.9</b>	<b>170.8</b>	<b>100.2</b>

<sup>1)</sup> Changes in translation differences in shareholders' equity and untaxed reserves, where of exchange rate effects relating to translation of fixed assets and the year's actual changes in fixed assets accounted for SEK - 8.6 m.

# INCOME STATEMENT

Amounts in SEK m.

		1985	1984
<b>Operating income</b>	Invoiced sales	<b>444.0</b>	478.6
	Commissions etc. from subsidiaries	<b>122.6</b>	134.0
<b>Operating expense</b>	Cost of goods sold, technical development, sales, administration, etc.	<b>- 574.8</b>	- 546.7
<b>Operating profit before depreciation</b>		<b>- 8.2</b>	65.9
<b>Cost depreciation</b>	Machinery and equipment	<b>- 4.7</b>	- 4.3
(NOTE 2)	Buildings	<b>- 1.9</b>	- 2.2
<b>Operating profit after depreciation</b>		<b>- 14.8</b>	59.4
<b>Financial income and expense</b>	Dividends received from subsidiaries	<b>111.4</b>	109.6
	Interest paid to/received from subsidiaries, net	<b>- 11.8</b>	6.7
	Interest received (excluding subsidiaries)	<b>140.5</b>	112.8
	Interest paid (excluding subsidiaries) (NOTE 3)	<b>- 117.3</b>	- 125.7
	Dividends received (excluding subsidiaries)	<b>7.0</b>	6.8
	Foreign exchange differences (NOTE 4)	<b>43.3</b>	- 54.7
<b>Profit after financial income and expense</b>		<b>158.3</b>	114.9
	Extraordinary income and expense (NOTE 5)	<b>71.6</b>	- 95.1
<b>Profit before appropriations and taxes</b>		<b>229.9</b>	19.8
<b>Appropriations</b> (NOTE 6)		<b>14.6</b>	98.9
<b>Profit before taxes</b>		<b>244.5</b>	118.7
<b>Taxes</b>		<b>- 14.0</b>	-
<b>NET PROFIT</b>		<b>230.5</b>	118.7

# BALANCE SHEET

Amounts in SEK m.

<b>ASSETS</b>		<b>Dec. 31 1985</b>		Dec. 31 1984
Current assets	Cash, bank and short-term investments (NOTE 9)	<b>893.7</b>		744.5
	Receivables (NOTE 10)	<b>324.2</b>		483.6
	Inventories	<b>33.3</b>	<b>1 251.2</b>	30.1 1 258.2
Blocked accounts in Bank of Sweden (NOTE 12)			<b>24.9</b>	2.0
Fixed assets	Shares and participants in subsidiaries (PAGE 29)	<b>1 017.4</b>		872.5
	Shares and participations (excluding subsidiaries) (NOTE 13) (PAGE 29)	<b>17.5</b>		113.4
	Long-term receivables from subsidiaries	<b>306.7</b>		100.1
	Other long-term receivables (NOTE 15)	<b>211.9</b>		208.3
	Construction work in progress	<b>10.6</b>		1.8
	Machinery and equipment (NOTE 16)	<b>21.2</b>		20.1
	Buildings (NOTE 17)	<b>69.1</b>		77.2
	Land (NOTE 18)	<b>23.7</b>	<b>1 678.1</b>	24.5 1 417.9
<b>TOTAL ASSETS</b>			<b>2 954.2</b>	2 678.1
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities	<i>Non-interest-bearing liabilities</i>			
	Suppliers	<b>18.9</b>		9.5
	Provision for taxes	<b>13.9</b>		—
	Accrued expenses and prepaid income	<b>42.4</b>		53.8
	Other current liabilities	<b>30.7</b>		47.1
	<i>Interest-bearing liabilities</i>			
	Liabilities to subsidiaries	<b>381.2</b>		154.8
	Current portion of long-term liabilities	<b>161.5</b>		143.9
Advances from customers	<b>1.4</b>	<b>650.0</b>	1.5 410.6	
Long-term liabilities	<i>Interest-bearing liabilities</i>			
	Debenture and bond loans (NOTE 19)	<b>291.1</b>		314.7
	Mortgage and other long-term loans (NOTE 19)	<b>229.1</b>		336.6
	Provision for pensions, PRI	<b>144.6</b>		131.3
	Provision for pensions, other	<b>23.0</b>	<b>687.8</b>	16.8 799.4
<b>TOTAL LIABILITIES</b>			<b>1 337.8</b>	1 210.0
Untaxed reserves (NOTE 21)			<b>100.6</b>	77.2
Shareholders' equity	<i>Restricted equity</i>			
	Share capital (23 460 500 shares, par SEK 25)	<b>586.5</b>		586.5
	Legal reserve (NOTE 27)	<b>597.1</b>	<b>1 183.6</b>	597.1 1 183.6
	<i>Unrestricted equity</i>			
	Retained earnings (NOTE 28)	<b>101.7</b>		88.6
Net profit for the year	<b>230.5</b>	<b>332.2</b>	118.7 207.3	
<b>TOTAL SHAREHOLDERS' EQUITY</b>			<b>1 515.8</b>	1 390.9
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>2 954.2</b>	2 678.1
Assets pledged (NOTE 29)			<b>14.9</b>	14.9
Contingent liabilities (NOTE 30)	Guarantees and other liabilities, of which 697.1 (669.6) on behalf of subsidiaries		<b>927.4</b>	863.1
	Capital value of pension obligations		<b>25.5</b>	49.2

# NOTES TO FINANCIAL STATEMENTS

SEK millions unless otherwise noted

## INTERNATIONAL GUIDELINES

Atlas Copco welcomes the guidelines prepared by the OECD – the Organization for Economic Cooperation and Development of the western industrialized countries – for companies that operate internationally. Atlas Copco follows these guidelines in all essential respects.

The OECD guidelines have been observed in the preparation of this Annual Report, except for certain information which, for competitive reasons, cannot be disclosed. The Annual Report thus provides information on the following:

	Page number
Company's structure	
– name, and legal headquarters	Cover, page 2
– Shares and participations in subsidiaries, percentage of ownership and ownership between companies.	Shares and participations, page 29
Geographical areas in which operations are carried out and the principal activities conducted there.	Introduction to sections on the divisions, page 35, 39, 45, 49, and 51
Invoiced Sales by geographical area	Board of Directors' report, map page 6
Capital investments, by geographical area and by marketing/production sector.	Board of Directors' report, table and diagram, page 8
Statement of changes in financial position for the Atlas Copco Group.	Page 12
Research and development costs for the company as a whole.	Board of Directors' report, table on page 8 and Note 1, page 21
Principles applied in transfer pricing.	Note 11, page 24
Principles also applied, with respect to consolidated accounting	Notes, page 15

The Company also views with favor the Guidelines with respect to multinational companies and the labor market which have been prepared by ILO, the United Nations organization for labor matters.

In conformity with international standards, the following designations have been used in this Annual Report:

Currency: SEK = Swedish kronor. Other currencies, see "Exchange rates," page 20. Suffix: m. = millions.

## ACCOUNTING PRINCIPLES

### *Principles of consolidation*

The consolidated accounts of the Atlas Copco Group cover all companies in which the Parent Company, directly or indirectly, holds more than half of the shares' voting rights, as well as those companies in which the Group, in some other manner, has a decisive influence and a substantial portion of operating earnings.

The balance sheets have been prepared in accordance with the purchase method, whereby the shareholders' equity in companies at the date of their acquisition – plus subsequent new issues of shares – has been eliminated against the book value of the shares.

Companies acquired during the year have been consolidated following the date of acquisition.

In the case of subsidiaries formed, share capital contributed has been offset against the book value of the companies' shares in their respective parent companies. Differences resulting from bonus issues of shares in subsidiaries have been transferred to the Group's restricted reserves.

### *Translation of foreign currencies*

Atlas Copco applies the "current rate method" in translating the accounts of foreign subsidiaries, in accordance with the Swedish Institute of Authorized Public Accountants' (FAR) proposal of recommendations. In applying this method, the subsidiaries are primarily reported as independent units with operations conducted in foreign currencies and in which the parent company has a net investment. The exceptions from this treatment are those subsidiaries which are located in high inflation countries. The accounts of these subsidiaries are translated according to the monetary/non-monetary method. In accordance with the FAR's proposal of recommendations, such a treatment is estimated to provide a more accurate picture of these companies' earnings and financial positions.

In accordance with the current-rate method, all assets and liabilities in subsidiaries' balance sheets are translated at year-end rates, and all items in the income statement are translated at the average exchange rates for the year.

The translation differences that arise are a result of the fact that the net investment is translated at year-end at a rate different from that used at the first of the year. This translation difference does not affect earnings, but is transferred directly to shareholders' equity.

For those subsidiaries that will continue to be treated in accordance with the monetary/non-monetary method, all non-monetary items – real property (land and buildings), machinery and equipment, inventories, shareholders' equity and untaxed reserves – are translated at the rate in effect on the date the item was acquired. Other items – monetary items – are translated at the year-end exchange rates. The income statement has been translated at the average rate for the year, except for depreciation



and appropriations, which have been translated at the investment rate. Exchange differences arising in connection with the translation of the accounts, and which accordingly relate to companies in countries with high inflation have been included in the income statement. The recommendations published by the FAR in December 1984 concerning translation of foreign subsidiaries' accounts essentially correspond with the recommendations issued in 1983 by the International Accounting Standard Committee (IAS 21), as well as with the American recommendations issued in 1981 (SFAS 52).

#### **Choice of methods**

The FAR's proposed recommendations require, with respect to one point that the users choose translation procedures according to their own specific situations. This pertains to classifying of the foreign subsidiaries as either independent or integrated companies. How the companies are defined leads directly to the choice of translation methods. Independent companies' accounts are translated according to the current-rate method, and integrated companies' according to the monetary/non-monetary method.

Based on the criteria defined by the FAR for classification of subsidiaries, the great majority of Atlas Copco's subsidiaries should be regarded as independent companies.

As a consequence, accounts of all subsidiaries of the Atlas Copco Group are translated according to the current-rate method except for the companies in high-inflation countries (primarily in Latin America).

On another point the proposed recommendations offer the user the possibility to influence and adapt the translation method to the company's special circumstances. This is done on a point that is specific for Swedish consolidated accounting and which complies to Swedish law requiring separate accounting of unrestricted equity.

The companies are here given two possibilities:

*Alternative 1* entails that the accumulated translation difference that arises from translation according to the current-rate method is automatically shown for each subsidiary. Through applying this method, the company – in accordance with international practice – can report the entire accumulated translation difference in a specific amount. In Swedish consolidated accounting this is divided into restricted and unrestricted equity.

*Alternative 2* is a simplified method whereby translation differences are offset directly against each item in untaxed reserves and shareholders' equity.

Atlas Copco has chosen to report in accordance with *Alternative 1*.

#### **ASSOCIATED COMPANIES**

The Atlas Copco Group has interests in companies whose earnings and equity are not reported in the Group's consolidated statements. Atlas Copco's equity in these companies exceeds 20 percent and includes Atlas

Copco Finans AB (40%), Atlas Copco Leasing AB (40%), Sickla Industrifastigheter AB (33%) and Droogtechniek & Luchtbehandeling (26%). Including deductions for dividend shares and minority shares, the Group's portion of associated companies' earnings before appropriations and taxes amounted to SEK 4.6 m. Atlas Copco's share of the associated companies' equity and untaxed reserves, including deduction for deferred taxes (50%), amounted to SEK 22.8 m. at the end of the fiscal year.

The associated companies' book value is carried at SEK 17.2 m. in the balance sheet.

#### **INTEREST ARBITRAGE**

With the aim of improving the Company's net interest income, Atlas Copco made several interest arbitrage transactions (notes 3 and 9). This entails that a short-term loan, normally in foreign currency, is taken and guaranteed by the Swedish krona, to be thereafter placed against a higher interest rate in bank certificates, treasury bills, or other similar Swedish receivables.

According to the FAR's accounting committee, debts shown in the balance sheet may be offset against corresponding investments under the assumption that liabilities and receivables comprise parts of a package solution, and that they total the same amount and have the same maturity date. Furthermore, the exchange guarantee must have pertained to possible foreign loans. Consequently, neither the liability nor the receivable should be included in the balance sheet.

In the income statement, only the net of interest income and expense, and possible costs for forward cover are included.

With consideration to the fact that Atlas Copco's interest arbitrage transactions fulfill the criteria set forth by the FAR's accounting committee, the net accounting principle described above was applied.

#### **THE SWEDISH INDUSTRY AND COMMERCE STOCK EXCHANGE COMMITTEE RECOMMENDATION ON KEY RATIO CALCULATIONS**

For 1985 Atlas Copco has chosen, as its principal alternative, to report earnings per share in accordance with previously customary principles, that is, after a standard provision for tax (50%). The Swedish Industry and Commerce Stock Exchange Committee (NBK) instructions concerning calculation of certain key ratios recommends either the full-tax method or the partial method. The Company has decided to report the effects of the application of NBK's recommendations in a note form, in which the full-tax method was applied. Full tax is defined as the tax calculated by the Company based on the tax declaration for the year, plus an estimated tax on the year's allocation to untaxed reserves, among others. Certain of NBK's key ratios are also shown in Note 31.

### CURRENT COST ACCOUNTING 1985

One result of the highly variable rate of inflation that has been experienced since the mid-1970's is that traditional accounting, based on historical cost, can give an inaccurate picture of a company's income and financial position. Under the historical cost principle, income is calculated without taking into account price rises in resources used and consumed by the company. The higher the rate of price rises, the more a company is affected by the rises without their being reflected in the accounts. This applies both to goods utilized in production and to production resources.

To make it possible for a reader of a company's Annual Report to better evaluate the company's income and profitability, it is essential that the company shows the extent to which general and specific price changes on input goods, inventories and fixed assets have affected income.

Current cost accounting aims at taking these price changes into consideration both in evaluating assets and in calculating income. Since current cost accounting to a relatively large extent is based on estimations, it cannot meet the same demand for exactness as traditional accounting.

Where the valuation of assets is concerned, accounting based on current-cost is characterized by the fact that historical cost is abandoned in favor of other bases for evaluation such as replacement cost.

Income is also measured differently. In traditional accounting, equity capital at the beginning of the year is compared with equity capital at year-end, calculated in nominal units of currency. Each change then constitutes income for the year.

Current cost accounting, instead, is based on translating equity capital to units with equivalent purchasing power. A profit is considered to have arisen only if the equity capital has increased more than is required to maintain its purchasing power. The consumer price index, for example, can then be used as a base.

Many different models for reporting this are being used today by listed companies. The models may be divided into two main groups:

- partial adjustments
- general models

Partial adjustments, which focus specifically on the items that are affected most by price changes, relate primarily to the income statement.

General models comprise both the income statement and the balance sheet.

To be able to present a satisfactory analysis of the effects of price changes on a company, the income statement and balance sheet both have to be adjusted. In so doing, certain adjusted key ratios can also be obtained.

To permit a complete analysis of true profit, profitability and financial position, a current cost-based income statement and balance sheet are now being shown, as well as certain key ratios.

### Current cost Income Statement

	1985	1984
Invoiced sales	10,062	9,100
Current cost of goods sold	-8,955	-8,206
Current cost depreciation	- 337	- 313
Operating income	770	581
Price changes, inventory	+ 112	+ 129
Price changes, fixed assets	+ 157	+ 173
Operating income before financial items	1,039	883
Financial items	- 196	- 272
Purchasing power adjustment, equity capital	- 209	- 220
Real income after financial items	634	391

### Current cost Balance Sheet

	1985	1984
<b>ASSETS</b>		
Cash, bank and short-term investments	1,418	1,131
Receivables	2,437	2,366
Inventories	2,955	2,931
Fixed assets	2,776	2,689
<b>TOTAL ASSETS</b>	<b>9,586</b>	<b>9,117</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	3,292	3,308
Long-term liabilities	1,861	1,844
Untaxed reserves	740	512
Unrealized price changes	911	899
Shareholders' equity	2,782	2,554
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>9,586</b>	<b>9,117</b>

Atlas Copco has chosen to use one of the models presented by the FAR in its draft of a recommendation for current-cost accounting. This model focuses on three concepts of income:

- current cost-based operating income
- current cost-based income before financial items
- real income after financial items

#### Current cost-based operating income

Current cost-based operating income is an "operative" income figure which should show the degree to which sales revenues covered the replacement value of goods sold. Current cost-based operating income of the Atlas Copco Group in 1985 amounted to SEK 770 m. (581).

This income figure is SEK 254 m. (264) lower than the traditional operating income. This is explained by two factors. Price changes occurred during the year in goods that are included in the company's products. These goods are estimated to cost SEK 102 m. (118) more to purchase than they did at date of procurement. Income

has also been charged with current cost depreciation that is SEK 152 m. (146) higher than depreciation based on historical cost. This means that the wear on the Company's facilities has been assigned a cost based on the amount that would be required to replace these facilities with new ones today.

#### Current cost-based income before financial items

In periods of rapid price increases, the value of a company's assets increases. Price gains arise on products in inventory and on fixed assets. Price gains on inventory are generally realized rapidly and are largely included in traditional income. In contrast, price gains on fixed assets are not realized and, in accordance with traditional accounting, these increases in values should not be credited to income. According to the FAR model, however, both realized and unrealized price changes should affect income.

Atlas Copco's current cost-based income before financial items was SEK 1,039 m. (883).

Price increases of SEK 112 m. (129) occurred on products in inventory and the Company's fixed assets increased in value by SEK 157 m. (173).

#### Real income after financial items

To consider that a profit has arisen, the purchasing power of the equity capital should have increased during the year. Therefore the final adjustment item in an inflation-adjusted income statement is an adjustment of the equity capital. To consider that the purchasing power of equity capital was maintained during 1985, it should have increased by SEK 209 m. Accordingly, the adjustment amounts to SEK 209 m. (220). Atlas Copco's real income after financial items for 1985 thereby becomes SEK 634 m. (391).

This income figure is SEK 194 m. (182) lower than the traditional income and corresponds to a real profit margin of 6.3 percent (4.3).

#### The balance sheet is also adjusted

An adjusted balance sheet is shown in which inventory assets and fixed assets are stated at current values instead of at cost. Total assets are SEK 911 m. (899) greater than in accordance with traditional accounting, since hidden reserves in inventory and facilities are shown openly. The main effects are shown below:

- Machinery, buildings and land are stated at a value that is SEK 850 m. higher.
- The inventory is shown at a value SEK 58 m. higher.
- Shareholdings are shown at a value SEK 3 m. higher.

Risk capital is shown at a value SEK 911 m. higher, which means that the rate of risk-bearing equity capital thereby amounts to 46 percent, as against 41 percent in accordance with traditional accounting.

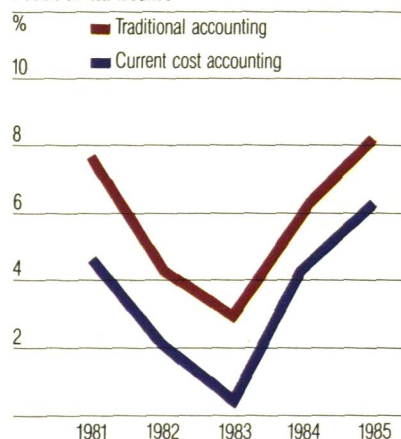
#### Reconciliation between traditional and current cost accounting

Net income according to traditional accounting			828
Change, unrealized price changes:			
Price change, goods sold	-102		
Price change, depreciation	-152	-254	
Price change for the year, inventory	+112		
Price change for the year, equipment	+157	+269	+ 15
Adjustment for inflation			-209
Actual net earnings			634

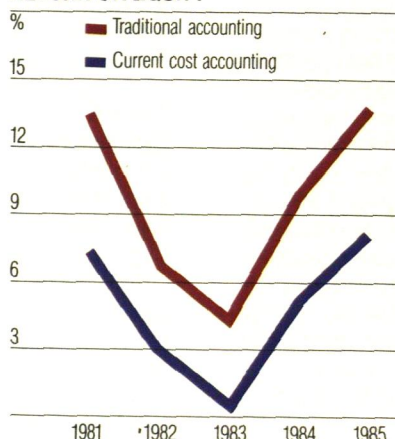
#### RATIONALIZATION OF CAPITAL MANAGEMENT IN ATLAS COPCO GROUP

Atlas Copco conducts internationally-based operations, with production facilities in 16 countries, and sales companies in 50. The flow of goods among Group units

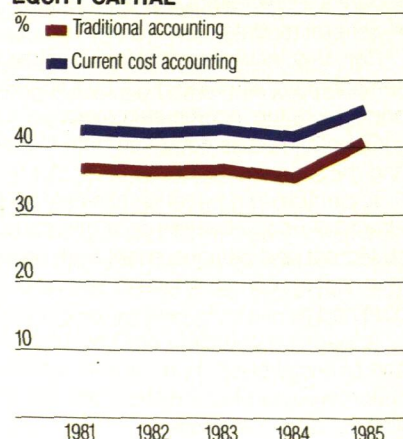
#### PROFIT MARGIN



#### RETURN ON EQUITY



#### RATE OF RISK-BEARING EQUITY CAPITAL



in the various countries is considerable. Import restrictions, various trade and customs barriers, and geographical distance mean that substantial amounts of capital are tied up in goods in the distribution network. A broad product range, combined with the necessity to adapt to changing markets demands, tend to lead to large inventories in both production and distribution. Substantial after-sales service also places considerable demands on high availability of spare parts.

Inventories account for by far the largest proportion of tied-up capital in the Atlas Copco Group. Of the Company's assets, inventories account for approximately 33 percent. Inventories consist predominantly of finished products, machinery and spare parts. Materials administration in the area of inventories has been given high priority, and has provided satisfactory results in terms of releasing tied-up capital.

#### ***Production flexibility***

One objective is to coordinate supply (production) and demand, at the minimum total cost of tied-up capital. Highly-skilled work inputs are required to maintain a sufficiently high flexibility, with continued satisfactory economy, for responding to fluctuations in demand at all times. Excessively high production rapidly builds into undesirable stockpiles, and, consequently, into a high level of tied-up capital. On the other hand, under-production leads to shortages in inventories that are irritating to customers and that result in lost orders.

The Atlas Copco Group uses a decentralized system of inventory control, whereby the sales companies assume operational responsibility and the Divisions – within the scope of their business areas – bear the overall responsibility for the Group as a whole.

The higher the flexibility in production, the better the chances are for a favorable effect on the balance between supply and demand. Atlas Copco now uses the Flexible Manufacturing System (FMS) for its production processes. This is a manufacturing philosophy that provides quick changeover times and very high flexibility. Since the market is tending to become more "turbulent", in turn making forecasting more difficult, FMS must be implemented to an increasing extent if tied-up capital is to be reduced.

