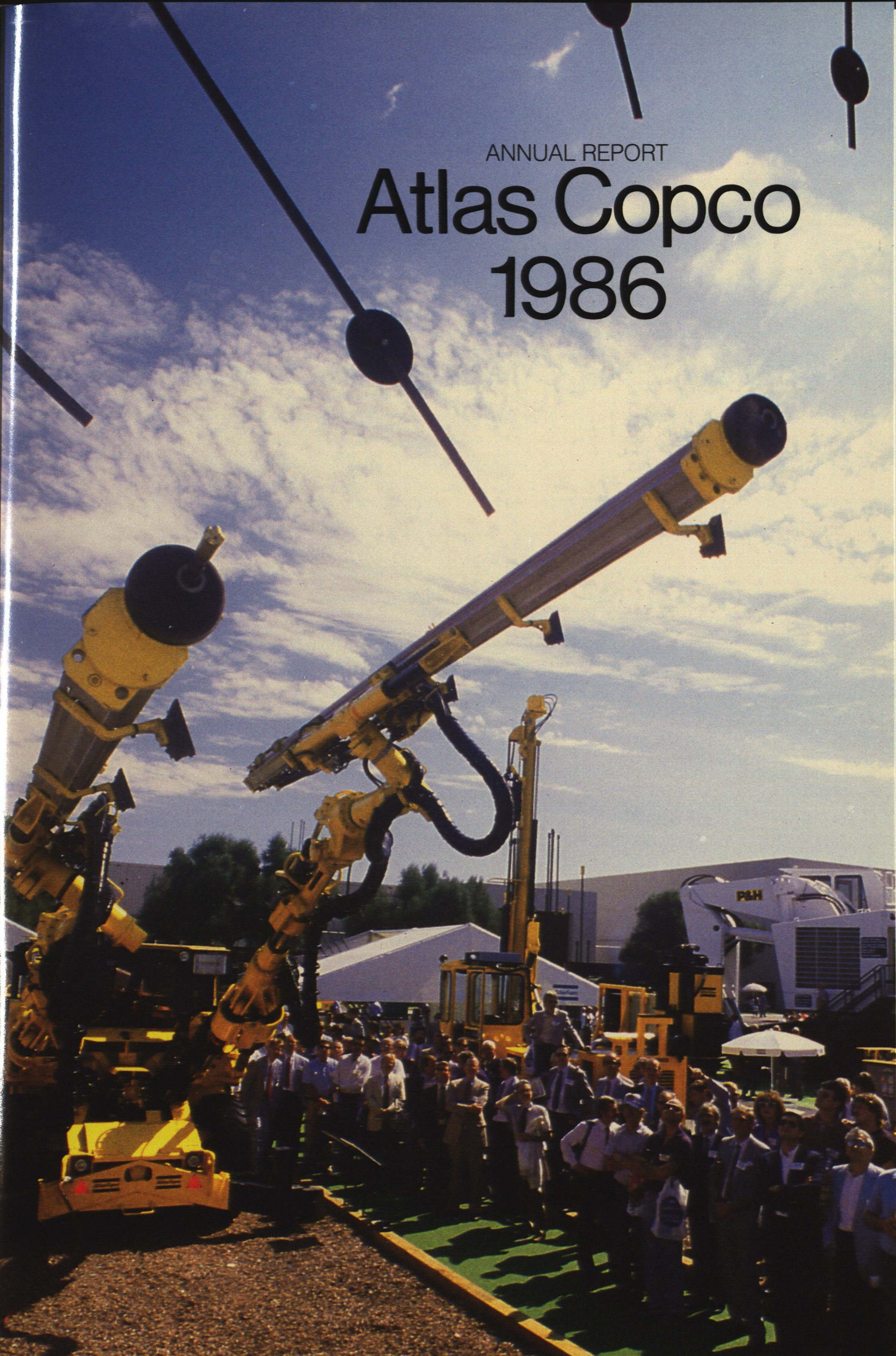
ANNUAL REPORT

# Atlas Copco
# 1986



ATLAS COPCO AB
Mail address: S-105 23 Stockholm, Sweden
Head Office: Sickla Industriväg 3, Nacka (Stockholm)
Tel: Int + 46 8 743 80 00
Fax: Int + 46 8 44 90 45
Tlx: 14090 copco s

**CONTENTS**



**FINANCIAL INFORMATION FROM ATLAS COPCO**

Atlas Copco will publish the following financial reports for 1987:

| | |
|---|---|
| Group President's report at the Annual General Meeting | April 28 |
| Three-month Interim Report | Mid-May |
| Six-month Interim Report | End of August |
| Nine-month Interim Report | Mid-November |
| Year-end Report on 1987 Operations | February 1988 |
| Annual Report 1987 | April 1988 |

*COVER PHOTO*

***Atlas Copco dramatically demonstrated its leading position as a supplier to the mining and construction industry at the International Mining Exhibition in Las Vegas. A number of new products were presented to the more than 10,000 visitors who toured Atlas Copco's exhibition area.***

Production: LGH Business Information
Design: Karlerik Lindgren AB
Printed in Sweden: Tryckcentra AB, Västerås 1987
Photo: Erik Svensson, Douglas Mesney

# 1986

## Sales

Invoiced sales increased by 3 percent to SEK 10,351 m. (10,062).

## Profit

Profit after financial items amounted to SEK 730 m. (828).

## Investments

Total investments amounted to SEK 570 m., including expansion of Airpower's main factory in Belgium

## New products

Portable power generators compressors with electronic control systems, fully automatic tunneling rigs and new ergonomic tools with built-in electronics are several of the products introduced internationally during the year.

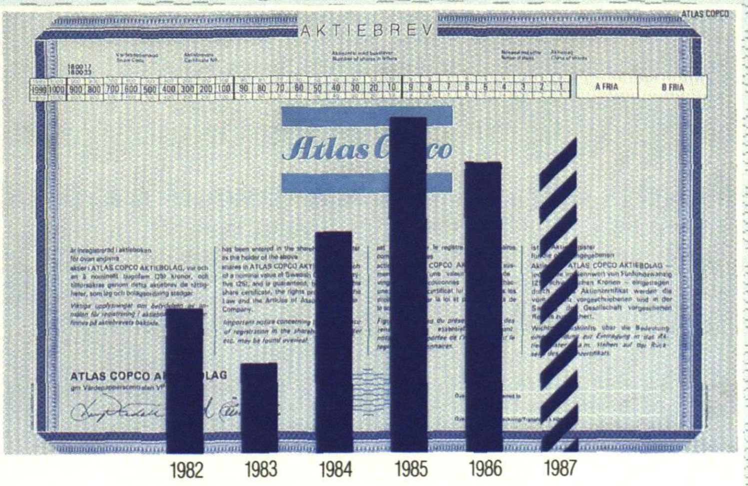
## Dividend and profit per share

The Board of Directors proposes a dividend of SEK 7.00 (6.50) per share. Profit per share was SEK 14.75 (17.05).

---

## Forecast

*Increased market shares, combined with the ongoing rationalization process, is expected to result in an improvement in earnings for 1987*




*Trend of profit per share*

# Atlas Copco today

ATLAS COPCO is now the world's leading company in most of the Group's traditional lines of business: compressors, mining and construction equipment, industrial automation and production equipment.

In recent years, the Atlas Copco Group has also become established in areas of technology that offer new opportunities for growth. These areas include gas compression, the mining of soft rock, including coal, and industrial automation.

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

Five divisions are responsible for developing, manufacturing and marketing. Manufacturing is conducted at 32 factories in 14 countries.

Atlas Copco has a well-established marketing organization which sells approximately 3,000 products and services to 250,000 registered customers through sales companies in more than 50 countries. In addition, the Group's products are sold through a network of independent distributors in another 85 countries. Atlas Copco International AB is responsible for sales of the Group's products in countries where Atlas Copco does not have its own sales companies.

In certain countries, Atlas Copco Tools, Berema and Monsun-Tison have established their own sales companies. This facilitates a more intensive focusing of sales efforts on markets and customer categories with major potential.

## Atlas Copco Airpower

Atlas Copco Airpower n v
Boomsesteenweg 957
B-2610 WILRIJK-ANTWERPEN
Belgium
Tel: Int + 32 38702111

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 economic and safe energy source in mines, quarries and the construction industry, on offshore platforms as well as for sandblasting,
- to provide factories with air for spray-painting, tool operation, automation, instrumentation, etc.,
- as an accessory in printing, packing, collating machines, etc.,
- for the production of industrial gases.

## Atlas Copco MCT

ATLAS COPCO MCT
Atlas Copco MCT AB
S-10484 Stockholm, Sweden
Tel: Int + 46 87438000

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

- to building and construction contractors for road and water works construction, tunneling, demolition, etc.,
- to customers engaged in surface and underground production drilling, drift mining, blasting, tunnel excavation, scaling, unloading and rock reinforcement.
- to the quarry industry as well as for coal and soft rock mining.

## Atlas Copco Tools

ATLAS COPCO TOOLS
Atlas Copco Tools AB
Box 81510
S-104 82 Stockholm, Sweden
Tel. Int + 46 87439500

The Division's business concept encompasses the development, manufacture and marketing of industrial tools and systems

- for material processing such as drilling, grinding, etc. in the mechanical engineering industry
- for engine 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 constructions.

## Monsun-Tison

MONSUN-TISON
Monsun-Tison AB
Box 817
S-50110 Borås, Sweden
Tel: Int + 4633161900

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

- such as electro-hydraulic control systems in forestry machines, excavating machines, cranes, etc.,
- pneumatic components for automation of equipment for the food processing and packaging industry, material handling, vehicles, etc.

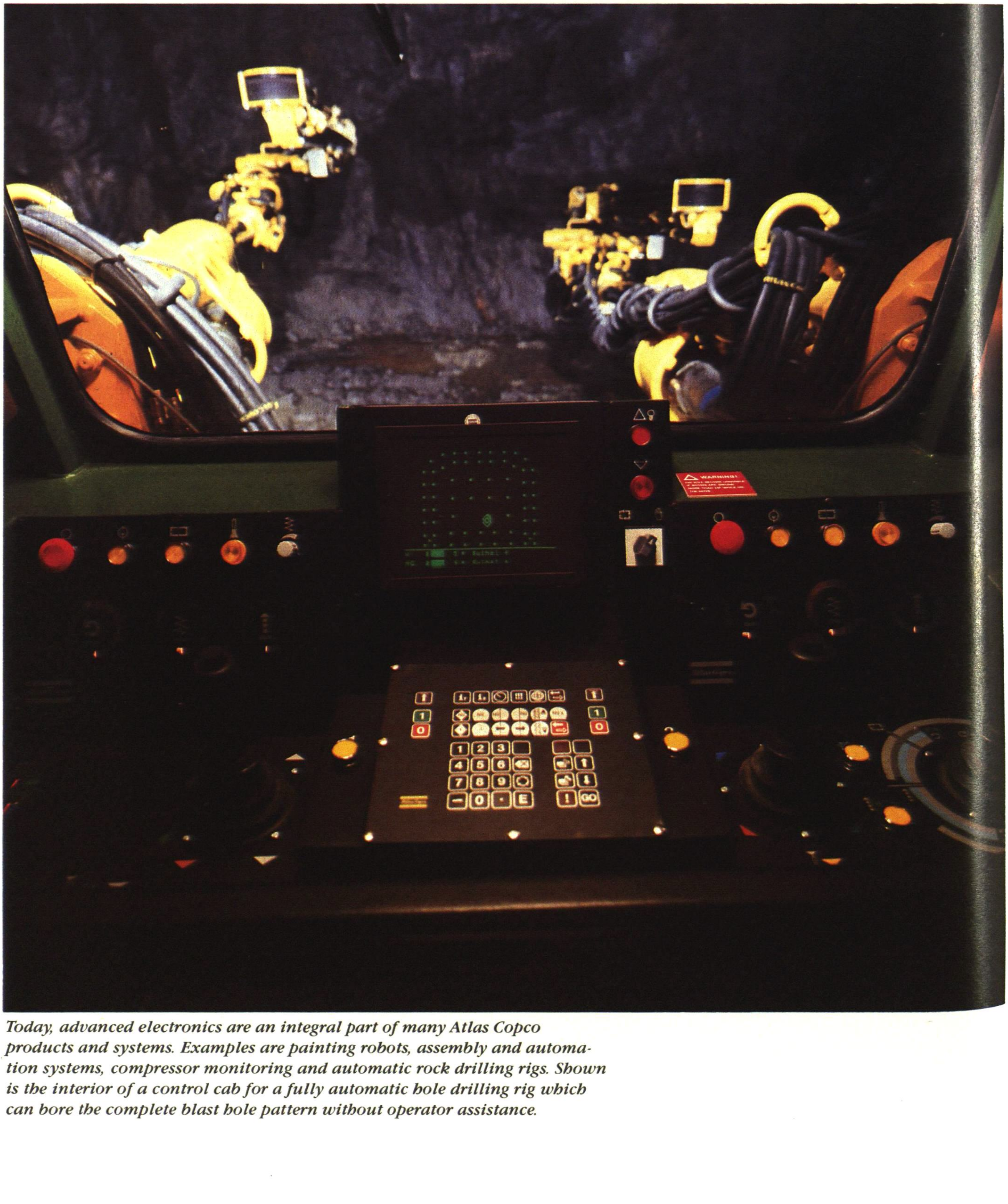
## Berema

BEREMA
Berema AB
Box 1286
S-17125 Solna, Sweden
Tel: Int + 468290170

Berema's business idea is based on

- the manufacture, marketing and distribution of light industrial products,
- acquiring and developing companies in related areas of interest to Atlas Copco and
- these companies should be leaders in their segment as well as operate independently under their own name.

Berema's customers are found in such sectors as light industrial contracting, municipal street and park administrations, railways, military and civil defence as well as water drilling. The Berema group also includes stainless steel products for commercial kitchens and the construction industry, filters for gas masks and air filters for vehicles, pressing equipment for Compact Discs as well as geophysical and industrial measuring equipment.



*Today, advanced electronics are an integral part of many Atlas Copco products and systems. Examples are painting robots, assembly and automation systems, compressor monitoring and automatic rock drilling rigs. Shown is the interior of a control cab for a fully automatic hole drilling rig which can bore the complete blast hole pattern without operator assistance.*

# Board of Directors' report on 1986 operations

*SEK millions unless otherwise noted*

## THE ATLAS COPCO GROUP

***Invoiced sales of the Atlas Copco Group in 1986 amounted to SEK 10,351 m. a net increase of 3 percent over sales of SEK 10,062 m. in the preceding year. Markets outside Sweden account for 91 percent of invoiced sales.***

***Order bookings rose 2 percent to SEK 10,629 m. (10,400)*.***

***Earnings of the Atlas Copco Group, after financial income and expense, but before extraordinary items, appropriations and taxes, declined 12 percent to SEK 730 m. (828), equal to 7.1 percent (8.2) of invoicing.***

| | 1986 | 1985 |
|---|---|---|
| Invoicing | 10,351 | 10,062 |
| Order bookings | 10,629 | 10,400 |
| Value increase, % | +2 | +9 |
| Volume increase, % | +3 | +3 |
| Profit after financial items | 730 | 828 |

* *Figures in parentheses pertain to 1985 operations.*

### DIVIDEND AND FORECAST

*The Board of Directors proposes a dividend of SEK 7.00 (6.50) per share.*

*For 1987, Management expects that marketing efforts made during 1986 and planned for 1987 will result in an increase in market shares. Combined with the favorable effect of rationalization measures under way, this is expected to lead to an improvement in earnings. However, exchange rates and government decisions may have a disruptive effect.*

### MARKET DEVELOPMENT

Output of *manufacturing industries* in Western Europe increased during 1986. Production stagnated in the United States and Japan, however, and in most of the developing countries.

The effect of falling oil prices and interest rates varied among countries and industries during the year. However, the total impact on the world economy has been favorable, resulting in lower inflation, among other benefits.

Atlas Copco industrial compressors, which are used in plants in all industries to supply compressed air for energy transfer and for process and instrument use, recorded major successes particularly in France, Italy, United States and Brazil. Gas compressors also experienced an increase in demand on industrial markets. In addition, sales of tools and assembly systems increased, notably to the engineering industry in West Germany, Italy and Sweden. Sales to industrial customers now constitute 50 percent of total Group invoicing.

An upturn was noted during the year in the *building and construction sector* in industrialized countries, following several years of recession. However, markets in the developing countries were characterized by continuing stagnation. The decisive factors were increased and decreased spending, respectively, in the public sector, which directly or indirectly finances the major share of the construction market.

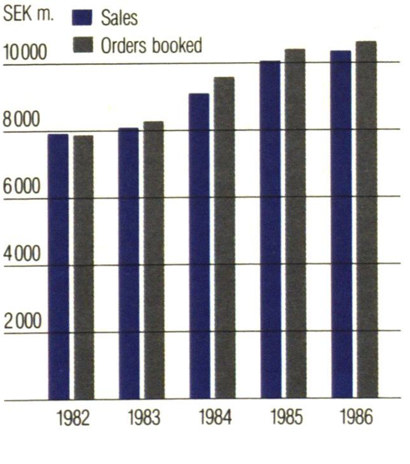
There was a notable increase in sales of rock drilling equipment for surface mining applications and sales of portable compressors. Demand was particularly strong in France, Norway, Switzerland and Brazil. Western Europe currently accounts for more than 50 percent of Group sales to the building and construction market. This market accounts for approximately 38 percent of total invoicing.

World mineral production has stagnated, primarily as a result of a decrease in the consumption of raw materials by today's growth industries compared with traditional industries. This has contributed to the unwillingness in the *mining industry* to invest. During 1986, however, production continued to increase in certain developing countries that are dependent on ore exports as a main source of income. The Group increased its sales to the gold and copper mining industries in southern Africa and Latin America. The mining industry accounts for approximately 12 percent of total Group invoicing.

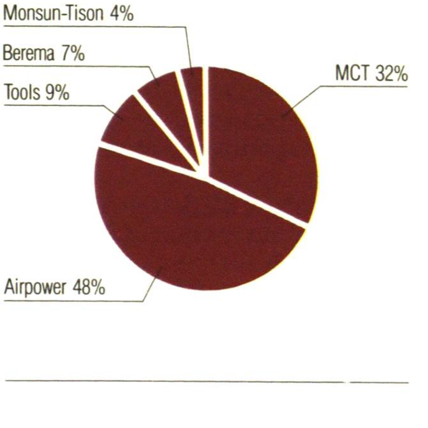
#### *SALES COMPANIES*

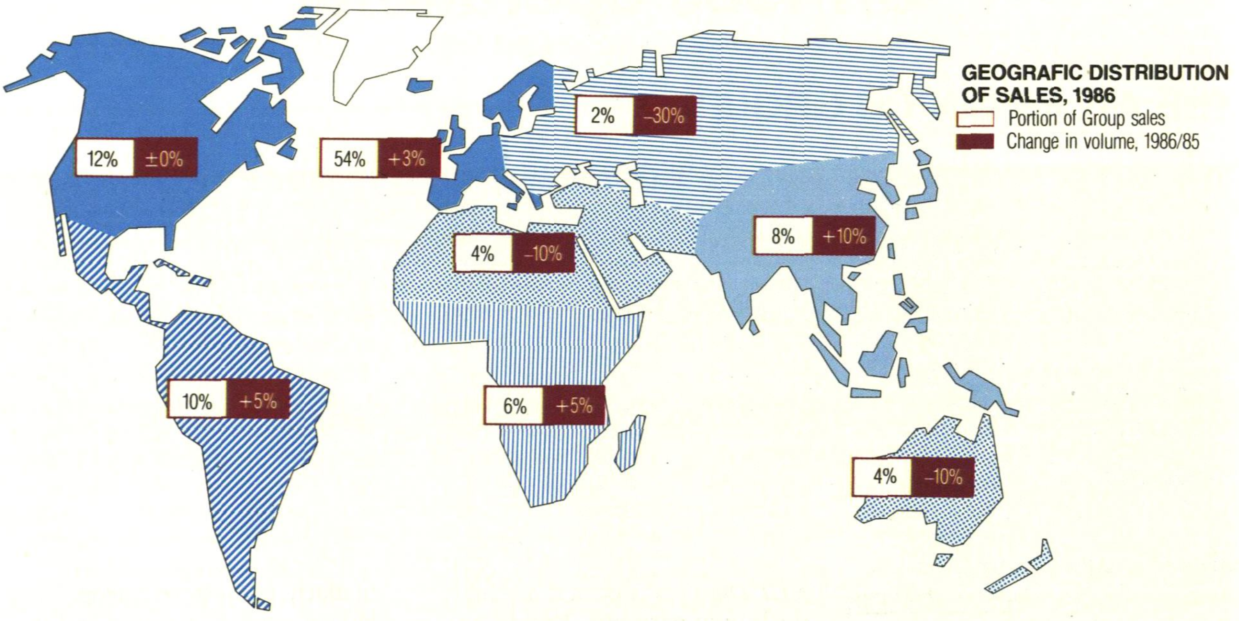
With its global sales organization, Atlas Copco has developed a very strong position and is the leading supplier in the industry on most markets.

**SALES AND ORDERS BOOKED**




**SALES BY DIVISION**






Invoiced sales increased by 3 percent in 1986. This reflects the situation in which rising exchange rates in certain countries could not offset decreasing exchange rates on major markets in which the local currency is linked strongly to the US dollar. If the average exchange rates in Group markets had remained at the 1985 level, invoiced sales to end-customers, expressed in SEK would have been 6 percent higher.

The percentage distribution of sales during 1986 is shown on the accompanying world map. The trend during the 1980s shows a sharp shift in sales towards Western Europe and East Asia. Sales in most of the developing countries in Latin America, Africa and the Middle East have decreased, however.

In Western Europe, where the trend was favorable during 1986, the sales companies in France, Italy, Sweden, Norway and Spain reported the largest sales successes. In markets outside Europe, the sales companies in Brazil, China and southern Africa reported a substantial growth in sales.

In the four major European countries – West Germany, France, Italy and Great Britain – the Group has relatively large market shares, while they are still limited in the United States and Japan, except for certain product lines. These six countries account for 60 percent of the world market and, consequently, represent significant future growth potential. The Group has large market shares in most of the developing countries and medium-sized industrial countries, in addition to the major mining markets: Canada, Australia and southern Africa.