#### ***Fast deliveries***

Changes in the product mix, frequently as a result of expansive technological developments (for example, the replacement of light, simple machines by heavy, complex types) demand a diversified delivery philosophy for components, parts, etc. Former practices, such as maintaining inventories near the customer, must be questioned, purely because of geographical considerations. Maximization of centralized inventories, with smaller inventories being maintained locally, will be the guiding principle to minimize the risk of both obsolescence and tied-up capital.

Transport, a service that Atlas Copco procures ex-

clusively from outside sources, thus forms a very important link in the "Logistics Chain." Quick, reliable scheduled transport runs, mainly by road, will compensate for the physical distance between warehouse and customer, in order to shorten the delivery-time as much as possible.

#### ***Computerized inventory control***

Integrated computerized systems are used to process and apply the huge amounts of information involved. Computerized automatic inventory-replenishment and production-planning systems provide the production units with the means to follow-up sales to the final customer with the least possible delay. Production can thus be geared to customer orders, providing a powerful tool for minimizing tied-up capital.

The possibility of fast access to up-to-the-minute information on sales and inventory levels allows Divisions to decide quickly on any necessary inventory replenishments while determining the volume of new production. Because a number of markets require special versions of compressors, for example, knowing (particularly before assembly starts) where machines are to be delivered is naturally a major advantage. This has led to plants being able to reduce inventories of finished products substantially.

KICK, a computer-based ordering and invoicing system, has been established in many of Atlas Copco's sales subsidiaries. KICK is not only more flexible but also more reliable and faster in processing orders and invoicing. Furthermore, the system allows considerable potential for rationalization throughout the inventory system. For example, with the aid of KICK, the Swedish and Norwegian sales companies have been able to concentrate practically their entire inventories at their main warehouses in Stockholm and Oslo. The two companies are also connected via the system, and can use each other's inventory resources should the need arise.

Similar customized systems have also been introduced at Division level. These include SAFIR, Atlas Copco Tools' highly-automated order/invoicing and inventory control system. SAFIR, which has been integrated with the sales companies' systems, provides an instant, paper-free means of communicating information.

Atlas Copco's world is constantly exposed to changing economic, technological, legislative and other conditions. Sometimes change is slow; at other times it occurs with dramatic speed. This requires adaptability at all times by those involved. The personnel employed to administer the Company's assets, in the form of inventories, etc., therefore need a high level of both practical and theoretical training, as well as substantial experience.

Calculated as a percentage of invoiced sales, the trend of capital tied-up in inventories has been favorable. Since 1980, the proportion of Atlas Copco Group inventories has fallen from 44 percent to 29 percent of invoiced sales. This decrease has favorably affected earnings, via an improvement in net interest items and reductions in inventory, personnel and property costs.

### EXCHANGE RATE DEVELOPMENT

The trend of exchange rates for the U.S. dollar has affected European industrial companies in many respects in recent years.

For an internationally active company such as Atlas Copco, a change in the dollar exchange rate has a number of effects. These are often felt in various ways and have short- and long-range effects. A change in the dollar exchange rate compared with European currencies can thus be divided into effects on the balance sheet, competitive effects in and outside the U.S., and effects on other currencies.

#### Balance sheet effect

The long-term dollar loans that the company raised at the beginning of the 1980s are now valued at a lower figure than the "peak year" 1984. The exchange losses reported by the Company in recent years during a period of rising dollar rates were changed in 1985 to unrealized exchange gains.

#### Competitive effect in the U.S. market

Approximately 50 percent of the Group's sales in the U.S. are based on costs in dollars since a not insignificant part of Atlas Copco's product program is manufactured in the U.S. and Canada. The balance consists of goods and components purchased in Europe. A falling dollar thus narrows the margins on this latter portion. Forward contracts will offset a large part of the negative effect during 1986. If the dollar continues to fall, additional manufacturing may be transferred to the U.S. in the future without dislocation of existing production arrangements.

#### Competitive effect outside the U.S.

A number of Atlas Copco's competitors are U.S.-based companies. With a declining dollar, these companies should be able to improve their margins or lower their prices on sales outside the U.S. In order to cope with the rise in the dollar during the first half of the 1980s, certain competitors adjusted production volume in facilities outside the U.S. and increased their purchases of foreign components in order to adjust to the altered cost structure. A corresponding reverse adjustment in the event of a falling dollar would not have any short-term effects.

Atlas Copco has succeeded in recent years in advancing its position in most markets. Competitors will therefore have to do more than lower prices to recapture lost market shares.

#### Effect on other currencies

A lower exchange rate for the dollar also affects other currencies. Certain currencies such as the Canadian dollar normally follow the fluctuations of the U.S. dollar as do the South American currencies. However, many other currencies become stronger when the dollar weakens and vice versa. This also applies to most European currencies. Because the Swedish krona is tied to the currency basket, a lower dollar exchange rate will cause a weakening of the krona in relation to the European

Monetary System (EMS) currencies. This, in turn, strengthens the competitiveness of the Swedish export companies in Europe. As a rule-of-thumb, a one-percent change in the EMS currencies results in a reverse three-percent change for the dollar. Since Atlas Copco sells three times as much to the European Community countries as it does to the U.S., the effect on Atlas Copco Group is virtually nil.

#### Summary

If a currency devaluates in relation to other currencies, it will have only an accounting effect in the short run. Through forward transactions and other measures, Atlas Copco routinely secures the value of the cash flow between subsidiaries in different countries for a number of months forward. The competitive situation in each market is, of course, affected by currency fluctuations. These can be neutralized in various ways depending on whether the change is judged to be short- or long-term. In addition, exchange rates are only one of many factors that define competitiveness. A change in the dollar directly affects the values of other currencies in relation to the krona. For example, a cheaper dollar results in increased purchasing power in Europe.

### EXCHANGE RATES

Country	Currency		Year-end-rate		Average rate	
	Value	Code	1985	1984	1985	1984
Argentina	100	ARA <sup>1)</sup>	0.952	5.000	0.952	17.300
Australia	1	AUD	5.095	7.450	6.060	7.260
Austria	100	ATS	44.00	40.50	41.50	41.50
Belgium	100	BEC	15.10	14.20	14.50	14.30
Brazil	100	BRC	0.752	2.82	1.580	4.96
Canada	1	CAD	5.440	6.800	6.240	6.405
Denmark	100	DKK	84.50	79.50	81.50	80.00
France	100	FRF	100.50	93.00	96.00	94.50
Great Britain	1	GBP	10.975	10.450	11.080	11.020
India	100	INR	62.50	71.50	69.00	72.50
Italy	100	ITL	0.451	0.462	0.450	0.470
Japan	100	JPY	3.725	3.588	3.596	3.475
Mexico	100	MXP	2.04	4.66	3.48	4.72
The Netherlands	100	NLG	274.00	252.50	260.50	257.50
Norway	100	NOK	100.50	98.50	100.00	101.50
Peru	100	PES	0.545	1.575	0.885	2.530
Portugal	100	PTE	4.72	5.25	4.96	5.60
South Africa	1	ZAR	2.995	4.465	4.030	5.650
Spain	100	ESP	4.92	5.16	5.04	5.13
Switzerland	100	CHF	366.50	346.50	352.50	352.50
U.S.A.	1	USD	7.610	8.985	8.505	8.280
Venezuela	1	VEB	1.015	1.200	1.135	1.070
West Germany	100	DEM	308.50	285.50	293.50	290.50
European Currency Unit	1	ECU	6.75			

<sup>1)</sup> 1984 figures relate to then valid ARP rates.

**DEFINITIONS****Profit margin**

Profit after financial income and expense as a percentage of invoiced sales.

**Return on capital employed**

Profit after financial income and expense plus interest paid, as a percentage of average total assets less non-interest-bearing current liabilities.

**Return on risk-bearing equity capital**

Profit after financial income and expense less actual tax as a percentage of average equity capital, minority interests and untaxed reserves.

**Return on shareholders' equity**

Profit after financial income and expense less a standard tax charge of 50 percent as a percentage of average shareholders' equity, minority interests and 50 percent of untaxed reserves (deduction for deferred tax liability).

**Rate of risk-bearing capital**

Shareholders' equity, minority interests and untaxed reserves as a percentage of total capital.

**Degree of self-financing**

Funds generated internally as a percentage of investments in machinery and buildings.

**Capital turnover ratio**

Invoiced sales divided by average total assets.

**Interest coverage**

Profit after financial income and expense plus interest expense, divided by interest expense.

**Earnings per share**

Profit after financial income and expense less a standard tax charge of 50 percent and minority interests in the year's operations, divided by the number of shares outstanding. Earnings per share according to NBK's recommendations (Note 31).

**Earnings per share after extraordinary items**

Profit after extraordinary income and expense less a standard tax charge of 50 percent and minority interests in the year's operations, divided by the number of shares outstanding. Earnings per share according to NBK's recommendations (Note 31).

**Utilization of capacity**

The number of production hours utilized in relation to normal production capacity calculated as the average of the most recent two year's actual utilization of capacity and the utilization budgeted for the next three years.

**1. OPERATING EXPENSES**

	GROUP	
	1985	1984
Cost of goods sold	6,114.9	5,535.9
Marketing and administrative costs	2,527.6	2,399.4
Technical development costs	312.2	270.1
Price gains realized on inventory	– 102.0	– 118.0
Operating expenses	8,852.7	8,087.4

**2. DEPRECIATION**

The Atlas Copco Group applies three types of depreciation: cost depreciation, book depreciation and current cost depreciation.

*Cost depreciation* is based on original cost and is applied by the straight-line method over the economic life of the asset. Goodwill is depreciated in accordance with a plan established for each specific case.

*Book depreciation* is used in the maximum amount allowable in accordance with tax legislation in each country. The difference between book depreciation and cost depreciation is stated under "Appropriations" in the income statement. The total is stated in the balance sheet, among untaxed reserves, under the heading "Accumulated additional depreciation."

	GROUP	
	1985	1984
Cost depreciation	185.3	167.0
Book depreciation	248.8	188.0
Depreciation in excess of cost (NOTE 23)	63.5	21.0

Book depreciation includes write-downs charged against special investment reserves of SEK 12,9 m. (11,9).

*Current cost depreciation* is used as the basis for price and profitability calculations and is based on the replacement value of the asset. Depreciation is applied on a straight-line basis over the economic life of the asset.

The following economic lives are used for cost depreciation and current cost depreciation:

Machinery and equipment	5 to 15 years
Vehicles	5 years
Buildings	25 to 50 years

Current cost depreciation for the Group amounted to SEK 337 m. (313) and thus exceeded cost depreciation by SEK 152 m. (146).

### 3. INTEREST EXPENSE

In conformity with recommendations of the Swedish Institute of Authorized Public Accountants (FAR) and the Swedish Pension Registration Institute (PRI), the interest portion of the year's provision for pensions has not been charged against operating income but has, instead, been shown as interest expense. The amount has been calculated on the basis of provisions for pensions at January 1 and December 31 and an interest rate of 11.5 percent (12.0) for index pensions and 3.5 percent (3.5) for pensions liabilities expressed in fixed amounts. The interest portion for 1985 amounted to SEK 45.5 m. (49.9).

Interest arbitrage transactions were carried out during the year only in the Parent Company. Interest expense as well as interest income have been reported net in the income statement. Offset amounts in 1985 totaled SEK 33.1 m. (8.1).

### 4. FOREIGN EXCHANGE DIFFERENCES

Foreign exchange differences arising in connection with financial transactions are stated net.

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Realized exchange differences, net	- 3.3	17.6	1.9	-1.8
Unrealized exchange differences:				
Long-term loans	36.5	-33.0	41.4	-53.9
Other receivables and liabilities	-15.5	35.1	-	1.0
Translation differences	-28.5	-14.6	-	-
	-10.8	5.1	43.3	-54.7

Exchange differences in translation of foreign subsidiaries refer to differences arising from translation of the balance and income statements in subsidiaries outside of Sweden in high inflation countries, for which the monetary/non-monetary method is applied.

### 5. EXTRAORDINARY INCOME AND EXPENSE

Capital gains and losses that arise in connection with ongoing scrapping of fixed assets are included in operating income. Gains and losses on the sales of major facilities are shown, however, under the heading "Extraordinary items" and are calculated as the difference between sales revenue and the planned residual value.

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Capital gain on share and participations sold	72.4	3.3	72.4	3.3
Capital loss on machines and equipment sold	24.1	-	-	-
Capital gain on buildings sold	2.3	26.8	-	2.8
Capital loss on buildings sold	- 0.8	- 5.0	- 0.8	-
Liquidation costs	-	-23.1	-	-
Exchange losses on foreign loans cycled earlier	-	-	-	-58.2
Exchange losses on foreign loans raised prior to 1978	-	-	-	-43.0
	98.0	2.0	71.6	-95.1

The liquidation and closing-down costs are attributable to the costs of closing facilities and to restructuring measures in the United States and Sweden, among other countries.

Exchange losses on loans raised prior to 1978 pertain to loans in Swiss francs for which the current exchange losses are covered by the currency adjustment reserve. This reserve has been liquidated as an appropriation in the 1983 Group accounts and in the 1984 Parent Company accounts.

### 6. APPROPRIATIONS

Tax legislation in Sweden and in other countries allows companies the opportunity for consolidation through tax-deductible allocations to untaxed reserves. By utilizing these regulations, the companies can dispose and retain income within the business without being taxed. The untaxed reserve created by this procedure may not be used for dividends. The amounts of allocations and reversals of such reserves and funds are reported under the headline "Appropriations" in the income statement. In the balance sheet and in NOTE 21, the accumulated value of the allocations is stated under the headline "Untaxed reserves."

The untaxed reserves first become subject to taxes when they are withdrawn. If the company should experience losses, certain untaxed reserves can be used to cover the loss without being taxed. Taking this into considera-

tion, the total value of untaxed reserves is considered risk capital, since a potential loss can largely be covered through the liquidation of untaxed reserves.

Transfer of earnings in the form of group contributions can under certain conditions be made between Swedish companies within the same group. The contribution is a tax-deductible expense for the giver and taxable income for the receiver. Group contributions received by the Parent Company refer to contributions from Monsun-Tison, Berema and Atlas Copco Tools, among others.

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
General inventory reserves (NOTE 22)	-89.2	-21.9	-	-
Investment reserve (NOTE 24)	-46.4	-0.4	-	-
Special investment reserves (NOTE 25)	- 2.0	-30.0	-	-29.7
Development reserves (NOTE 26)	-37.1	-	-29.2	-
Other reserves	-16.3	-0.4	-	-
Difference between book depreciation and cost depreciation (NOTE 23)	-63.5	-21.0	- 0.1	-1.6
Accumulated additional depreciation on asset sold (NOTE 23)	26.2	28.6	1.1	-
Withdrawals from special investment reserves (NOTE 25)	12.9	15.2	-	2.0
Currency adjustment reserve (NOTE 5)	-	-	-	43.0
Group contributions	-	-	42.8	85.2
	-215.4	-29.9	14.6	98.9

## 7. TAXES

Of the provision for taxes amounting to SEK 304.2 m. in 1985, SEK 251.6 m. pertains to taxes outside Sweden and SEK 52.6 m. to taxes in Sweden. Federal taxes amounted to SEK 24.9 m. and profit sharing taxes to 27.7 SEK m. At the close of 1985, the Swedish companies had tax-deductible loss carryforwards of SEK 4.7 m. Loss carryforwards for foreign companies amounted to approximately SEK 290 m.

## 8. MINORITY INTEREST IN SUBSIDIARIES' EQUITY AND EARNINGS

The earnings statement reports the minority shares of the Group's net earnings at SEK 14.2 m. (21.9). These minority interests are primarily in Atlas Copco India, Delfos & Atlas Copco (Pty) South Africa and Atlas Copco Venezuela.

A statement of gross minority interest in the subsidiaries' equity and earnings is as follows:

	1985	1984
Earnings after financial income and expense	828.1	573.0
Extraordinary items	+ 98.0	+ 2.0
Earnings before appropriations and taxes	926.1	575.0
Minority share	- 35.1	- 42.0
Earnings before appropriations and taxes excluding minority	891.0	533.0
Appropriations	-214.1	- 29.9
Earnings before taxes	676.9	503.1
Taxes	-284.6	-222.0
Profit for the year	392.3	281.1

Minority interest in group equity as shown in consolidated balance sheet.

	Own equity	Untaxed reserves	Total
Minority interest December 31, 1984	143.4	22.2	165.6
Minority acquired	+ 0.6	+ 1.8	+ 2.4
Minority sold	- 4.6	-	- 4.6
Dividends	- 8.0	-	- 8.0
Translation differences	- 20.7	-10.8	-31.5
Earnings for the year	+ 14.2	+ 1.3	+ 15.5
Minority interest December 31, 1985	124.9	14.5	139.4

Of the total translation differences of SEK -31.5 m., SEK -22.5 m. is attributable to the weakening of South Africa's currency. Untaxed reserves consist of inventory reserves of SEK 12.0 m., investment reserves of SEK 1.7 m. and accumulated additional depreciation of SEK 0.8 m.



**9. CASH, BANK AND SHORT-TERM INVESTMENTS**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Cash, bank	527.5	439.0	82.7	128.1
Bank certificates	4.0	—	—	—
Liquid funds	531.5	439.0	82.7	128.1
Treasury bills	336.8	145.4	336.8	145.4
Treasury notes	197.3	48.6	197.3	48.6
Other short-term investments	352.2	498.4	276.9	422.4
	1,417.8	1,131.4	893.7	744.5

The Group's available but unutilized bank credits at December 31, 1985 amounted to SEK 1,705 m. (1,758). Ongoing interest arbitrage transactions in the Parent Company are reported net, and on December 31, 1985 amounted to SEK 307.2 m. (183.1). The loan sum totals the same amount and has been placed as follows:

	1985	1984
Treasury bills	177.2	28.1
Treasury notes	100.0	—
Promissory notes	30.0	155.0
	307.2	183.1

These amounts are not included in the balance sheets.

**10. RECEIVABLES**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Notes receivable	134.8	156.1	—	—
Receivables from subsidiaries	—	—	127.8	230.9
Trade receivables	1,748.8	1,714.5	67.0	59.6
Prepaid expenses and accrued income	126.8	108.3	49.6	58.7
Other receivables	379.2	377.8	79.8	134.4
	2,389.6	2,356.7	324.2	483.6

**11. INVENTORIES**

Inventories are valued at the lower of cost or market, in accordance with the "first in/first out" principle and net sales value. Group inventories are shown after deductions for obsolescence and for internal profits arising in connection with deliveries from the divisions to the Group sales companies.

Transfer pricing between companies is based in principle on comparable market prices.

	GROUP	
	1985	1984
Raw materials	121.3	103.8
Work in progress	442.1	366.3
Semifinished goods	723.3	694.4
Finished goods	1,610.1	1,719.8
	2,896.8	2,884.3

**12. BLOCKED ACCOUNTS WITH THE BANK OF SWEDEN**

Funds in blocked accounts in the Bank of Sweden refer to remaining unutilized funds in the special investment reserves. The amount in 1985 totaled SEK 47.4 m. (8.8) for the Group and SEK 24.9 m. (2.0) for the Parent Company.

**13. SHARES AND PARTICIPATIONS**

	BOOK VALUE		MARKET VALUE	
	1985	1984	1985	1984
Shares and participations reported by Atlas Copco AB:				
Boliden AB	—	96.6	—	121.6
Svensk Interkontinental Lufttrafik AB (SILA)	0.7	0.7	9.7	8.1
Bilspedition AB	2.1	1.4	4.8	3.3
Other shares and participations reported by Atlas Copco AB as specified on page 30	14.7	14.7		
Total, Parent Company	17.5	113.4		
Shares and participations reported by other companies:				
Cord Capital N.V.	3.7	3.7		
Instrument AB				
Scanditronix	3.0	3.0		
Webster Machine Development Ltd	1.6	2.0		
Atlas Copco-Eickhoff Engineering	0.2	0.2		
Droogtechniek & Luchtbehandeling	0.7	0.7		
Others	0.5	0.1		
Total, Group	27.2	123.1	14.5	133.0

**14. GOODWILL – GROUP EXCESS VALUE**

Group excess value in 1985 amounted to SEK 24.4 m. (17.2). This has been distributed over the following items in the balance sheet: Goodwill, SEK 9.7 m. (11.5), buildings SEK 2.7 m. (2.9) as well as machines and equipment SEK 12.0 m. (0.0). The Goodwill items pertain mainly to patents, manufacturing rights and know-how. Depreciation of Group excess value amounts to SEK 7.8 m., distributed as follows:

	GROUP	
	1985	1984
Goodwill	4.6	5.1
Machines and equipment	3.0	–
Buildings	0.2	0.3
	7.8	5.4
Acquired goodwill December 31, 1984		100.5
Accumulated depreciation December 31, 1984		–89.0
Acquired goodwill, 1985		2.8
Depreciation for the year		–4.6
Book value, December 31, 1985		9.7

**15. LONG-TERM RECEIVABLES**

The Swedish "Law on payments to liquidity accounts" requires Swedish employers in 1984 and 1985 to pay funds into blocked liquidity accounts with the Bank of Sweden. The amount, calculated in 1985 at 6 percent of that part of the total paid in wages and salaries in 1984 exceeding SEK 20 m., has been paid. This amounts to SEK 17.1 m. for the Group and SEK 1.3 m. for the Parent Company, and is included in the item "Long-term receivables". These funds will be repaid by the Bank of Sweden on March 31, 1988, including a fixed annual interest of 7 percent.

Earlier SEK 16.2 m. has been paid to this account including SEK 1.0 m. by the Parent Company, equal to 6 percent of total 1983 wages and salaries exceeding SEK 20 m. These funds will be repaid December 30, 1986, and will be included in the item "Other receivables".

**16. MACHINERY AND EQUIPMENT**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Costs	1,453.1	1,293.2	55.8	51.2
Accumulated cost depreciation	–795.0	–735.1	–34.6	–31.1
Planned residual value	658.1	558.1	21.2	20.1
Accumulated depreciation in excess of cost depreciation (NOTE 23)	–167.0	–142.8	–11.2	–10.9
Book value, net	491.1	415.3	10.0	9.2

**17. BUILDINGS**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Cost	1,036.3	1,006.3	78.9	88.1
Undepreciated amount of write-ups	20.8	22.4	0.6	0.6
Accumulated cost depreciation	–318.8	–287.9	–10.4	–11.5
Planned residual value	738.3	740.8	69.1	77.2
Accumulated cost depreciation (NOTE 23)	–125.5	–105.7	–35.3	–36.6
Book value, net	612.8	635.1	33.8	40.6
Tax assessment value			41.2	33.8

**18. LAND**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Cost	167.1	131.3	19.7	20.5
Write-ups	24.7	31.4	4.0	4.0
Book value, net	191.8	162.7	23.7	24.5
Tax assessment value			22.1	24.0

**19. LONG-TERM LOANS**

Long-term liabilities are shown in the balance sheets of the Group and the Parent Company as follows:

	1985
<i>Bond loans</i>	
PARENT COMPANY	
1985 CHF <sup>1)</sup> 75.5 m. (amortized CHF 4 m.)	259.3
1978 12 3/4 %, SEK 100 m., amortization 1979–1993	53.1
Less: 1986 maturities	–21.3
Bond loans as shown in balance sheets	291.1

*Mortgage loans and promissory notes* 1985

	1985
PARENT COMPANY	
Available under "USD 50 m. "Multiple-facility"	
USD 34.0 m.	258.7
GBP 3.0 m.	32.9
1980 multicurrency-loan, USD 10 m.	45.7
1984 multicurrency-loan, GBP 0.7 m.	7.6
1983 loan, LUF 50 m.	7.6
1984 loan, SGD 0.8 m.	2.9
National Pension Fund loan	8.4
National Labor Market Board loan	0.2
Other mortgage loans and promissory notes	5.3
Less: 1986 maturities	–140.2
Mortgage loans and promissory notes as shown in balance sheet	229.1

<i>Mortgage loans and promissory notes (cont.)</i>	1985
PARENT COMPANY	229.1
SUBSIDIARIES	
Atlas Copco Airpower	326.6
Atlas Copco MCT	61.2
Atlas Copco Tools	23.6
Berema	25.7
Monsun-Tison	9.1
Other companies	349.5
Less: 1986 maturities	-176.0
Group mortgage loans and promissory notes as shown in balance sheet	848.8

Bond loans, mortgage loans and promissory notes are being amortized as follows, based on exchange rates at December 31, 1985:

	GROUP	PARENT COMPANY
1986	337.5	161.5
1987	318.7	165.3
1988	137.7	46.3
1989	198.4	33.6
1990	122.1	99.6
1991 and thereafter	363.0	175.4
	1,477.4	681.7

Total long-term borrowing of the Atlas Copco Group, including current portion of long-term loans based on year-end exchange rates:

CURRENCY	AMOUNT	SEK m.	PERCENT
USD	46.5	353.9	24.0
BEC	1,910.6	288.5	19.5
SEK	151.7	151.7	10.3
ECU	21.3	146.1	9.8
CHF	32.6	120.0	8.1
DEM	38.4	118.5	8.0
AUD	9.6	48.9	3.3
NOK	43.2	43.4	2.9
GBP	3.7	40.6	2.8
FRF	40.4	40.6	2.8
MXP	1,502.0	30.7	2.1
Other	-	94.5	6.4
		1,477.4	100.0

<sup>1)</sup> To reduce its exposure in Swiss francs (CHF), Atlas Copco AB has agreed to a so-called swap-agreement by which Atlas Copco AB will receive CHF 40 m. in exchange for (European Currency Units) ECU 21.3 m. in 1991. Similarly, during the years 1986 to 1991, Atlas Copco AB will receive CHF interest in exchange for ECU interest. The recalculation of the 1985 CHF 75.5 m. bond loan is in accordance with the above swap.

## 20. PROVISION FOR PENSIONS

This item pertains mainly to the Swedish companies and corresponds to the actuarially calculated amount of pension obligations under the negotiated supplementary pension plan in excess of the National Supplementary Pension Plan. In accordance with a recommendation of the Swedish Institute of Authorized Public Accountants,

a certain portion of the year's pension cost is shown as interest expense. (See NOTE 3.) The item "Provision for pensions" is accordingly included among interest-bearing liabilities.

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Swedish companies				
PRI-pensions	412.9	387.5	144.6	131.3
Other pensions	29.8	22.4	23.0	16.8
Companies outside Sweden	166.5	140.0	-	-
	609.2	549.9	167.6	148.1

Pensionregistreringsinstitutet (PRI) is a public service organization which administers employee pension plans.

## 21. UNTAXED RESERVES

Untaxed reserves are shown in the balance sheets of both the Atlas Copco Group and the Parent Company as a compounded item. The distribution of the individual items appears below and under separate notes for the different reserves.

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
General inventory reserves (NOTE 22)	274.5	183.4	-	-
Accumulated additional depreciation (NOTE 23)	292.5	248.5	46.5	47.5
Investment reserves (NOTE 24)	71.8	23.0	-	-
Special investment reserves (NOTE 25)	24.9	35.8	24.9	29.7
Development reserves (NOTE 26)	37.1	-	29.2	-
Other reserves	38.7	20.9	-	-
	739.5	511.6	100.6	77.2

## 22. GENERAL INVENTORY RESERVES

Allocations to these reserves are made principally in the Group's Scandinavian companies. Swedish legislation permits a write-down of a maximum of 50 percent of the value after a deduction for obsolescence.

	GROUP
General inventory reserves, December 31, 1984	183.4
Allocations	96.3
Withdrawals	-7.1
Translation differences	1.9
General inventory reserves, December 31, 1985	274.5

Utilized rights to make allocations to inventory reserves in the Swedish companies amount to SEK 189.4 m. In addition to the inventory reserves shown in the balance sheet, SEK 25.3 m. has been eliminated in connection with application of the purchase method of accounting.

**23. ACCUMULATED ADDITIONAL DEPRECIATION**

GROUP	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, December 31, 1984	142.8	105.7	248.5
Difference between book depreciation and cost depreciation in 1985	46.0	17.5	63.5
Accumulated additional depreciation on fixed assets sold	-24.6	-1.6	-26.2
Translation differences	2.8	3.9	6.7
Accumulated additional depreciation, December 31, 1985	167.0	125.5	292.5

PARENT COMPANY	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, December 31, 1984	10.9	36.6	47.5
Difference between book depreciation and cost depreciation in 1985	0.3	-0.2	0.1
Accumulated additional depreciation on assets sold	-	-1.1	-1.1
Accumulated additional depreciation, December 31, 1985	11.2	35.3	46.5

**24. INVESTMENT RESERVES**

Swedish companies have the right to allocate 50 percent of their adjusted annual profit to a general investment reserve. The amount allocated is tax-deductible if 75 percent of the sum is deposited in a non-interest-bearing account in the Bank of Sweden. Employees must be consulted before application is made to utilize the investment reserves. The reserve may be used with the permission of Governmental authorities and proportional amounts may be withdrawn from the Bank of Sweden in this connection.

When investments in fixed assets are made, the portion of the cost defrayed by utilizing the investment reserve may be written down through a corresponding transfer from the investment reserve.

Certain companies outside Sweden also have the opportunity to make appropriations to similar investment reserves.

	GROUP
Investment reserves, December 31, 1984	23.0
Allocations	46.4
Translation differences	2.4
Investment reserves, December 31, 1985	71.8

Swedish units account for SEK 17.9 m. of allocations for the year. The remainder relates to companies outside Sweden.

**25. SPECIAL INVESTMENT RESERVES**

According to Swedish legislation passed in 1982 concerning payments to special investment accounts, Swedish companies with an adjusted annual income exceeding SEK 1 m. were obligated to make payment to a non-interest-bearing account with the Bank of Sweden for the fiscal year 1983 and also later for 1984. The amounts for both years consisted of 20 percent of the company's adjusted annual income. Withdrawal of reserves occurs in accordance with similar provisions described for investment reserves.

During 1985 the Parent Company transferred a total of SEK 4.8 m. to Toolex Alpha AB. A total of SEK 12.9 m. has been utilized in the Group during the year.

	GROUP	PARENT COMPANY
Special investment reserves, December 31, 1984	35.8	29.7
Transferred to subsidiaries	-	-4.8
Withdrawals for write-downs	-12.9	-
Allocations	2.0	-
Special investment reserves, December 31, 1985	24.9	24.9

**26. DEVELOPMENT RESERVES**

As with special investment reserves, Swedish companies with an adjusted annual income in excess of SEK 0.5 m. are obligated to make payment to a non-interest-bearing "development account" with the Bank of Sweden for the fiscal year 1985. To make the payments deductible from income taxes, a corresponding amount must be deposited in a special investment reserve, equal to 10 percent of adjusted annual income. Withdrawal of reserves occurs in accordance with provisions similar to those indicated above for special investment reserves and may be utilized to finance employee training as well as costs for research and development. The total allocation for 1985 is SEK 37.1 m., with SEK 29.2 m. from the parent company.

**27. RESTRICTED RESERVES**

	GROUP	PARENT COMPANY
Restricted reserves, December 31, 1984	1,322.7	597.1
Transferred from retained earnings	27.7	-
Translation differences	-120.2	-
Restricted reserves December 31, 1985	1,230.2	597.1

Of the Group's restricted reserves, SEK 768.6 m. is attributable to statutory allocations in Atlas Copco companies.

**28. RETAINED EARNINGS**

	PARENT GROUP COMPANY	
Retained earnings, December 31, 1984	197.6	88.6
1984 net profit	281.1	118.7
Dividend to shareholders	-105.6	-105.6
Transferred to restricted reserves	- 27.7	-
Translation differences	+ 88.3	-
Retained earnings, December 31, 1985	433.7	101.7

In evaluating the Atlas Copco Group's retained earnings and profit for the year, it should be noted that a substantial portion was earned in companies outside Sweden, from which the transfer of profit to the Parent Company is, in certain cases, subject to taxation or restrictions.

**29. ASSETS PLEDGED**

	GROUP		PARENT COMPANY	
	1985	1984	1985	1984
Real estate mortgages	291.5	313.7	6.7	6.7
Chattel mortgages	182.1	182.4	8.2	8.2
Other assets pledged	11.9	20.6	-	-
	485.5	516.7	14.9	14.9

**30. CONTINGENT LIABILITIES**

In addition to the contingent liabilities shown, through a financing agreement with Atlas Copco Finans AB, trade receivables and notes receivable totaling SEK 225.1 m. (285.1) have been sold with a limited repurchase guarantee. The value to Atlas Copco AB amounts to SEK 61.6 m. (85.0). Appropriate reservations have been made for anticipated customer losses.

**Information on loans and contingent liabilities to shareholders and others (required in accordance with Chapter 12, Paragraph 7 of the Swedish Companies Act).**

During the period 1981-1985 loans have been granted to employees under terms of an offer related to savings invested in Atlas Copco shares. Exemptions have been obtained from the County Councils in the counties involved.

	GROUP		PARENT COMPANY	
Number of borrowers	1,402	248	237	55
The loans are shown in the balance sheets as				
Other current receivables	2.2	0.5	0.4	0.4
Long-term receivables	1.4	0.3	1.3	1.3

The number of borrowers in the Parent Company includes Atlas Copco Management Consulting AB as well as Atlas Copco International AB.

**31. APPLICATION OF THE SWEDISH INDUSTRY AND STOCK EXCHANGE COMMITTEE'S (NBK) RECOMMENDATIONS**

Application of the NBK recommendation concerning the format of the income statement and calculation of certain key ratios would yield the following changes in the income statement:

	1985		1984	
Income after financial items		828.1		573.0
Tax attributable to the above sum		-406.8		-256.3
Minority interest		- 14.2		- 21.9
Income before extraordinary items		407.1		294.8
Extraordinary items	+98.0		+2.0	
Tax attributable to extraordinary items	-27.6	+ 70.4	-8.1	- 6.1
Net Profit		477.5		288.7
Reversals				
Tax charged against net profit		+434.4		+264.4
Minority interest		+ 14.2		+ 21.9
Reported earnings before appropriations and taxes		926.1		575.0

The following key financial ratios, whose definitions follow the NBK's recommendations, using the full-tax method, are based on the above income statement and therefore differ from the corresponding key financial ratios reported elsewhere (see page 31).

	1985	1984
Profit per share SEK	17.35	12.60
Profit per share after extraordinary items SEK	20.35	12.30
Return on shareholders' equity, %	17.0	11.3
Return on capital invested, %	20.6	17.8
Interest-bearing debts from adjusted shareholders' equity	1.05	1.16

# SHARES AND PARTICIPATIONS

December 31, 1985

	Number of shares	Per- cent held	Par value loc cur	Book value SEK m.		Number of shares	Per- cent held	Par value loc cur	Book value SEK m.
<b>DIVISIONS</b>					<b>OTHER SUBSIDIARIES</b>				
Atlas Copco MCT AB	1 000 000	100	100	115.0	Atlas Copco ABEM AB	25 000	100	100	2.5
Atlas Copco Tools AB	100 000	100	100	20.0	Atlas Copco Airpower AB	60 000	100	100	8.2
Berema AB	40 000	100	1 000	59.2	Atlas Copco				
Monsun-Tison AB	400 000	100	100	58.9	Kompressor AB	500	100	100	0.1
Atlas Copco Airpower n.v., Belgium	59 500	99	1)	200.0	Atlas Copco MCT (G.m.b.H.), West Germany	1	40 <sup>2)</sup>	1)	13,7
<b>SALES COMPANIES</b>					Copco Nueva Montaña S.A., Spain, in liquidation				
Atlas Copco Svenska Försäljnings AB	200 000	100	100	20.0	Atlas Copco Andina S.A., Bolivia, in liquidation	29 999	13 <sup>3)</sup>	1 000	—
Atlas Copco International AB	10 000	100	100	1.0	Atlas Copco	18 000	50 <sup>2)</sup>	1 000	—
Atlas Copco (Cyprus) Ltd.	99 998	100	1	0.6	UK Holdings Ltd.	3 623 664	100	1	38.3
Atlas Copco A/S, Denmark	12 000	100	1 000	6.9	Atlas Copco Beheer bv, The Netherlands	15 712	100	1 000	35.0
Atlas Copco France S.A.	99 965	100	500	44.6	Atlas Copco Holding G.m.b.H.				
Atlas Copco Italia S.p.A.	1 079 996	100	10 000	33.1	West Germany	4	99 <sup>2)</sup>	1)	86,3
Atlas Copco A/S, Norway	4 498	100	10 000	31.6	Atlas Copco Industrial S.A., Spain	95	50 <sup>2)</sup>	10 000	—
Soc. Atlas Copco de Portugal Lda	1	100	1)	22.1	Atlas Copco Reinsurance S.A., Luxemburg	4 993	100	10 000	7.4
Atlas Copco (Schweiz) A.G.	7 995	100	1 000	12.3	Institut CERAC S.A., Switzerland 1997	100	100	1 000	2.4
Atlas Copco S.A.E., Spain	512 000	99 <sup>2)</sup>	500	3.7	Atlas Copco Management Consulting AB	500	100	100	0.1
Atlas Copco G.m.b.H., Austria	69 990	100	1 000	20.3	AB Sicklahus	2 000	100	100	0.2
Atlas Copco North America Inc.	6 124	50 <sup>2)</sup>	1)	94.9	Atlas Copco Data AB	125	25 <sup>2)</sup>	100	—
Atlas Copco Boliviana S.A.	6 170	100	1 000	2.1	Atlas Copco Fond- aktiebolag	2 500	100	100	0.3
Atlas Copco Brasil Ltda	52 000 000 000	100	1)	20.9	13 dormant companies	—	—	—	0.5
Atlas Copco Chilena S.A.C.	9 154	100	1 000	6.0					1017.4
Atlas Copco Ecuatoriana S.A., Ecuador	6 000	60 <sup>2)</sup>	1 000	0.6	<b>OTHER COMPANIES</b>				
Atlaservis S.A., Ecuador	1 990	100	1 000	0.4	Atlas Copco Finans AB	38 000	40	100	3.8
Atlas Copco Venezuela S.A.	7 200	60	1 000	8.7	Atlas Copco Leasing AB	16 000	40	100	2.0
Atlas Copco Iran AB, Sweden	3 500	100	100	0.3	Atlas Copco Trading AB	500	50	100	0.1
Atlas Copco (Philippines) Inc.	121 995	100	100	3.0	Atlas Copco Finanz AG, Switzerland	2 449	49	1 000	7.2
Atlas Copco Gadelius KK, Japan	375 001	100	1 000	22.7	Sickla Industrifastig- heter AB	10 000	33	100	1.0
Atlas Copco (HK) Ltd., Hong Kong	2 400	80	1 000	2.1	Prelucor Laser AB	1 750	35	100	0.6
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2 500 000	100	1	8.4	Mechanical Technology Inc., N.Y.	140 000	5	1	—
Atlas Copco Malaysia Ltd.	1 000 000	100	1	2.6	Bilspedition AB	71 120	1	25	2.1
Atlas Copco Korea Co. Ltd.	49 000	49	1 000	0.4	Svensk Interkontinental Lufttrafik AB (SILA)	42 300	2	50	0.7
Atlas Copco Ticaret ve Sanayi T.A.S., Turkey	1 130	100	500	—	Skandinavisk Försäkrings- service AB	25	5	120	—
Atlas Copco Argentina S.A.C.I.	18 000 000 000	100	0.0001	—	Handelsbolaget Svenska Dagbladets AB & Co	100	2	1 000	—
Atlas Copco Taiwan Ltd.	15 996	80	100	—	AB Stadsfastigheter	6	—	1 000	—
Atlas Copco (India) Ltd.	1 928 000	40	10	—	Sukab Finans AB	320	—	100	—
Atlas Copco Kenya Ltd.	14 999	100	100	—	ADELA Investment Co. S.A., Luxemburg	3 640	—	100	—
Atlas Copco Maroc S.A.	940	50	1 500	—	SIFIDA Investment Co. S.A., Luxemburg	25	1	5 000	—
					Employment Conditions Abroad Ltd., Great Britain	100	2	1	—
					Näringslivets Utbildnings AB	170	8	1 000	—
									17.5

1) No par value

2) Remaining holding owned by other Group companies

3) 62% owned by other companies within the Group

# APPROPRIATION OF PROFIT

## PROPOSED DISTRIBUTION OF PROFIT

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

Unappropriated earnings from preceding year	SEK 101,680,140
Net profit for the year	<u>SEK 230,495,391</u>
	SEK 332,175,531

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

To the shareholders, a dividend of SEK 6.50 per share	SEK 152,493,250
To be retained in the business	<u>SEK 179,682,281</u>
	SEK 332,175,531

Mr Per-Erik Nyholm made a reservation against the proposed distribution of dividends and favored a dividend of SEK 6.00 per share.

*Nacka, March 14, 1986*

PETER WALLENBERG  
Chairman

ERIK JOHNSON  
P. HENRY MUELLER  
BJÖRN SVEDBERG  
PER LUNDBERG  
  
BO HENNING

AXEL IVEROTH  
OTTO GRIEG TIDEMAND  
LENNART JOHANSSON

CURT G. OLSSON  
PEHR G. GYLLENHAMMAR  
STEN RUDHOLM  
TOM WACHTMEISTER  
President  
PER-ERIK NYHOLM

## AUDITORS' REPORT

We have examined the Annual Report, the Group accounts, the financial statements and the administration of the Company by the Board of Directors and the President for the year 1985. Our examination was carried out in accordance with generally accepted auditing standards.

We have been assisted in our examination by Bohlins Revisionsbyrå AB.

### PARENT COMPANY

The Annual Report has been prepared in accordance with the Swedish Companies Act.

We recommend:

that the income statement and balance sheet be adopted,

that the net profit for the year be disposed of in accordance with the Board of Directors' proposal, and that members of the Board of Directors and the President be granted discharge from liability for the year 1985.

### GROUP

The Group accounts have been prepared in accordance with the Swedish Companies Act.

We recommend:

that the consolidated income statement and the consolidated balance sheet be adopted.

*Stockholm, March 21, 1986.*

BIRGER SONESSON  
Authorized Public Accountant

BERTIL E. OLSSON  
Authorized Public Accountant

# FIVE YEARS IN SUMMARY

SEK m. unless otherwise noted. For definitions, see page 21.

<b>ATLAS COPCO GROUP</b>	1981	1982*	1983	1984	<b>1985</b>
Earnings per share, SEK	12.95	7.40	4.55	11.25	<b>17.05</b>
Profit margin, percent	7.6	4.3	2.9	6.3	<b>8.2</b>
Return on capital employed, before tax, percent	20.2	15.3	12.3	16.8	<b>18.9</b>
Return on risk-bearing equity capital, after tax, percent	12.2	6.2	3.4	11.1	<b>15.8</b>
Rate of risk-bearing equity capital, percent	37.0	38.4	38.3	37.3	<b>40.6</b>
Orders booked	7651	7877	8277	9581	<b>10400</b>
Invoiced sales	7488	7924	8093	9100	<b>10062</b>
Percent change, current prices	+ 20	+ 6	+ 2	+ 12	<b>+ 11</b>
Percent change in volume	+ 5	- 8	- 10	+ 8	<b>+ 6</b>
Sales outside Sweden, percent	91	92	91	92	<b>91</b>
Profit after financial income and expense	570	343	235	573	<b>828</b>
Net interest expense	- 370	- 418	- 305	- 285	<b>- 193</b>
As percent of invoiced sales	4.9	5.3	3.8	3.1	<b>1.9</b>
Interest coverage ratio	2.2	1.6	1.4	2.2	<b>2.9</b>
Return on shareholders' equity, after tax, percent	13.4	6.8	4.5	10.5	<b>13.7</b>
Earnings per share, after extraordinary items, SEK	13.25	6.85	-0.65	11.30	<b>19.15</b>
Ratio of assets to liabilities	1.6	1.6	1.6	1.6	<b>1.7</b>
Ratio of current assets to current liabilities	2.1	2.0	2.1	1.9	<b>2.1</b>
Capital turnover ratio	1.15	1.05	1.04	1.16	<b>1.18</b>
Ratio of interest-bearing liabilities to adjusted shareholders' equity**	1.30	1.25	1.19	1.13	<b>0.98</b>
Investments in machinery and buildings	342	287	175	311	<b>325</b>
As percent of invoiced sales	4.6	3.6	2.2	3.4	<b>3.2</b>
Average number of employees	19538	18402	16974	16484	<b>16659</b>
Invoiced sales per employee, SEK thousands	383	431	477	552	<b>604</b>

\*Beginning in 1982, these figures are based on the current rate method.

\*\*Shareholders' equity, minority interest and untaxed reserves with deduction for deferred tax liability (50%).

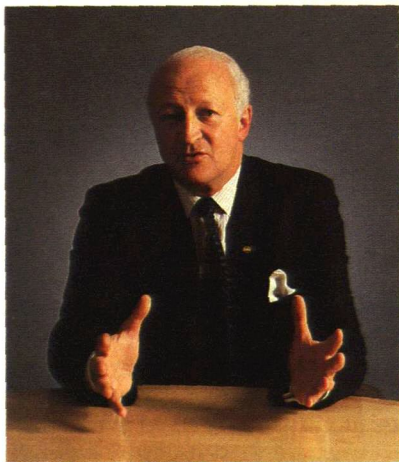


# RENEWAL AND STRONG MARKET POSITION

Atlas Copco passed a milestone in 1985, breaking the SEK 10-billion sales barrier and reporting our best profits ever. We more than tripled earnings compared with 1983, reporting SEK 828 million in profits. At the same time, we strengthened our market position and are leading the field in practically all countries except the U.S. and Japan. Even in these markets, however, we advanced our positions through strong efforts.