A restructuring of sales operations in Sweden has now been completed. The Swedish sales company transferred its operations at year-end to the MCT and Tools Divisions and to a newly established company, Atlas Copco Compressor AB, which will be responsible for sales of stationary compressors. In connection with this change, the equipment leasing operations of HAMEK AB were sold.

## EARNINGS

| | 1986 | 1985 |
|---|---|---|
| **Profit margin, %** | 7.1 | 8.2 |
| **Return on capital employed, %** | 16.0 | 18.9 |
| **Return on risk-bearing equity capital, %** | 13.8 | 15.8 |

*For definitions, see page 20.*

Earnings after financial income and expense for the Atlas Copco Group amounted to SEK 730 m. (828). The profit margin was 7.1 percent (8.2). Earnings per share after standard tax amounted to SEK 14.75 (17.05). After full tax, earnings per share were SEK 16.15 (17.35).

Pretax return on capital employed decreased from 18.9 percent to 16.0 percent, which is more than 5 percentage units above the average interest rate in the countries in which the Group operates. Return on risk-bearing equity capital, after tax, amounted to 13.8 percent (15.8).

Despite a three-percent increase in sales volume, earnings and return on capital employed as well as equity capital did not reach 1985 levels.

The main underlying factor was the unfavorable trend in exchange rates for the Group.

A substantial proportion of the Group's manufacturing takes place in countries which experienced an increase in the exchange rates during 1986, notably Belgium and West Germany. A major share of Group sales is, however, carried out in countries whose currencies are linked to the US dollar and the British pound which declined in value during the year.

This resulted in lower gross margins on many important markets, and this could not be offset by price increases or cost reductions in the manufacturing and sales channels.

Rationalization of production, as well as the restructuring of the

EARNINGS AND RETURN BY DIVISION

| | Earnings[1] (SEK m.) | | Return[2] (percent) | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Airpower | 431 | 450 | 19 | 22 |
| MCT | 118 | 185 | 10 | 15 |
| Tools | 108 | 91 | 23 | 22 |
| Berema | 26 | 47 | 10 | 16 |
| Monsun-Tison | 47 | 55 | 22 | 31 |
| Total | 730 | 828 | 16 | 19 |

[1] After net financial items
[2] On capital employed.

SALES AND EARNINGS BY QUARTER

| | Sales | | Earnings | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Quarter 1 | 2,264 | 2,347 | 197 | 202 |
| Quarter 2 | 2,687 | 2,656 | 227 | 220 |
| Quarter 3 | 2,390 | 2,303 | 101 | 123 |
| Quarter 4 | 3,010 | 2,756 | 205 | 283 |
| Total | 10,351 | 10,062 | 730 | 828 |

organization, required large investments, particularly in the Airpower and Berema Divisions.

Cost depreciation increased by SEK 47 m. as a result of the increased level of investments during the year.

Net interest expense was sharply lower, compared with the preceding year, due to a combination of lower interest rates and increasingly active cash and currency management. Exchange rate differences amounted to SEK 0.2 m. (–11).

Extraordinary items, amounting to a net loss of SEK 65 m., comprises mainly capital losses on fixed assets and restructuring expenses for gas and processing operations in West Germany.

The Tools Division reported continuing improvements in earnings. Monsun-Tison and Airpower largely maintained their high levels of earnings, whereas MCT and the Berema Divisions failed to attain the earnings of the preceding year.

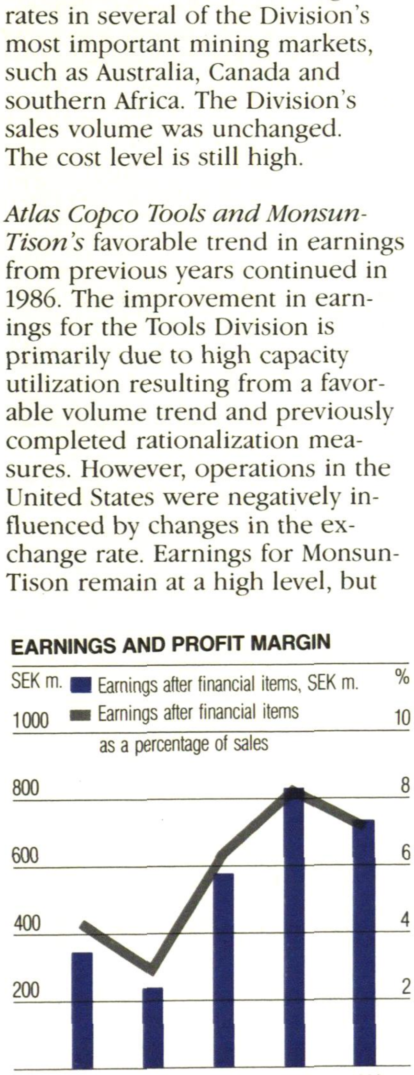
*The Airpower Division* accounted for approximately 50 percent of Group earnings. As result of the high sales volume, combined with the extensive modernization and automation program carried out at the Arpic factory in Belgium, earnings were maintained at the same level as in the preceding year, despite the strong negative effect of exchange rate fluctuations during the year on the Division's earnings.

Earnings were also negatively affected by restructuring costs for the gas and process operations. The facilities in Saarbrücken, West Germany, were sold.

*MCT Division* reported a sharp decline in earnings. The decrease is primarily attributable to the unfavorable trend of exchange rates in several of the Division's most important mining markets, such as Australia, Canada and southern Africa. The Division's sales volume was unchanged. The cost level is still high.

*Atlas Copco Tools and Monsun-Tison's* favorable trend in earnings from previous years continued in 1986. The improvement in earnings for the Tools Division is primarily due to high capacity utilization resulting from a favorable volume trend and previously completed rationalization measures. However, operations in the United States were negatively influenced by changes in the exchange rate. Earnings for Monsun-Tison remain at a high level, but are slightly lower than in 1985, when a large, one-time order was delivered.

EARNINGS AND PROFIT MARGIN




The *Berema Group's* earnings for light industrial products remained satisfactory. However, the continuing substantial development and restructuring costs for Toolex Alpha and Atlas Copco Energy reduced Group's earnings, compared with the preceding year.

Many *sales companies* were able to increase their earnings due to the higher sales volume, particularly in Western Europe. The largest gains were recorded in France, Italy, Norway, Portugal, Spain and West Germany.

In other markets, Brazil shows continuing high earnings.

Markets with weak earnings were Great Britain, the United States, Argentina, Japan and Iran.

Two small production units in Mexico and Spain were sold during the year.

## FINANCING

| | 1986 | 1985 |
|---|---|---|
| **Net interest expense** | **–116** | **–193** |
| **Degree of self financing, %** | **135** | **207** |
| **Share of risk-bearing equity capital, %** | **41.8** | **40.6** |

The Group's liquid funds decreased during 1986 by SEK 208 m., amounting to SEK 1,210 m. (1,418) at year-end. Granted but not utilized credits in Swedish and foreign banks totaled SEK 1,718 m. (1,705).

Funds generated from operations amounted to SEK 682 m (671). This exceeded the Group's financing requirements for investments in fixed assets, which amounted to SEK 520 m (329). Of this amount, expenditures for property, machinery and equipment accounted for SEK 507 m. (325) and shares and participations for SEK 10 m. (1).

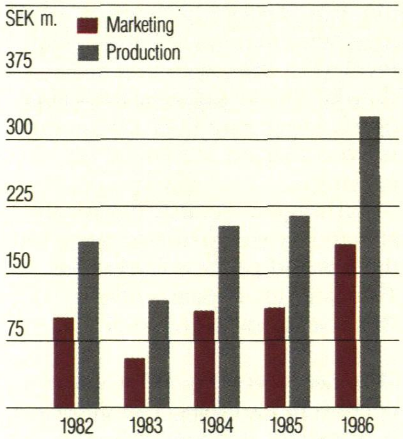
Trade receivables and notes receivables increased by SEK 168 m. (13) to SEK 2,052 m. (1,884) at year-end, or 20 percent (19) of invoicing. Inventories increased slightly, expressed in monetary values, to SEK 3,029 m. (2,897), but in relation to invoicing, remained at an unchanged level corresponding to 29 percent of invoiced sales. The rate of capital turnover was 1.15 (1.18).

Including the effect of exchange rate fluctuations and an increase in the pension liabilities, interest-bearing debt increased by SEK 88 m., as against a decrease of SEK 94 m. in 1985. Net interest expense continued to improve and amounted to SEK 116 m. (193). The change was due partly to more favorable interest rates as well as a considerably more active management of liquid funds. Capital gains, resulting from transactions in Swedish bonds, totaled SEK 37 m. Net interest payments corresponded to 1.1 percent (1.9) of invoicing.

With an aim to capitalize on favorable international interest rates and simultaneously create a flexible credit source for the Group, a Eurocommercial Paper Program in the amount of USD 50 m. was established during the year. Use of this facility contributed to decreasing the Group's interest expense during 1986.

During 1986, Atlas Copco entered into a swap agreement to

**INVESTMENTS IN MACHINERY AND BUILDINGS**




reduce the Group's exposure to exchange rate fluctuations. The agreement means that CHF 23.5 m. was exchanged for a corresponding loan in USD.

## INVESTMENTS

| | 1986 | 1985 |
|---|---|---|
| **Investments in machinery and building** | **507** | **325** |
| **Sweden** | **132** | **95** |
| **Outside Sweden** | **375** | **230** |
| **Total, as a percentage of invoiced sales** | **4.9** | **3.2** |

Total investments in buildings and machinery in 1986 amounted to SEK 507 m. (325). Of this amount, production facilities accounted for SEK 330 m. (214) and SEK 177 m. (111) was invested in marketing operations.

Modernization and rationalization of plants, warehouses and offices continued and the on-going program to improve EDP facilities accounted for a major share of investments in 1986.

Expansion and modernization of Airpower's factory in Antwerp continued. A new factory building was completed during the year for the subsidiary in India.

During the autumn of 1986, construction began for a new plant at Hemel Hempstead in Great Britain, as well as an expansion of Monsun-Tison's production facilities in Falköping, Sweden.

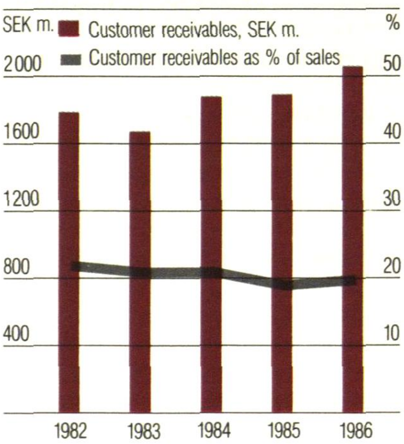
## RESEARCH AND DEVELOPMENT

| | 1986 | 1985 |
|---|---|---|
| **Number of employees directly involved in R&D** | **724** | **735** |
| **Direct investments in R&D operations** | **321** | **312** |

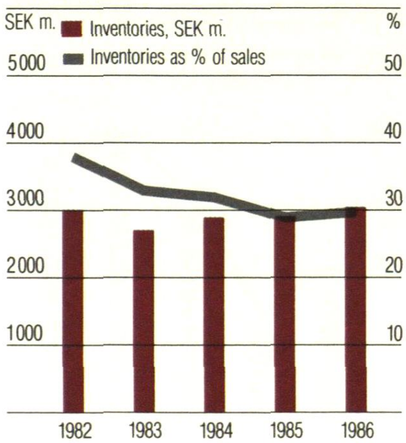
During 1986, research and development efforts focused increasingly on industrial manufacturing technology.

Integration of electronic monitoring and control into various products continued to be given high priority in the technical development program carried out during 1986.

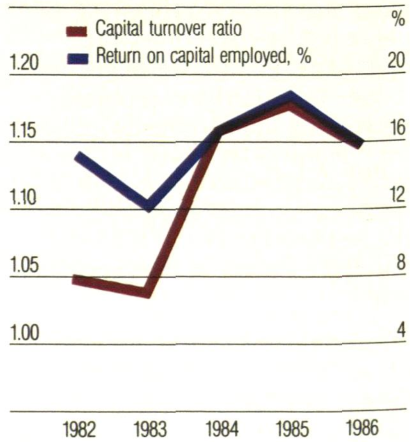
**CUSTOMER RECEIVABLES**




**INVENTORIES**




**CAPITAL TURNOVER RATIO AND RETURN**



To further broaden the application areas for compressed air, a certain amount of work has been devoted to drying and separation technology. Improved technology in these areas will permit the increased use of compressed air in various process industries.

Compressed air technology still has substantial development potential in many applications. One example, in combination with hydraulics, are the new hand-held percussion nutrunners from the Tools Division. This technology contributes to improved performance and work ergonomics.

The rapid pace of technical and scientific developments and the need for inter-disciplinary solutions have increased the demand for a broad technical perspective. Consequently, contact with outside research institutes, universities and technical colleges has been increased both in Sweden and abroad.

A decision was made to withdraw SEK 19 m. from the development fund for the financing of special development projects.

### PERSONNEL

| | 1986 | 1985 |
|---|---|---|
| **Average number of employees** | 16,498 | 16,659 |
| Head Office | 65 | 68 |
| Sales Companies | 9,088 | 9,125 |
| Divisions | 7,345 | 7,466 |

During the year an alignment of operations to the declining markets was made in the oil-producing countries, resulting in personnel reductions in the affected sales companies.

The number of employees was 16,424 at year-end.

Wages, salaries and other remunerations:

| Atlas Copco Group | 1986 | 1985 |
|---|---|---|
| Directors and senior executives | 61.6 | 58.6 |
| Other employees | 2,036.6 | 1,932.5 |
| Total | 2,098.2 | 1,991.1 |

## 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 does not have its own sales companies, had sales of SEK 453 m. (334) in 1986.

The increase is attributable primarily to a major delivery of drill rigs to the Soviet Union.

Atlas Copco Management Consulting AB, which sells its services within the Group, had sales of SEK 116 m. (110).

The Parent Company's net interest expense improved by SEK 33 m., mainly as the result of decreased borrowing. Lower interest rates, falling USD and a more active money and currency management also contributed to the net interest improvement.

Exchange rate differences amounted to a total of SEK 3 m. (43).

Dividends from subsidiaries totaled SEK 192 m. (111), and were attributable exclusively to companies outside Sweden.

The Parent Company's purchases from subsidiaries accounts 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 declined from SEK 894 m. to SEK 787m.

Atlas Copco Försäkrings AB and Oy Atlas Copco Finland Ab were formed during the year. The latter company is 80-percent owned by the Parent Company.

The Parent Company acquired all of the shares outstanding in Atlas Copco Leasing AB.

Increases in share capital were effected during the year in Monsun-Tison AB, Berema AB, Atlas Copco Compressor AB and Atlas Copco Maroc SA.

During the year Atlas Copco ABEM AB was transferred to Berema AB, and Atlas Copco MCT (GmbH), West Germany, to Atlas Copco Holding GmbH, West Germany.

### PERSONNEL

The average number of employees in the Parent Company during the year was 65 (68). The average number of employees in Atlas Copco International was 102 (110), and in Atlas Copco Management Consulting, 196 (195).

Salaries, wages and other remunerations:

| Parent Company | 1986 | 1985 |
|---|---|---|
| Directors and senior executives including bonus payments of 3.9 (2.9) | 7.9 | 6.3 |
| Other employees | 73.5 | 67.5 |
| Total | 81.4 | 73.8 |

### CONVERTIBLE DEBENTURE LOAN

The Board of Directors has decided to propose that the Annual General Meeting approve the issue of a convertible debenture loan, for subscription by employees in Sweden and certain personnel in decision-making positions in the Atlas Copco Group as well as the members elected by the Meeting to the Board of Directors of Atlas Copco AB.

The loan will provide the opportunity to subscribe for debenture certificates on terms to be presented to the Annual General Meeting for approval. A specific description of the convertible debenture loan is presented on page 54.

# Consolidated income statement

*Amounts in SEK m.*

| | | 1986 | 1985 |
|---|---|---|---|
| Operating income | Invoiced sales | 10351,4 | 10 062.0 |
| Operating expense | Cost of goods sold, technical development, sales, administration, etc (NOTE 1) | – 9274,9 | – 8 852.7 |
| **Operating profit before depreciation** | | 1 076,5 | 1 209.3 |
| Cost depreciation (NOTE 2) | Goodwill | – 5,5 | – 4.6 |
| | Machinery and equipment | – 184,8 | – 143.5 |
| | Buildings | – 42,2 | – 37.2 |
| **Operating profit after depreciation** | | 844,0 | 1 024.0 |
| Financial income and expense | Interest received | 262,8 | 235.6 |
| | Interest paid (NOTE 3) | – 378,9 | – 428.6 |
| | Dividends received | 2,2 | 7.9 |
| | Foreign exchange differences (NOTE 4) | 0,2 | – 10.8 |
| **Profit after financial income and expense** | | 730,3 | 828.1 |
| | Extraordinary income and expense (NOTE 5) | – 65,4 | 98.0 |
| **Profit before appropriations and taxes** | | 664,9 | 926.1 |
| Appropriations (NOTE 6) | | – 92,2 | – 215.4 |
| **Profit before taxes** | | 572,7 | 710.7 |
| Taxes (NOTE 7) | | – 223,2 | – 304.2 |
| Minority interest (NOTE 8) | | – 19,3 | – 14.2 |
| ***NET PROFIT*** | | 330,2 | 329.3 |

# Consolidated balance sheet

*Amounts in SEK m.*

| ASSETS | | Dec. 31 1986 | | Dec. 31 1985 | |
|---|---|---|---|---|---|
| Current assets | Cash, bank and short-term investments (NOTE 9) | 1 209.8 | | 1 417.8 | |
| | Receivables (NOTE 10) | 2716.4 | | 2 389.6 | |
| | Inventories (NOTE 11) | 3029.3 | 6955.5 | 2 896.8 | 6 704.2 |
| Blocked accounts in Bank of Sweden (NOTE 12) | | | 43.6 | | |
| Fixed assets | Shares and participations (NOTE 13) | 36.7 | | | |
| | Goodwill (NOTE 14) | 7.7 | | 9.7 | |
| | Long-term receivables (NOTE 15) | 332.4 | | 260.6 | |
| | Construction work in progress | 39.2 | | 37.2 | |
| | Machinery and equipment (NOTE 16) | 808.0 | | 658.1 | |
| | Buildings (NOTE 17) | 825.3 | | 738.3 | |
| | Land (NOTE 18) | 214.0 | 2263.3 | 191.8 | 1 922.9 |
| *TOTAL ASSETS* | | | 9262.4 | | 8 674.5 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
|---|---|---|---|---|---|
| Current liabilities | *Non-interest bearing liabilities* | | | | |
| | Notes payable | 145.2 | | 165.6 | |
| | Suppliers | 667.7 | | 602.4 | |
| | Provision for taxes | 169.3 | | 204.8 | |
| | Accrued expenses and prepaid income | 479.8 | | 462.1 | |
| | Other short-term liabilities | 683.7 | | 532.2 | |
| | *Interest-bearing liabilities* | | | | |
| | Bank loans and notes payable | 1 148.5 | | 975.9 | |
| | Current portion of long-term liabilities | 257.6 | | 337.5 | |
| | Other short-term liabilities | 50.4 | 3602.2 | 11.1 | 3 291.6 |
| Long-term liabilities | *Non-interest bearing liabilities* | | | | |
| | Other long-term liabilities | 88.3 | | 112.2 | |
| | *Interest-bearing liabilities* | | | | |
| | Debenture and bond loans (NOTE 19) | 290.1 | | 291.1 | |
| | Mortgage and other long-term loans (NOTE 19) | 740.4 | | 848.8 | |
| | Provision for pensions (NOTE 20) | 674.4 | 1793.2 | 609.2 | 1 861.3 |
| *TOTAL LIABILITIES* | | | 5395.4 | | 5 152.9 |
| Untaxed reserves (NOTE 21) | | | 856.0 | | 739.5 |
| Minority interest (NOTE 8) | | | 127.9 | | 139.4 |
| Shareholders' equity | *Restricted equity* | | | | |
| | Share capital (PAGE 56) | 586.5 | | 586.5 | |
| | Restricted reserves (NOTE 27) | 1543.0 | 2129.5 | 1 230.2 | 1 816.7 |
| | *Unrestricted equity* | | | | |
| | Retained earnings (NOTE 28) | 423.4 | | 433.7 | |
| | Net profit for the year | 330.2 | 753.6 | 392.3 | 826.0 |
| *TOTAL SHAREHOLDERS' EQUITY* | | | 2883.1 | | 2 642.7 |
| *TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY* | | | 9262.4 | | 8 674.5 |

| | | | |
|---|---|---|---|
| Assets pledged (NOTE 29) | | 391.4 | 485.5 |
| Contingent liabilities (NOTE 30) | Notes discounted | 94.8 | 103.5 |
| | Other contingent liabilities | 611.8 | 593.8 |

# Statements of changes in financial position

*Amounts in SEK m.*

| | | GROUP | | ATLAS COPCO AB | |
|---|---|---|---|---|---|
| | | 1986 | 1985 | 1986 | 1985 |
| **SOURCES OF FUNDS** | | | | | |
| | Internal funds supplied* | 682.0 | 670.6 | 240.0 | 170.8 |
| | Sales of fixed assets | 54.8 | 201.0 | 4.0 | 242.3 |
| | Increase in long-term liabilities | – | 17.6 | – | – |
| | Minority interest in shareholder's equity | – 11.9 | – 0.9 | – | – |
| | Translation differences [1] | 34.3 | – 59.5 | – | – |
| | Expired share rights sold | 1.3 | – | 1.3 | – |
| *TOTAL FUNDS SUPPLIED* | | 760.5 | 828.8 | 245.3 | 413.1 |
| **APPLICATION OF FUNDS** | Investments in property, plant and equipment | 506.6 | 324.7 | 23.1 | 6.4 |
| | Investments in shares and participations | 9.5 | 1.2 | 68.7 | 220.9 |
| | Goodwill acquired | 3.5 | 2.8 | – | – |
| | Increase in long-term receivables | 71.8 | 38.5 | 27.2 | 210.2 |
| | Decrease in long-term liabilities | 68.1 | – | 112.1 | 111.6 |
| | Reserves transferred to subsidiaries | – | – | 14.8 | 4.8 |
| | Dividend from Parent Company | 152.5 | 105.6 | 152.5 | 105.6 |
| | Dividend to minority interests in subsidiaries | 7.8 | 8.0 | – | – |
| *TOTAL FUNDS APPLIED* | | 819.8 | 480.8 | 398.4 | 659.5 |
| *CHANGE IN WORKING CAPITAL* | | – 59.3 | +348.0 | –153.1 | – 246.4 |
| | Change in inventories | + 132.5 | + 12.5 | + 4.3 | + 3.2 |
| | Change in short-term receivables | + 326.8 | + 32.9 | + 182.8 | – 159.4 |
| | Change in short-term liabilities | – 310.6 | + 16.2 | – 233.4 | – 239.4 |
| | Change in liquid funds | – 208.0 | + 286.4 | – 106.8 | + 149.2 |
| *TOTAL CHANGE* | | – 59.3 | + 348.0 | – 153.1 | – 246.4 |
| ***) Internal funds supplied** | | | | | |
| | Profit before appropriations and taxes | 664.9 | 926.1 | 224.5 | 229.9 |
| | Depreciation | 232.5 | 185.3 | 7.5 | 6.6 |
| | Capital gain/loss on fixed assets sold | 4.0 | – 98.0 | – 0.1 | – 71.6 |
| | Intra-group transfers | – | – | 7.8 | 42.8 |
| | Taxes | – 223.2 | – 304.2 | – 8.0 | – 14.0 |
| | Withdrawals/deposit from blocked accounts | 3.8 | – 38.6 | 8.3 | – 22.9 |
| | | 682.0 | 670.6 | 240.0 | 170.8 |

[1] 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 – 43.2 m.