## *Development in the world market*

The industrial countries are still the engine of economic development. Lower oil prices provide greater freedom of action for the governments of the industrial countries to stimulate economic activity. With an oil price at 15 to 20 dollars per barrel, it is estimated that the West European



*"We more than tripled earnings compared with 1983, reporting SEK 828 million."*

countries can increase their GNP growth by one to two percent above the autumn 1985 forecast. Add to this the strong upswing of private industry, first in the U.S. and now also in the EEC countries and Japan. Consequently, the share of the Group's sales in industrial countries continues to climb.

To further strengthen our position in the industrial market, we plan to form an industrial group consisting of Atlas Copco Tools and Monsun-Tison. By consolidating the expertise of the two divisions, opportunities for continued growth would be improved. We are open to acquisitions of companies within the Divisions' business areas or in closely related technology areas. Different sales channels can be tested by the new industrial group to determine the most effective method of distribution.

The problems of the Third World continued during 1985. A brightening in certain countries such as Brazil was offset by growing difficulties in others. The situation of the OPEC countries with decreasing oil prices and a lower dollar exchange rate resulted in a drastic reduction of development programs, and a fall in demand for equipment and technology. Given this situation, our recent successes in China, the result of many years of work, are so much more satisfying.

A significant factor in our development is the on-going shift in our customer structure, in which the manufacturing industry account for an ever-increasing portion. It shows a stronger growth than the mining and construction markets and has greater market potential. Several of our product lines benefit from this trend, for example our new product line, gas compressors. A greater share of industrial sales means that Group sales will grow most rapidly in the industrialized countries. At the same time, we are guarding our strong market position in the developing countries and taking advantage of opportunities that arise.

We will, of course, also defend and strengthen our position as the leader in mining and construction equipment, where rapid and advanced technological development is our main competitive tool.

## *A time of renewal*

Atlas Copco's products and services play a significant role in practically all industrial production processes. We are the world's leading producer of air compressors and have experienced rapid growth in the area of gas compressors. We lead the world by a clear margin in rock drilling equipment. We are among Europe's leaders in industrial tools and plant automation.

Major investments in product development during a number of years have resulted in a thorough renewal of the product program. More than half the products we are marketing today have been introduced during the past three years. With compressed air, hydraulics and thermodynamics as the base technologies, supplemented by electronics and computer technology for monitoring, control and automation, we are able to provide customers with equipment which contributes to rational and profitable solutions in their production processes. The common element in Atlas Copco's different branches of operation can be defined in a new and broader way: To develop products and services that help our customers increase their productivity. After many decades of having been perceived as a compressed air company, we are now operating from a broader base. To contribute to increasing customer productivity, to be the company that helps customers produce "More Per Hour", is a challenge, and the basis for Atlas Copco's continued long-term growth.

## *Strengthened financial position*

Our aim is to increase productivity and capital utilization to further strengthen our financial position. Products in inventory and in process still tie up too much capital, though we did succeed during the period 1982 to 1985 in reducing inventories from 38 to 29 percent

of sales. This release of capital has reduced our interest expense and material administration costs. Through computerized inventory control and production planning, based on order bookings we are attempting to further reduce the amount of capital tied up in the material and product flow.

#### **Rational production**

Profitable growth requires, in addition to a strong international marketing organization, rational production at strategically located places in the world. Seventy percent of Atlas Copco's production is concentrated in four countries—Sweden, Belgium, West Germany and the United States. For several years, we have installed equipment with the latest production technology.

As an example, the "factory of the 90's" was inaugurated during 1985 at the Avos plant in Örebro, Sweden. It is one of the most modern production installations in Sweden for flexible production in short series. The heavy emphasis in recent years on production technology to achieve the lowest possible cost per unit produced will be continued in the years to come. We are striving to become a low-cost producer, while still maintaining our high quality.

#### **Customers come first**

Atlas Copco's policy of never leaving a market or abandoning customers and employees applies even in areas where the political climate is unstable. South Africa is once again a current topic. Atlas Copco, like most of the South African international business community, agrees with the condemnation of apartheid, which should be outlawed as soon as possible.

Over the years we have made ambitious efforts to provide our employees in South Africa with a good work environment and good employment conditions. We dis-



*"We are striving to become a low-cost producer, while still maintaining our high quality."*

agree with the boycott approach, since we are convinced that our presence in the country, now and in the future, regardless of political conditions, contributes to a positive economic and social development for the people as a whole. Our South African employees of all categories have on numerous occasions appealed to us to hold out and stay. All of them consider themselves as part of our international family.

#### **New management structure**

At the end of 1985, Atlas Copco broadened and strengthened its top management. Bertil Eriksson was promoted from the Airpower Division to the position of Senior Executive Vice President and the Group's Chief Operating Officer, with responsibility for the operation of the divisions and sales companies. In my capacity as Group President and Chief Executive Officer, I will, in addition to carrying the total responsibility for the Group concentrate even more on strategic matters and long-range development.

We have also decided to carry out an international training program during 1986-87 for the 150 leading managers in the Group. The program will cover such areas as strategy, corporate culture, organization and finance. The purpose is to create a forum for discussion of Group strategies and

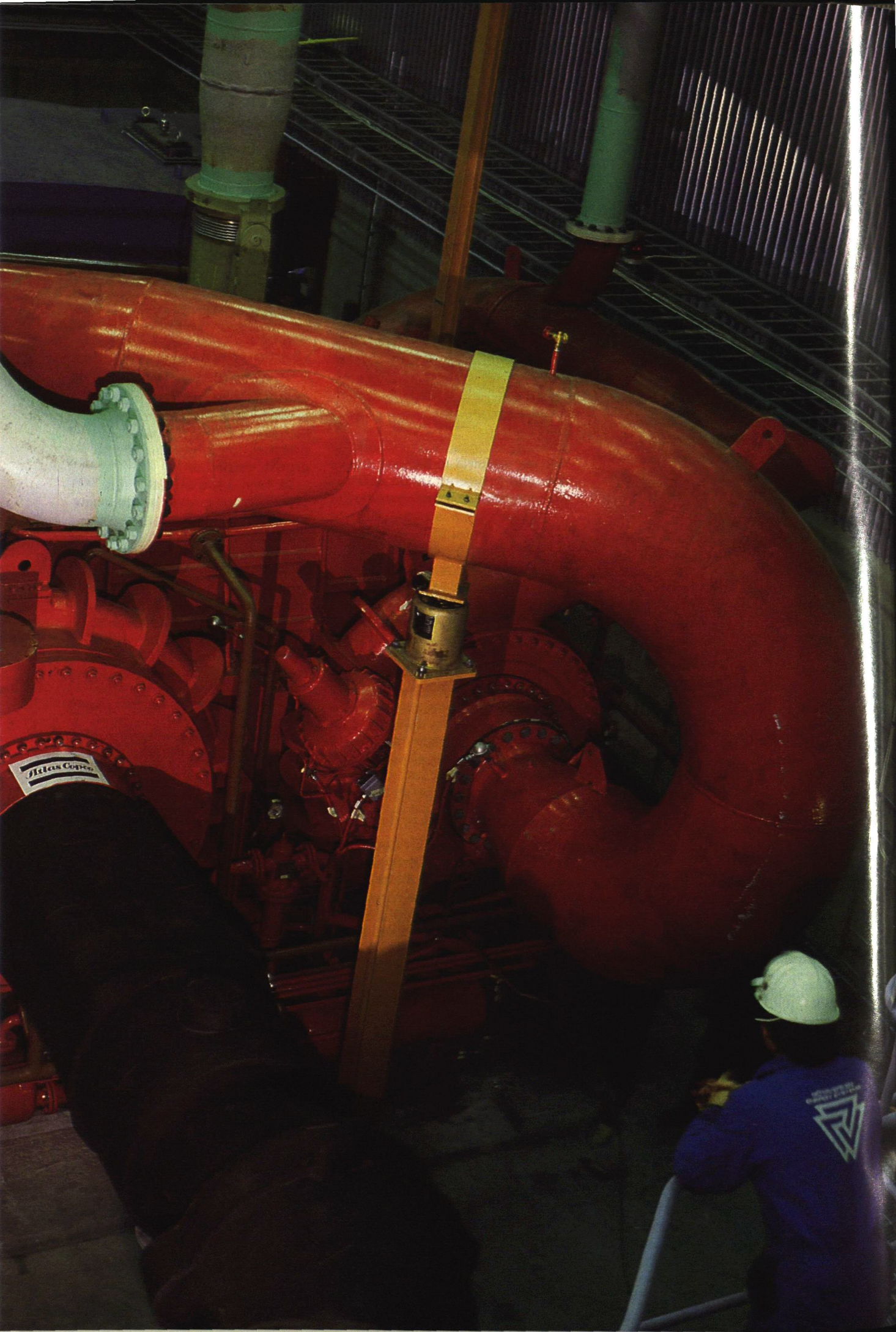
to prepare the leadership cadre for the developments in the years to come.

#### **Continued earnings improvement**

Our goal is to retain our leading position in our traditional fields at the same time as we make additional efforts in new areas with growth potential.

In 1986, I foresee favorable prospects for growth in the major industrial countries and in some of the larger developing countries. The declining dollar rate presents us with both problems and opportunities, which the Group is well prepared to manage. An anticipated increase in sales together with improved efficiency in the Group are expected to result in continued growth of earnings.

*Tom Wederström*



Atlas Copco



# ATLAS COPCO AIRPOWER

INVOICED SALES	SEK 4,790 m.
EARNINGS after financial items	SEK 450 m.
PERCENT RETURN on capital employed	22%

## SALES

Invoiced sales of the Airpower Division increased 11 percent to SEK 4,790 m. (4,296). Orders booked from customers totaled SEK 4,889 m. (4,482), a 9-percent increase.

## EARNINGS

Earnings after financial income and expense rose SEK 60 m. to SEK 450 m. (390), corresponding to 9 percent (9) of invoiced sales. Rebuilding costs in connection with the expansion of the Antwerp plant and the restructuring costs for Energas were charged against earnings.

The return on Airpower's total capital, excluding non-interest-bearing current liabilities, amounted to 22 percent (23).

## INVESTMENTS

Investments in land and buildings related to production amounted to SEK 23 m. (25), and investments in machinery and equipment totaled SEK 89 m. (67).

## MARKET DEVELOPMENT

Growth continued in Europe, with increased demand for capital goods in the manufacturing sector. The economy in the American market leveled off during 1985. Certain of the developing countries showed improved trade and payment balances but, economic growth and credit availability in these countries was generally low.

### Competitive situation

Despite improved market conditions during 1985, strong competition prevailed in the market. Major competitors are the American companies such as Ingersoll-Rand as well as local manufacturers in



BERTIL ERIKSSON AND C MELVILLE  
ERRINGTON

### MANAGEMENT COMMITTEE

C Melville Errington President (Effective Jan 1, 1986)

Bertil Eriksson President (Until Dec 31, 1985)

Theo Dietz Senior Executive Vice President

Carl G. Johansson Executive Vice President, Finance

Jan Barendregt Industrial Air

Freek Nijdam Service Air

Peter Schreiber Gas and Process

Erik Lebrocqy Personnel and Organization

Lars Lindén Manufacturing Development

John Dierckx Purchasing

Sven-Åke Rosell Engineering

Necip Soyak Business Development

Roger Docx Production

*Atlas Copco Airpower develops, manufactures and markets portable screw compressors for air, stationary screw, piston and centrifugal compressors, and expansion turbines for air and other gases, air dryers, after coolers, automatic control systems and air filtration equipment. The product program also includes special compressors to start and service aircraft, as well as industrial energy recovery systems. Sales are handled mainly through Atlas Copco sales companies.*

*The Airpower Division has its headquarters located adjacent to its largest factory in Antwerp, Belgium. Manufacturing is also carried out in Sweden, Brazil, France, India, Yugoslavia, Mexico, Turkey, West Germany, and the United States.*

*During the year, Atlas Copco installed what is currently the world's largest heat pump compressors at the Rya III District Heating Station in Gothenburg. This product area is part of Atlas Copco's increasing involvement in energy recovery and environmental protection.*

the European markets. Continued emphasis on customer service and product development resulted in a stronger market position for the Airpower Division. Competition in the gas and air compressor area is still intense. However, by strengthening the sales companies and their distribution networks, it was possible to secure increased shares in most markets.

### Business area: Industrial air

In the extremely competitive market for oil-injected compressors, newly developed products resulted in increased sales volume and stronger market positions. Interest was particularly strong among the larger industrial concerns. Sales of oil-free compressors increased, strengthening Atlas Copco's leading position in this market. The rotating tooth compressor for oil-free air has also secured a strong position. The supplementing of the product program with sterile air filters provided new sales prospects in the process industry. The development of a new electronically controlled compressor, equipped with remote control, is opening potentials for the future. Orders from European power companies and larger international contracts were obtained through the sales companies in Italy, Japan, Korea and Great Britain.

Sales to the offshore oil extraction market increased due to the fact that the experience gained from major North Sea projects has started to yield results in other areas of development. The most important reason for the increase is the products' flexible design and inherent reliability, with the drive-motor and control instrumentation in an explosion-free configuration.

### Business area: Portable compressors

Despite the continued decline in the demand for construction and installation equipment, joint marketing and design programs with

the MCT Division resulted in increased sales. This applied particularly to small and medium size machines. Sales were also favorably affected by increased retail distribution and by sales to leasing companies.

Development work was focused on continued improvements of the current product line, including improved fuel economy and in addition new types of products for specific market segments.

The introduction of a combined portable compressor and generator offers the construction market a completely flexible power package that is expected to create new and attractive business prospects.

#### *Business area: Service air*

Sales of smaller compressors were affected by severe price competition. However, market positions were improved due to increased acceptance by quality-conscious end users, OEM companies and retailers, particularly in Australia, Belgium, France, Spain and the United States.

Marketing is being focused on the industrial segment where customers appreciate and benefit from high reliability and low maintenance cost.

#### *Business area: Gas and process*

Atlas Copco Energas was formed in 1984 through the consolidation of the Division's units in the gas and process sectors. It succeeded in increasing its market shares in the highly competitive and demanding process industry market. Operations were reorganized during the year.

The reduced rate of expansion in the process industry throughout the world was more than offset by energy recycling and environmental projects. In the chemical and food processing industries, energy-conserving applications in steam compression contributed to increased sales of turbo- and screw compressors.

A high-pressure piston compressor with minimal space re-

quirements has proved to be highly effective in many installations that compress natural gas used to power road transport vehicles. The compressor has attracted substantial interest in countries with natural gas resources.

#### **BUSINESS DEVELOPMENT**

A working agreement covering sterile air filters was concluded with a West German company during the year. It makes it possible for Atlas Copco to meet even more stringent quality requirements for compressed air. The product line comprises equipment used in filtering air and other gases in the pharmaceutical, food products and brewing industries, as well as in the the biomedical and other process industries where requirements for high-quality compressed air and other gases are exceptionally high.

During the year, a cooperation agreement was signed with a Japanese company for the marketing of diesel-powered electric generators. The reciprocal agreement also encompasses the marketing of Airpower's small oil-injected stationary screw compressors in Japan.

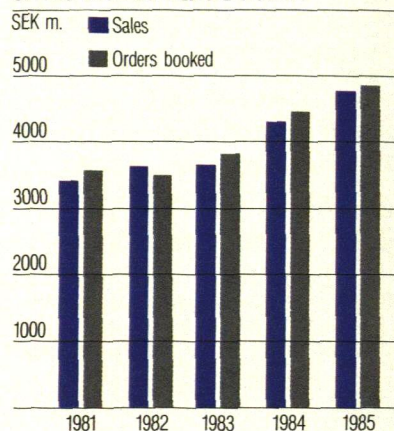
#### **PRODUCT DEVELOPMENT**

Investments in CAD equipment to increase the efficiency of product development were made during the year within the Division. The renewal and development of the entire product program continued at the same high tempo as in recent years. Half of all Airpower products have been updated during the past three years. New concepts were developed for controlling industrial compressors. In the field of portable energy sources, new types of combination compressors and electric generators were developed.

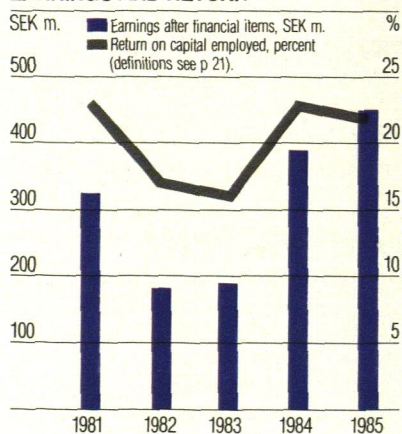
#### **PRODUCTION**

The emphasis in recent years on flexible production technology was maintained through major in-

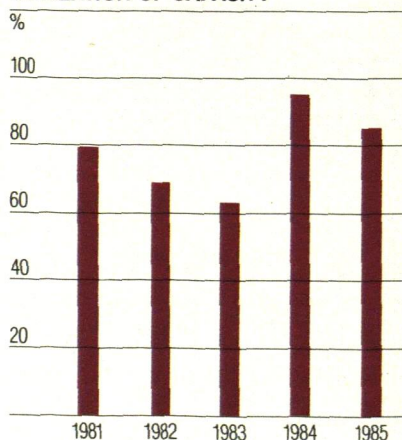
#### **SALES AND ORDERS BOOKED**



#### **EARNINGS AND RETURN**



#### **UTILIZATION OF CAPACITY**

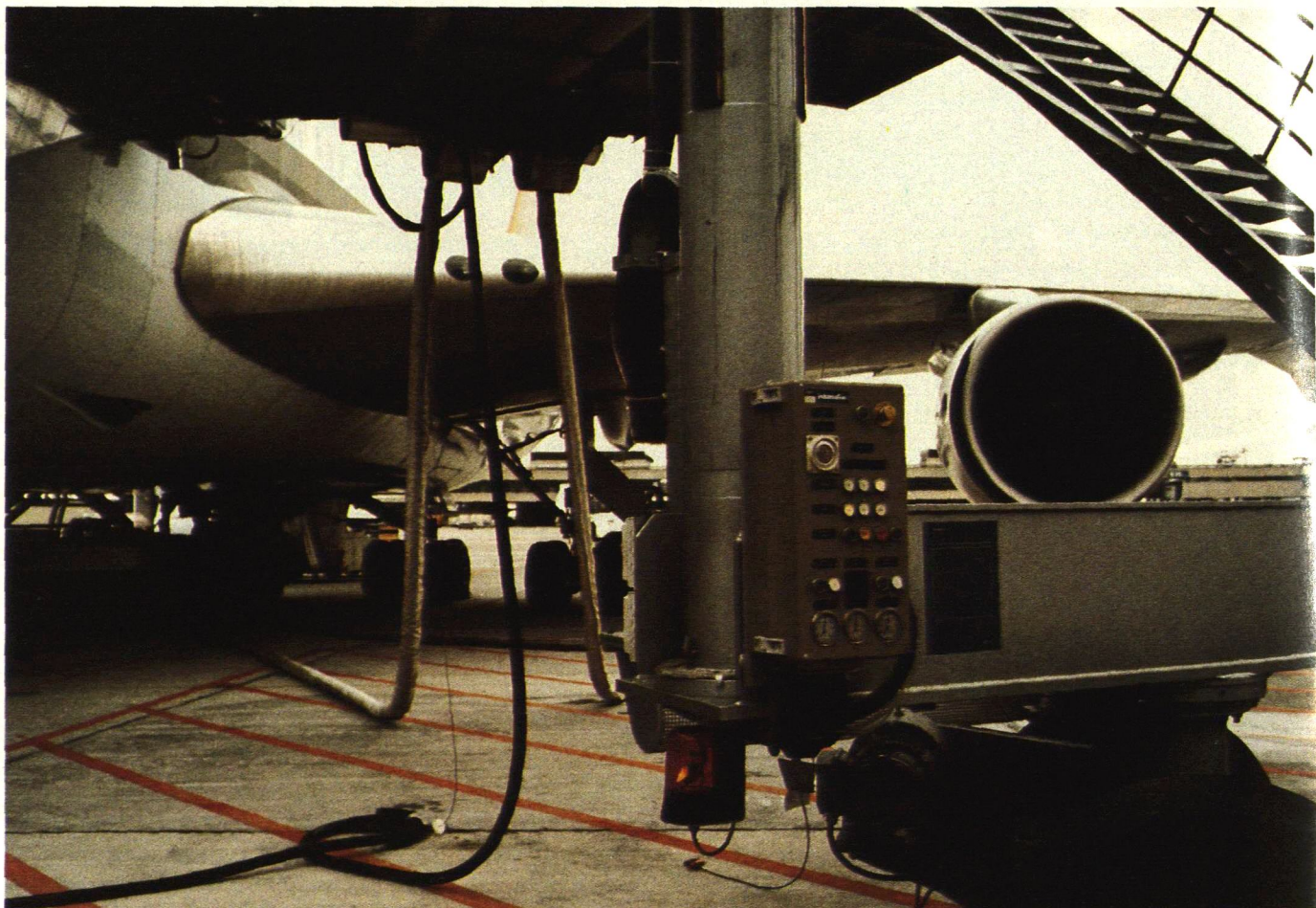




*The newly introduced XAS-40 portable compressor with built-in generator has been well-received in the market. England's Gas & Electricity Board, among others, has a growing need for portable energy sources at worksites for such activities as welding.*

*Careful laboratory inspection of sterile filters for air cleaning. By expanding the filter assortment with processing equipment, Atlas Copco is better able to meet increased quality requirements for compressed air.*

*Atlas Copco has supplied the Zurich Airport with the air compressors used to provide the airport with oil-free air.*



vestments in machine parks at the Antwerp factory and other product plants.

Construction of a new distribution center in Antwerp began during the year, with completion targeted for autumn 1986.

A new plant for manufacturing oil-injected screw compressors is being built in India. The Brazilian plant is also being expanded, doubling production capacity. The modernization of small compressor production in France was completed during the year. A decision was made to discontinue operations at the Åmål plant

(Sweden). Production will be transferred to the main plant in Antwerp. The shift will be completed during the spring of 1986.

#### **PERSONNEL**

The number of employees in the Division, excluding the sales companies, totaled 3,276 (3,342) at year-end. Special training of company personnel in the use of computers was initiated as part of the Division's emphasis on data technology in production as well as administration. Airpower's involvement in important educational programs also resulted in

active participation in the Belgian state-supported program, "Industrial Learning," which enables students to alternate between school courses and practical work in the company.