# Income statement

*Amounts in SEK m.*

| | | 1986 | 1985 |
|---|---|---|---|
| Operating income | Invoiced sales | 568.9 | 444.0 |
| | Commissions etc. from subsidiaries | 166.9 | 122.6 |
| Operating expense | Cost of goods sold, technical development, sales, administration, etc. | – 740.4 | – 570.2 |
| **Operating profit before depreciation** | | – 4.6 | – 3.6 |
| Cost depreciation (NOTE 2) | Machinery and equipment | – 5.2 | – 4.7 |
| | Buildings | – 2.2 | – 1.9 |
| **Operating profit after depreciation** | | – 12.0 | – 10.2 |
| Financial income and expense | Dividends received from subsidiaries | 192.3 | 111.4 |
| | Interest paid to/received from subsidiaries, net | – 14.6 | – 11.8 |
| | Interest received (excluding subsidiaries) | 158.9 | 140.5 |
| | Interest paid (excluding subsidiaries) (NOTE 3) | – 104.3 | – 121.9 |
| | Dividends received (excluding subsidiaries) | 1.1 | 7.0 |
| | Foreign exchange differences (NOTE 4) | 3.1 | 43.3 |
| **Profit after financial income and expense** | | 224.5 | 158.3 |
| | Extraordinary income and expense (NOTE 5) | – | 71.6 |
| **Profit before appropriations and taxes** | | 224.5 | 229.9 |
| Appropriations (NOTE 6) | | 9.2 | 14.6 |
| **Profit before taxes** | | 233.7 | 244.5 |
| Taxes (NOTE 7) | | – 8.0 | – 14.0 |
| ***NET PROFIT*** | | 225.7 | 230.5 |

# Balance sheet

*Amounts in SEK m.*

| ASSETS | | Dec. 31 1986 | | Dec. 31 1985 | |
|---|---|---|---|---|---|
| Current assets | Cash, bank and short-term investments (NOTE 9) | 786.9 | | 893.7 | |
| | Receivables (NOTE 10) | 507.1 | | 324.2 | |
| | Inventories | 37.6 | 1331.6 | 33.3 | 1 251.2 |
| Blocked accounts in Bank of Sweden (NOTE 12) | | | 16.7 | | 24.9 |
| Fixed assets | Shares and participants in subsidiaries (PAGE 29) | 1082.9 | | 1 017.4 | |
| | Shares and participations (excluding subsidiaries) (NOTE 13) (PAGE 29) | 16.8 | | 17.5 | |
| | Long-term receivables from subsidiaries | 293.7 | | 306.7 | |
| | Other long-term receivables (NOTE 15) | 252.2 | | 211.9 | |
| | Construction work in progress | 15.1 | | 10.6 | |
| | Machinery and equipment (NOTE 16) | 21.7 | | 21.2 | |
| | Buildings (NOTE 17) | 79.3 | | 69.1 | |
| | Land (NOTE 18) | 23.8 | 1785.5 | 23.7 | 1 678.1 |
| *TOTAL ASSETS* | | | 3133.8 | | 2 954.2 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
|---|---|---|---|---|---|
| Current liabilities | *Non-interest-bearing liabilities* | | | | |
| | Suppliers | 14.6 | | 18.9 | |
| | Provision for taxes | 3.3 | | 13.9 | |
| | Accrued expenses and prepaid income | 42.5 | | 42.4 | |
| | Other current liabilities | 95.8 | | 30.7 | |
| | *Interest-bearing liabilities* | | | | |
| | Liabilities to subsidiaries | 444.6 | | 381.2 | |
| | Current portion of long-term liabilities | 145.9 | | 161.5 | |
| | Advances from customers | 0.3 | | 1.4 | |
| | Other current liabilities | 136.3 | 883.3 | – | 650.0 |
| Long-term liabilities | *Interest-bearing liabilities* | | | | |
| | Debenture and bond loans (NOTE 19) | 290.1 | | 291.1 | |
| | Mortgage and other long-term loans (NOTE 19) | 102.3 | | 229.1 | |
| | Provision for pensions (NOTE 20) | 183.4 | 575.8 | 167.6 | 687.8 |
| *TOTAL LIABILITIES* | | | 1459.1 | | 1337.8 |
| Untaxed reserves (NOTE 21) | | | 84.4 | | 100.6 |
| Shareholders' equity | *Restricted equity* | | | | |
| | Share capital (23 460 500 shares, par SEK 25) | 586.5 | | 586.5 | |
| | Legal reserve (NOTE 27) | 598.4 | 1184.9 | 597.1 | 1183.6 |
| | *Unrestricted equity* | | | | |
| | Retained earnings (NOTE 28) | 179.7 | | 101.7 | |
| | Net profit for the year | 225.7 | 405.4 | 230.5 | 332.2 |
| *TOTAL SHAREHOLDERS' EQUITY* | | | 1590.3 | | 1515.8 |
| *TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY* | | | 3133.8 | | 2954.2 |

| | | | |
|---|---|---|---|
| Assets pledged (NOTE 29) | | 9.5 | 14.9 |
| Contingent liabilities (NOTE 30) | Guarantees and other liabilities, of which 596.6 (697.1) on behalf of subsidiaries | 818.6 | 927.4 |
| | Capital value of pension obligations | 28.3 | 25.5 |

# Notes to financial statements

*SEK millions unless otherwise noted*

## ACCOUNTING PRINCIPLES

**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 by disclosed. The Annual Report thus provides information on the following:

| | Page number |
|---|---|
| Company's structure – name, and legal headquarters<br>– Shares and participations in subsidiaries, percentage of ownership and ownership between companies | Cover, page 2<br>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, 43, 47, 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 developments costs for the company as a whole | Board of Directors' report, table on page 8 and NOTE 1, page 20 |
| Principles applied in transfer pricing | NOTE 11, page 23 |
| 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 16. Suffix: m. = millions.

**Principles of consolidation**

The consolidated income and balance sheet 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 participation in operating earnings from their operations.

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/divested during the year have been consolidated following or prior to the date of acquisition or divestment.

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 judged 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 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 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 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**
In a separate point, the FAR's proposed recommendations require that the users choose translation procedures according to their own specific situations. This pertains to classifying of the foreign subsidiaries as either independent or consolidated 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 consolidated 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, the 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).

The proposed recommendations also offer the user 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 earnings and balance sheets. Atlas Copco's equity in these companies is between 20 to 50 percent. Specification of the Group's shareholdings in these companies is provided in NOTE 13.

Including deductions for dividend shares and minority shares, the Group's portion of associated companies' earnings before appropriations and taxes amounted to SEK 7.0 m. (4.6). Atlas Copco's share of the associated companies' equity and untaxed reserves, including deduction for deferred taxes (50%), amounted to SEK 30.9 m. (22.8) at the end of the fiscal year.

**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 SEK 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 among other financial income and expense.

**The Swedish Industry and Commerce Stock Exchange Committee's recommendation on key ratio calculations**
Atlas Copco has chosen, as its principal alternative, to report profit 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, whereby the full-tax method is 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 appropriations for the year to untaxed reserves, among others. Certain of NBK's key ratios are also shown in NOTE 31.

**Exchange rates**

| | Currency | | Year-end-rate | | Average rate | |
|---|---|---|---|---|---|---|
| Country | Value | Code | 1986 | 1985 | 1986 | 1985 |
| Australia | 1 | AUD | 4.550 | 5.095 | 4.800 | 6.060 |
| Austria | 100 | ATS | 49.50 | 44.00 | 47.00 | 41.50 |
| Belgium | 100 | BEC | 16.80 | 15.10 | 15.90 | 14.50 |
| Brazil | 100 | BRC | 0.460 | 0.725 | 0.460 | 0.725 |
| Canada | 1 | CAD | 4.940 | 5.440 | 5.110 | 6.240 |
| Denmark | 100 | DKK | 92.00 | 84.50 | 88.00 | 81.50 |
| France | 100 | FRF | 100.50 | 100.50 | 103.00 | 96.00 |
| Great Britain | 1 | GRP | 10.975 | 10.450 | 11.080 | 11.020 |
| Hong Kong | 1 | HKD | 0.890 | 0.980 | 0.915 | 1.095 |
| India | 100 | INR | 52.00 | 62.50 | 56.60 | 69.00 |
| Italy | 100 | ITL | 0.500 | 0.451 | 0.477 | 0.450 |
| Japan | 100 | JPY | 4.260 | 3.725 | 4.204 | 3.596 |
| Mexico | 100 | MXP | 0.74 | 2.04 | 1.28 | 3.48 |
| The Netherlands | 100 | NLG | 309.00 | 274.00 | 291.00 | 260.50 |
| Norway | 100 | NOK | 91.50 | 100.50 | 96.50 | 100.00 |
| Peru | 100 | PEI[1)] | 0.490 | 0.545 | 0.510 | 0.885 |
| Portugal | 100 | PTE | 4.58 | 4.72 | 4.69 | 4.96 |
| South Africa | 1 | ZAR | 3.080 | 2.995 | 3.085 | 4.030 |
| Spain | 100 | ESP | 5.14 | 4.92 | 5.06 | 5.04 |
| Switzerland | 100 | CHF | 417.50 | 366.50 | 396.50 | 352.50 |
| U.S.A. | 1 | USD | 6.815 | 7.610 | 7.120 | 8.505 |
| Venezuela | 1 | VEB | 0.470 | 1.015 | 0.920 | 1.135 |
| West Germany | 100 | DEM | 349.50 | 308.50 | 328.50 | 293.50 |
| European Currency Unit | 1 | ECU | 7.25 | 6.75 | | |

1) 1985 rates shown under the then current symbol PES

# INTEREST AND CURRENCY RISKS

During the 1980s, currency and interest rates have fluctuated in manner unlike any experienced previously. Trends have been longer and more sustained than anyone could foresee, while at the same time the short-term swings have been larger.

For an internationally active company such as Atlas Copco, this situation has resulted in marked interest and currency risks.

**Interest risks**
Currently, the Atlas Copco Group has interest-bearing assets amounting to approximately SEK 1.2 billion, and interest-bearing debts totaling nearly SEK 3.2 billion. Both assets and liabilities carry interest risks.

Most of Atlas Copco's interest-bearing assets comprise liquid funds in Sweden. During the first nine months of 1986, for example, the interest rate in Sweden declined from about 12 percent to 9 percent. Atlas Copco would have experienced a sharp decline in return on these assets had they been placed in conventional bank accounts. To minimize the risk of incurring losses due to an eventual interest decline, a large portion of these liquid funds were placed in fixed rate securities, while the interest rate was still high. When the interest rate fell, the value of these securities increased. As a result, they could be sold at prices substantially higher than original purchase price. Through these transactions, the yield on liquid funds held in SEK was higher in 1986, compared with the applicable bank interest rate.

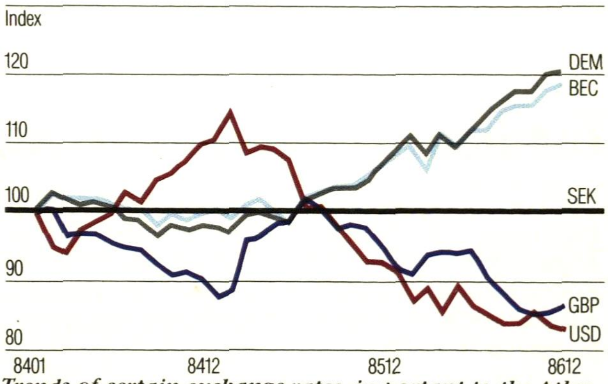
In terms of the Group's borrowing, analyses made in recent years indicate that interest levels will decline further. Consequently, an increasingly larger portion of the Group's loans with fixed interest rates have been replaced with floatingrate loans, which today provides increased flexibility to adjust to changes in the international interest rate level.

**Currency risks**
Changes in currency exchange rates effect not only the value of the Group's foreign assets and liabilities – which has an impact on the consolidated income statement and balance sheet in the form of exchange rate and translation differences – but also the Group's competitive situation in terms of cost advantages/disadvantages.

*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 in prior years. The exchange losses reported by the Company in recent years during a period of rising dollar rates were changed to unrealized exchange gains during the past two years.

*Currency effect on operations*
For example, Atlas Copco manufactures compressors in Belgium. Some of these are exported to the U.S. The total costs for these compressors at the point of sale in the U.S. consists of several parts:

**TRENDS OF EXCHANGE RATES**




***Trends of certain exchange rates, important to the Atlas Copco Group, in relation to SEK***

- ☐ material, manufacturing, sales and administrative costs in Belgium
- ☐ shipping costs and customs tolls in the U.S.
- ☐ marketing, sales and administrative costs in the U.S. plus components purchased locally.

The margin on sales of compressors in the U.S. is affected by costs denominated in USD and BEC. If the sales price is in cash, the effect of a weaker dollar is a decline in profit in the U.S.

Every increase in the sales price in USD depends on the competitive situation and the company's market position, which can limit the possibilities of offsetting cost increases through price adjustments.

**Minimizing and managing risk**
Forward contract sales of USD against BEC is one example of the measures which, in the short-term, can protect the Group from adverse currency fluctuations. If the weakening of the USD which occurred during the past year continues, Atlas Copco can, for example, increase production in the U.S. to reduce the currency risks, and also purchase more components in the U.S. Despite measures taken, the weakened USD has effected the profitability of Atlas Copco's sales in the U.S. during the past fiscal year.

However, the profitability of Atlas Copco's sales in Europe of products manufactured in Sweden was favorably effected by the strengthening of most European currencies against SEK.

Atlas Copco's total interest and currency risks are large and complex due to the Group's international structure. Changes in currency rates and interests can have a favorable effect on one Atlas Copco company, but be unfavorable for another. The effects can be short-term and/or long-term. To best deal with these effects, the Group is seeking to centralize this type of risk exposure. This provides several advantages:

- ☐ the inflow of a currency can be offset against the outflow in the same currency
- ☐ surplus funds in one company can be used to reduce borrowing in another company
- ☐ economies of scale and increased competence can be achieved for continuous monitoring and risk management.

Efforts will be intensified during 1987 to consolidate interest and currency risks. Group Finance will increasingly act as an internal bank to meet the subsidiaries' needs for currency exchanges, borrowing and cash management.

# CURRENT COST ACCOUNTING

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.

Current cost accounting aims at taking these price changes into consideration, both in the valuation of 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.

In valuation of assets, accounting based on current-cost is characterized by the fact that historical cost is abandoned in favor of other principles, 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.

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 cover both the income statement and the balance sheet. This facilitates a more complete analysis of actual profit, profitability and financial position, as well as certain adjusted key ratios.

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 focus 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 1986 amounting to SEK 622 m. (770).

This income figure is SEK 222 m. (254) 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 96 m. (102) more to purchase than they did at date of procurement. Income has also been charged with current cost depreciation that is SEK 126 m. (152) 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.

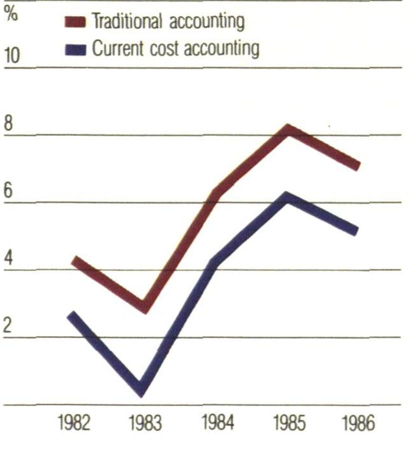
**Current cost-based income before financial items**

Price increases result in an increase in the value of the Company's assets. Price gains arise on products in inventory and on fixed assets.

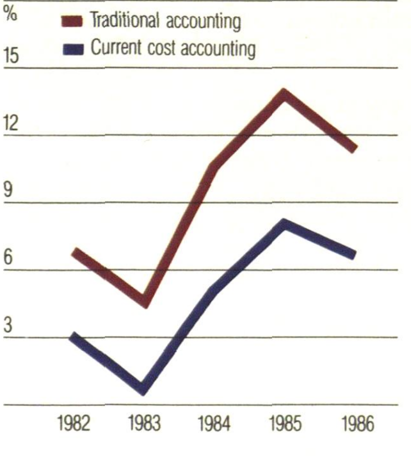
In accordance with traditional accounting, unrealized price gains should not be credited to income. In contrast, both unrealized and realized price gains should affect income in current cost-based accounting.

Atlas Copco's current cost-based income before financial items was SEK 796 m. (1,039). Price gains of SEK 84 m. (112) occurred on products in inventory and the fixed assets increased in value by SEK 90 m. (156).

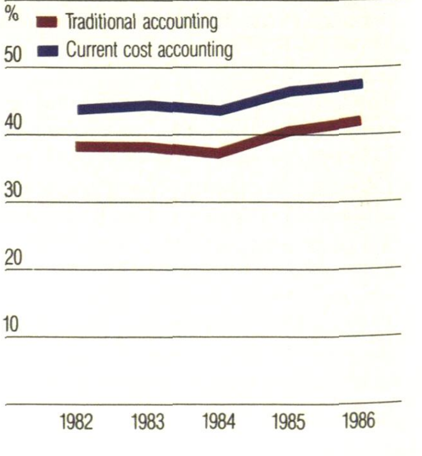
**PROFIT MARGIN**




**RETURN ON EQUITY**




**RATE OF RISK-BEARING EQUITY CAPITAL**



**Current cost income statement**

| | 1986 | 1985 |
|---|---|---|
| Invoiced sales | **10,351** | 10,062 |
| Current cost of goods sold | **–9,371** | –8,955 |
| Current cost depreciation | **– 358** | – 337 |
| Operating income | **622** | 770 |
| Price changes, inventory | **+ 84** | + 112 |
| Price changes, fixed assets | **+ 90** | + 157 |
| Operating income before financial items | **796** | 1,039 |
| Financial items | **– 114** | – 196 |
| Purchasing power adjustment, equity capital | **– 130** | – 209 |
| Real income after financial items | **552** | 634 |

**Current cost balance sheet**

| ASSETS | 1986 | 1985 |
|---|---|---|
| Cash, bank and short-term investments | **1,210** | 1,418 |
| Receivables | **2,760** | 2,437 |
| Inventories | **3,074** | 2,955 |
| Fixed assets | **3,082** | 2,776 |
| TOTAL ASSETS | **10,126** | 9,586 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 1986 | 1985 |
|---|---|---|
| Current liabilities | **3,602** | 3,292 |
| Long-term liabilities | **1,793** | 1,861 |
| Untaxed reserves | **856** | 740 |
| Unrealized price changes | **864** | 911 |
| Shareholders' equity | **3,011** | 2,782 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | **10,126** | 9,586 |

**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, a so-called purchasing-power adjustment must be made on the equity capital. To consider that the purchasing power of equity capital was maintained during 1986, it should have increased by the average annual price increase, or by SEK 130 m. during the year. The annual average price increase in 1986 has been estimated at 4 percent (7). This is the last adjustment item in an inflation-adjusted accounting.

Accordingly, Atlas Copco's real income after financial items for 1986 becomes SEK 552 m. (634). This income figure is SEK 178 m. (194) lower than the traditional income and corresponds to a real profit margin of 5.3 percent (6.3).

**The balance sheet is also adjusted**

The adjustment of the balance sheet involves stating inventories and fixed assets at current values instead of at cost. The balance sheet total thereby increase by SEK 864 m. (911), since hidden reserves in inventory and assets are shown openly. The main effects are shown below:

- ☐ Machinery, buildings and land are stated at a value that is SEK 793 m. (841) higher.
- ☐ Inventory is shown at a value SEK 45 m. (58) higher.
- ☐ Shareholdings are shown at a value SEK 26 m. (12) higher.

Risk capital is shown at a value SEK 864 m. higher, which means that the rate of risk-bearing equity capital thereby amounts to 47 percent, as against 42 percent in accordance with traditional accounting.

**Reconciliation between traditional and current cost accounting**

| | | | |
|---|---|---|---|
| Net income according to traditional accounting | | | 730 |
| Change, unrealized price changes: | | | |
| Price change, goods sold | – 96 | | |
| Price change, depreciation | –126 | –222 | |
| Price change for the year, inventory | + 84 | | |
| Price change for the year, equipment | + 90 | +174 | – 48 |
| Adjustment for inflation | | | –130 |
| Actual net earnings | | | 552 |

**Effect on accounting of a declining rate of inflation**

The sharp decrease in the rate of inflation during recent years in the Western World's economies affects current cost accounting in that unrealized price gains on the company's assets, which in current cost accounting are added to income, will decrease. On the other hand, a lower purchasing-power adjustment is required to maintain equity capital intact. The effects of these two factors basically offset each other.