#### **OUTLOOK FOR 1986**

Airpower Division's outlook for 1986 is regarded as favorable. The rate of growth is expected to decline in North America, among other markets, but to rise in a number of European countries. Further increases in volume are expected despite growing price competition.

# ATLAS COPCO MCT

INVOICED SALES	SEK 3,443 m.
EARNINGS after financial items	SEK 185 m.
PERCENT RETURN, on capital employed	15 %

## SALES

Invoiced sales of the MCT Division in 1985 amounted to SEK 3,443 m. (3,207), up seven percent. Orders from customers increased 4 percent to SEK 3,556 m. (3,418), a one-percent increase in volume. A strong emphasis on marketing produced some increase in volume, notably in the underground sector.

## EARNINGS

Earnings after financial income and expense improved sharply to SEK 185 m. (35), equal to 5 percent of invoiced sales. The improvement was mainly attributable to the restructuring of activities and higher utilization of capacity.

The return on the Division's total capital, excluding non-interest-bearing current liabilities was 15 percent (11).

## INVESTMENTS

Investments in land and buildings related to production amounted to SEK 2 m. (5), and SEK 30 m. (21) was invested in machinery and equipment.

The investments completed during the year were made primarily to continue to increase productivity in the production units.

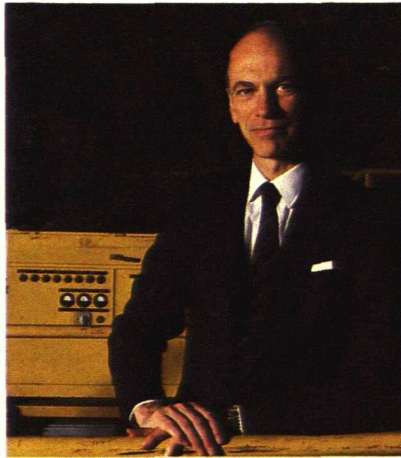
## MARKET DEVELOPMENT

The market climate continued to improve during the year in most of the Division's business areas, and sales increases were recorded, notably those of underground products used in mining and tunneling. The construction market, which has been weak for some years, showed some improvement, resulting in a corresponding increase in surface equipment sales to the construction industries.

The sales companies in Italy, Norway, Australia, Chile and Zaire were particularly successful.

### Competitive situation

During the year, Atlas Copco MCT solidified its position as a market



PER WEJKE

### MANAGEMENT COMMITTEE

Per Wejke President  
 Bengt Ljung Underground Equipment (Effective Jan 1, 1986)  
 Gösta Fernström Underground Equipment (Until Dec 31, 1985)  
 Gustaf Bråkenhielm Surface Equipment (Effective Mar 1, 1986)  
 Lars Lindberg Surface Equipment (Until Feb 28, 1986)  
 Hans Fernberg Rock Drilling Tools  
 Lars Calmared Production and Logistics  
 Göran Kullman Technical Development (Effective Jan 1, 1986)  
 Åke Stävling Finance and Administration  
 Nils-Åke Jenstav Personnel and Organization Development  
 Staffan Gullander Business Development

*Atlas Copco MCT (Mining and Construction Technique) develops, manufactures and markets hydraulic and pneumatic equipment for mining, tunneling, surface drilling and rock reinforcement. The product line also includes demolition equipment, pumps and winches. In addition, MCT markets, under cooperation agreements, Sandvik Coromant rock drilling tools, Holmbeds contracting machines, Hägglunds loading machines, Nitro Nobel Mec charging units, and Eickhoff and Webster coal and soft rock equipment.*

*MCT has its headquarters in Nacka (Stockholm). Products are manufactured at MCT factories in Sweden, Canada, Great Britain and West Germany. In addition, MCT products are manufactured on license in Brazil, India, Mexico, South Africa and Turkey.*

leader in hydraulic as well as pneumatic rock drilling equipment. The goal-oriented emphasis on product development of recent years has resulted in a very strong product program, which has contributed to increased market shares. Internationally, MCT is the dominant producer of both hydraulic and pneumatic rock drilling equipment. Its closest competitors are Tamrock of Finland in hydraulic equipment, and Ingersoll-Rand of the U.S. in compressed air equipment.

The French firms, Secoma and Montabert, have expanded their operations in Europe, Africa and Asia.

The South African Company, Boart, has introduced hydraulic rock drills and is concentrating on the Swedish and Norwegian markets. The Japanese producer, Furukawa, is a competitor mainly in Asia, and mostly in surface equipment.

### Business area: Underground equipment

The market development for underground products during the year was characterized by strong demand which resulted in increased sales. New products contributed strongly to the favorable trend.

Despite low metal prices, sales of mining equipment increased sharply, mainly because mining companies have a great need to mechanize in order to increase their productivity. The most successful products in this connection were the new Simba series production rigs and Boomer tunneling rigs. The Boomer series, which was supplemented with additional units during the year, also attracted considerable interest in the construction market and a large number of rigs were sold for use in such applications as the construction of power plants, railroads and highway tunnels throughout the world.

Important advances were made in the coal and soft rock markets





*Large bore drilling is becoming more common in modern mining technology. Mount Isa, Australia, one the world's largest copper mines and a leader in modern mining technology, placed an order during the year for the first of the new series of Simba 260 large bore drilling rigs.*

during the year. Several orders were received for the new Eickhoff coal and soft rock road-header. Sales of Swellex rock bolts also increased. The largest sales of underground equipment during the year were booked in Australia, Canada, Chile, China, South Africa and Zaire. The sales companies in Italy, Norway, Sweden and Austria also achieved high sales levels but the U.S. company experienced a weak year.

The largest single order in 1985, worth SEK 100 m., was for 34 Boomer-rigs for the Norilsk copper mines in the northern part of the Soviet Union.

Tunnel boring operations were restructured during the year. Marketing and development of new concepts was moved from Jarva Inc, in the U.S., to MCT's main facility in Nacka (Sweden). A joint venture was started with Kvaerner Brug A/S (Norway), which is responsible for design and manufacture of tunnel boring machines.

*Sandvik ODEX bore-bits enable simultaneous drilling through earth layers and lining the hole with steel pipe. Well drilling and foundation reinforcement are important application areas for ODEX.*



A new company, Kiruna Electric AB, was formed during the year jointly with Asea and Kiruna Truck. The new company will market a new hauling system for mines with electric vehicles.

**Business area: Surface equipment**

Demand from building and construction contractors rose steadily from a low level at the beginning of the year.

Sales of crawler rigs with hydraulic rock drills increased sharply while demand for air-powered rigs weakened. The production of hydraulic rigs during the year was the highest ever. Atlas Copco MCT's position as a leading supplier in this sector was thereby further strengthened.

To reinforce MCT's marketing position in the quarry industry, a new complete product program adapted to this industry sector was introduced during the year. High-pressure compressors from the Airpower Division and new down-the-hole bits made by Sandvik are also part of this program.

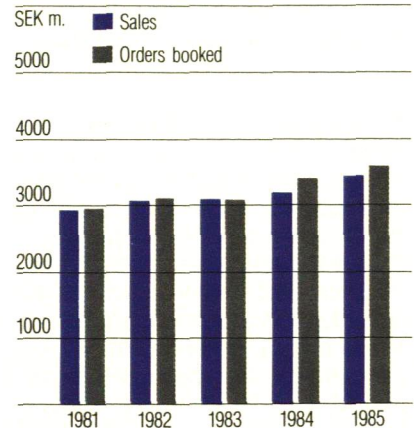
In the People's Republic of China, a manufacturing licensing agreement was signed covering the production of crawler rigs with hydraulic drills. The contract, obtained in severe competition with Japanese suppliers, has already resulted in deliveries of crawler rigs to the Chinese market. Other major marketing successes were scored in Australia, Norway, Italy, Brazil, Great Britain and Japan.

The sale of light construction equipment – pneumatic breakers, rock drills, pumps, etc. – increased somewhat in volume.

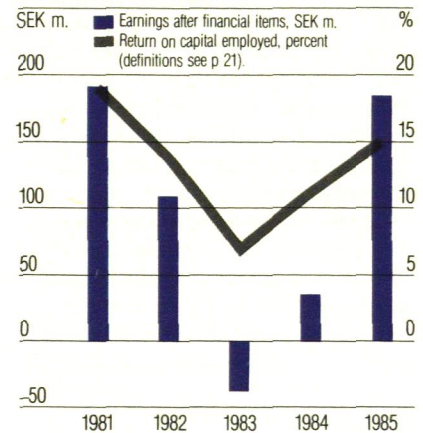
The solid profitability in this area was further improved. The largest increases in volume were attributable to the sales companies in Italy, Great Britain and the U.S.

Sales of the new products introduced in 1985 – mechanized equipment for the demolition industry, hydraulic hammers and units for removal of damaged con-

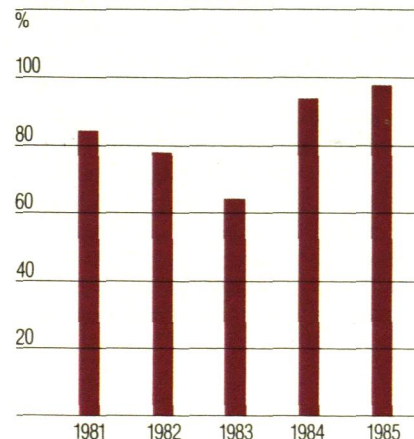
**SALES AND ORDERS BOOKED**



**EARNINGS AND RETURN**



**UTILIZATION OF CAPACITY**



crete with highpressure water – developed well in the U.S., Canada, West Germany, Switzerland and Sweden.

#### **Business area: Rock drilling tools**

The market for Sandvik Coromant rock drilling tools developed sluggishly during 1985. This product sector is particularly competitive and sensitive to price pressure. Intensive pressure from traditional competitors, Swedish Secoroc and South African Boart, and inroads by smaller producers has created a demanding business situation for both the MCT Division and Sandvik.

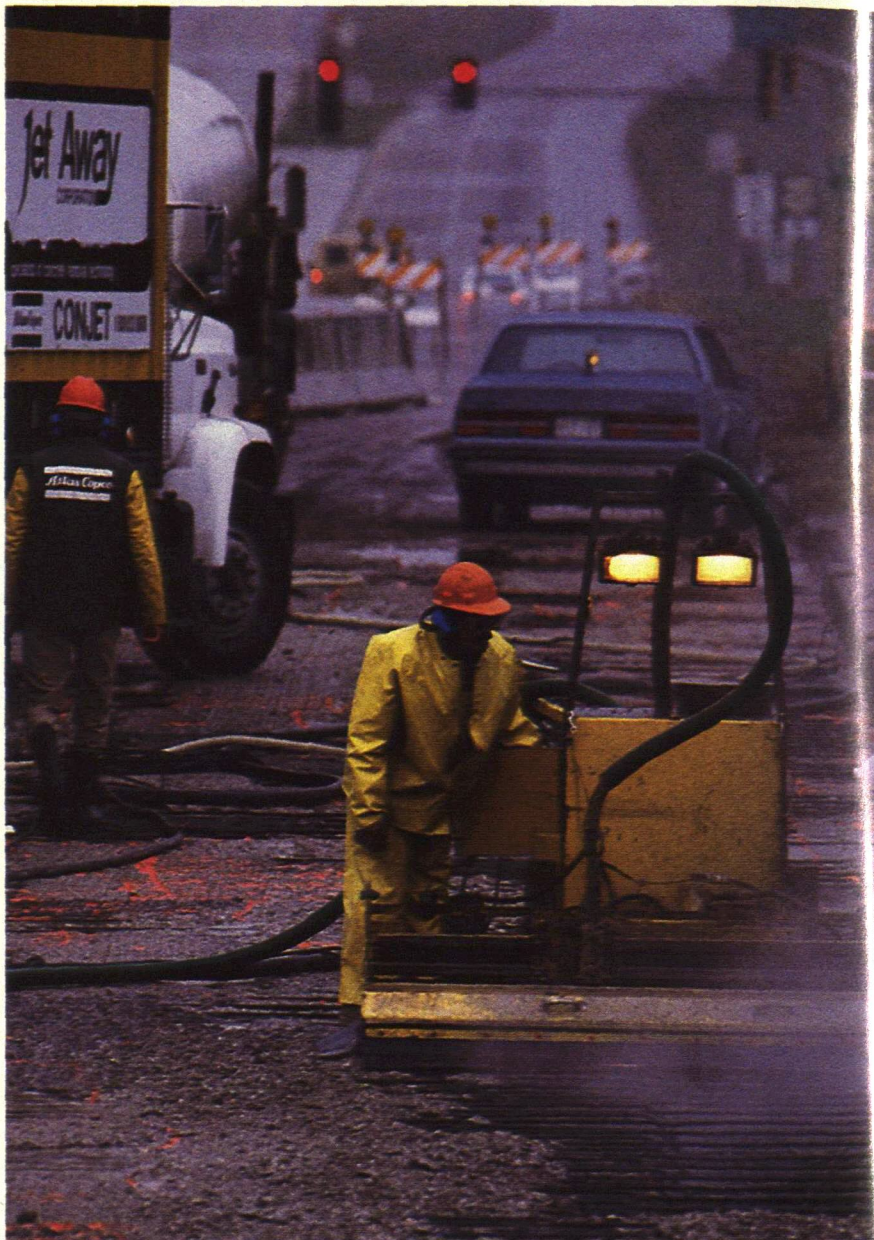
Strong measures were initiated during the year to strengthen MCT's market positions. As an adjunct to the development of Atlas Copco MCT's new surface and underground rig programs, new rock drilling tools were developed and a large number of other products are ready to be introduced.

Specific marketing measures implemented during the year contributed to gradually improved earnings toward the end of the period. This improvement is expected to be strengthened in 1986.

#### **BUSINESS DEVELOPMENT**

Service and spare parts have always been an important part of the Division's operations. The products are used in "difficult environments" where they are subject to heavy wear in ongoing production. Production losses through breakdowns can be very costly for customers.

Atlas Copco MCT has always had a high reputation for maintenance and spare parts supplies. To become still more effective in this area and to improve earnings, service and spare parts have now been consolidated in a common function – After-market Sales. In



*Conjet is a newly developed equipment unit for removing damaged and worn concrete surfaces from bridges, roads, airport runways, parking buildings, etc. Conjet uses high-pressure water (200 bar) to quickly remove the damaged concrete and simultaneously clean the undersurface in preparation for the new surface.*

cooperation with each business area, a program to develop this business has been started and the newly integrated After-market Sales function is now being introduced gradually in the sales companies throughout the world. A detailed guide entitled "Performance Package" was introduced at a number of seminars for the international sales organization. The efficient and profitable operations in Sweden and Norway, where the after-market constitutes a large part of MCT's sales, provide a base for the new approach.

#### **PRODUCT DEVELOPMENT**

The Division's intensified efforts in product development that began in 1984 resulted during 1985 in the introduction of complete series of standardized drilling equipment for mining, tunneling and surface rock excavation. Robot technology, which was introduced in 1984 and is part of the production rig program, is now established in the market.

Parallel with this development, new rock drilling tools were developed in cooperation with Sandvik.

Development of a new full-face

Continued international marketing successes were achieved during the year with the Boomer-series tunneling rigs. Boomer rigs are an important link in the expansion of mainland China's communication network. The photo shows the largest rig in the series at a railway construction site north of Beijing.



During autumn 1985, a Jarva tunneling rig cut through the 5.4 kilometer power station tunnel at Sand Bar in the United States. The operation lasted 144 days with 67 meters drilled on the peak day.

tunneling machine for high capacity in hard rock was completed during the year. The rig is being produced by Kvaerner Brug, Norway. The first unit will be delivered in the middle of 1986.

#### PRODUCTION

Continued high demand, for underground products in particular, resulted in high capacity utilization at the plants in Nacka and Örebro in Sweden, while utilization at the plant in Hemel Hempstead in Great Britain was somewhat lower.

Investments for production and materials handling equipment continued to be high and Atlas Copco Avos in Örebro inaugurated the first FMS (Flexible Manufacturing System) installation. Atlas Copco Avos is equipped with

a high-capacity machine park that is readily adaptable to varying production requirements. Material flow and production are computer-controlled, providing a high degree of flexibility and making it possible to switch quickly as the order situation changes.

The manufacture of tunnel boring machines was transferred from the U.S. to Kvaerner Brug in Norway.

The consolidated inventory was further reduced, with no loss in delivery service.

#### PERSONNEL

During the year the MCT Division employed an average of 1,757 persons (1,941) in production, of whom 1,291 (1,460) were in Sweden. The reduction during the year was due mainly to the restructuring of manufacturing activities in Sweden. The operations at Jahrls AB in Örebro and the Heros works in Smedjebacken were discontinued during the year and most of the employees were provided with jobs in newly formed operations in their local communities.

#### OUTLOOK FOR 1986

Demand for mining equipment is expected to continue to develop favorably, at least during the first six months of 1986. The gradual improvement in the construction market is expected to continue. Continued development of the already strong product line and penetration into new business areas should lead to further increases in market shares. Rationalization measures which have been completed, or are in progress, are expected to contribute to a further improvement in profitability.



# ATLAS COPCO TOOLS

INVOICED SALES	SEK 875 m.
EARNINGS after financial items	SEK 91 m.
RETURN on capital employed	22%

## SALES

Invoiced sales of Atlas Copco Tools in 1985 increased 12 percent to SEK 875 m. (784).

Orders booked from customers increased 13 percent, to SEK 923 m. (818), corresponding to a growth in volume of 7 percent.

## EARNINGS

Earnings after financial income and expense were SEK 91 m. (66), equal to 10 percent of invoiced sales. The sharp rise in earnings recorded in 1984 continued in 1985. A thorough rationalization resulted in relatively lower financial and operating costs. The strong upturn in sales volume and the attendant increase in capacity utilization contributed materially to improved earnings.

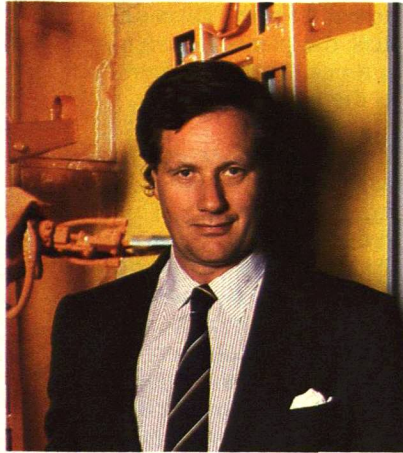
The return on total capital, excluding non-interest-bearing current liabilities, was 22 percent (20).

## INVESTMENTS

Investments in land and buildings related to production amounted to SEK 1 m. (0), and machines and equipment to SEK 20 m. (5).

## MARKET DEVELOPMENT

The trend in the industrial market was favorable, with the automotive industry, one of Atlas Copco Tools' most important outlets, continuing to maintain a high level of production. There was substantial interest in automating assembly and finishing operations. Other manufacturing fields also enjoyed favorable business conditions and demand for the Division's quality products was high. Interest in ergonomics also continued to increase in markets outside Scandinavia, further strengthening Atlas Copco's competitiveness.



MICHAEL TRESCHOW

### MANAGEMENT COMMITTEE

Michael Treschow President  
Lars Larson Industrial tools and equipment  
Kaj Hindsberg Engineering and production, Finland  
Kurt Ottosson Assembly systems  
Gustaf Bråkenhielm Finishing technique  
Gösta Henningson Business and technology development  
Berth Johnsson Finance  
Allan Rothlind Personnel and organization development  
Stefan Börjesson Materials administration  
Rolf Carlsson Data processing

*Atlas Copco Tools develops, manufactures and markets industrial machines and systems. Operations are divided into three business areas: Industrial tools for machining, assembly, handling and mechanization, as well as accessories; Advanced assembly systems; and Finishing equipment and systems.*

*Sales are handled mainly through Atlas Copco sales companies.*

*The Division's head office is in Stockholm and there are plants in Skara, Tierp and Eskilstuna (Sweden), and in Masaby and Idensalmi (Finland).*

## Competitive situation

No major changes occurred in the Division's competitive situation. Atlas Copco Tools competes mainly with American, German, British and Japanese companies in the battle for customers. In certain product areas and markets, there is also competition from local manufacturers. The Division recorded a strong increase in sales and enlarged its market shares in the U.S. and certain other countries, thanks to a well-developed sales organization, high quality and productivity, the good ergonomic characteristics of its products, and good service.

## Business area: Industrial tools

Sales, again, rose sharply and the profitability was satisfactory. The Division acquired shares of large, important markets. Besides the Nordic markets, it achieved its greatest sales successes in West Germany, the U.S. and Australia. Production of certain products was begun in Brazil. Atlas Copco Tools regained market shares and increased sales substantially in South America.

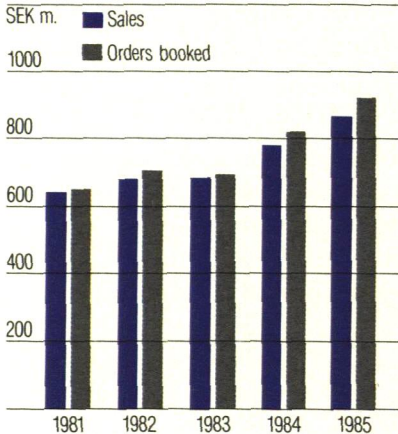
Competition was severe, particularly in countries with lower inflation than Sweden.

As the result of goal-oriented and consistent market cultivation, the Division increased sales in markets favored by good business conditions in priority customer segments. The introduction of new products was limited but a number of important enhancements were made, including those for torque control nutrunners. As a part of the Division's emphasis on superior ergonomic industrial tools, a series of nutrunners with a hydraulic pulse mechanism was introduced under the "ErgoPulse" name.

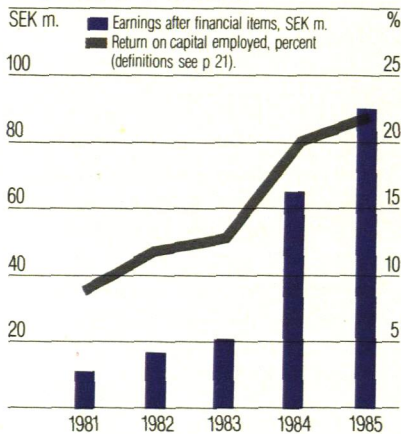
The flexible manufacturing system introduced last year in the Swedish plants developed according to plan. The time interval from receipt of order to delivery was shortened and inventories were reduced. Because of the strong

*ASEA Cylinda AB in Vara (Sweden) has equipped its new dishwasher final-assembly line with quiet Atlas Copco Twist screwdrivers.*

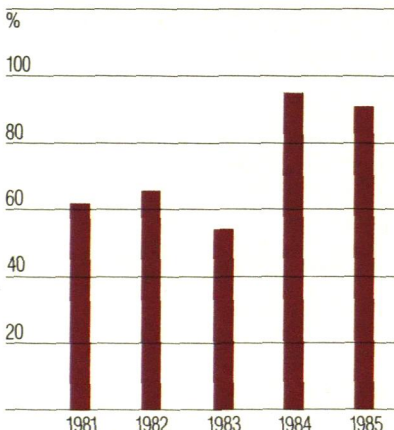
### SALES AND ORDERS BOOKED



### EARNINGS AND RETURN



### UTILIZATION OF CAPACITY



demand for the Division's products, the plants were hard pressed at times. Resources were utilized to the maximum.