However, actual income is charged with current cost depreciation to the same degree as in prior years, since depreciation is based on the asset's replacement value. Despite the present low rate of inflation, income based on traditional accounting is, therefore, overestimated due to the real increase in the value of the Company's fixed assets in former years.

# NOTES

## DEFINITIONS

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

RETURN ON CAPITAL EMPLOYED
Profit after financial income and expence 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 ot 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).

## 1. OPERATING EXPENSES

| | GROUP | |
|---|---|---|
| | 1986 | 1985 |
| Cost of goods sold | 6,387.2 | 6,114.9 |
| Marketing and administrative costs | 2,662.8 | 2,527.6 |
| Technical development costs | 320.8 | 312.2 |
| Price gains realized on inventory | – 95.9 | – 102.0 |
| Operating expenses | 9,274.9 | 8,852.7 |

## 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 | |
|---|---|---|
| | 1986 | 1985 |
| Cost depreciation | 232.5 | 185.3 |
| Book depreciation | 312.8 | 248.8 |
| Depreciation in excess of cost (NOTE 23) | 80.3 | 63.5 |

Book depreciation includes write-downs charged against investment reserves of SEK 33.8 m. (12.9).

*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 358 m. (337) and thus exceeded cost depreciation by SEK 126 m. (152).

## 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 (11.5) for index pensions and 3.5 percent (3.5) for pensions liabilities expressed in fixed amounts. The interest portion for 1986 amounted to SEK 50.9 m. (45.5).

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 1986 totaled SEK 19.2 m. (33.1).

## 4. FOREIGN EXCHANGE DIFFERENCES

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

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Realized exchange differences, net | 3.1 | – 3.3 | 2.2 | 1.9 |
| Unrealized exchange differences: | | | | |
| Long-term loans | 3.5 | 36.5 | 0.9 | 41.4 |
| Other receivables and liabilities | 8.8 | –15.5 | – | – |
| Translation differences | –15.2 | –28.5 | – | – |
| | 0.2 | –10.8 | 3.1 | 43.3 |

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 | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Capital gain on share and participations sold | 9.0 | 72.4 | – | 72.4 |
| Capital gain on machines and equipment sold | – | 24.1 | – | – |
| Capital gain on buildings sold | 1.0 | 2.3 | – | – |
| Capital loss on share and participations sold | – 5.2 | – | – | – |
| Capital loss on buildings sold | – 8.8 | – 0.8 | – | – 0.8 |
| Liquidation costs | –61.4 | – | – | – |
| | –65.4 | 98.0 | – | 71.6 |

Liquidation costs are attributable mainly to the closing and restructuring of companies in West Germany.

## 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 consideration, 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 include contributions from Monsun-Tison, Atlas Copco Tools and Berema. The Parent Company made group contributions to Atlas Copco MCT and Atlas Copco Iran.

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| General inventory reserves (NOTE 22) | –37.5 | –89.2 | – 6.0 | – |
| Investment reserves(NOTE 24) | – 3.7 | –46.4 | – | – |
| Special investment reserves (NOTE 25) | – | – 2.0 | – | – |
| Development reserves (NOTE 26) | – | –37.1 | – | –29.2 |
| Other reserves | –11.9 | –16.3 | – | – |
| Difference between book depreciation and cost depreciation (NOTE 23) | –80.3 | –63.5 | – 8.6 | – 0.1 |
| Accumulated additional depreciation on asset sold (NOTE 23) | 1.5 | 26.2 | – | 1.1 |
| Withdrawals from investment reserves (NOTE 24) | 11.6 | – | – | – |
| Withdrawals from special investment reserves (NOTE 25) | 22.2 | 12.9 | 10.1 | – |
| Withdrawals from development reserves (NOTE 26) | 5.9 | – | 5.9 | – |
| Group contributions, net | – | – | 7.8 | 42.8 |
| | –92.2 | –215.4 | 9.2 | 14.6 |

## 7. TAXES

Of the provision for taxes amounting to SEK 223.2 m., taxes outside Sweden accounted for SEK 210.5 m. and taxes in Sweden for SEK 12.7 m.

The federal tax rate in Sweden is 52 percent. Swedish corporations no longer pay municipal taxes. In addition, profit-sharing taxes are paid in Sweden on 20 percent of inflation-adjusted earnings, calculated using a specific formula.

A provision of SEK 6.2 m. was made for federal income taxes in Sweden, of which SEK 4.1 m. in the Parent Company. Profit-sharing taxes amounted to SEK 6.0 m., of which SEK 3.4 m. in the Parent Company. In addition, the Parent Company allocated SEK 0.5 m. for property taxes.

Taxable income in the Parent Company was reduced by so-called Annell deductions and tax-exempt dividends from subsidiaries.

At year-end 1986, foreign companies had tax-deductible loss carryforwards amounting to SEK 363 m. No loss carryforwards were recorded in the Swedish companies, compared with SEK 4.7 m. a year earlier.

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

The earnings statement reports the minority shares of the Group's net earnings of SEK 19.3 m. (14.2). 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:

| | 1986 | 1985 |
|---|---|---|
| Earnings after financial income and expense | 730.3 | 828.1 |
| Extraordinary items | – 65.4 | 98.0 |
| Earnings before appropriations and taxes | 664.9 | 926.1 |
| Minority share | – 33.7 | – 35.1 |
| Earnings before appropriations and taxes excluding minority | 631.2 | 891.0 |
| Appropriations | – 93.2 | –214.1 |
| Earnings before taxes | 538.0 | 676.9 |
| Taxes | –207.8 | –284.6 |
| Profit for the year | 330.2 | 392.3 |

Minority interest in group equity as shown in balance sheet:

| | Own equity | Untaxed reserves | Total |
|---|---|---|---|
| Minority interest December 31, 1985 | 124.9 | 14.5 | 139.4 |
| Minority acquired | 1.2 | – | 1.2 |
| Minority sold | – 11.3 | – 1.9 | – 13.2 |
| New issue | 1.1 | – | 1.1 |
| Dividends | – 7.8 | – | – 7.8 |
| Translation differences | – 11.1 | – | – 11.1 |
| Earnings for the year | 19.3 | – 1.0 | 18.3 |
| Minority interest December 31, 1986 | 116.3 | 11.6 | 127.9 |

Of the total translation differences of SEK –11.1 m., SEK –9.2 m. is attributable to the weakening of Indian currency. Untaxed reserves consist of inventory reserves of SEK 11.0 m., investment reserves of SEK 0.3 m. and accumulated additional depreciation of SEK 0.3 m.

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

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Cash, bank | 375.6 | 527.5 | 23.8 | 82.7 |
| Bank certificates | – | 4.0 | – | – |
| Liquid funds | 375.6 | 531.5 | 23.8 | 82.7 |
| Government | | | | |
| Treasury bills | 474.8 | 336.8 | 474.8 | 336.8 |
| Treasury notes | 20.4 | 197.3 | 20.4 | 197.3 |
| Other short-term investments | 339.0 | 352.2 | 267.9 | 276.9 |
| | 1,209.8 | 1,417.8 | 786.9 | 893.7 |

The Group's available but unutilized bank credits at December 31, 1986 amounted to SEK 1,718 m. (1,705). Ongoing interest arbitrage transactions in the Parent Company are reported net, and on December 31, 1986 amounted to SEK 200.0 m. (307.2). The loan sum totals the same amount and has been placed as follows:

| | 1986 | 1985 |
|---|---|---|
| Government Treasury bills | – | 177.2 |
| Treasury notes | – | 100.0 |
| Promissory notes | 200.0 | 30.0 |
| | 200.0 | 307.2 |

## 10. RECEIVABLES

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Notes receivable | 157.0 | 134.8 | – | – |
| Receivables from subsidiaries | – | – | 273.0 | 127.8 |
| Trade receivables | 1,894.9 | 1,748.8 | 100.9 | 67.0 |
| Prepaid expenses and accrued income | 83.7 | 126.8 | 28.3 | 49.6 |
| Other receivables | 580.8 | 379.2 | 104.9 | 79.8 |
| | 2,716.4 | 2,389.6 | 507.1 | 324.2 |

## 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 | |
|---|---|---|
| | 1986 | 1985 |
| Raw materials | 123.8 | 121.3 |
| Work in progress | 434.3 | 442.1 |
| Semifinished goods | 771.7 | 723.3 |
| Finished goods | 1,699.5 | 1,610.1 |
| | 3,029.3 | 2,896.8 |

## 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 and development reserves. The amount in 1986 totaled SEK 43.6 m. (47.4) for the Group and SEK 16.7 m. (24.9) for the Parent Company.

## 13. SHARES AND PARTICIPATIONS

| | BOOK VALUE | | MARKET VALUE | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| *Shares and participations reported by Atlas Copco AB: (as specified on page 29):* | | | | |
| Associated companies | 12.7 | 14.7 | | |
| Bilspedition AB | 2.1 | 2.1 | 8.9 | 4.8 |
| Svensk Interkontinental Lufttrafik AB (SILA) | 0.7 | 0.7 | 19.9 | 9.7 |
| Others | 1.3 | – | | |
| Total, Parent Company | 16.8 | 17.5 | | |
| *Shares and participations reported by other subsidiaries:* | | | | |
| Associated companies | | | | |
| CD Mastering AB | 0.5 | – | | |
| Webster Machine Development Ltd | 1.5 | 1.6 | | |
| Atlas Copco-Eickhoff Roadheading Technic GmbH | 7.2 | 0.2 | | |
| Droogtechniek & Luchtbehandeling | 0.8 | 0.7 | | |
| Other companies | | | | |
| Cord Capital N.V. | 3.7 | 3.7 | | |
| Instrument AB Scanditronix | 4.6 | 3.0 | | |
| Dala Djupgasbolagen | 1.3 | – | | |
| Others | 0.3 | 0.5 | | |
| Total, Group | 36.7 | 27.2 | 28.8 | 14.5 |

## 14. GOODWILL – GROUP EXCESS VALUE

Group excess value in 1986 amounted to SEK 19.6 m. (24.4). This has been distributed over the following items in the balance sheet: Goodwill, SEK 7.7 m. (9.7), buildings SEK 3.1 m (2.7) as well as machines and equipment SEK 8.8 m. (12.0). The Goodwill items pertain mainly to patents, manufacturing rights and know-how. Depreciation of Group excess value amounts to SEK 8.6 m., distributed as follows:

| | GROUP | |
|---|---|---|
| | 1986 | 1985 |
| Goodwill | 5.5 | 4.6 |
| Machines and equipment | 2.9 | 3.0 |
| Buildings | 0.2 | 0.2 |
| | 8.6 | 7.8 |
| Acquired goodwill December 31, 1985 | | 103.3 |
| Accumulated depreciation December 31, 1985 | | – 93.6 |
| Acquired goodwill, 1986 | | 3.5 |
| Depreciation for the year | | – 5.5 |
| Book value, December 31, 1986 | | 7.7 |

## 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 corresponds to 6 and 10 percent, respectively, of that part of total wages and salaries which exceeded SEK 20 m. in 1983 and 1984. The account carries an annual interest at a fixed rate of 7 percent.

In total, the Group has paid SEK 47.7 m. and the Parent Company SEK 1.6 m. SEK 29.1 m. of these funds will be repaid by the Bank on March 30, 1988 and are shown under "Long-term receivables." The balance, SEK 18.6 m., will be repaid on April 30, 1987, and is reported under "Other receivables" (NOTE 10).

## 16. MACHINERY AND EQUIPMENT

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Costs | 1,688.7 | 1,453.1 | 61.3 | 55.8 |
| Accumlated cost depreciation | –880.7 | –795.0 | – 39.6 | –34.6 |
| Planned residual value | 808.0 | 658.1 | 21.7 | 21.2 |
| Accumulated depreciation in excess of cost depreciation (NOTE 23) | –232.4 | –167.0 | – 10.7 | – 11.2 |
| Book value, net | 575.6 | 491.1 | 11.0 | 10.0 |

Future commitments related to leased assets are normally not capitalized.

The estimated acquisition value of premises, machines, vehicles, computer and office equipment leased by the Group is SEK 365 m. The leasing costs for this property and equipment, SEK 101 m. (75), are reported under operating expenses. Future costs for non-cancellable leasing contracts amount to SEK 252 m.

## 17. BUILDINGS

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Cost | 1,168.3 | 1,036.3 | 91.3 | 78.9 |
| Undepreciated amount of write-ups | 15.3 | 20.8 | 0.5 | 0.6 |
| Accumulated cost depreciation | –358.3 | –318.8 | –12.5 | –10.4 |
| Planned residual value | 825.3 | 738.3 | 79.3 | 69.1 |
| Accumulated cost depreciation (NOTE 23) | –151.7 | –125.5 | –44.4 | –35.3 |
| Book value, net | 673.6 | 612.8 | 34.9 | 33.8 |
| Tax assessment value | | | 41.0 | 41.0 |

## 18. LAND

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Cost | 189.3 | 167.1 | 19.8 | 19.7 |
| Write-ups | 24.7 | 24.7 | 4.0 | 4.0 |
| Book value, net | 214.0 | 191.8 | 23.8 | 23.7 |
| Tax assessment value | | | 22.3 | 22.1 |

## 19. LONG-TERM LOANS

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

| *Bond loans* | 1986 |
|---|---|
| PARENT COMPANY | |
| 1985 CHF[1)] 75.5 m. (amortized CHF 8 m.) | 267.1 |
| 1978 12 3/4 %, SEK 100 m., amortization 1979–1993 | 46.4 |
| Less: 1987 maturities | – 23.4 |
| Bond loans as shown in balance sheets | 290.1 |

| *Mortgage loans and promissory notes* | 1986 |
|---|---|
| PARENT COMPANY | |
| Available under "USD 50 m. "Eurocommercial Paper Program" | |
| USD 25.5 m. | 173.8 |
| GBP 3.0 m. | 30.0 |
| 1984 multicurrency-loan, GBP 0.7 m. | 6.9 |
| 1983 loan, LUF 50 m. | 8.4 |
| 1984 loan, SGD 0.8 m. | 2.5 |
| National Pension Fund loan | 2.7 |
| National Labor Market Board loan | 0.2 |
| Other mortgage loans and promissory notes | 0.3 |
| Less: 1987 maturities | –122.5 |
| Mortgage loans and promissory notes as shown in balance sheet | 102.3 |

| *Mortgage loans and promissory notes (cont.)* | 1986 |
|---|---|
| PARENT COMPANY | 102.3 |
| SUBSIDIARIES | |
| Atlas Copco Airpower | 324.4 |
| Atlas Copco MCT | 45.8 |
| Atlas Copco Tools | 3.9 |
| Berema | 21.2 |
| Monsun-Tison | 2.7 |
| Other companies | 351.8 |
| Less: 1987 maturities | –111.7 |
| Group mortgage loans and promissory notes as shown in balance sheet | 740.4 |

Bond loans, mortgage loans and promissory notes are being amortized as follows, based on exchange rates at December 31, 1986:

| | GROUP | PARENT COMPANY |
|---|---|---|
| 1987 | 257.6 | 145.9 |
| 1988 | 157.6 | 50.0 |
| 1989 | 117.0 | 34.1 |
| 1990 | 205.1 | 83.1 |
| 1991 | 291.7 | 217.8 |
| 1992 and thereafter | 259.1 | 7.4 |
| | 1,288.1 | 538.3 |

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 |
|---|---|---|---|
| BEC m. | 1,898.9 | 319.0 | 24.8 |
| USD m. | 40.9 | 278.7 | 21.6 |
| ECU m. | 21.9 | 158.8 | 12.3 |
| DEM m. | 45.3 | 158.3 | 12.3 |
| SEK m. | 87.2 | 87.2 | 6.8 |
| FRF m. | 63.7 | 67.2 | 5.2 |
| AUD m. | 9.4 | 42.8 | 3.3 |
| CHF m. | 9.3 | 38.8 | 3.0 |
| GBP m. | 3.7 | 37.0 | 2.9 |
| NOK m. | 38.8 | 35.5 | 2.8 |
| Other | – | 64.8 | 5.0 |
| | | 1,288.1 | 100.0 |

[1]) To reduce its exposure in CHF. Atlas Copco AB entered into two so-called swap-agreements in 1985 and 1986 by which Atlas Copco will receive CHF 40 m. in 1991 in exchange for ECU 21.3 m. and CHF 23.5 m. in exchange for USD 14.1 m. Similarly, during the years 1987 to 1991, Atlas Copco AB will receive CHF interest in exchange for ECU and USD interests. Recalculation of the 1985 CHF 75.5 m. bond loan into SEK was made in accordance with this swap.

## 20. PROVISION FOR PENSIONS

This item pertains mainly to the Swedish companies and corresponds to the actuarially calculated amount of pension obligaions 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. (NOTE 3.) "Provision for pensions" is accordingly included among interest-bearing liabilities.

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Swedish companies | | | | |
| PRI-pensions | 465.1 | 412.9 | 160.8 | 144.6 |
| Other pensions | 27.8 | 29.8 | 22.6 | 23.0 |
| Companies outside Sweden | 181.5 | 166.5 | – | – |
| Total provisions for pensions | 674.4 | 609.2 | 183.4 | 167.6 |

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 | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| General inventory reserves (NOTE 22) | 313.7 | 274.5 | 6.0 | – |
| Accumulated additional depreciation (NOTE 23) | 384.1 | 292.5 | 55.1 | 46.5 |
| Investment reserves (NOTE 24) | 68.4 | 71.8 | – | – |
| Special investment reserves (NOTE 25) | 2.7 | 24.9 | – | 24.9 |
| Development reserves (NOTE 26) | 31.2 | 37.1 | 23.3 | 29.2 |
| Other reserves | 55.9 | 38.7 | – | – |
| | 856.0 | 739.5 | 84.4 | 100.6 |

## 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 | PARENT COMPANY |
|---|---|---|
| General inventory reserves, December 31, 1985 | 274.5 | – |
| Allocations | 51.1 | 6.0 |
| Withdrawals | – 13.6 | – |
| Translation differences | 1.7 | – |
| General inventory reserves, December 31, 1986 | 313.7 | 6.0 |

Unitilized rights to make allocations to inventory reserves in the Swedish companies amount to SEK 101.8 m. In addition to the inventory reseves shown in the balance sheet, SEK 22.9 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, 1985 | 167.0 | 125.5 | 292.5 |
| Difference between book depreciation and cost depreciation in 1986 | 58.2 | 22.1 | 80.3 |
| Accumulated additional depreciation on fixed assets sold | –1.1 | –0.4 | –1.5 |
| Translation differences | 8.3 | 4.5 | 12.8 |
| Accumulated additional depreciation, December 31, 1986 | 232.4 | 151.7 | 384.1 |

| PARENT COMPANY | Machinery and equipment | Buildings | Total |
|---|---|---|---|
| Accumulated additional depreciation, December 31, 1985 | 11.2 | 35.3 | 46.5 |
| Difference between book depreciation and cost depreciation in 1986 | –0.5 | 9.1 | 8.6 |
| Accumulated additional depreciation, December 31, 1986 | 10.7 | 44.4 | 55.1 |

## 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, 1985 | 71.8 |
| Allocations | 3.7 |
| Withdravels for write-downs | –11.6 |
| Translation differences | 4.5 |
| Investment reserves, December 31, 1986 | 68.4 |

## 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.

| | GROUP | PARENT COMPANY |
|---|---|---|
| Special investment reserves, December 31, 1985 | 24.9 | 24.9 |
| Transferred to subsidiaries | – | –14.8 |
| Withdrawals for write-downs | –22.2 | –10.1 |
| Special investment reserves, December 31, 1986 | 2.7 | – |

During 1986 the Parent Company has transferred a total of SEK 6.5 m. to Atlas Copco Tools AB SEK 5.5 m. to Monsun-Tison AB and SEK 2.8 m. to Atlas Copco MCT AB.

## 26. DEVELOPMENT 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 investment reserves and may be utilized to finance employee training as well as costs for research and development.

| | GROUP | PARENT COMPANY |
|---|---|---|
| Development reserves, December 31, 1985 | 37,1 | 29,2 |
| Withdrawals for research and development | –5,9 | –5,9 |
| Development reserves December 31, 1986 | 31,2 | 23,3 |

## 27. RESTRICTED RESERVES

| | GROUP | PARENT COMPANY |
|---|---|---|
| Restricted reserves, December 31, 1985 | 1,230.2 | 597.1 |
| Transferred from retained earnings | 274.9 | – |
| Companies sold | –4.4 | – |
| Expired share rights sold | 1.3 | 1.3 |
| Translation differences | 41.0 | – |
| Restricted reserves December 31, 1986 | 1,543.0 | 598.4 |

Of the Group's restricted reserves, SEK 786.3 m. is attributable to statutory allocations in Atlas Copco companies.

## 28. RETAINED EARNINGS

| | GROUP | PARENT COMPANY |
|---|---|---|
| Retained earnings, December 31, 1985 | 433.7 | 101.7 |
| 1985 net profit | 392.3 | 230.5 |
| Dividend to shareholders | −152.5 | −152.5 |
| Transferred to restricted reserves | −274.9 | – |
| Companies sold | 1.5 | – |
| Translation differences | 23.3 | – |
| Retained earnings, December 31, 1986 | 423.4 | 179.7 |

Of the Group's retained earnings, SEK 14.7 m. will be transferred to statutory reserves in accordance with the proposals of the respective companies' Boards of Directors. 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 | |
|---|---|---|---|---|
| | 1986 | 1985 | 1986 | 1985 |
| Real estate mortgages | 154.5 | 208.0 | 1.3 | 6.7 |
| Chattel mortgages | 236.9 | 277.5 | 8.2 | 8.2 |
| | 391.4 | 485.5 | 9.5 | 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 260.6 m. (225.0) have been sold with a limited repurchase guarantee. The value to Atlas Copco AB amounts to SEK 102.3 m. (61.6).