#### **Business area: Assembly systems**

Sales increased and order bookings remained high. The markets in the U.S., West Germany and Brazil showed the strongest upward trend. The Division maintained its position as a leading supplier of equipment for bolt tightening market segment. Competition came mainly from American and Japanese companies.

Customers, predominantly in the automotive industries of the western industrial countries, made heavy investments in flexible assembly systems. Attractive orders were also received from the People's Republic of China.

MACS Compact, an important addition to the systems for controlling the tightening process, was introduced during the year. It is a modular microcomputer system based on advanced technology. The percentage of electric-powered tightening units continued to grow and more than half of all systems delivered were fully electrical. There was a continued emphasis on electronics to strengthen the company's position in the dynamic development of assembly systems.

To marshal the human and technical resources, a European center for assembly technology – the European Application Center, in Essen, West Germany – was established. Design experience, technical resources, efficient plant capacity and service are thereby being concentrated in a location close to the major European markets. Other application centers are located in the U.S., Brazil, Japan and Australia.

#### **Business area: Finishing technique**

Sales and order bookings increased sharply, especially in Sweden, Italy, Norway, The Netherlands and the Soviet Union. The

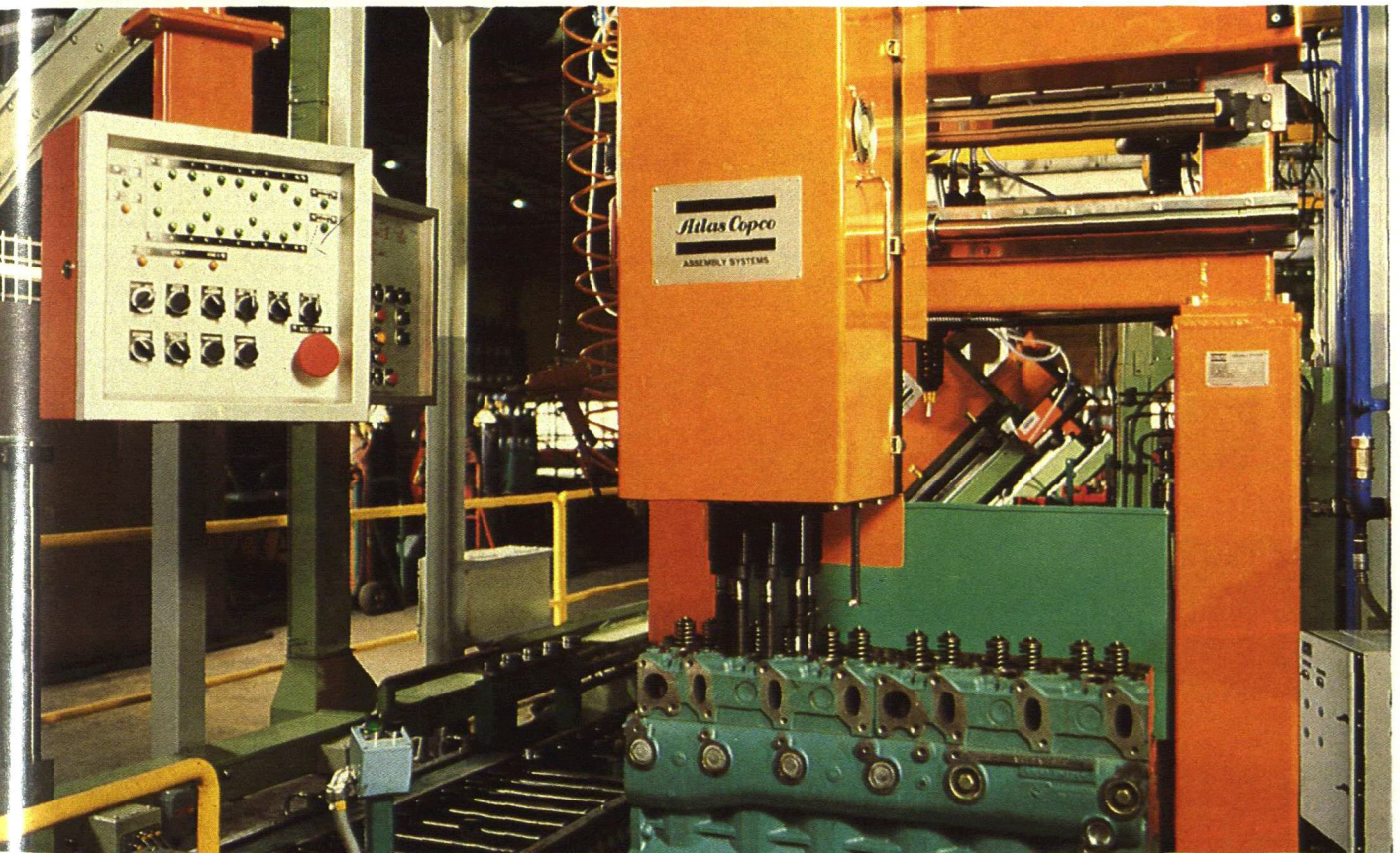
Division began marketing its finishing products and systems in the U.S., where there was substantial interest in anti-corrosion treatment in the automotive industry, resulting in some good orders. The trend in the industry toward increased automation and system solutions was striking.

A new generation of paint-spraying robots was introduced in 1984. These were one of the year's major successes, in particular because the operator can communicate directly with the control system in his own language. To make the Division's finishing sector more dynamic and to be able to offer improved customer service, it was decided during the year to transfer the entire sector to a new company formed within the Division. The company began operations in January 1986 under the name Atlas Copco Finishing AB.

A cooperation agreement was made with the Danish company, Ideal Line, to market the latter's spray painting plants in Sweden. Atlas Copco thereby consolidated its position as Sweden's leading supplier of finishing equipment.

### BUSINESS AND TECHNOLOGICAL DEVELOPMENT

During the year, the Division acquired Tedak AB outright. The company develops and produces components and systems for industrial vacuum cleaning of dust and other air contaminants. Tedak had sales of more than SEK 10 m. and a good profitability in 1985. Increased environmental requirements in the international market for controlling dust in work areas means major growth possibilities. Tedak's expertise and product program are an important component of Industrial Tools' operations. The technological development in all of the Division's business areas was characterized by a sharp increase in the percentage of electronics employed. This applied to operating systems as well as process control and monitoring systems and was re-



flected in expanded resources for product development.

### PRODUCTION

Productivity and capacity utilization were high during the year, particularly in the Swedish plants. The high level of order bookings put a severe strain on delivery service. Atlas Copco Tools continued its substantial investment program. The largest part of the Division's investments was made in the Skara (Sweden) plant. New production equipment, new compressor installations with heat recovery, carousel stores, and modernization and remodeling of factory areas were major elements of the investment program.

### PERSONNEL

The Tools Division employed an average of 842 persons (882), of whom 121 (124) were located outside of Sweden.

### OUTLOOK FOR 1986

Atlas Copco Tools is counting on favorable economic conditions in most of the markets in which the Division operates. The important Swedish market may be an exception. The automotive industry, which is a high-priority segment for Tools, is expected to develop well in many markets. The Division is continuing its investments in plants and administrative resources to be able to compete successfully through increased productivity.

The trend of earnings is expected to continue to be favorable during 1986.

*Volvo Komponenter AB's new turbo-diesel engine plant is equipped with Atlas Copco electric tightening systems at all work stations. Automatic mounting of cylinder heads is shown here.*





# BEREMA

INVOICED SALES	SEK 591 m.
EARNINGS after financial items	SEK 47 m.
RETURN on capital employed	16%

## SALES

Sales of the Berema group increased during the year by 14 percent to SEK 591 m. (517).

Order bookings rose 18 percent to SEK 647 m. (547), the equivalent of 8 percent growth in volume, including the acquisition during the year of AB Å Karlssons Mekaniska Verkstad.

## EARNINGS

Earnings after financial income and expense amounted to SEK 47 m. (50), equal to 8 percent of invoiced sales. Substantial development costs were again charged against income for the year.

The return on Berema's total capital excluding non-interest-bearing current liabilities was 16 percent (20).

## INVESTMENTS AND ACQUISITIONS

Investments in land and buildings totaled SEK 2 m. (0), and SEK 19 m. (16) was invested in machinery and equipment related to production.

As a part of the continuing expansion of the Berema Group, majority interest in AB Å Karlssons Mekaniska Verkstad, in Sala (Sweden), was acquired. The company specializes in hydraulic components and shows development potential. During the preceding year, the company had sales of SEK 12 m. and showed satisfactory profitability in 1985.

## GASOLINE-POWERED DRILLS/BREAKERS

Sales in the U.S. were satisfactory in 1985. However, this could not fully compensate for the weakness caused by import restrictions in the Middle East. Total sales reached approximately the same

*Berema received many large orders for gasoline-powered drills/breakers from important customer groups during 1985. Shown here is a Cobra being used for stabilizing sleepers by The Netherlands State Railway.*



LARS ÅSELL AND GÖSTA FERNSTRÖM

### MANAGEMENT COMMITTEE

Gösta Fernström President (Effective Jan 1, 1986)  
Lars Åsell President (Until Dec 31, 1985)  
Arne Gerold Finance and Administration  
Per Hallström Marketing

*Berema develops, manufactures and markets gasoline-powered drills/breakers. These products are marketed partly through Berema's own sales companies and distributors and partly through Atlas Copco's sales companies. The Berema Group also includes independent subsidiaries: Toolex Alpha AB (compact disc manufacturing equipment), KGK Mekaniska Verkstad AB (small air compressors), Flodins Filter AB (air filters), Atlas Copco Energy AB (well drilling products and beat pumps), AB Svenska Stålprodukter (commercial kitchen equipment), Å Karlssons Mekaniska Verkstad (hydraulic components). Berema is the general agent in Sweden and Norway for Honda Power Products, for whom it markets rotary cultivators, lawn mowers, generators and pumps.*

*Berema's head office is located in Solna (Stockholm) and its factories are situated in Eskilstuna, Kalmar, Lysekil, Sala, Skara and Sundbyberg (Sweden).*

level as in the preceding year. Continuing investments in specialized market areas are expected to show result in the coming year.

## ATLAS COPCO ENERGY AB

The build-up of Atlas Copco Energy continued during the second year of the company's operations. The company has developed strongly in its special area – well drilling and related equipment – with emphasis on system solutions. A strong sales increase was achieved – primarily through the foreign aid organizations in the major market areas of Africa and the Middle East.

## OTHER COMPANIES

### Toolex Alpha

The newly developed equipment for the manufacture of Compact Discs (CD), attracted considerable market interest.

This resulted in substantial orders being booked in the autumn for delivery in 1986, which is expected to be the big breakthrough year for Compact Discs.

The market for conventional record presses continued to weaken as a consequence of the strong interest in the new Compact Discs.

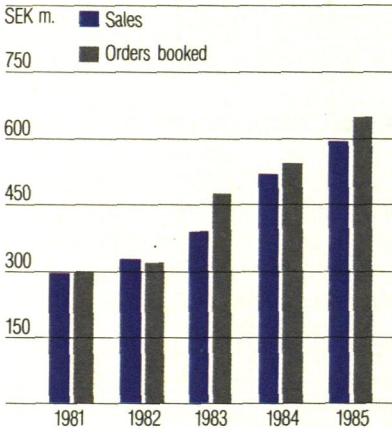
### KGK Mekaniska Verkstad

The company continued to consolidate and rationalize its operations to meet the somewhat lower demand for small compressors in the agricultural sector. New channels of distribution were established and the product line was further supplemented. The Scandinavian market is the company's main operating area.

### Flodins Filter

Demand for protective mask filters and industrial filters declined somewhat, resulting in reduced sales volume for certain filter types. As a consequence, certain personnel adjustments were made. Increased marketing efforts produced a sizable order backlog for 1986 and satisfactory growth is expected.

**SALES AND ORDERS BOOKED**



**Svenska Stålprodukter**

There was a stable increase in sales during the year. The major investments made in 1984 contributed to improved earnings.

**Honda Power Products**

Berema recorded a highly satisfactory growth in sales of Honda Power Products in Sweden and Norway. To a great extent, the expanded and attractive product line contributed to this development.

**PERSONNEL**

The average number of employees increased during the year to 636 persons (606). The increase is attributable to the acquisition of

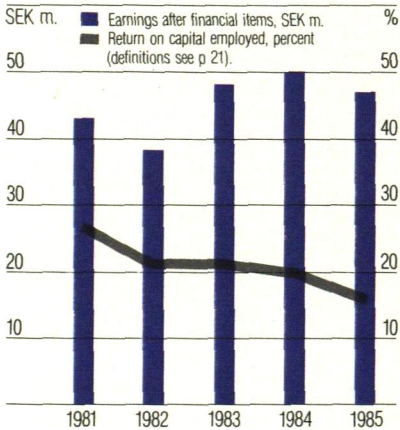
AB Å Karlssons Mekaniska Verkstad and to Toolex Alpha.

Lars Åsell, founder and President of Berema since the start, resigned at the end of 1985 to assume the post of Vice Chairman of the Berema Board of Directors.

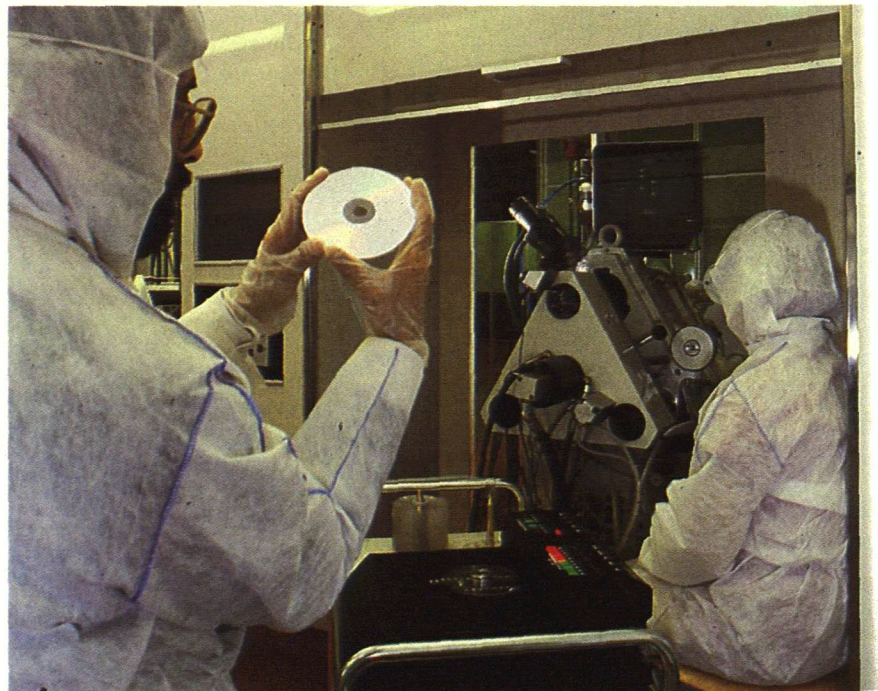
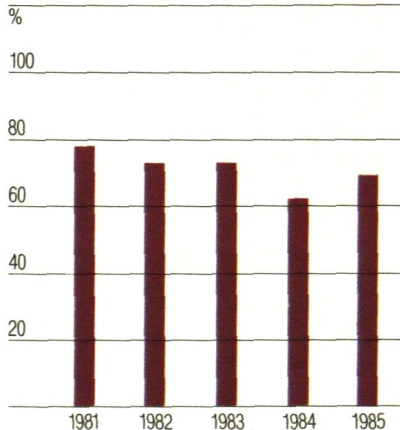
**OUTLOOK FOR 1986**

Sales and earnings in 1986 are expected to exceed those of the preceding year despite the likelihood of deteriorating demand in the latter part of the year. Investments made earlier in the Group's various companies are expected to contribute favorably to the result.

**EARNINGS AND RETURN**



**UTILIZATION OF CAPACITY**



*Toolex Alpha, a Berema subsidiary, achieved a technological breakthrough with the introduction of presses for production of the new Compact Discs (CD). The leading phonograph record manufacturers have already placed orders for equipment.*

# MONSUN-TISON

INVOICED SALES	SEK 363 m.
EARNINGS after financial items	SEK 55 m.
RETURN on capital employed	31%

## SALES

Monsun-Tison's invoiced sales in 1985 amounted to SEK 363 m. (296), a 23-percent increase. The company also invoiced SEK 38 m. (32) to other companies in the Atlas Copco Group. Order bookings were up 18 percent, to SEK 375 m. (317), representing a 7-percent increase in sales volume.

## EARNINGS

The positive earnings trend continued. Earnings after financial income and expense increased to SEK 55 m. (32). The sharp increase in earnings is primarily attributable to a substantial rise in volume, higher utilization of production capacity and an improved net interest position.

The return on Monsun-Tison's total capital, excluding non-interest-bearing current liabilities, was 31 percent (23).

## INVESTMENTS

Investments in machines and equipment totaled SEK 17 m. (9).

## MARKET DEVELOPMENT

Monsun-Tison's sales companies were expanded and consolidated.

**Business area: Mobile Controls**  
Intensified cultivation of markets resulted in increased volume for all product groups.

Demand increased in all markets. During the year, large orders were received from a large number of Swedish machine manufacturers. The English company received large orders from construction machinery manufacturers and the company's Finnish representative showed a highly favorable sales trend.

There was a further improvement in earnings.

**Business area: Industrial automation**

Order bookings continued to be strong during the year. Sales, which comprise primarily West Europe showed good volume growth. A large one-time order



CARL AXEL RUDD

## MANAGEMENT COMMITTEE

Carl Axel Rudd President (Effective July 1, 1985)  
Eric Bursvik President (Until June 30, 1985)  
Anders Parning Finance and Administration  
Hans-Jörgen Lindström Industrial Automation  
Carl Axel Rudd Mobile Controls

**Monsun-Tison's operations consist of the Mobile Controls business area and the Industrial Automation business area.**

**The company develops, manufactures and markets hydraulic and pneumatic components with compatible electronics.**

**Mobile Controls' marketing is conducted through its own sales companies in Denmark, France, Italy, Norway, Great Britain, the United States and West Germany. The business area sells to manufacturers of such mobile equipment as cranes, forest machinery and mining equipment.**

**Industrial Automation's marketing is carried out through its own sales companies (except in the United States), and in other countries through agents or Atlas Copco sales companies, to manufacturers of packaging machinery, transport equipment, etc. Monsun-Tison's head office is located in Borås (Sweden) and the company has production facilities in Borås and Falköping (Sweden).**

was delivered to a non-European customer.

The new products introduced and the marketing efforts of recent years resulted in increased sales to such important customer categories as manufacturers of packaging equipment, food processing machinery, materials handling equipment, robots, etc. There was a similar positive trend sales of products adapted specially to customer needs.

Outside the Swedish home market, good sales results were achieved in export markets that are important to the business area. Particularly good results were obtained in Denmark, Great Britain, Finland and Italy.

The already strong profitability continued to improve.

## PRODUCTION

The hydraulic valve manufacturing facility in Borås (Sweden) installed multi-operation machines to increase flexibility and to strengthen its emphasis on customer-controlled production. Additional measures were taken in the manufacturing units to improve capital utilization, quality and delivery reliability.

Capacity utilization in the Industrial Automation plant was very high during the year. Investments were made in computer-controlled machines and processing equipment, materials handling equipment and quality assurance.

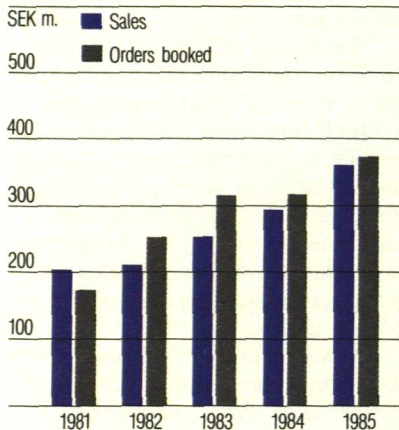
Resources in the material control area were reinforced through the hiring of new personnel and expansion of data handling routines.

## PRODUCT DEVELOPMENT

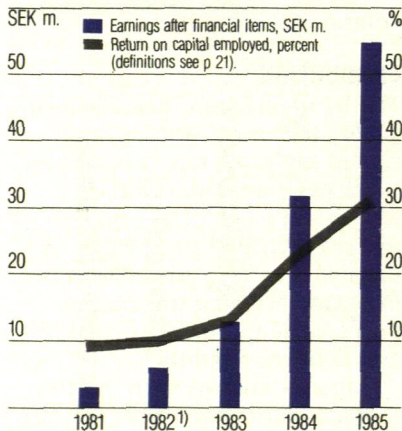
The Mobile Controls business area supplemented its standard product program and developed new models for special applications. The main focus of the development work was on electro-hydraulic control systems.

The Industrial Automation business area further supplemented its product program with valves and

## SALES AND ORDERS BOOKED

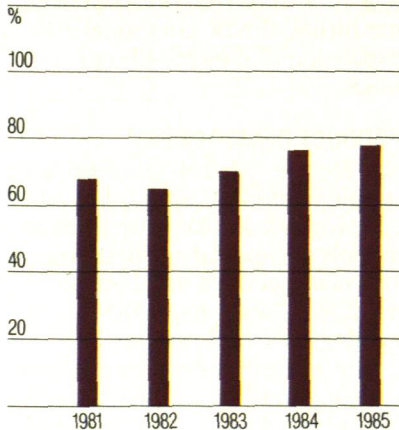


## EARNINGS AND RETURN



1) Excluding extraordinary costs of SEK 5 m. reported by Monsun-Tison

## UTILIZATION OF CAPACITY



*Atlas Copco's pneumatic cylinders were selected for adjustment of the pressure cylinders in M.A.N.-Roland's modern offset presses, used for newspaper production and other printing.*



control systems. The product program is well developed and competitive, meeting the very exacting quality requirements demanded of modern automation equipment.

## PERSONNEL

The company employed an average of 794 persons (749) in 1985, of whom 128 were located outside of Sweden (114). Particular emphasis was placed during the year on training sales and technical personnel.

Personnel turnover and absenteeism decreased.