**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 1982–1986 loans have been granted to employees under terms of an offer related to savings invested in Atlas Copco shares through Atlas Copco's Share Savings Fund and Atlas Copco's General Savings Fund.

| | GROUP | PARENT COMPANY | GROUP | PARENT COMPANY |
|---|---|---|---|---|
| Number of borrowers | 766 | 90 | 243 | 56 |
| The loans are shown in the balance sheets as | | | | |
| Other current receivables | 1.0 | 0.2 | 0.4 | 0.1 |
| Long-term receivables | 0.4 | 0.1 | 1.8 | 0.4 |

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:

| | | 1986 | | 1985 |
|---|---|---|---|---|
| Income after financial items | | 730.3 | | 828.1 |
| Tax attributable to the above sum | | −332.1 | | −406.8 |
| Minority interest | | − 19.3 | | − 14.2 |
| Income before extraordinary items | | 378.9 | | 407.1 |
| Extraordinary items | −65.4 | | 98.0 | |
| Tax attributable to extraordinary items | 34.9 | −30.5 | −27.6 | 70.4 |
| Net Profit | | 348.4 | | 477.5 |
| Reversals | | | | |
| Tax charged against net profit | | 297.2 | | 434.4 |
| Minority interest | | 19.3 | | 14.2 |
| Reported earnings before appropriations and taxes | | 664.9 | | 926.1 |

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 (page 61).

| | 1986 | 1985 |
|---|---|---|
| Profit per share SEK | 16.15 | 17.35 |
| Profit per share after extraordinary items SEK | 14.85 | 20.35 |
| Return on shareholders' equity, % | 11.2 | 17.0 |
| Return on capital invested, % | 17.4 | 20.6 |
| Interest-bearing debts from adjusted shareholders' equity | 0.96 | 1.05 |

## 32. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (U.S. GAAP)

The consolidated accounts of Atlas Copco and its subsidiaries have been prepared in accordance with accounting principles generally accepted in Sweden. These accounting principles differ in certain significant respects from accounting principles generally accepted in the United States (U.S. GAAP).

*Write-up of assets*
Certain properties have been written up to amounts which exceed the acquisition cost. In specific situations, such write-ups are permitted in accordance with Swedish accounting practice. In accordance with U.S. GAAP, write-ups of assets are not reported in the balance sheet.

*Capitalization of interest expenses*
In accordance with Swedish accounting practice, the Group has expensed the interest payments arising from the financing of newly constructed fixed assets. In accordance with U.S. GAAP, such interest expenses are capitalized.

*Pension provisions*
New rules were adopted in the U.S. in 1986 governing accounting of pension provisions. In general, these rules are applied by Atlas Copco's U.S. subsidiary. Compared with Swedish accounting practice for PRI pension provisions, there are differences, primarily in selection of the discount rate and in that calculation of equity value is based on the salary or wage at the date of retirement. Generally, it is estimated that the annual pension calculated in accordance with U.S. GAAP would be substantially less than the annual cost for the PRI plan in accordance with Swedish accounting practices. However, the difference has not been quantified and is not included in the following U.S. GAAP account presentation.

*Shares and participations in associated companies*
Under Swedish accounting principles, investments in shares are generally carried at cost and dividends are included in income for the year in which received. Under U.S. GAAP, investments in 20- to 50-percent-owned companies are generally accounted for using the equity method. The book values of such shareholdings are adjusted continuously in accordance with the abovementioned method.

*Untaxed reserves*
As described in NOTE 6, tax legislation in Sweden and certain other countries permits companies to make appropriations to untaxed reserves. These allocations, which reduce the amount of taxable income, are reported in the Income statement. In accordance with U.S. GAAP, such appropriations are not recognized as a reduction of income for financial reporting purposes.

*Deferred taxes*
In accordance with Swedish accounting practice, no provision is generally made for deferred income taxes. In accordance with U.S. GAAP, deferred income taxes are provided on all significant timing differences, including the appropriations to untaxed reserves. Under certain conditions, loss carryforwards may be recognized when calculating deferred taxes in accordance with U.S. GAAP.

*Translation differences in shareholders' equity*
In accordance with Swedish accounting practice, all account items included in shareholders' equity must be classified in the balance sheet as restricted equity (share capital and restricted reserves) or as unrestricted equity. The accumulated exchange differences which arise from translation of foreign companies' financial statements are distributed between restricted and unrestricted equity in the consolidated balance sheet. In accordance with U.S. GAAP, this currency component is shown as a separate item in the balance sheet.

*Profit per share*
In accordance with U.S. GAAP, profit per share is based on net profits for the year as shown in the income statement. As a result, this net profit has been charged with booked deferred tax. Depending on the application of appropriations, and other measures, profit per share calculated in accordance with Swedish accounting practice is normally based on income before appropriations and taxes.

Application of U.S. GAAP would have the following approximate effect on consolidated net inome and shareholders' equity.

| | 1986 | 1985 |
|---|---|---|
| Income as reported in the Consolidated Statements of Income (in accordance with Swedish accounting principles) | 330.2 | 392.3 |
| Items increasing/decreasing reported net income: | | |
| Depreciation of write-ups | 5.5 | 1.6 |
| Capitalization of interest expenses | 15.7 | 5.2 |
| Share in net income of associated companies | 3.1 | 2.0 |
| Appropriations | 92.2 | 215.4 |
| Deferred taxes | – 82.2 | – 132.9 |
| Calculated net profit in accordance with U.S. GAAP | 364.5 | 483.6 |
| Calculated profit per share in accordance with U.S. GAAP | 15.55 | 20.60 |

| | | |
|---|---|---|
| Shareholders' equity as reported in the Consolidated Balance Sheet (in accordance with Swedish accounting principles) | 2,883.1 | 2,642.7 |
| Net adjustment in reported shareholders' equity | 516.9 | 457.3 |
| Approximate shareholders' equity in accordance with U.S. GAAP | 3,400.0 | 3,100.0 |

# Shares and participations

| | Number of shares | Per-cent held | Par value loc cur | Book value SEK m. |
|---|---|---|---|---|
| **DIVISIONS** | | | | |
| Atlas Copco MCT AB | 1 000 000 | 100 | 100 | 115.0 |
| Atlas Copco Tools AB | 100 000 | 100 | 100 | 20.0 |
| Berema AB | 60 000 | 100 | 1 000 | 89.5 |
| Monsun-Tison AB | 400 000 | 100 | 100 | 64.4 |
| Atlas Copco Airpower n.v., Belgium | 59 500 | 99 | 1) | 200.0 |
| **SALES COMPANIES** | | | | |
| Atlas Copco Svenska Försäljnings AB | 200 000 | 100 | 100 | 20.0 |
| Atlas Copco International AB | 10 000 | 100 | 100 | 1.0 |
| Atlas Copco (Cyprus) Ltd. | 99 998 | 100 | 1 | 0.6 |
| Atlas Copco A/S, Denmark | 12 000 | 100 | 1 000 | 6.9 |
| Atlas Copco France S.A. | 99 965 | 100 | 500 | 44.6 |
| Atlas Copco Italia S.p.A. | 1 079 996 | 100 | 10 000 | 33.1 |
| Atlas Copco A/S, Norway | 4 498 | 100 | 10 000 | 31.6 |
| Oy Atlas Copco Ab, Finland | 144 | 80 | 100 000 | 20.2 |
| Soc. Atlas Copco de Portugal Lda | 1 | 100 | 1) | 22.1 |
| Atlas Copco (Schweiz) A.G. | 7 995 | 100 | 1 000 | 12.3 |
| Atlas Copco S.A.E., Spain | 512 000 | 99 2) | 500 | 3.7 |
| Atlas Copco G.m.b.H., Austria | 69 990 | 100 | 1 000 | 20.3 |
| Atlas Copco North America Inc. | 6 124 | 50 2) | 1) | 94.9 |
| Atlas Copco Boliviana S.A. | 6 170 | 100 | 1 000 | 2.1 |
| Atlas Copco Brasil Ltda | 190 000 000 | 100 | 1 | 20.9 |
| Atlas Copco Chilena S.A.C. | 9 154 | 100 | 1 000 | 6.0 |
| Atlas Copco Ecuatoriana S.A., Ecuador | 6 000 | 60 2) | 1 000 | 0.6 |
| Atlaservis S.A., Ecuador | 1 990 | 100 | 1 000 | 0.4 |
| Atlas Copco Venezuela S.A. | 7 200 | 60 | 1 000 | 8.7 |
| Atlas Copco Iran AB, Sweden | 3 500 | 100 | 100 | 0.3 |
| Atlas Copco (Philippines) Inc. | 121 995 | 100 | 100 | 3.0 |
| Atlas Copco Gadelius KK, Japan | 375 001 | 100 | 1 000 | 22.7 |
| Atlas Copco (HK) Ltd., Hong Kong | 2 400 | 80 | 1 000 | 2.1 |
| Atlas Copco (South-East Asia) Pte. Ltd., Singapore | 2 500 000 | 100 | 1 | 8.4 |
| Atlas Copco Malaysia Ltd. | 700 000 | 100 | 1 | 1.8 |
| Atlas Copco Korea Co. Ltd. | 49 000 | 49 | 1 000 | 0.4 |
| Atlas Copco Ticaret ve Sanayi T.A.S., Turkey | 1 130 | 100 | 500 | – |
| Atlas Copco Argentina S.A.C.I. | 18 000 000 000 | 100 | 0.001 | – |
| Atlas Copco Taiwan Ltd. | 15 996 | 80 | 100 | – |
| Atlas Copco (India) Ltd. | 1 928 000 | 40 | 10 | – |
| Atlas Copco Kenya Ltd. | 14 999 | 100 | 100 | – |
| Atlas Copco Maroc S.A. | 940 | 50 | 1 500 | 1.2 |

1) No par value
2) Remaining holding owned by other Group companies
3) 62% owned by other companies within the Group

| | Number of shares | Per-cent held | Par value loc cur | Book value SEK m. |
|---|---|---|---|---|
| **OTHER SUBSIDIARIES** | | | | |
| Atlas Copco Compressor AB | 60 000 | 100 | 100 | 9.4 |
| Atlas Copco Airpower Svenska AB | 500 | 100 | 100 | 0.1 |
| Copco Nueva Montaña S.A., Spain, in liquidation | 29 999 | 13 3) | 1 000 | – |
| Atlas Copco Andina S.A., Bolivia, in liquidation | 18 000 | 50 2) | 1 000 | – |
| Atlas Copco UK Holdings Ltd. | 3 623 664 | 100 | 1 | 38.3 |
| Atlas Copco Beheer bv, The Netherlands | 15 712 | 100 | 1 000 | 35.0 |
| Atlas Copco Holding G.m.b.H. West Germany | 4 | 99 2) | 1) | 100.0 |
| Atlas Copco Industrial S.A., Spain | 95 | 50 2) | 10 000 | – |
| Atlas Copco Försäkrings AB | 50 000 | 100 | 100 | 5.0 |
| Atlas Copco Reinsurance S.A., Luxemburg | 4 993 | 100 | 10 000 | 7.4 |
| Atlas Copco Leasing AB | 40 000 | 100 | 100 | 5.0 |
| Institut CERAC S.A., Switzerland | 1 997 | 100 | 1 000 | 2.4 |
| Atlas Copco Management Consulting AB | 500 | 100 | 100 | 0.1 |
| AB Sicklahus | 2 000 | 100 | 100 | 0.2 |
| Atlas Copco Data AB | 125 | 50 2) | 100 | – |
| Atlas Copco Fond-aktiebolag | 2 500 | 100 | 100 | 0.3 |
| 20 dormant companies | – | – | – | 0.9 |
| | | | | 1 082.9 |
| **MINORITY COMPANIES** | | | | |
| **Associated companies'** | | | | |
| Atlas Copco Finans AB | 38 000 | 40 | 100 | 3.8 |
| Atlas Copco Trading AB | 500 | 50 | 100 | 0.1 |
| Atlas Copco Finanz AG, Switzerland | 2 449 | 49 | 1 000 | 7.2 |
| Sickla Industrifastig-heter AB | 10 000 | 33 | 100 | 1.0 |
| Prelucor Laser AB | 1 750 | 35 | 100 | 0.6 |
| | | | | 12.7 |
| **Other companies** | | | | |
| Bilspedition AB | 71 120 | 1 | 25 | 2.1 |
| Svensk Interkontinental Lufttrafik AB (SILA) | 42 300 | 2 | 50 | 0.7 |
| Dala Djupgas-bolagen | 1 unit | 1 | – | 1.3 |
| Handelsbolaget Svenska Dagbladets AB & Co | 100 | 2 | 1 000 | – |
| Sukab Finans AB | 640 | – | 100 | – |
| Mechanical Technology Inc., N.Y. | 140 000 | 5 | 1 | – |
| ADELA Investment Co. S.A., Luxemburg | 3 640 | – | 100 | – |
| SIFIDA Investment Co. S.A., Luxemburg | 25 | 1 | 5 000 | – |
| Minority shares and participations | | | | – |
| | | | | 16.8 |

A detailed list of the shares and participations owned by Atlas Copco AB can be obtained free-of-charge by writing the Company or the Swedish Patent and Registration Office.

# 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 179,682,281 |
| Net profit for the year | SEK 225,711,678 |
| | SEK 405,393,959 |

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

| | |
|---|---|
| To the shareholders, a dividend of SEK 7.00 per share | SEK 164,223,500 |
| To be retained in the business | SEK 241,170,459 |
| | SEK 405,393,959 |

*Nacka, March 13, 1987*

PETER WALLENBERG
Chairman

ERIK JOHNSSON

CURT G. OLSSON

P. HENRY MUELLER

OTTO GRIEG TIDEMAND

PEHR G. GYLLENHAMMAR

BJÖRN SVEDBERG

LENNART JOHANSSON

STEN RUDHOLM

PER LUNDBERG

TOM WACHTMEISTER
President

BO HENNING

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 1986. 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 1986.

**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 20, 1987.*

BIRGER SONESSON
Authorized Public Accountant

BERTIL E. OLSSON
Authorized Public Accountant


*Atlas Copco's Head Office and Atlas Copco MCT's industrial area in Nacka (Stockholm).*

# Significant changes

**1986** was a year of significant changes in our industry. The foreign exchange drama and the restructuring in the industry, coupled with our own internal process of change and the ongoing shifts in customer patterns, affected the total picture in a manner that in some ways conformed with our expectations and, in other respects, created unexpected situations.

Meanwhile, the Swedish Government's policy on South Africa provided a reminder of the problems that a Swedish base can involve for an international enterprise.

### *Foreign exchange drama*

Elsewhere, in the Board of Directors' Report, we have described in detail how dramatically the rise in the exchange rates of the German mark and the Belgian franc, along with the decline of the U.S. dollar and British pound, affected Atlas Copco when local sales and income figures were translated to kronor in Swedish accounts.

We were prepared for changes in foreign exchange rates in 1986, but not as large as those that actually occurred. We had built a reasonable safety net through forward contracts and other currency-protection measures, but the actual gaps between the currencies in our large manufacturing countries and our large customer countries were greater than anticipated. It was not until the third quarter that it became clear to us that the Belgian franc would follow the German mark and that the gap between these currencies and the U.S. dollar would widen.

In this respect, it may be said that we were a victim of our successes in recent years – successes in building rational production resources that in 1986 proved to be located in the wrong countries from a currency viewpoint, and our marketing success in North America and Great Britain, countries whose currencies declined sharply in 1986. Dollar-related countries today account for about 30 percent of the Group's sales, which means that the trend of dollar exchange rates will affect income again in 1987.

Steps now being taken to reduce our vulnerability to changes in exchange rates include both short-term currency hedge programs and long-term programs involving the selection of subcontractors and production sites.

The full effect of the 1984–1985 investments in product development and rationalization of production facilities has not yet been felt. This applies particularly in the case of Airpower, where an improvement is forecast for 1987 despite the fact that the Belgian franc/German mark linkage continues to hamper sales in dollar-related markets.

### *Restructuring among competitors*

A dramatic restructuring of our major competitors is under way, notably in the United States. Large, well-known companies are being fragmented through the lopping off of units and closings; specialized companies are being made parts of large holding companies; and new joint ventures are being formed. Similar trends, while as yet not quite so pronounced, are taking place within European competitors.

One of the consequences is likely to be that certain companies will create resources with which to offer more advanced technology than they have done to date. This is an area in which we have been, and continue to be, in the front rank. We are dealing with this situation, in part, by reinforcing our already strong contacts with important customers so that our future growth is being based on the priority needs of customers. In addition, we are further strengthening our resources in electronic, automation and control technology.

We are fully prepared take part in this process of active restructuring through acquisitions or other forms of cooperation.

Internationally, as a result of the structural changes already made in the industry, and as a result of our successful marketing programs, we have already become a world leader in our field. We are currently playing a major role in a number of our most important business areas, with shares amounting to 20 percent of the world market, or substantially higher in some cases. A leadership position of this type naturally gives us certain advantages, which are reflected in Atlas Copco's relatively good profitability compared to that of competitors.

### *Process of internal change*

During the past year we conducted the first in the series of strategic development seminars that, in the first phase, will involve between 150 and 200 of the Group's senior executives. The seminars are part of a project designed to provide information on Atlas Copco's strategic position and future direction. Our factors of strength have been analyzed and placed in a customer-related context. Our job is simply to improve customers' productivity.

The changes initiated in 1986 with the objective of creating an industry-oriented Group continued during 1986 and are designed to lead Atlas Copco to a stronger position in the fields of industrial production and mechanization technology. At the same time, we will increase the profitability of our mining technology through investments in new applications.

As a whole, the changes are toward an industrial equipment company of a different type, an industrial equipment company in which major emphasis is placed on a more rapid transfer of ideas, knowledge, materials and products between the Company and its customers, as well as within the Company. Increases in the productivity of capital – measured in terms of shorter throughput times, for example – and reduced amounts of tied-up capital relative to sales are key factors in this process, which is being promoted forcefully throughout the organization.

Important steps in this direction were taken during 1986. They included changes in the Swedish marketing organization, new distribution systems for Tools' and Airpower's products, a reduction in the fixed assets in Energas, expansion of computerized delivery systems, and the modernization of a number of plants. (See also page 56.)

These comprehensive development programs, combined with the structural rationalization within the industry, will improve our profitability in the years ahead.

### *Changes in customer categories*

The day is not far off when the international automotive industry will constitute as large a customer category for Atlas Copco as the mining industry. Demands for better protection against corrosion in cars, trucks and buses, for greater precision and efficiency in assembly operations, and for improved work environments for manual tasks, provide a good base for Atlas Copco as a supplier to the vehicle industry and similar manufacturing industries.

The food industry is another attractive growth area. Increasingly higher demands for cleanliness and quality give us major opportunities to sell oil-free compressors, despite their higher prices. In the packaging industry, which to a large extent serves the food industry, new automation systems from Monsun-Tison have been highly successful, which is reflected in good growth in sales and earnings.

At the same time, which may appear paradoxical, Atlas Copco's position as a supplier to the mining industry – primarily of heavy, highly mechanized and automated equipment – has been further strengthened. This was apparent at the International Mining Show in Las Vegas last October.

The building and construction industry shows a general trend towards increased activity in the industrialized countries. The lower oil prices and the reduced rate of inflation resulted in an economic recovery in Europe, our home market, as is reflected in our sales growth there.

### *Sweden as a base for international enterprise*

In certain respects, Sweden offers a good environment as a base for companies that operate internationally. Well-educated and motivated personnel, a high level of technology, and a tradition of international enterprise developed over decades have given Sweden a number of companies that have made a strong contribution to the country's high standard of living. Sweden's political neutrality has occasionally added to customer confidence in the ability of Swedish companies to keep delivery promises regardless of political changes. This long-term customer confidence is a vital prerequisite for many companies, including Atlas Copco.

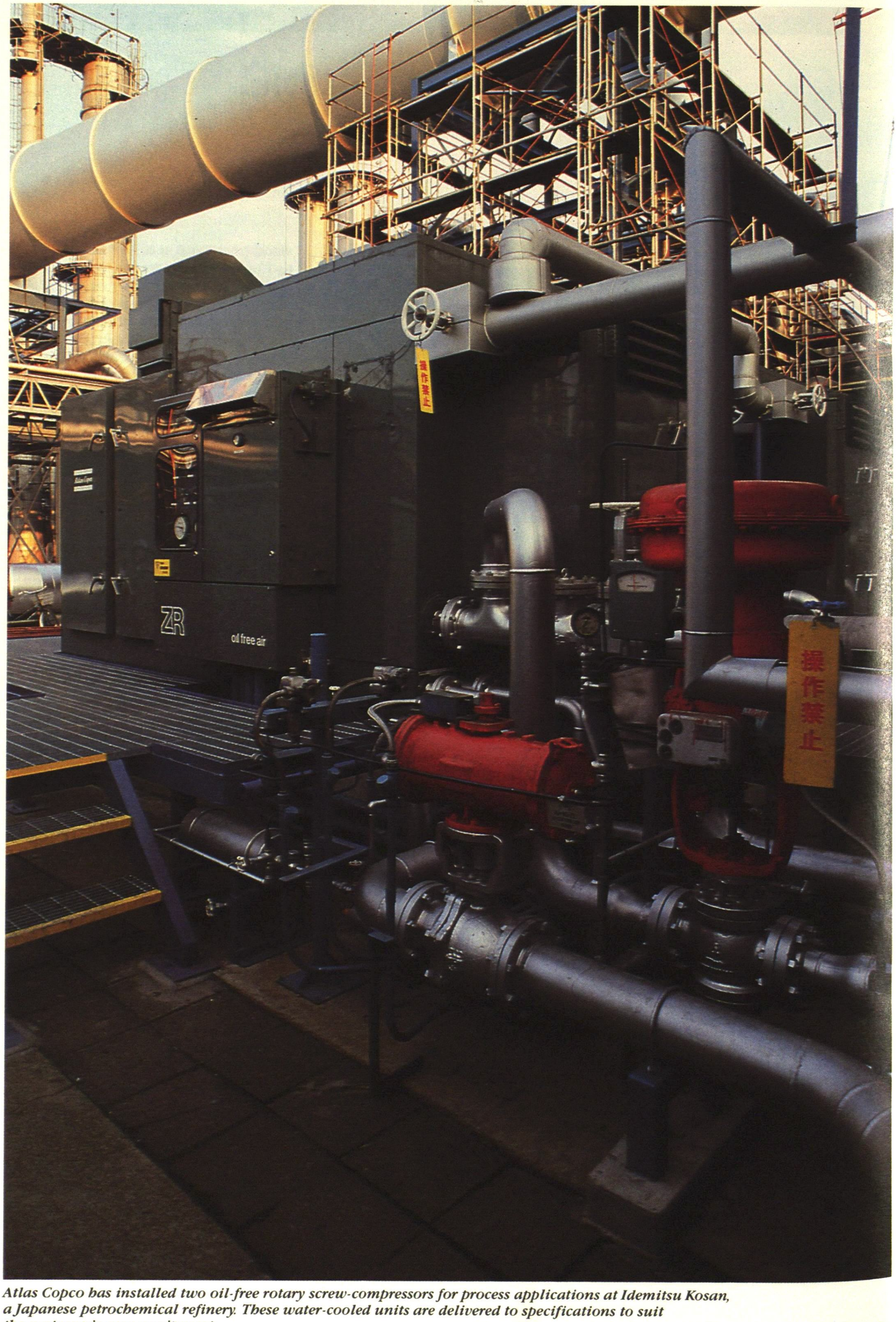
For both humanitarian and commercial reasons, Atlas Copco is greatly interested in the peaceful development of southern Africa.