Eric Bursvik, President of Monsun-Tison since 1971, resigned at midyear to assume, among other duties, the post of Vice Chairman of Monsun-Tison's Board of Directors.

## OUTLOOK FOR 1986

Demand in the Mobile Controls business area is expected to increase somewhat. The introduction of new products and increased sales efforts are expected to lead to a certain increase in volume.

Industrial Automation anticipates a somewhat smaller growth in volume due to the inclusion of a large one-time order in 1985 invoicing.

Earnings are expected to remain at a high level.

*Bradleys, Great Britain, has chosen Monsun-Tison as its working partner to handle its hydraulics. The refuse collection truck shown here is equipped with both hydraulic cylinders and reversing valves from Monsun-Tison. The completely automatic packing cycle is controlled by Atlas Copco's VE logic system.*



# OTHER OPERATIONS

## ATLAS COPCO ABEM

Founded in 1969, the instrument company Atlas Copco ABEM has roots in a prospecting operation begun in the 1920's. The company has developed Terrameter – a world-renowned instrument for locating ground water. The Terrameter is currently used in more than 90 countries, notably in international aid projects in Asia, Africa and Latin America. The company's business areas – Geophysical exploration, Industrial measurement and monitoring – are based upon electronic measuring techniques, signal analysis and recording, assisted primarily by micro-processor technology.

ABEM markets its products both through Atlas Copco sales companies and through independent distributors. In the Scandinavian market, in addition to its own products, ABEM sells products from manufacturers in the United States, Canada, Great Britain, the Netherlands and Japan.

### OPERATIONS 1985

#### *Sales and earnings*

Sales increased 22 percent during the year to SEK 33 m. (27). Order bookings increased 14 percent to SEK 32 m. (28), the equivalent of an 8-percent volume increase.

Earnings after net financial items amounted to SEK 3.2 m. (3.5). Major investment costs in the areas of computerization and product development were charged against income. The return on total capital, excluding non-interest-bearing liabilities, amounted to 20 percent (29).

#### *Investments*

Investments in machines, instruments and equipment amounted to SEK 0.3 m. (1.0).

#### *Market development*

Sales of resistivity instruments used in ground water prospecting increased. Customers included national foreign aid organizations who used the instruments in drought-afflicted areas in Africa.

Seismic instruments adapted to the particular needs of oil exploration were sold to new customers in this industry.

Invoicing of equipment for down-hole measurements increased considerably thanks to sales of the new wire line logging equipment to the coal and well drilling industries.

Invoicing of electronic equipment manufactured and delivered for use in Atlas Copco Tools' assembly systems was unchanged, compared with 1984. The sale of instruments on an agency basis increased approximately 50 percent in 1985 mainly due to the success of frequency analyzers produced in Japan. There were also substantial increases in sales of transducers and simpler testing devices.

#### *Technology and production*

ABEM introduced a more effective version of the Terraloc seismic instrument, adapted to a broader range of applications and a simpler interpretation of signals. Additional investments were made in data handling systems for material administration.

#### *Personnel*

The number of employees in-

creased to 46 (40). The increase was attributable mainly to strengthening the technical staff.

#### *Outlook for 1986*

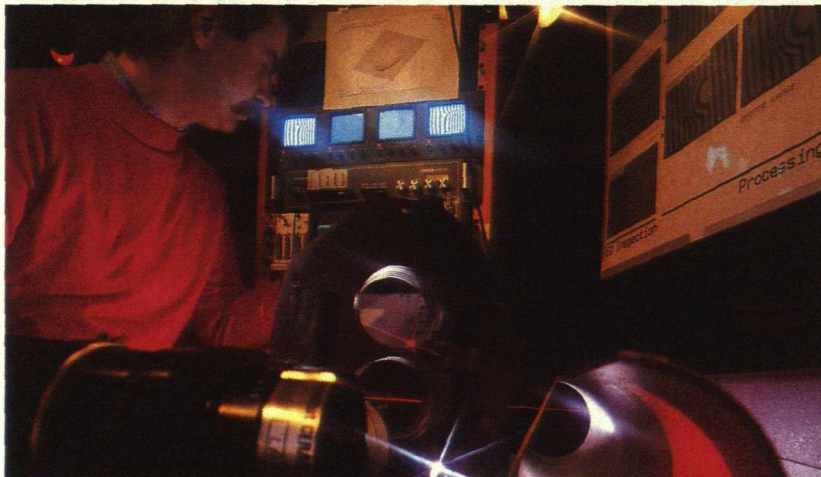
The market for instruments is expected to increase somewhat. Together with the introduction of new products, this is expected to result in higher sales, with earnings being maintained at the present level.

## CERAC

The Cerac Institute in Switzerland is the Atlas Copco Group's research center. Its services to the divisions and Group management include evaluations of new technology and the development of new products and processes. Cerac maintains close contacts with universities and other research organizations throughout the world in order to follow new areas of technology which can affect Atlas Copco's current or planned business areas.

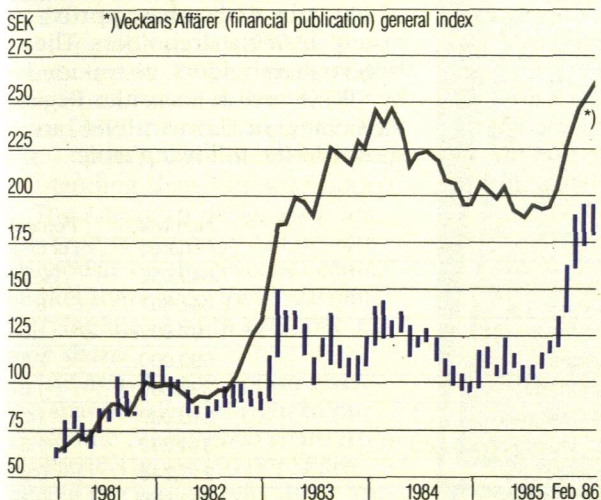
Research activities during 1985 were concentrated primarily on advanced production technology, materials technology, energy systems, and the compression and cleaning of gases and fluids.

*Laser technology, which is achieving broader applications in the engineering industry, is used for such purposes as modern precision measuring techniques. High-intensity lasers in the kilowatt range offer new possibilities in materials processing, such as welding and surface treatment. Shown here is a laser experiment at Cerac.*

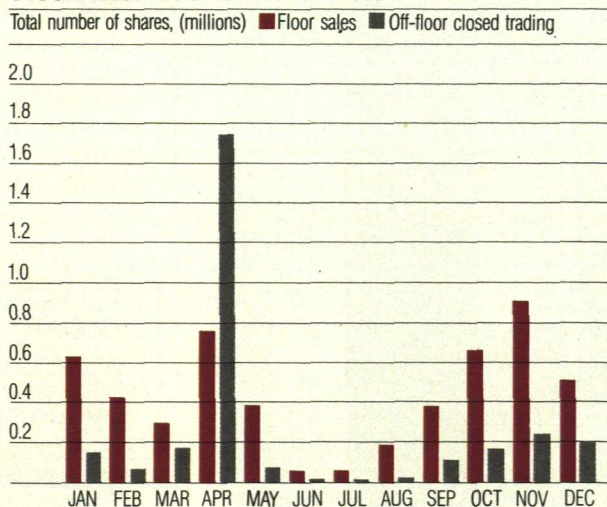


# ATLAS COPCO SHARE DATA

## TREND OF SHARE PRICES



## ATLAS COPCO-SHARES TRADING ON THE STOCKHOLM STOCK EXCHANGE 1985



## DIVIDEND POLICY

The Board intends that dividends to shareholders should amount to between 30 and 40 percent of the profit per share. The Board considers that Atlas Copco, in common with many non-European companies, should allow dividends to reflect the fluctuations in the Company's earnings to a greater extent than is common in the case of Swedish companies listed on the Stockholm Stock Exchange.

The Company seeks to cover the greater part of Parent Company dividend payments through dividend income from the subsidiaries outside Sweden.

The decision of the Annual General Meeting to reduce the dividend for the 1983 fiscal year interrupted a trend of dividend growth extending over a period of many years.

The annual growth in dividends averaged 10.7 percent for the ten-year period up to and including 1982. This compares with the monetary depreciation in Sweden, which amounted to 10.3 percent in the same period. Viewed over a five-year perspective, the corresponding figures were 8.4 and 10.0 percent, respectively.

The reduction of dividends for

## PER SHARE DATA, SEK

	1981	1982 <sup>2)</sup>	1983	1984	1985
Earnings <sup>1)</sup>	12.95	7.40	4.55	11.25	<b>17.05</b>
Earnings after extraordinary items	13.25	6.85	-0.65	11.30	<b>19.15</b>
Dividend	6.00	6.00	3.00	4.50	<b>6.50<sup>3)</sup></b>
Dividend as percent of earnings <sup>4)</sup>	46.3	87.6	65.9	40.0	<b>38.1</b>
Price quotation, Dec. 31	98	90	121	96	<b>190</b>
Highest price quoted	106	109	150	143	<b>195</b>
Lowest price quoted	61	82	90	95	<b>97</b>
Average price quoted	83	93	118	118	<b>121</b>
Risk-bearing equity capital <sup>5)</sup>	153	125	117	131	<b>150</b>
Direct yield, percent <sup>6)</sup>	7.2	6.5	2.5	3.8	<b>5.4</b>
Price/earnings <sup>7)</sup>	6.4	12.2	24.1	10.5	<b>7.1</b>

For purposes of comparison between years, adjustments have been made to reflect new issues of shares. Beginning in 1982 the current-rate method has been applied.

1) Profit after financial income and expense, less a standard 50 percent provision for tax and minority interest in income divided by the number of shares outstanding.

2) Based on the weighted average number of shares outstanding.

3) Proposed by the Board of Directors.

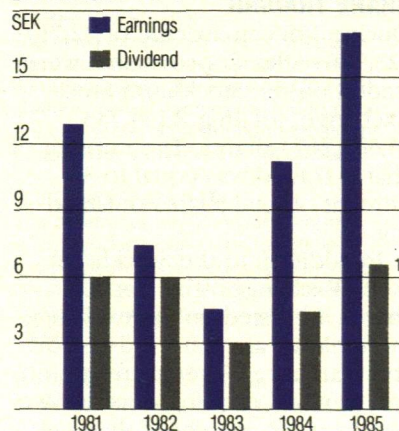
4) Dividend as a percentage of earnings per share.

5) Equity capital and untaxed reserves divided by the number of shares.

6) Dividend as a percentage of the average quoted price during the year.

7) Average quoted price during the year in relation to earnings per share as defined in note 1.

## EARNINGS AND DIVIDEND PER SHARE



1) Dividend for 1985 as proposed by the Board of Directors



**OWNERSHIP STRUCTURE 1985**

Number of shares	Percentage of total number of shares	Number of shareholders
>100 000	63.3	16
50 001-100 000	2.6	9
10 001-50 000	4.5	45
2 001-10 000	4.9	270
501-2 000	6.5	1 613
1-500	18.2	40 868

the 1983 business year occurred as a result of the decline in earnings experienced by the Group in both 1982 and 1983.

The Board of Directors has proposed an increase in the dividend for 1985 to SEK 6.50 (4.50), equal to 38 percent (40) of the profit per share.

**SHARE TRADING**

During 1985 an average of 32,710 (23,900) Atlas Copco shares were traded on the Stockholm Stock Exchange, totaling 8,144,733 (5,687,267) shares. The number of shares traded was equal to 35 percent of total shares outstanding.

In addition to the Stockholm Stock Exchange, Atlas Copco shares are listed on the exchanges in Frankfurt am Main, Düsseldorf and Hamburg. Foreign institutions and persons residing outside Sweden own 4.2 percent of the total shares outstanding.

**LARGEST SHAREHOLDERS**

The share capital amounts to SEK 586,512,500, represented by 23,460,500 shares, each with a par value of SEK 25. All shares are unrestricted and carry one vote each. Shares are traded on the Stockholm Stock Exchange in lots

of 200. Atlas Copco has approximately 43,000 shareholders. The largest shareholders, as reported by VPC (Swedish Securities Register Center) in February 1986, are shown in the following table:

	Number of shares	Percent of total
1. AB Patricia	7,649,652	32.60
2. Förvaltnings AB Providentia	2,047,851	8.72
3. AB Investor	1,792,802	7.64
4. Livsförsäkrings AB Skandia	590,000	2.51
5. Sparbankernas Aktiesparfond	392,800	1.67
6. The Mitsubishi Bank of California	315,000	1.34
7. General Pension Fund, Fourth Fund Board	314,393	1.34
8. Atlas Copco Share Saving Fund	212,348	0.91
9. SPP Mutual Insurance Company	200,569	0.86
10. Nats Cumco, New York	200,000	0.85

**SHARE ISSUES 1965 TO 1985**

Since 1965, share capital has increased through bonus and new issues as follows:

			Increase of share capital SEK m.	Amount paid-in SEK m.
1965 Bonus issue	1:4		19.1	-
New issue	1:4	60 SEK	19.1	46.0
1971 Bonus issue	1:10		11.5	-
New issue	1:10	100 SEK	11.5	46.0
1973 Bonus issue	1:2		69.2	-
1974 New issue	1:4	25 SEK	51.7	51.7
1976 New issue	1:5	50 SEK	51.7	103.5
1979 Bonus issue	1:6		51.7	-
New issue	1:6	60 SEK	51.7	124.1
1982 Bonus issue	1:4		103.5	-
New issue		2,765,000 shares at SEK 135 par value	69.1	373.3

**ATLAS COPCO'S SHARE SAVING FUND AND GENERAL SAVING FUND**

All employees of the Atlas Copco Group's Swedish companies were offered the opportunity, effective January 1, 1981, of participating in Atlas Copco's Share Saving Fund. Since March 31, 1984, there has been no active volume of savings. Presently, the Share Saving Fund is one of Atlas Copco's 10 largest shareholders, with holdings of 212,348 shares, equal to one percent of total share capital.

Beginning in April, 1984, the employees were offered the opportunity of investing in the company-affiliated General Saving Fund, which buys shares in Atlas Copco exclusively. As of December 31, 1985, the Fund's holdings amounted to 14,000 shares, corresponding to a market value of SEK 2.7 m. Both funds are administered by Atlas Copco Fond AB.

## ATLAS COPCO CALL OPTIONS

### Options with 10-year maturities

As a direct result of AB Patricia's 1984 acquisition of AB Volvo's shares in Atlas Copco AB, a totally new type of security was introduced on the Swedish capital market – options with the right to buy outstanding shares in Atlas Copco.

The American designation for this type of option is call option. Previously on the Swedish capital market there were only warrants carrying the right to subscribe for new shares.

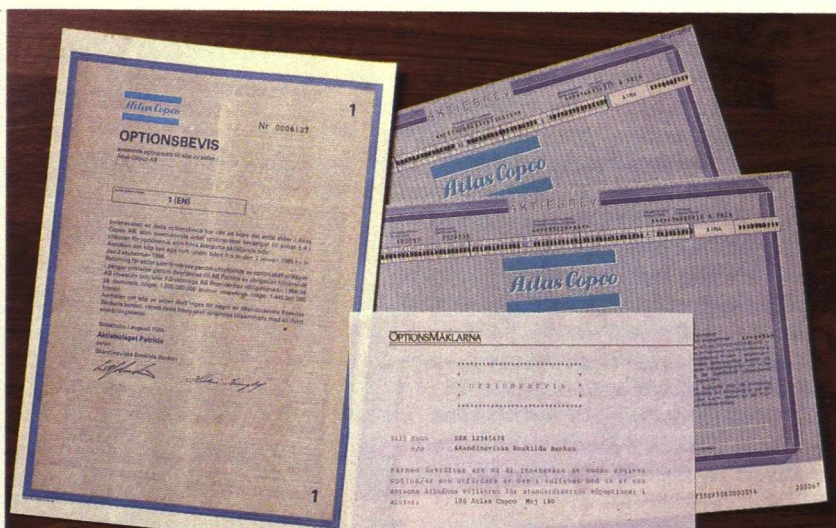
The Atlas Copco option gives the shareholder the right to purchase one Atlas Copco share from AB Patricia at SEK 150 per share during the period 1985–1994. The total number of options outstanding originally amounted to 7,650,000, equal to 33 percent of all Atlas Copco shares. The highest market price for the options during the year was SEK 100 (40), and the lowest SEK 34 (29).

### Options with 3 to 9-month maturities

During early summer of 1985, an additional method for dealing in Atlas Copco options appeared. The options were issued with varying maturities of 3, 6 or 9 months. The issuing party is obligated to sell the corresponding shares at a predetermined redemption price during the term of the options. All bearers of Atlas Copco shares are entitled to issue options. An option is issued for each block of 100 shares. Brokerage is handled through Optionsmäklarna Fondkommission AB, which acts as a clearing house.

In December 1985, option contracts accounted for about one million shares, approximately four percent of all Atlas Copco shares.

Since both types of options give the bearer the right to buy outstanding Atlas Copco shares at a predetermined price, the options do not create a dilution effect.



### Option value

In that certain conditions are tied to the options, an anticipated market value can be estimated. The option price can vary in relation to anticipated market value. This variation reflects the various investors' attitudes concerning the factors that influence the option's value. These factors are included in the accompanying box.

### Effects of leverage

A characteristic feature of options is that fluctuations in the option's value are percentually much greater than those of the corre-

sponding share. This means that profit opportunities—and also risk of loss—are greater with options than with shares.

At the same time, the described relationship between the share and option prices means that an investor's expectations concerning a particular share can be realized without having to invest the entire amount that would be required to buy the corresponding share. The investor can instead elect to place the difference elsewhere, for example in risk-free savings in a bank account.

### FACTORS INFLUENCING THE VALUE OF AN OPTION

#### PRICE QUOTATION

The higher the market price of the share to which the option pertains the greater the value of the option.

#### PURCHASE PRICE

The purchase price is the price at which the option bearer is entitled to purchase a share – at any time within a specified period. The lower the purchase price, the higher the value of the option.

#### TIME

The longer the time period for exercising the option rights the greater the value of the option, since the possibilities for a rise in the market value of the share are greater.

#### MARKET VARIATION

The more the price of the corresponding share fluctuates (standard deviation), the greater the likelihood that the share price will exceed the redemption price at some point during the maturity period. This increase the option value.

#### DIVIDEND AND YIELD

The option carries no dividend right. A dividend increase thus results in a lower option value. A dividend increase generally results in a higher share quotation and thus a higher option value.

#### BANK RATE OF INTEREST

High interest rates contribute to a higher option value.

# ATLAS COPCO IN THE INDUSTRIAL MARKET

Atlas Copco has for many years, concentrated on the development of products for the manufacturing industry. Traditionally, Atlas Copco products – mainly drilling equipment – have been sold to mines and to the building and construction market. Since the industrial market is so much larger, with a faster rate of growth, Atlas Copco has increasingly adapted its technology to industrial applications. At the same time, solid expertise concerning the needs of industry has been built up within the Group. As a result of this concentration on the industrial market, Atlas Copco has become less vulnerable to business cycle fluctuations. The market in the mining industry is largely dependent on the rate of industrial production and the related consumption of metals, while the building and construction field is affected by public sector investments.

Within the Atlas Copco Group, Airpower, Tools and Monsun-Tison are the primary units with product lines adapted to the industrial market. MCT and Berema have also carved out niches for certain of their products. Shown below are examples of applications of Atlas Copco's products in the manufacturing industry:

## Compressed air and cheese processing

The relatively new single-stage compressor has found large areas of application within industry. Oil-free air is used to stir milk in storage tanks and to form air bubbles in the salt bath in the processing of Gouda cheese at DMV Campina in The Netherlands. Compressed air is also used to open and close valves during the process itself, as well as to operate the 528 cheese presses.

## Electronics manufacturing requires oil-free air

Air compressors play a vital role in Asea's production of printed circuit boards. The boards are transported by compressed air

through the production phases and, after chemical treatment, the contact points are cleaned with oil-free air to assure good contact with the electronic components without damage to the insulation.

## Compressed air is a must in the pharmaceutical industry

In the pharmaceutical industry oil-free air is essential to achieve high reliability in production and to protect products from contaminants. All transport, handling and inspection of products take place with the aid of oil-free compressed air. For example, pills are blown from containers into bottles on a conveyor and are then checked by compressed-air sensors. In sterile production areas

where solvents are used, the operators inhale clean air through their masks. Oil-free air is also used for testing the reliability of sterile plastic blood-bags, for applying silicon film to hypodermic needles and for production instrumentation.

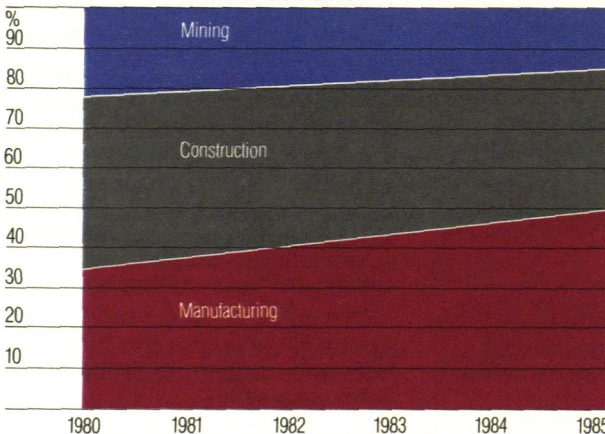
## Compressed air for nuclear applications

Nuclear power plants employ a combination of rotating screw-compressors and air dryers to provide the compressed air needed for instrumentation, cleaning soot filters, checking safety pressure, pressuring high-velocity turbines, etc. Before a nuclear power plant's piping system becomes operational, it is subjected to compressed air testing to detect leaks.