The most important mining market in the world today is in this region, and our largest competitor in the mining technology sector is a South African company. Our continuing presence in this region is of central importance for our MCT Division.

Delfos & Atlas Copco in South Africa, a company in which we have a 22-percent interest, also plays a significant role as a support function for the other companies in southern Africa in the areas of technology, logistics, training and other fields.

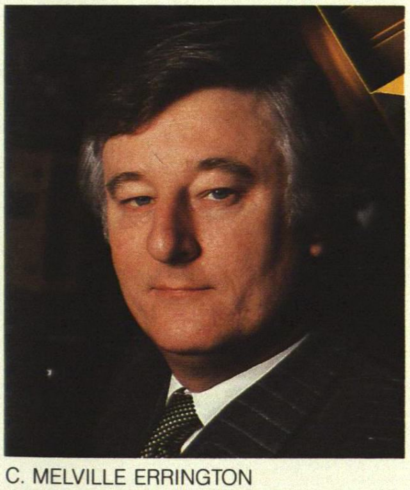
I therefore regret the decision of the Swedish Government to singlehandedly institute a boycott on trade between Sweden and South Africa. It is based on a misjudgement of both the situation in southern Africa and of the consequences for the countries in the region.

Sweden's international business depends on the confidence of its customers and employees in all countries, irrespective of political systems.




*Atlas Copco has installed two oil-free rotary screw-compressors for process applications at Idemitsu Kosan, a Japanese petrochemical refinery. These water-cooled units are delivered to specifications to suit the customer's own equipment.*

# Atlas Copco Airpower



C. MELVILLE ERRINGTON

MANAGEMENT COMMITTEE

*C. Melville Errington,*
President
*Theo Dietz,*
Senior Executive Vice President
*Carl G Johansson,*
Executive Vice President, Finance
*Erik Lebrocquy,*
Personnel and Organization
*Lars Lindén,*
Manufacturing Development
*Per André,*
Market Support
*Roger Docx,*
Production
*Peter Schreiber,*
Gas and Process
*Henri Ysewijn,*
Product Development
*Jan Barendregt,*
Senior Regional Director

*Atlas Copco Airpower develops, manufactures and markets portable screw compressors for air, stationary screw, piston and centrifugal compressors for air and other gases; air dryers; after coolers; control systems; and filtration equipment. The product program also includes custom engineered compressors, cryogenic expanders, generator sets, as well as industrial energy recovery systems. Sales are handled mainly through Atlas Copco sales companies.*

*The Airpower Division's head office and largest factory are located in Antwerp, Belgium. Manufacturing is also carried out in Brazil, France, India, Yugoslavia, Mexico, Turkey, West Germany and the United States.*

| | 1986 | 1985 |
|---|---|---|
| INVOICED SALES, SEK m. | 4,950 | 4,790 |
| EARNINGS AFTER FINANCIAL ITEMS, SEK m. | 431 | 450 |
| RETURN ON CAPITAL EMPLOYED, % | 19 | 22 |

**Summary of 1986**

The Airpower Division's sales of both portable and industrial compressors continued to rise despite increasingly severe competition. Orders for compressors for gas and process applications were also substantially higher.

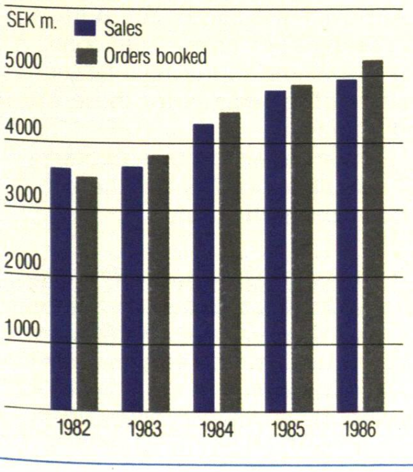
Division profits were strongly affected by start-up costs for new production lines and costs related to the launch of new products.

**Outlook for 1987**

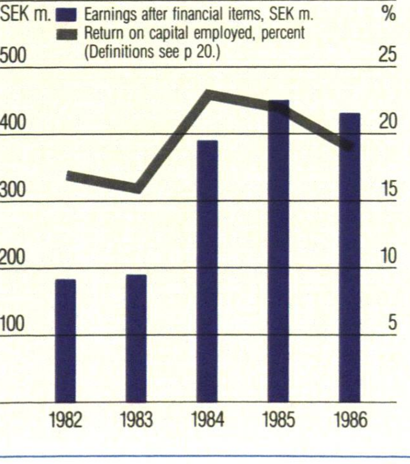
Despite increased competition, a depressed level of prices and uncertainty as to fluctuations in foreign exchange rates, the outlook for the Airpower Division is favorable.

It is estimated that the Division will be able to maintain its leading position in the market and increase the level of its profitability.

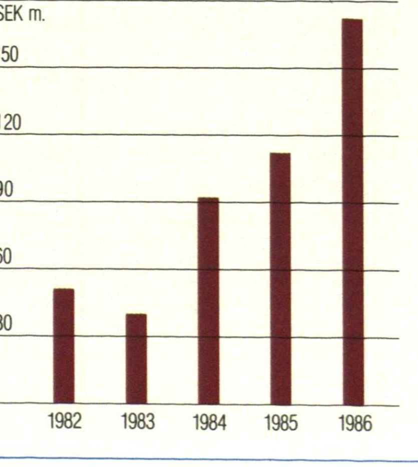
**SALES AND ORDERS BOOKED**




**EARNINGS AND RETURN**




**INVESTMENTS, RELATED TO PRODUCTION**



### Sales

Invoiced sales of the Airpower Division increased 3 percent, to SEK 4,950 m. (4,790). Orders booked from customers totaled SEK 5,250 m. (4,889), an increase of 7 percent.

### Earnings

Earnings after financial income and expense amounted to SEK 431 m. (450), equal to 9 percent of sales. Earnings were affected by costs for the continuing rationalization of the factory in Belgium and by lower gross margins resulting from the trend of foreign exchange rates. The ongoing restructuring of the Gas and Process operations also caused costs that reduced earnings.

The return on capital employed was 19 percent (22).

### Investments

Investments in land and buildings related to production amounted to SEK 41 m. (23), and investments in machinery and equipment totaled SEK 131 m. (89).

The investments pertained to a new building in Antwerp, for education and new distribution facilities designed to permit efficient materials handling. Investments were also made in a computerized system for parts, an advanced Computer Aided Design (CAD) system and a flexible production system.

### Business development

During the year the structure of the Division was changed from being product oriented to create a more market-oriented organization. The world market has been divided into five geographic regions, each with a Regional Director responsible for the Division's business. The marketing organization is receiving strong, product oriented support from all business areas.

A new service and distribution center was constructed in Antwerp during the year in order to ensure service and parts are more rapidly available to customers. The new facility will ultimately reduce the requirement for local warehousing facilities.

### Market development

As a result of the low prices for oil during 1986, there were only marginal increases in capital expenditures in the construction and manufacturing industries.

The market for compressors developed favorably in Western Europe, with many attractive orders for Atlas Copco Airpower. In contrast, demand in the United States and Japan was sluggish. In most of the developing countries, there was a continuation of the trend of low growth and impaired balance of payments, which had a negative effect on order bookings from these countries during 1986.

The current overcapacity in compressor manufacturing throughout the world has adversely affected price trends.

### *Competitive situation*

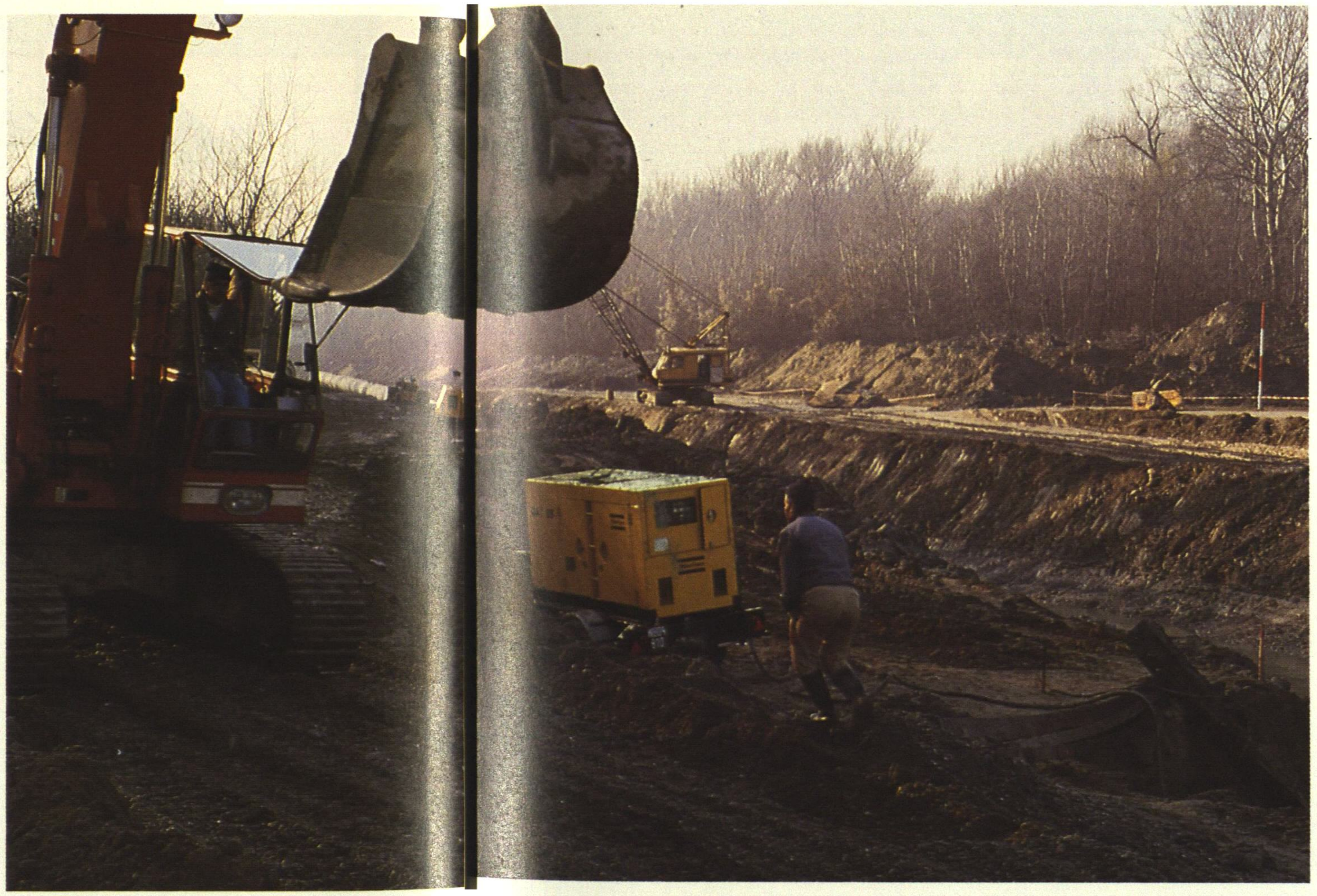
Competitors in the United States and United Kingdom took advantage of the decline in exchange rates of the dollar and pound during 1986.

The European competitors concentrated their marketing resources in Europe. Japanese competition increased notably in the product area of oil-free compressors.

### *Business area: Industrial air*

Despite increased competition, the Division maintained its strong position in oil-free rotary compressors. The Industrial air Business Area recorded major sales successes throughout the world.

The introduction of compressors equipped with electronic condition-monitoring makes it possible to control these units through a computer system and thereby increase the efficiency of servicing by way of preventive maintenance program.



*Diesel-powered generators were introduced during the year to provide mobile sources of energy at construction sites. The generators are used for lighting, welding, pump operations, power drills and other tools. The generator pictured is being used as a power plant on the Austrian section of the natural gas pipeline being built between the Soviet Union and Italy.*

### *Business area: Service air*

Major programs to market small stationary compressors via the Division's sales companies and resellers were implemented throughout Western Europe during 1986. Sales and market shares in this area increased sharply.

Production in Antwerp is now undergoing a program of redevelopment designed to continue product manufacture to high quality standards and enable Airpower to meet the aggressive low-price competition.

### *Business area: Portable energy*

In the face of severe competition, Airpower was successful in increasing sales of portable compressors and capturing a larger share of the market for these products.

Diesel-powered generators were introduced in certain markets during the year.

### *Business area: Gas and Process*

The market for industrial gases – which demands energy-efficient centrifugal compressors and expansion turbines – developed favorably during the year, resulting in an increase in sales.

A considerable number of large air and gas compressors were installed in power stations in West Germany and Austria. New markets for centrifugal compressors in desulphurization processes are opening up in the environmental conservation field.

In order to deal with this growth, and to concentrate production, the Atlas Copco Energas plants in Saarbrücken, West Germany, have been divested. Production in the Industrial gas Business Area is now concentrated in the factory in Cologne.

### Product development

Development resources within the Airpower Division have been restructured in order to strengthen control and increase flexibility in the three key fields of basic research, product design, and development.

### Production

The cost of materials, simplified design, purchasing, and the flow of materials were among the factors reviewed during 1986. Alternative sources of supply were evaluated and new quality routines for suppliers have been introduced.

A quality assurance program was introduced during 1986 to meet increased demands from the market.

Improved manufacturing methods enhanced by more specific production projects are certainly improving throughput time in Airpower's production units leading to shortened lead-times and reduction in tied-up capital for work-in-progress.

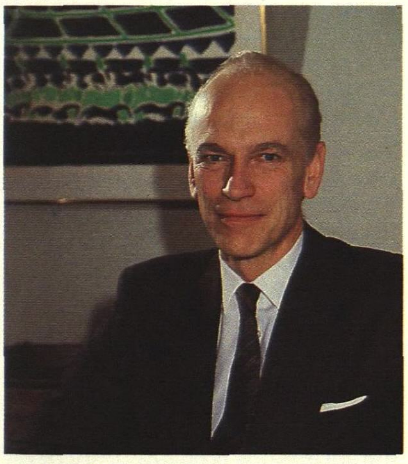
### Personnel

Excluding those in the sales companies, the average number of employees in the Division was 3,196 (3,276). The training of technical personnel in specialized functions, and in the use of the CAD system, continued during the year. With a view to integrating management policies of the Division and the sales companies, study and contact visits were arranged for management personnel of the sales companies.

*Picture shows some of the screw compressors delivered by Airpower for use in the Yacyretá hydro power project in Argentina. The compressors are being used to supply compressed air for a wide variety of applications related to the project.*

*Impregilo, an Italian Contractor, selected Atlas Copco to supply the rock drilling equipment for the Yacyretá hydro power project in Argentina, which involves construction of one of the world's largest dams.*

# Atlas Copco MCT



PER WEJKE

MANAGEMENT COMMITTEE

*Per Wejke,*
President

*Bengt Ljung,*
Underground Equipment

*Gustaf Bråkenhielm,*
Surface Equipment

*Hans Fernberg,*
Rock Drilling Tools

*Lars Calmered,*
Production and Logistics

*Göran Kullman,*
Technical Development

*Claes Silfverstolpe,*
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 as well as light equipment for the construction and contracting industry. The product line also includes Sandvik Coromant rock drilling tools and a number of equipment lines from other manufacturers.***

***The MCT Division 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, South Africa and Turkey.***

| | 1986 | 1985 |
|---|---|---|
| INVOICED SALES, SEK m. | 3,350 | 3,443 |
| EARNINGS AFTER FINANCIAL ITEMS, SEK m. | 118 | 185 |
| RETURN ON CAPITAL EMPLOYED, % | 10 | 15 |

**Summary 1986**

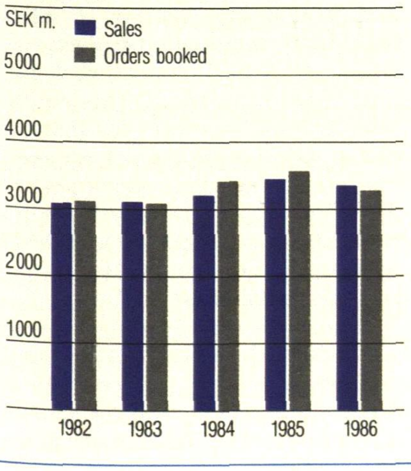
The MCT Division's sales of light rock drilling equipment and loaders was adversely affected by low metal prices. The demand for the new, highly mechanized drilling rigs for mining, tunneling and surface mining as well as light construction equipment continued to be favorable. The decline in earnings was mostly attributable to unfavorable currency trends in key markets.

**Outlook for 1987**

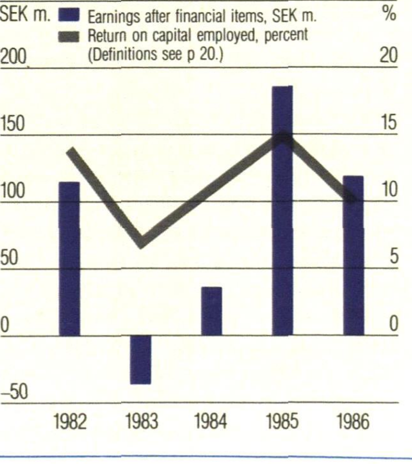
Continuing improvement is forecast for the construction market. The low international metal prices are expected to persist during 1987 and will thus have an unfavorable affect on demand from the mining industry. The cumulative effect of these factors is expected to lead to generally unchanged sales volume.

A decision was taken during 1986 concerning a comprehensive review of the Division's organization for the purpose of creating an improved cost structure. The effects of these measures are expected to lead to gradual improvements in profitability.

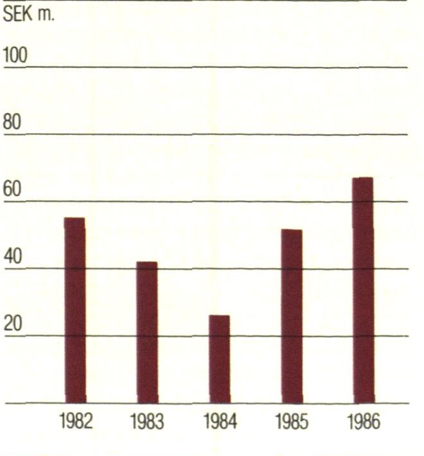
**SALES AND ORDERS BOOKED**




**EARNINGS AND RETURN**




**INVESTMENTS, RELATED TO PRODUCTION**



**Sales**
Invoiced sales of the MCT Division in 1986 amounted to SEK 3,350 m. (3,443), down 3 percent. Order bookings amounted to SEK 3,278 m. (3,566).

**Earnings**
Profit after financial income and expense totaled SEK 118 m. (185), corresponding to 4 percent of invoiced sales. The difference in earnings between 1985 and 1986 is equal to the calculated effect of changes in the value of currencies that play an important role in the Division's operations. However, the Division's costs continue to be too high. The rationalization measures introduced to date have not proved sufficient.

Return on the capital employed was 10 percent (15).

**Investments**
Investments in land and buildings related to production amounted to SEK 14 m. (7) and SEK 53 m. (45) was invested in machinery and equipment. Investments were primarily designed to increase production efficiency.

**Market development**
Activity in the mining market slowed down during 1986. However, demand for recently developed production and drifting rigs continued to be favorable.

Low metal prices worldwide mean that mines wishing to survive are forced to invest in mechanization. This development benefits Atlas Copco, which is ahead of its competitors in mechanized and automated equipment.

Activity in the construction market was relatively satisfactory, resulting in increased sales of surface equipment and tunneling rigs. However, stiff price competition led to tight profit margins, notably for surface mining equipment. Sales of light construction equipment developed favorably.

The sales trend in Western Europe progressed positively, with sales companies in Norway and Italy recording notable successes. A positive development was also noted in South Africa and Brazil, while sales in Australia and in Atlas Copco International's markets decreased.

***Competitive situation***
A strong product line, combined with an extensive sales network, gives Atlas Copco a special position as an international supplier to the mining and construction industries.

The sluggish trend in markets over a period of many years has resulted in some excess capacity among suppliers to the mining and construction industries. This, in turn, has led to increased price competition among European, Japanese and American suppliers.

***Sector Underground equipment***
The demand for newly developed, mechanized and automated equipment for tunneling and mining production applications remained high, resulting in increased sales. Total sales of rigs, notably drilling rigs in the Simba and Boomer ranges, reached a record high. However, sales of such traditional products as light rock drills and loaders decreased.

Sales of drilling equipment for highway-, railroad-, power-plant tunnels and other applications, developed favorably. Further increases in market shares for tunneling rigs were recorded.

A new company, Atlas Copco Eickhoff Roadheading Technic, was established in cooperation with Gebr. Eickhoff, in West Germany. The new company will focus on the development, international marketing and servicing of equipment for coal and soft rock applications. Similarly, in Britain, a new company, Webster International, was established in cooperation with the British manufacturer, Webster Machine Ltd.

The first two tunnel boring machines in the new Foro range were delivered. These units are based on a new design which offers substantial advantages compared with competing equipment.

***Sector Surface equipment***
Demand from construction contractors and mine operators for drill rigs for surface applications was favorable during 1986. Hydraulic surface rigs are replacing pneumatic equipment to an increasing degree.

Order bookings were good and well distributed throughout Atlas Copco's markets. Development in the Norwegian market was particularly notable, however, due to the local sales company's success in capitalizing on the high level of activity in contracting.

Significant orders were secured during 1986 for equipment for international contracting projects, including the Great Manmade River in Libya. Another example is the major hydropower project, Yacyretá, in Argentina.

Major efforts were made during the year to consolidate Atlas Copco's strong position in the contracting market, while at the same time an extensive sales campaign, focusing on the quarrying industry, was launched.

A number of new products were introduced, including a new hydraulic rock drill, a range of light drill rigs and a heavy rig for down-the-hole drilling applications.

Light construction equipment continued to show favorable sales and profitability. The new series of hand-held pneumatic breakers, launched in 1985, contributed significantly to this trend. The largest sales volume increases for light construction equipment were recorded by the sales companies in the United States, Denmark, the Netherlands and Spain. Demand weakened in the North African and the Middle East markets.

Demand for heavy demolition equipment developed unfavorably and operations recorded a loss. A decision was taken to carry out a comprehensive restructuring of activities.

*The new compressed air drills in the TEX series have attracted substantial demand. Picture shows one of the sound-absorptive drills used in the restoration of the Colosseum.*


### *Sector Rock drilling tools*

Market development for Sandvik Coromant rock drilling tools was weak, notably in the Middle East and the Latin American mining countries.

Due to decreasing exchange rates on major markets, invoiced sales were lower than in the preceding year. As a result of continued, intensive promotional activities, Atlas Copco succeeded in increasing market shares within this particularly competitive product area.

New products, scheduled for introduction in 1987, were developed by Sandvik. A new grade of cemented carbide for button drill bits was launched in 1986 in connection with the International Mining Show in Las Vegas. The properties of the new material improve both the toughness and hardness of the insert buttons. Button bits based on the new cemented carbide offer major economic benefits for drilling applications, including improved penetration rates and service life.

### Product development

The determined efforts in R&D represent a major element in MCT's strategy to maintain its technology leadership in its field. The strategy is based on the supply of more advanced technology than the competitors, which provides increased productivity for the customer.

The major investments during recent years in product development resulted in the introduction of several important products in 1986. Among the new products presented at the International Mining Show in Las Vegas was a fully automatic tunneling rig – Robot Boomer – which drills complete rounds without the continual supervision of the operator. At the same time, the Division introduced the Rocket Boomer, a tunneling rig with a drilling performance twice as fast as any other rig on the market.

Development work on surface rigs for blast-hole drilling resulted in the introduction during 1986 of a number of new units and a new rock drill.

### Production

Capacity utilization was high in all MCT plants. During 1986 a record number of drill rigs was delivered from the Simba production plants in Nacka, Sweden, and Bremen, West Germany. Component manufacture at the Avos plant at Örebro, in Central Sweden, also contributed to the good production result.

It was decided to construct a new plant at Hemel Hempstead, in Britain, to replace the older facilities. Production at this new plant will start in the autumn of 1987.

### Personnel

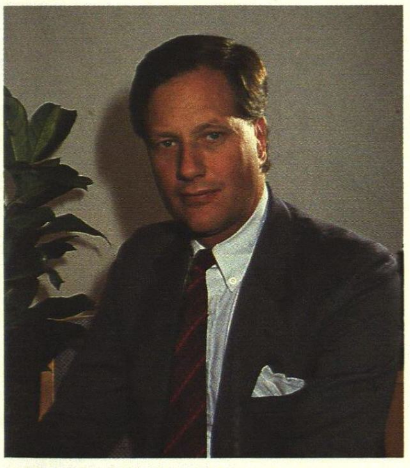
During the year the MCT Division employed an average of 1,703 persons (1,757), of whom 1,219 (1,291) were in Sweden.

During the year a major study was presented of the personnel structure in MCT's Swedish operations. This study was based on the changes in staff composition and skills which will be required in the near future.

The project, which will be implemented in 1987, will primarily encompass training in basic data processing techniques, NC-controlled manufacture, production techniques, production planning and computer-based design and manufacture, so-called CAD/CAM techniques.

*Leading automobile manufacturers use Atlas Copco's torque control nutrunners because of their exceptional accuracy. Shown is spark plug installation on an V8 engine final assembly dress line at a U.S. automobile plant.*

# Atlas Copco Tools



MICHAEL TRESCHOW

*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. The Tools Division's plants are located in Skara, Tierp and Eskilstuna (Sweden), and in Finland. Manufacture and assembly are also carried out in Brazil, West Germany and the United States.*

| | 1986 | 1985 |
|---|---|---|
| INVOICED SALES, SEK m. | 964 | 875 |
| PROFIT AFTER FINANCIAL ITEMS, SEK m. | 108 | 91 |
| RETURN ON CAPITAL EMPLOYED, % | 23 | 22 |

*MANAGEMENT COMMITTEE*

*Michael Treschow,*
President
*Lars Larson,*
Industrial tools and equipment
*Lennart Evrell,*
Assembly systems
*Lennart Dock,*
Finishing
*Gösta Henningsson,*
Business and technology development
*Berth Johnsson,*
Finance
*Allan Rothlind,*
Personnel and organization develop
*Stefan Börjesson,*
Materials administration
*Rolf Carlsson,*
Data processing

**Summary 1986**

Sales in all business areas developed favorably. The improvement in earnings was mainly due to successful sales efforts combined with the ongoing program of rationalization measures.

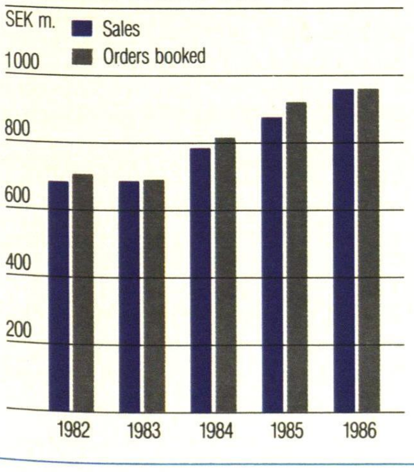
**Outlook for 1987**

Atlas Copco Tools anticipates continuing favorable economic conditions in most European markets. Development in North America will most likely be less favorable, since capital expenditures in the automotive industry and others are proceeding at a more cautious pace than forecast previously.

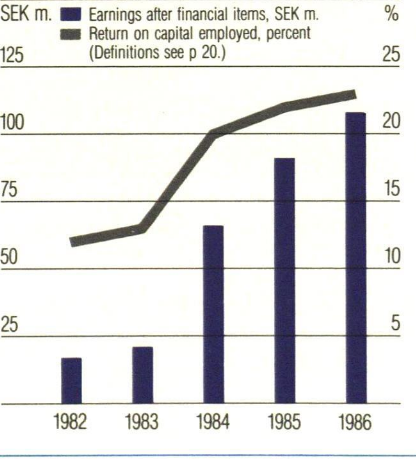
Competition is expected to increase, notably from American manufacturers.

As a result of measures undertaken in 1986, combined with activities planned for marketing, production and distribution, conditions are favorable for a continued improvement in earnings.

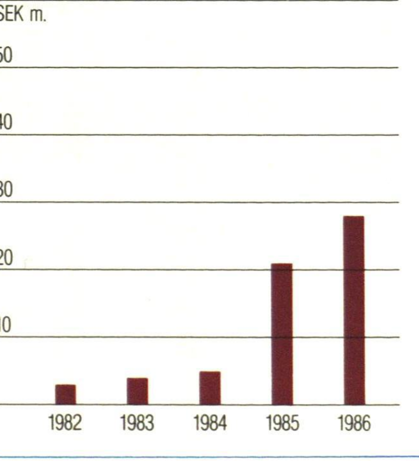
**SALES AND ORDERS BOOKED**




**EARNINGS AND RETURN**




**INVESTMENTS, RELATED TO PRODUCTION**



*Increasingly, robots are taking over more dirty jobs. At Nissan's plant in Smyrna, Tennessee, an Atlas Copco Coat-A-Matic sprays protective wax coating for effective anti-corrosion protection at low cost.*

**Sales**
Invoiced sales of Atlas Copco Tools in 1986 rose 10 percent to SEK 964 m. (875). Order bookings increased 4 percent to SEK 963 m. (923).

**Earnings**
Profit after financial income and expense was SEK 108 m. (91), corresponding to 11 percent of invoiced sales.

Return on capital employed was 23 percent (22).

Higher sales volumes and the continuing restructuring of operations contributed to the improvement in earnings. The Tools Division was only marginally affected by the trend in exchange rates since the European market accounts for the largest proportion of sales.

**Investments**
Investments in land and buildings related to production amounted to SEK 4 m. (1), and in machines and equipment to SEK 24 m. (20).

**Market development**
The sales trend for the Division's products in the industrial markets of Western Europe was highly favorable, due to the growth in industrial production. Sales weakened in the United States due to the sluggish trend in industrial production, combined with increased price competition resulting from the fall in the dollar exchange rate.

The automotive industry, one of Atlas Copco Tools' most important segments, experienced high capacity utilization in most countries outside the United States.

*Competitive situation*
The decrease in the U.S. dollar exchange rate improved American competitiveness on most markets. British, German and Japanese companies were also very active during 1986.

Atlas Copco Tools performed very well thanks to its systems expertise, quality and efficiency, which offer production benefits for customers. The Division also enjoys a substantial competitive edge in the ergonomics sector.

*Business area: Industrial tools*
Sales continued to increase and profitability was further improved. Operations in West Germany, Italy, the Netherlands and Spain were notably successful.

Competition remained intense. The competitive advantages enjoyed by the Division's products in terms of high productivity, quality and favorable ergonomic characteristics, resulted in major successes in the manufacturing industry.

A number of new products were launched, including an electric-powered screwdriver for light assembly operations; an ergonomically designed sheet metal cutter and a new nutrunner with a hydraulic impulse mechanism. A new series of torque control nutrunners, with electronic monitoring of the tightening process, recorded major successes in the automotive industry.

Market interest in ergonomically correctly designed handtools increased considerably. Since the late 1950s, Atlas Copco has been marketing tools specially adapted to the operator's working posture and environment. The Company has a significant lead on competitors in this area.

ARAS, an automatic riveter, introduced in 1985, attracted great interest from aircraft manufacturers worldwide. The Division received attractive orders from many countries.

A decision was taken at the end of the year to permit the Division to take over direct responsibility for sales and service of industrial tools and accessories on the Swedish market. This means that the Division will establish closer contact with the customer, thus improving the potential for market-oriented product development.

*Business area: Assembly systems*
Invoiced sales increased. The trend of capital expenditures in the European automotive industry was favorable, while the U.S. market adopted a more cautious position. Swedish auto manufacturers are attempting to defend their positions as technological frontrunners and, consequently, they are continuing to invest in advanced assembly equipment. This made 1986 a record year for the sale of multiple systems on the Swedish market. The entry into the Chinese market was successful. China's largest tractor plant and one of its largest truck manufacturers are two of the customers who have rationalized their production using Atlas Copco assembly systems.

The Division's European center for assembly technology in Essen, West Germany, developed according to plan. The first major deliveries went to Fiat, Ford and Citroën.

MACS Compact, a modular microcomputer controlled system, which was first introduced in 1985, scored its major breakthrough in 1986. Software for the system is being enhanced and expanded.

A tightening system based on brushless electric motors was launched during the year. The

*Atlas Copco's semiautomatic nutrunners are used for con rod bearing caps assembly at Cummins' diesel engine plant in Darlington, England. The assembly is controlled and monitored by an Atlas Copco MACS system. This equipment was selected because of its high sensitivity and diagnostic capability.*


system, known as Delta, fulfills market requirements for a high production rate combined with high precision. Demand for the system is particularly notable in the U.S. automotive industry.

A decision was taken to concentrate all know-how in automatic assembly, with its special requirements in the areas of technology, marketing expertise and project administration, to one company.

Responsibility for the development and marketing of ARAS, the automatic riveting system, was also transferred to the new company. Known as Atlas Copco Assembly Systems AB, this wholly owned subsidiary of Atlas Copco commenced operations on January 1, 1987.

***Business area: Finishing technique***

The first year of operations of Atlas Copco Finishing AB, formerly the Finishing sector of the Tools Division, was characterized by increases in order bookings and invoiced sales.

Sales increases were achieved mainly in Sweden, Italy, Belgium and Spain. Operations in the United States did not yield the expected results due to delays in a number of industrial projects, high establishment costs and the decline in the value of the USD.

The trend towards increased system sales continued.

A major proportion of the automobiles sold today feature vastly improved anti-corrosion properties. The anti-corrosion treatment plants from Atlas Copco are contributing to this development.

During 1986 the company consolidated its status as the leading supplier of anti-corrosion equipment to the automotive industry in the United States, Italy and Yugoslavia.

The market success of the paint-spraying robot Coat-A-Matic continued, with favorable order bookings, notably in Spain, France and the Netherlands.

A newly developed series of equipment for airless spray painting was launched. The lubrication free, soundproofed high-pressure pumps, in particular, attracted great market interest.

**Business and technological development**

Technological development was characterized by the continuing increase in the electronic content of the Division's products.

During the year, the Division reached agreement covering the acquisition of STIB Machine & Consulting AB. The company develops and manufactures equipment and systems for automation in the engineering industry, in addition to other products.
A substantial proportion of the company's operations consist of consulting services within the automation sector. The company constitutes an important support for the Assembly Systems business area.

**Production**

Previous investments in production systems resulted in shorter lead times and, thereby, a reduction in tied-up capital.

The Division continued to make major investments in production equipment and rationalization of the production flow was intensified.

Capacity utilization was high, notably in the Swedish units.

**Distribution**

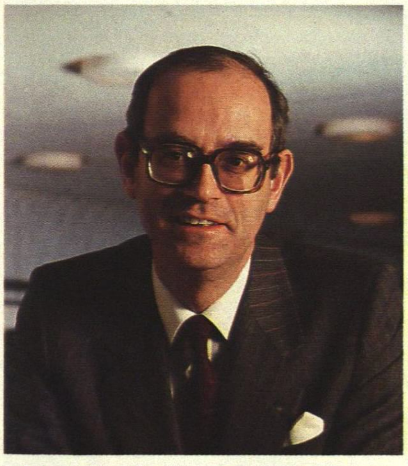
A new system for direct deliveries to customers in Norway was completed. This resulted in substantial rationalization gains, both in distribution and inventories, while at the same time satisfying market demand for high delivery service. The system will be introduced to neighboring markets during 1987.

**Personnel**

The Tools Division employed an average of 919 persons (842) in production operations, of whom 121 (121) were located outside of Sweden.


*Monsun-Tison delivers pneumatic components for Ricciarelli packaging machines. This equipment, shown here installed at a small company in southern Italy, weighs and fills pasta into bags – automatically and hygienically – using pneumatic systems.*

# Monsun-Tison



CARL AXEL RUDD

*MANAGEMENT COMMITTEE*

*Carl Axel Rudd,*
President

*Anders Perning,*
Finance and Administration

*Hans-Jörgen Lindström,*
Industrial Automation

*Lennart Hammarström,*
Mobile Hydraulics

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

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

***Mobile Hydraulics' marketing is conducted through Monsun-Tison's sales companies in Sweden, Denmark, France, Italy, Norway, Great Britain, the United States and West Germany. The business area sells to manufacturers of mobile equipment such as cranes, forest machinery and mining equipment. Industrial Automation's marketing is conducted through Monsun-Tison's sales companies and in other countries through agents or Atlas Copco sales companies. The primary customers are manufacturers of packaging machinery, transport equipment and other types of equipment.***

***Monsun-Tison's head office is located in Borås.***

***The company has production facilities in Borås and Falköping (Sweden).***

| | 1986 | 1985 |
|---|---|---|
| INVOICED SALES, SEK m. | 393 | 363 |
| PROFIT AFTER FINANCIAL ITEMS, SEK m. | 47 | 55 |
| RETURN ON CAPITAL EMPLOYED, % | 22 | 31 |

**Summary 1986**

The sales of hydraulic components developed very favorably. The higher earnings in 1985 was the result of a major export contract.

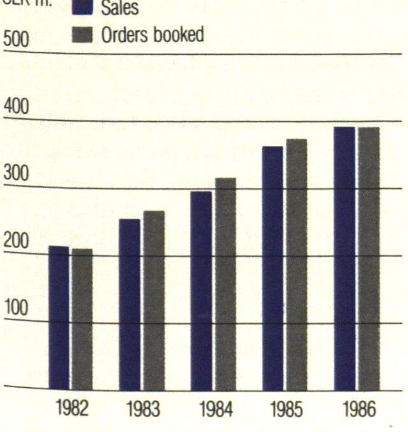
**Outlook for 1987**

Demand in the Mobile Hydraulics business area is expected to increase somewhat. This factor, combined with the introduction of new products and increased sales efforts, is expected to lead to a certain increase in sales volume.

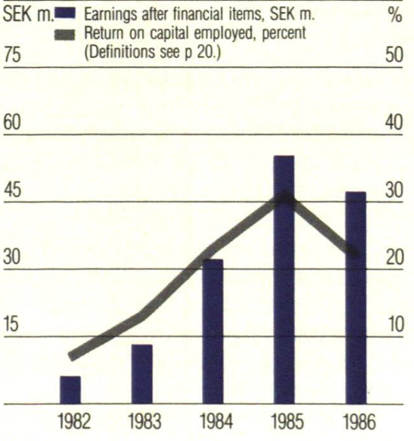
Industrial Automation anticipates an upturn in sales volume as a result of its strengthened marketing organization.

Earnings are expected to improve.

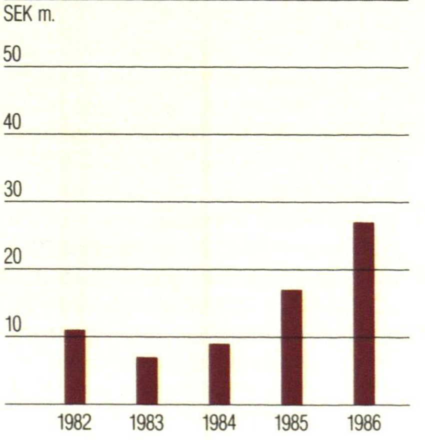
**SALES AND ORDERS BOOKED**

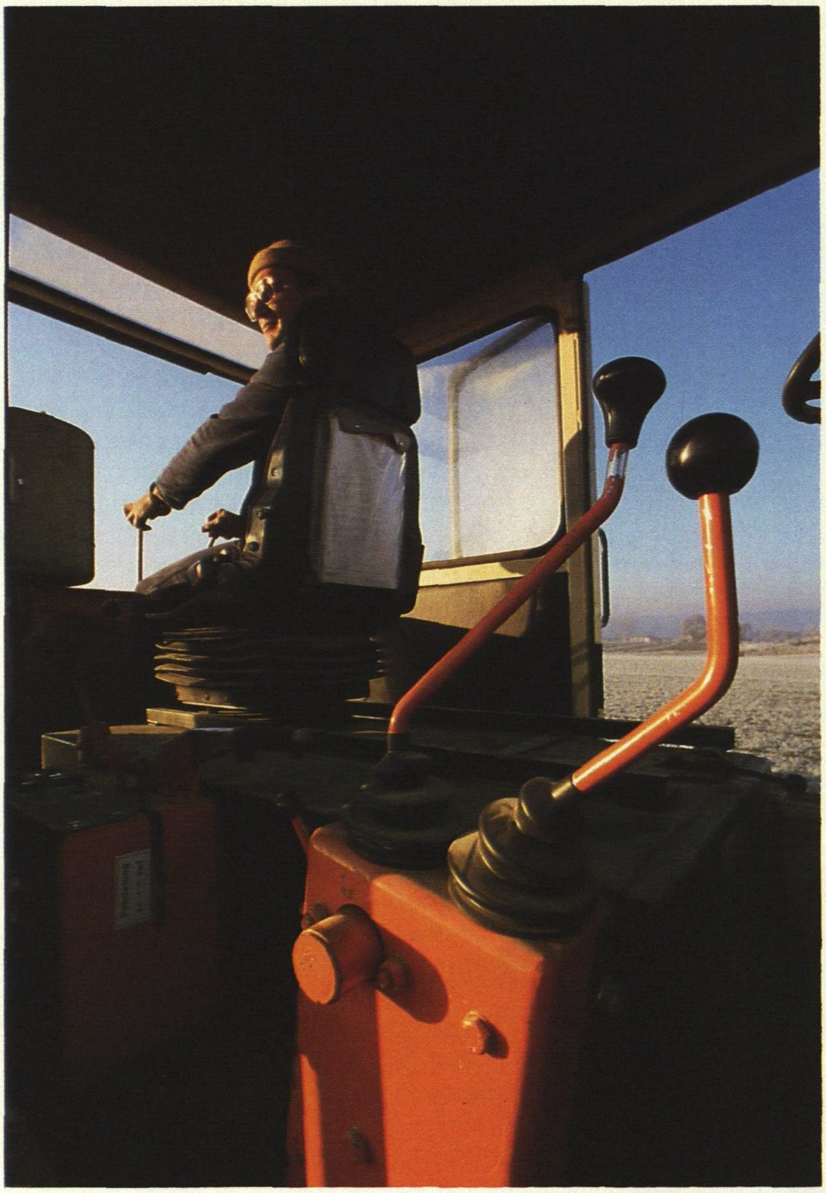



**EARNINGS AND RETURN**




**INVESTMENTS, RELATED TO PRODUCTION**





*For more than 10 years, Monsun-Tison has supplied valves and equipment for remote-control operation of excavators manufactured by Karl Schaeff, in West Germany.*

**Sales**

Monsun-Tison's invoiced sales in 1986 amounted to SEK 393 m. (363), an 8-percent increase. The company also invoiced SEK 46 m. (38) to other companies in the Atlas Copco Group. Order bookings were up 5 percent, to SEK 393 m. (375).

**Earnings**

Profit after financial income and expense amounted to SEK 47 m. (55). The higher profit in 1985 was due to a large export contract.

Return on capital employed was 22 percent (31).

**Investments**

Investments in land and buildings amounted to SEK 10 m. (0), and in machines and equipment SEK 17 m. (17).

The Company purchased a land site, measuring about 20,000 $m^2$, adjoining the industrial automation plant at Falköping. The construction of plants and offices is in progress and is expected to be completed during the spring of 1987.

**Market development**

***Business area: Mobile Hydraulics***

Intensified cultivation of markets resulted in sales volume increases for all product groups – hydraulic cylinders, hydraulic valves, remote control systems and external products. In total, the company increased its market shares within its business area in 1986.