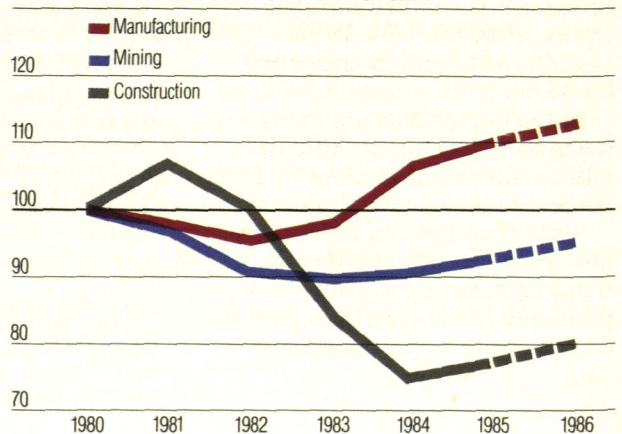
## Stitch folding pistol reduces production costs

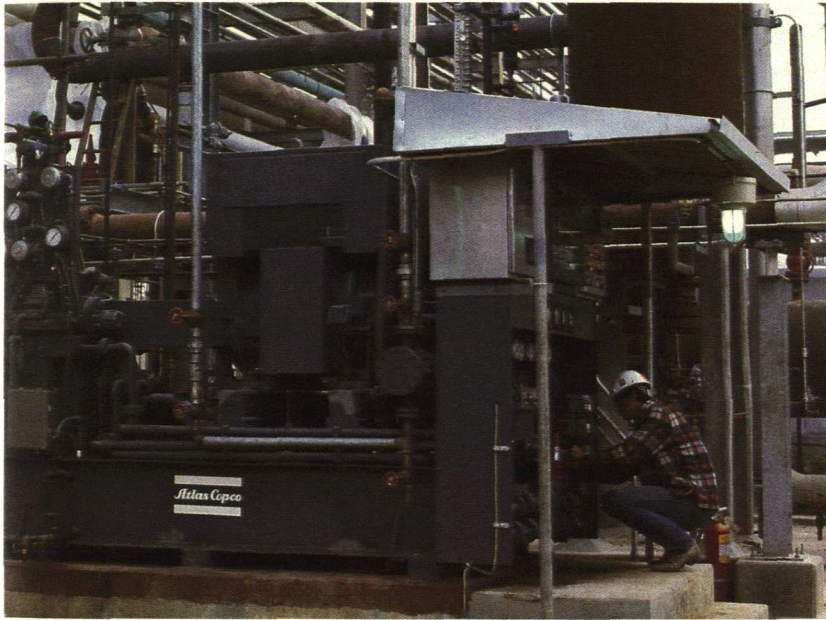
Berema's stitch folding pistol, Tagger, has gained increasingly larger market shares because it simplifies and reduces costs in joining steel sheet. Prior to the decision to commit resources to this new technology which relaces riveting and welding, Hoover Ltd of Great Britain carried out careful tests. In Hoover's manufacture of rotating drier-drums, the use of Tagger technology resulted in savings of up to 50-percent in investment

INVOICING BY CUSTOMER SEGMENT



ESTIMATED WORLD PRODUCTION VOLUME





*The process industry is an important customer category for Atlas Copco. In 1985, Atlas Copco Comptec Inc. installed a gas compressor at an American chemical company in Baytown, Texas.*

and production costs, compared with the technology used earlier.

#### ***Cylinders for aluminum smelting plants***

In cooperation with Norsk Hydro's smelting plant in Karmøy (Norway), Monsun-Tison has developed a maintenance-free cylinder adapted to special customer problems related to the operation of blades which, twice an hour and in a difficult environment, break the metal crust and feed the raw material into the smelting furnace. The cylinders have a working life of approximately 20 years and are maintenance-free for five years. The cylinders also function with great precision during electrolysis, which improves product quality and reduces the amount of gas and dust released to the environment.

#### ***Atlas Copco is present on modern assembly lines***

Atlas Copco, a pioneer in advanced tightening systems, today holds a significant share of this market. The company has been active for 10 years in automating

assembly operations on production lines. When Volvo Komponent in Skövde (Sweden) was planning its new diesel engine assembly line with a requirement for precision bolted joints – a pilot project for future assembly lines – it chose Atlas Copco as its partner. Volvo's TD 61-line has eight work stations based on precision-controlled tightening. A total of 16 multiple nut tighteners, powered by electric motors and monitored by microcomputer-based control systems were all developed and supplied by Atlas Copco.

#### ***Corrosion protection for automobiles***

Rust prevention has long been a high priority item with car owners. Atlas Copco has become involved in the auto industry's problems in protecting its products from corrosive attack. Thanks to Ecco Meter and Ecco Timer – systems for spraying protective agents in inaccessible spaces – the company has become a world leader in corrosion prevention for new automobiles. In Italy, for ex-

ample, Atlas Copco has 96 percent of this market. New Italian cars now carry six-year rust-prevention warranties.

#### ***Ergonomics achieves increased importance***

Atlas Copco is a leader in matters relating not only to productivity but also to people. In various world markets, the demand for hand-held machines with better ergonomic designs is rising. Physical strain, vibration, dust and bothersome noise levels are the principal problems. Bizerba, the West German manufacturer of scales and weighing instruments used in air terminals and other applications, is one of many examples of companies that solved these problems with Atlas Copco's help. Here, high quality bolted joints were a must. But the power screwdrivers had to operate at the lowest possible noise level – a demand that Atlas Copco could fulfill better than any other supplier on the market.

#### ***The process industry – a large and growing market for MCT***

In iron and steel mills as well as in cement plants, it is essential that smelting furnace and firing kiln linings remain intact. This means that the wearing course and heat-insulation lining must be replaced or repaired regularly to prevent damage to the furnace housing. The work is time-consuming and, because of this, costly. The work environment is poor, with high temperatures, gases and the risk of cave-ins.

The BROKK rig, which originally was developed for the mining and construction markets, has in a short period attracted strong demand from the process industry worldwide for the solution of these problems. Its compact design and powerful hydraulic hammer enable it to operate with high precision and efficiency. The fact that it can be operated remotely is an obvious advantage in difficult work environments.

# PERSONNEL

SEK thousands	1985	1984
Sales per employee	604	552
Earnings per employee	50	35
Value added per employee	237	217

The average number of employees in the Atlas Copco Group in 1985 increased to 16,659 (16,484), of which 28 percent (29) were employed by companies in Sweden. Total labor costs rose by 6.8 percent to SEK 2,743 (2,569), of which social costs account for SEK 752 m. (676).

		Average number of employees*		Wages, salaries and other personnel costs	
		1985	1984	1985	1984
SWEDEN	Head office	68	63	32	26
	Divisions	3,830	3,966	666	625
	Sales companies	707	732	136	129
Total, Sweden		4,605	4,761	834	780
OUTSIDE SWEDEN	Divisions	4,586	4,040	861	724
	Sales companies	7,468	7,683	1,048	1,065
Total, outside Sweden		12,054	11,723	1,909	1,789
TOTAL		16,659	16,484	2,743	2,569

\*) The average number of employees in Sweden has been calculated in accordance with the principles established for reporting to the National Social Insurance Board. A detailed presentation showing the average number of employees and wages, salaries and other remuneration paid, prepared in conformity with the Swedish Companies Act, is included in the Annual Report filed with the National Patent & Registration Office in Sweden and can be obtained free of charge from Atlas Copco's headquarters in Nacka, Sweden.

## EMPHASIS ON CONTINUED TRAINING

As part of the management development program, three different educational programs were begun during the year. One is intended for upper management personnel who will, within a two-year period, have undergone a special training program for positions abroad. More than 350 managers at various levels of Atlas Copco's worldwide organization are participating in an interesting program in the form of a "corporate game." The participants receive training in strategy-making, markets evaluation, production capacity, capital utilization, yields and many other subjects requiring decision by the management of an international engineering company. The third program is designed for managers in sales companies; its emphasis on finance, data processing, price-setting and organization. To date, 500 persons from 22 sales companies have undergone this advanced training.

## POLICY FOR MANAGEMENT TRAINING

During the year, the Atlas Copco Group introduced an executive development program for the purpose of providing managers for key positions. Each manager's responsibilities include, in addition to the development and leadership of present personnel, the recruitment, selection and training of the next generation of managers.

Divisional management is responsible for yearly analyses of the management situation in each Division staff as well as in production and sales. To broaden experience, job rotation is recommended at various stages of a manager's career. The development program recommends:

that opportunities for working in direct contact with customers be given priority

that participation in project and control groups common to the Divisions be arranged

that experience be obtained through line and staff positions in Sweden and abroad.

## ATLAS COPCO GROUP VALUE ADDED

Value added comprises the Group's total invoicing, SEK 10,062 m., less the costs of purchased raw materials, finished and semifinished goods, and services, SEK 6,115 m. Value added is a measurement of the production input made by the Company; that is, the increase in value that arises through handling, processing, etc.

For 1985, value added amounted to SEK 3,947 (3,581) an increase of 10 percent. The in-

crease is attributable to increased sales and more effective utilization of the company's productive resources.

Value added is distributed among various parties such as employees, lenders, the state, municipalities and shareholders. The remaining portion is retained by the company to cover the costs of normal wear to equipment and machinery (depreciation), and to enable expansion of operations (retained in business).

Distribution of Value added	1985		1984	
	SEKm.	%	SEKm.	%
Wages and salaries	1,991	50	1,893	53
Social costs	752	19	676	19
Capital costs, net	196	5	272	8
Corporate and municipal taxes	304	8	242	7
Dividends paid	158	4	113	3
Depreciation	185	5	167	4
Retained in business	361	9	218	6
Value added	3,947	100	3,581	100
Value added per employee, SEK thousands	237		217	

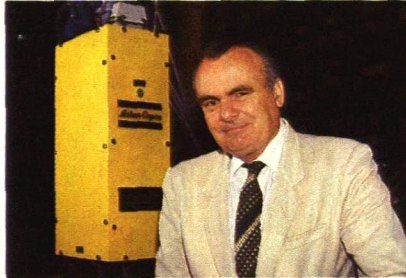
# SALESMEN OF THE YEAR

*Outstanding sales performances were recorded in 1985 by the sales companies. A "salesman of the year" was selected in countries that showed the greatest sales successes.*

*These salesmen are presented below, with brief descriptions of their achievements.*



BOB CALVERT



ROGER REZNY



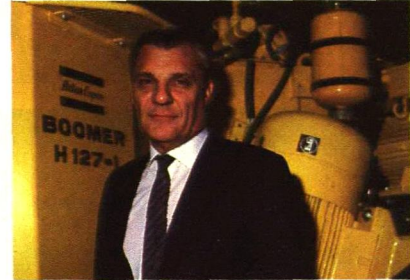
A K MISHRA



BOB VAN WIJN



OWE HULTMARK



TOM SOMMEBAG

**Bob Calvert**, regional manager for Atlas Copco in Tasmania, Australia, obtained an order for a Promec TH 654, the largest drilling rig ever sold in Australia. The equipment will be used to drive a 13-km-long tunnel as part of a new project for Hydro Electric Commission. Bob also sold two Hägg-loaders for the same project.

**Roger Rezny**, salesman at the Brazilian sales company in São Paulo, Brazil, sold multiple nutrunners valued at more than SEK 10 m. to the automotive industry. These assembly systems provide customers with tools that improve the quality and safety of the locally produced vehicles. Roger also obtained contracts for several models of oil-free compressors.

**A.K. Mishra**, sales engineer for Atlas Copco in India, in close cooperation with regional manager V.D. Madhok and product manager S. Gupta, landed the first and largest single order in India for portable compressors of XA 320 type. The order, from Hutti gold mines, covered 14 compressors. It was ob-



KNUT SOGN, PER ESPEN KJØLSETH, JAN JOHNSEN, BJØRN ANDRESEN and PAAL OLAUSSON

tained in severe price competition. Lower operating costs and excellent "after-sales" service were decisive.

**Bob van Wijn**, salesman for Atlas Copco in the Netherlands, sold 13 complete systems, including 22 screw-compressors to Shell. He also sold piston compressors to ICI. The total value of Bob's sales for the year amounted to SEK 18 m.

**Owe Hultmark**, sales engineer at the Swedish sales company, achieved excellent sales results in 1985 and a large share of the Swedish market for oil-free compressors. His success is attributable in large measure to an application he devised: a system featuring Z-compressors that

supply hot water at 95° C and are economical to operate. He has also developed a computer-based control and diagnostic system that is valuable in determining a customer's optimum total operating cost. With these two applications as a base, Owe succeeded in selling Z-compressors to Volvo Cars and other customers.

**Tom Sommebag**, at Atlas Copco International, succeeded – despite hard competition – in obtaining an order from the Soviet trading agency, Metalurgimport, for 34 of MCT's new series of air-powered drilling rigs used in mining. The order is valued at approximately SEK 100 m.

**Atlas Copco Norway, industrial division** – consisting of sales engineers Knut Sogn, Per Espen Kjølseth, Jan Johnsen, Bjørn Andresen and Paal Olausson – had major sales successes in 1985, with a 25 percent increase in orders booked. This included 31 oil-free compressors and a large number of smaller stationary compressors.

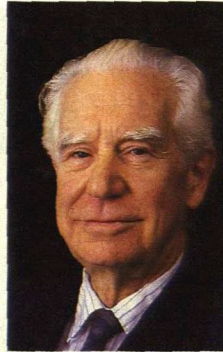
# BOARD OF DIRECTORS



*PETER WALLENBERG*



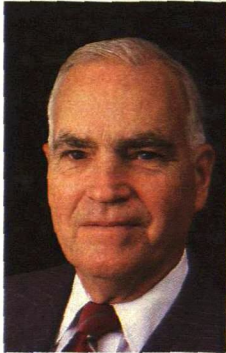
*ERIK JOHNSSON*



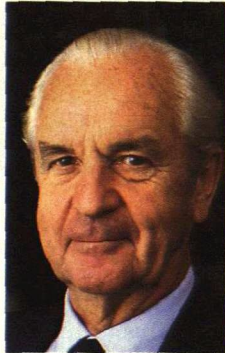
*AXEL IVEROTH*



*CURT G OLSSON*



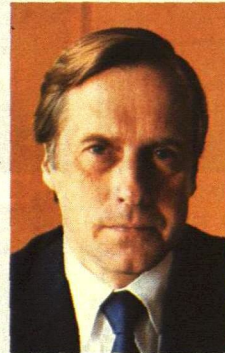
*P HENRY MUELLER*



*OTTO GRIEG TIDEMAND*



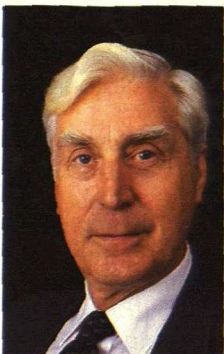
*PEHR G GYLLENHAMMAR*



*BJÖRN SVEDBERG*



*LENNART JOHANSSON*



*STEN RUDHOLM*



*PER LUNDBERG*



*TOM WACHTMEISTER*



*JACOB WALLENBERG*



*BO HENNING*



*PER-ERIK NYHOLM*



*KJELL NORDSTRÖM*



*TORE HEDBERG*

**BOARD OF DIRECTORS****ELECTED BY THE GENERAL ANNUAL MEETING***Peter Wallenberg*

Chairman (1970). Dr. Econ. h.c. and Dr. of Letters h.c. Born 1926. First Vice Chairman of the Board of Skandinaviska Enskilda Banken. Employed in various positions within Atlas Copco 1953-1974. Chairman of the Boards of Investor, Papyrus, Providentia, STORA, The Wallenberg Foundation and Enskilda Securities Skandinaviska Enskilda Ltd. (Great Britain). Vice Chairman of the Boards of ASEA, Broströms, Electrolux, L M Ericsson, SKF and the Federation of Swedish Industries. Member of the Board of Dillon, Read & Co. Inc., (USA).

*Erik Johnsson*

Vice Chairman (1972). Dr. Tech. h.c. Born 1909. President of Atlas Copco AB, 1970-1975.

*Axel Iveroth*

(1975). Born 1914. President of the Federation of Swedish Industries 1957-1977 and its Vice Chairman 1977-1983.

*Curt G Olsson*

(1976). Born 1927. Chairman of the Board of Skandinaviska Enskilda Banken, Esselte and Svenska Dagbladet. Member of the Boards of Hufvudstaden, Skandia and Dillon, Read & Co. Inc., (USA).

*P Henry Mueller*

(1982). Dr. Litt. h.c. Born 1917. Chairman of the Boards of Atlas Copco North America Inc. and Saab-Scania of America Inc., (USA).

*Otto Grieg Tidemand*

(1982). Born 1921. Shipowner, Belstove Shipping, Oslo. Chairman of the Boards of A/S Kosmos, the Insurance Group Vesta-Hygea, Store Norske Spitsbergen Kulkompani and Atlas Copco A/S (Norway). Chairman and Board member of various shipping companies and oil companies in Norway and other countries.

*Pebr G Gyllenhammar*

(1982). Dr. Med. h.c. Born 1935. Chairman of the Board and Chief Executive Officer of AB Volvo. Member of the Boards of Skandinaviska Enskilda Banken, United Technologies Corp., (USA), S. Pearson & Son, (Great Britain). Member of the International Advisory Committee of Chase Manhattan Bank, (USA). Vice Chairman of the Board of Trustees of Aspen Institute (USA).

*Björn Svedberg*

(1983). Dr. Tech. h.c. Born 1937. President and Chief Executive Officer, L M Ericsson. Member of the Boards of AGA and L M Ericsson.

*Lennart Johansson*

(1985). Dr. Tech. h.c. Born 1921. Chairman of the Boards of SKF, Broströms and Federation of Swedish Industries. Vice Chairman of ESAB, S-E-Banken and Volvo. Member of the Boards of ASEA, Investor, Skanska, STORA, Svenska BP, Swedish Employers' Confederation and Swedish Engineering Employers Association.

*Sten Rudholm*

(1985). Dr. Jur. h.c. Born 1918. Marshal of the Realm. Member of the Swedish Academy. Chairman of the Board of the Arbitration Institute of Stockholm Chamber of Commerce. Member of the Board of L M Ericsson, Nobel Industries and Investor.

*Per Lundberg*

(1985). Born 1943. President of Providentia and Patricia. Member of the Boards of Alfa-Laval, Atlas Copco Finans, Atlas Copco Leasing, Billerud, Bohusbanken, Garphyttan-Hesselman, Saab-Scania (deputy), Stora Timber, Finans Vendor, Swedish Staff Pension Society and Ångpanneföreningen.

*Tom Wachtmeister*

(1975). Born 1931. President of Atlas Copco AB since 1975. Employed in the Company since 1959. Chairman of the General Export Association of Sweden, the Swe-

den-China Trade Council, Swedish Taxpayers Association, and the British Swedish Chamber of Commerce. Vice Chairman of the Trade Association of the Swedish Mechanical and Electrical Engineering Industry. Member of the Boards of Boliden, Export-Invest, Hasselfors, Saab-Scania and S-E-Banken.

*Jacob Wallenberg*

Deputy member (1985). Born 1956. Deputy member of the Boards of Providentia and STORA.

**EMPLOYEE REPRESENTATIVES***Bo Henning*

(1973). Born 1933. Chairman, Atlas Copco local of the Swedish Industrial Salaried Employees' Union, Nacka.

*Per-Erik Nyholm*

(1973). Born 1937. Chairman, Atlas Copco local of the Metal Workers' Union, Nacka.

*Kjell Nordström*

Deputy member. (1977). Born 1949. Chairman, Ecco Works local of the Metal Workers' Union, Skara. Member of the Swedish Parliament.

*Tore Hedberg*

Deputy member. (1983). Born 1937. Chairman, Atlas Copco Tools' local of the Swedish Industrial Salaried Employees' Union, Stockholm.

**AUDITORS***Birger Sonesson*

Authorized Public Accountant

*Bertil E Olsson*

Authorized Public Accountant

*Karl-G Giertz*

Authorized Public Accountant, Deputy

*Bo Ribers*

Authorized Public Accountant, Deputy



# GROUP MANAGEMENT



*TOM WACHTMEISTER and BERTIL ERIKSSON*



*MICHAEL TRESCHOW, PER WEIJKE  
and C MELVILLE ERRINGTON*



*SVEN-INGVAR SVENSSON, BO EKLÖF  
and EINAR LIWENDAHL*

**GROUP MANAGEMENT**

*Tom Wachtmeister* (1931), President, Atlas Copco AB and Chief Executive Officer employed since 1959.

*Bertil Eriksson* (1934), Senior Executive Vice President and Chief Operating Officer (Effective Jan 1, 1986) President Atlas Copco Airpower n.v. (until Dec 31, 1985), employed 1959-1979, and since 1982.

*Olof Sjöström* (1940), Senior Executive Vice President (until Dec 31, 1985).

*Einar Lövendahl* (1927), Executive Vice President, employed since 1953.

*Sven-Ingvär Svensson* (1932), Executive Vice President, employed since 1958.

*C Melville Errington* (1940), President, Atlas Copco Airpower n.v., (Effective Jan 1, 1986) employed since 1965.

*Per Wejke* (1937), President, Atlas Copco MCT AB, employed 1964-1970 and since 1980.

*Michael Treschow* (1943), President, Atlas Copco Tools AB, employed since 1975.

*Bo Eklöf* (1941), Administrative Director, employed since 1974.

**BEREMA - GROUP**

*Gösta Fernström*, President (Effective Jan 1, 1986)

**MONSUN - TISON AB**

*Carl Axel Rudd*, President

**ATLAS COPCO AB****GROUP STAFF, SENIOR VICE PRESIDENTS**

Communications and Public Affairs:	<i>Hans Jobnsson</i>
Corporate Planning:	<i>Carl Caldenius, acting</i>
Economy:	<i>Jan Petersson</i>
Finance:	<i>Bo Jobansson</i>
Legal:	<i>Hans Sandberg</i>
Logistics:	<i>Tord Berggren</i>
Markets:	<i>Anders Björk</i>
Personnel:	<i>J-A Darlin</i>
Technique:	<i>Jan Holdo</i>

**SPECIAL ADVISERS**

*Eric Bursvik* (Effective Mar 1, 1986)  
*Ambassador Iwo Dölling* (Effective Dec 1, 1985)  
*Bo Gyllenberg*  
*Rolf Labnbagen*  
*Ambassador Olof Landenius*  
*Ambassador Lennart Petri*

**OTHER COMPANIES**

**ATLAS COPCO MANAGEMENT CONSULTING AB**  
*Göran Lundborg*, President

**SERVICE STAFF**

Administrative Development:	<i>Bertil Andersson</i> <i>Bo Verner</i>
Aqua Technique:	
Communications: (also Atlas Copco AB):	<i>Bengt Möller</i>
Economy and Group Accounting:	<i>Hans Lindblad</i> <i>Bo Lemcke</i>
Electrical Drive Systems:	<i>Karin Palm Karnell</i>
Office Administration:	
Organization Development:	<i>Leif Aadde</i> <i>Alexis Molin</i>
Patents:	
Personnel and Corporate Health Care:	<i>Hans Hansson</i> <i>Ulf Hernestam</i>
Physical Resources:	<i>Jan Wenström</i>
Standards:	

**ATLAS COPCO INTERNATIONAL AB**

*Erland von Redlich*, President

**ATLAS COPCO ABEM AB**

*Lars Helgöstm*, President

**ATLAS COPCO DATA AB**

*Rolf Jobanson*, President

**INSTITUT CERAC S.A., SWITZERLAND**

*Techn. Dr. Barry Edney*, President

"ATLAS COPCO  
—a global engineering company  
specializing in compressed air and hydraulics.  
With its technology and marketing organization,  
Atlas Copco offers its customers increased productivity  
in such areas as rock drilling, compression of air  
and other gases as well as industrial automation."



*Atlas Copco*