Particularly substantial increases were noted for hydraulic remote-control valves for applications in mainly construction equipment and special cartridge valves for hydraulic pumps, motors and transmission systems.

The sales increase was partly attributable to breakthroughs in new market segments, including marine applications and construction equipment. Sales for materials handling applications, notably truck-mounted cranes, also displayed a positive trend.

Demand during the year increased markedly in a number of markets, mainly in Norway, West Germany and France. Sales in the Middle East also developed favorably. The U.S. sales company secured large orders from manufacturers of transmissions and pumps.

A special sales company was established during the year to handle sales of mobile controls on the Swedish market.

Profitability was further improved.

***Business area: Industrial automation***

Order bookings were favorable in 1986. Sales, which focus primarily on Western Europe, developed satisfactorily in these markets. Due to orders of a long-term nature, order bookings displayed a slightly larger volume growth than invoiced sales.

Sales capacity was boosted through an increase in the number of employees in the non-Swedish subsidiaries. A decision was taken during the year to establish a new sales company to serve the Swedish market. The company began operations on January 1, 1987.

The market was characterized by increasingly intensive price competition.

**Production**

The hydraulic valve manufacturing facility continued its investment program aimed at increasing flexibility and orientation towards customer-order controlled production.

The hydraulic cylinder manufacturing plant recorded substantially increased profitability, resulting primarily from a restructuring program.

Additional steps were taken in the manufacturing units to increase capacity utilization, quality and delivery reliability.

**Product development**

The Mobile Hydraulics business area supplemented its standard product line and at the same time developed new lines for special applications. Development work focused primarily on electro-hydraulic control systems. A number of unprofitable products were discontinued.

The Industrial Automation business area supplemented its product program with a new ISO valve series, short-stroke cylinders, electronic control systems, vacuum components and others.

The product program is now well-developed and competitive, and meets the very high quality requirements imposed on modern automation equipment.

**Personnel**

The company employed an average of 768 persons (737) in 1986, of whom 137 were located outside of Sweden (128).

During the year, particular emphasis was placed on training sales staff and technical personnel.

Personnel turnover and absenteeism decreased.

## THE INDUSTRIAL GROUP

*An Industrial group, comprising Atlas Copco Tools and Monsun-Tison, was formed at the beginning of 1986 with the aim of strengthening the Atlas Copco Group's position in the industrial market.*

The Industrial group was formed to provide Atlas Copco greater potential for rapid growth in areas outside its traditional fields of operation. To achieve higher growth, the group will focus its resources on further development of the five business areas which currently exist in the two divisions and on acquisition of companies in related areas of technology.

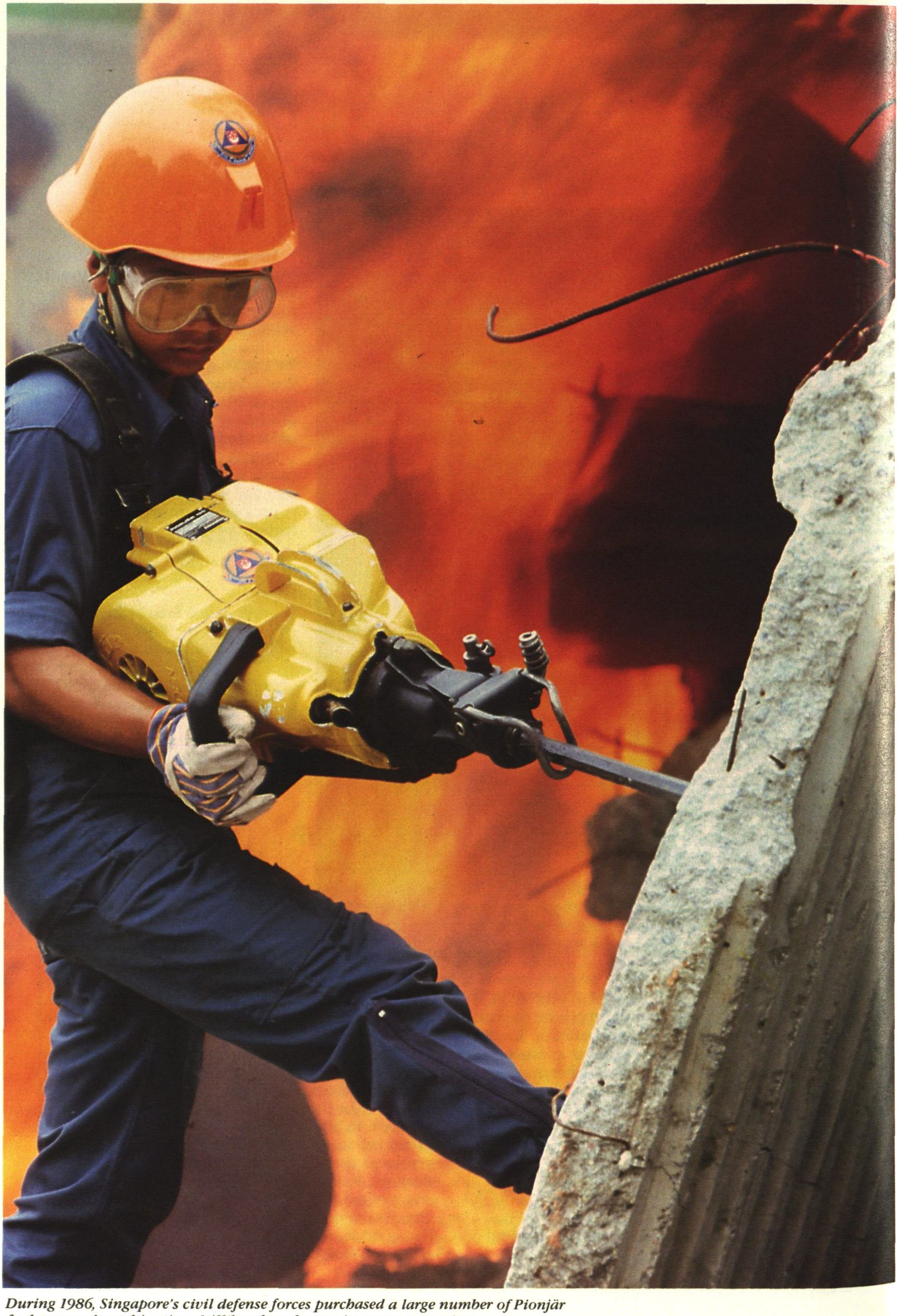
The business concept of the Industrial group is to become a leading supplier to primarily the engineering industry of production equipment as well as components for its products.

This position will be achieved through internal growth and company acquisitions.

Currently, intensive activity is under way to develop a marketing organization in priority markets and reviewing possibilities to acquire suitable companies. Acquisitions is a key strategy for the group's growth.

The various business areas in the Industrial group have been organized as independent profit centers with own production, technology and marketing resources.

The Atlas Copco Group's many years of advanced experience from its own manufacturing operations facilitates the development of new business possibilities. In the area of product development, the group has access to Atlas Copco's central R&D resources and its experience in the global sales network, in addition to its own resources. As a result of the Industrial group's short and direct channels to customers, it has been demonstrated that good service and important impulses for product development are well exploited.



*During 1986, Singapore's civil defense forces purchased a large number of Pionjär fuel-powered combination drill/breakers for use in rescue operations.*

# Berema

GÖSTA FERNSTRÖM

*MANAGEMENT COMMITTEE*

*Gösta Fernström,*
President

*Arne Gerold,*
Finance and Administration

*Per Hallström,*
Berema Exports

*Olav Heinsoo,*
Business Development

***Beremas' business concept is to develop, manufacture and market light industrial products, and to acquire and develop new companies in peripheral areas attractive to the Atlas Copco Group.***

***The most important light industrial products include; fuel-powered drill/breakers; Honda Power Products marketed by Berema in Sweden and Norway; and KGK light industrial products, such as small compressors, tools, high-pressure washing units, pumps and welding equipment.***

***Berema's subsidiaries are: Atlas Copco Energy (well drilling systems); Atlas Copco ABEM (geophysical instruments and industrial measuring electronics); Toolex Alpha (equipment for Compact Disc manufacture); Flodins Filter (air filters); Idesta, formerly Svenska Stålprodukter (commercial kitchen equipment and metal facade elements) and Karlsson's Mekaniska Verkstad (hydraulic components).***

***The Berema Group's twelve units operate under their own names. Berema's head office is located in Solna (Stockholm). Manufacturing is conducted in Sweden at plants in Kalmar, Eskilstuna, Skara, Lysekil, Sala and Sundbyberg. Berema has its own sales companies in Norway, Sweden and the United States.***

| | 1986 | 1985 |
|---|---|---|
| INVOICED SALES, SEK m. | 694 | 591 |
| PROFIT AFTER FINANCIAL ITEMS, SEK m. | 26 | 47 |
| RETURN ON CAPITAL EMPLOYED, % | 10 | 16 |

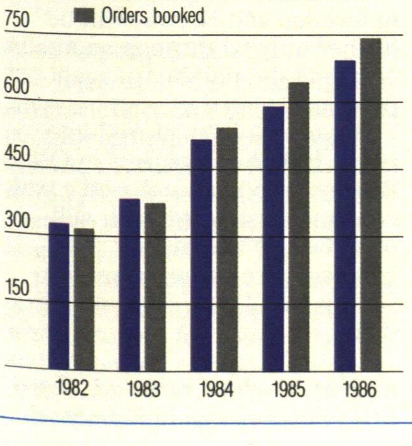
**Summary 1986**

Sales of light industrial products, which account for 50 percent of Berema's invoicing, developed favorably. Earnings were lower due to heavy development costs, primarily at Toolex Alpha.

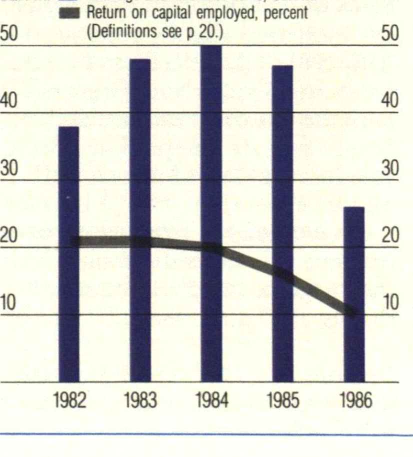
**Outlook for 1987**

Strong volume growth is forecast for 1987. Earnings are expected to increase, and profitability to return to its previously satisfactory level.

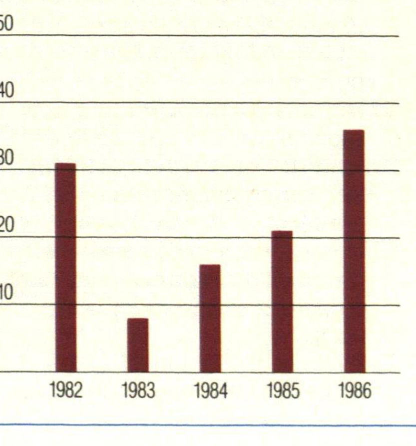
**SALES AND ORDERS BOOKED**




**EARNINGS AND RETURN**




**INVESTMENTS, RELATED TO PRODUCTION**



## Sales

Sales of the Berema group increased during the year by 17 percent to SEK 694 m. (591). Order bookings rose 15 percent to SEK 745 m. (647).

## Earnings

Profit after financial income and expense amounted to SEK 26 m. (47), equal to 4 percent of invoiced sales. In 1986 substantial restructuring costs incurred in connection with the transition from LP to CD technology at Toolex Alpha and a reduction of the heat pump operations at Atlas Copco Energy were the main reasons for Berema's decreased income for the year.

The return on Berema's total capital employed was 10 percent (16).

## Investments and acquisitions

Investments in land and buildings totaled SEK 17 m. (2), and SEK 19 m. (19) was invested in machinery and equipment. Acquisitions in 1986, which were made primarily within existing units, included:

- All shares in Atlas Copco ABEM were transfered from Atlas Copco AB to Berema.
- Additional shares in AB Å Karlssons Mekaniska Verkstad were acquired. Berema currently holds 91 percent of the shares in the company.
- Toolex Alpha, in cooperation with CD PLANT AB, Malmö, established CD Mastering AB, for the production of Glassmasters used in CD manufacture. The shareholding amounts to 50 percent.
- Berema participated in a new share issue and convertible loan in Scanditronix, with an unchanged shareholding of 22 percent.
- In Sweden, Berema acquired the product rights to a garbage container system for public parks.
- Berema A/S acquired KGK's distributor in Norway, Norsk Kompressorservice A/S.

*In its efforts to reduce noise in cars, the sound laboratory of the Volvo Car Division uses FFT analyzers supplied by Atlas Copco ABEM.*

## Light Industrial Products

Approximately 50 percent of Berema's total sales are of light industrial products, including those manufactured in the company's own factories and agency products. The companies in this sector include:

***Berema Export and Berema BMI, Kalmar***

Sales of fuel-powered drill/breakers increased slightly compared with 1985. Sales increases in West Germany, Switzerland, Great Britain, the Nordic countries and Southeast Asia compensated for a reduced sales volume in the Middle East

Investments in product development will add substantially to the range of handheld equipment during 1987 and 1988

***Berema Inc, USA*** reported satisfactory profitability in 1986, despite a lower sales volume.

***Berema Sweden and Berema Norway***

As in the previous year, the companies expanded sharply in 1986. Expansion was particularly notable for Honda Power Products: lawnmowers, snow ploughs and generators. Profitability was good despite the increase in the value of the Japanese yen.

Berema's strong sales network in Sweden and Norway will be further utilized through an increase in the number of agent products.

Berema Norway moved into newly built headquarters in Oslo. Berema Sweden purchased a park container system which it will manufacture and market. The company also acquired responsibility for COBRA sales in Sweden.

***KGK Mekaniska Verkstad, Skara***

KGK continued its delopment dur-

*Initiated by Atlas Copco's employees in cooperation with Save the Children, a highly interesting aid project is currently under way in Peru's Puno District. More than 100 wells were drilled during the period May to October 1986 to provide pure drinking water to about 25 000 people. The well drilling rig was supplied by Atlas Copco Energy.*

ing 1986 towards becoming a distribution company with new product agencies and an expanded retailer network. The company's own manufacture of compressors decreased and focused instead on assembly operations.

Total invoiced sales of the light industrial products business for Berema amounted to SEK 334 m. (317).

**Atlas Copco ABEM**

The international oil crisis had an adverse effect on ABEM's sales of geophysical equipment, notably seismic instruments. In 1986, a sales office was opened in Austin, Texas to strengthen sales in the large U.S. market.

Sales of equipment for locating ground water increased slightly, while demand for signal analysis and recording equipment stagnated.

In the Scandinavian market, sales of industrial measuring instruments increased about 20 percent.

ABEM's invoiced sales amounted to SEK 32 m. (32).

**Atlas Copco Energy**

Atlas Copco Energy introduced a number of products and systems in 1986. This permitted the company to offer complete systems for the supply of drinking water, ranging from well drilling to installed drinking-water supply. Sales in 1986 did not increase at the expected pace.

The market for heat pumps was affected by low oil prices and operations were substantially reduced during the year.

Invoiced sales amounted to SEK 86 m. (111).

**Toolex Alpha**

During the year Toolex Alpha sold its LP pressing operations to Grammoplast and invested in and started up the manufacture of CD (Compact Discs), in Sundbyberg (Stockholm). Substantial start-up and restructuring costs were charged against income in 1986.

Three turnkey CD plants were delivered during the year. Sales of Optical Disc Plating equipment increased sharply.

Invoiced sales amounted to SEK 133 m (87).

**Other companies**

*Flodins Filter*

Marketing efforts resulted in a substantial sales increase and the 1985 losses were turned into a profit in 1986.

The largest increase was noted for protective gasmask filters. Sales of industrial filters also rose in 1986.

*Idesta*

At year-end 1986, Svenska Stålprodukter changed its name to AB Idesta. The company recorded continuing good profitability in 1986. A slight volume increase was noted for commercial kitchen equipment.

Strong volume increase were achieved in Idesta's other business areas, metal facade elements, doors and windows, all of which are manufactured on the basis of talor made design and high security requirements.

*Å Karlssons Mekaniska Verkstad*

The company recorded continued good profitability and should have good growth potential in such products as polished valve slides.

**Personnel**

The average number of employees increased during the year to 759 (636), due primarily to Toolex Alpha's own CD-manufacturing operations and the transfer of ABEM to Berema.

# Personnel

| SEK thousands | 1986 | 1985 |
|---|---|---|
| Sales per employee | 627 | 604 |
| Earnings per employee | 44 | 50 |
| Value added per employee | 241 | 237 |

The average number of employees in the Atlas Copco Group in 1986 increased to 16,498 (16,695), of which 27 percent (28) were employed by companies in Sweden. Total labor costs rose by 5.5 percent to SEK 2,895 m. (2,743), of which social costs account for SEK 797 m. (752).

| | | Average number of employees* | | Wages, salaries and other personnel costs | |
|---|---|---|---|---|---|
| | | 1986 | 1985 | 1986 | 1985 |
| SWEDEN | Head office | 65 | 68 | 35 | 32 |
| | Divisions | 3,440 | 3,585 | 627 | 610 |
| | Sales companies | 902 | 952 | 189 | 192 |
| Total, Sweden | | 4,407 | 4,605 | 851 | 834 |
| OUTSIDE SWEDEN | Divisions | 3,905 | 3,881 | 773 | 679 |
| | Sales companies | 8,186 | 8,173 | 1,271 | 1,230 |
| Total, outside Sweden | | 12,091 | 12,054 | 2,044 | 1,909 |
| TOTAL | | 16,498 | 16,659 | 2,895 | 2,743 |

*) 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 may be obtained free of charge from Atlas Copco's headquarters in Nacka, Sweden.

### ATLAS COPCO GROUP VALUE ADDED

Value added comprises the Group's total invoicing, SEK 10,351 m., less the costs of purchased raw materials, finished and semifinished goods, and service, SEK 6,380 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 1986, value added amounted to SEK 3,971 m. (3,947), an increase by approximately one percent.

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 continued expansion of operations (Retained in business).

| | 1986 | | 1985 | |
|---|---|---|---|---|
| DISTRIBUTION OF VALUE ADDED | SEK m. | % | SEK m. | % |
| Wages and salaries | 2,098 | 53 | 1,991 | 50 |
| Social costs | 797 | 20 | 752 | 19 |
| *Capital costs, net* | 114 | 3 | 196 | 5 |
| Corporate and municipal taxes | 223 | 6 | 304 | 8 |
| Dividends paid | 172 | 4 | 158 | 4 |
| Depreciation | 232 | 6 | 185 | 5 |
| Retained in business | 335 | 8 | 361 | 9 |
| Value added | 3,971 | 100 | 3,947 | 100 |
| Value added per employee, SEK thousands | 241 | | 237 | |

### CONVERTIBLE DEBENTURE LOAN

As a natural extension of the company-based share savings program which has been under way in Atlas Copco in various forms since 1981, the Board of Directors has decided to propose to the Annual General Meeting that an issue of a convertible debenture loan be made to employees in Sweden and certain executives in leading management positions, as well as the members of the Board of Atlas Copco AB elected at the Annual General Meeting.

Each employee covered by the offer will be guaranteed an allotment corresponding to approximately SEK 20,000 of the loan, but in the event of a broader availability may be given the opportunity to subscribe for a higher amount. The opportunity to subscribe for a higher amount will be offered to certain executives in leading management positions as well as affected Board members. Financing will be offered on market terms.

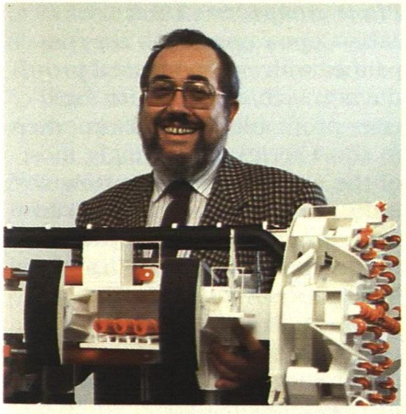
The convertible debenture loan will have a maturity of five years, with the possibility for conversion after two years at the earliest. The Board has set a conversion price which is 15 percent higher than the quoted price during a certain period prior to the issue.

The subscription period, interest and conversion terms as well as other conditions for the issue will be finalized at the Annual General Meeting. The proposal for the decision will be available at the Company one week prior to the Annual General Meeting and will be distributed at the Meeting. The proposal will be forwarded to shareholders on request.

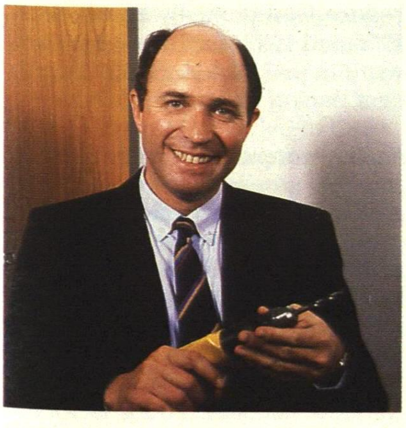
At full subscription and conversion, current shareholders will own approximately 97 percent of the increased share capital. The added value per share exceeds the net worth, whereby no dilution effect will occur.

# Salesmen of the year

**Many oustanding sales efforts were made in the sales companies during 1986. A Salesman of the Year was selected in those countries which recorded the most significant sales successes. These salesmen are presented below, with brief descriptions of their achievements.**



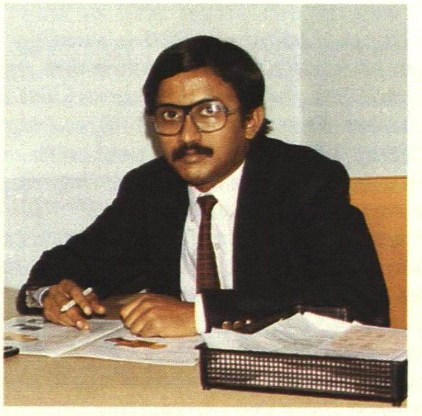
***Patrick Jolly,*** project engineer for heavy underground equipment at the French sales company, landed an order for a tunnel boring machine (TBM), the first sold by Atlas Copco in France. It will be used to drive a 3,540-meter tunnel for a hydro power and irrigation project in the southern Alps. The order was the largest ever booked by Atlas Copco France.



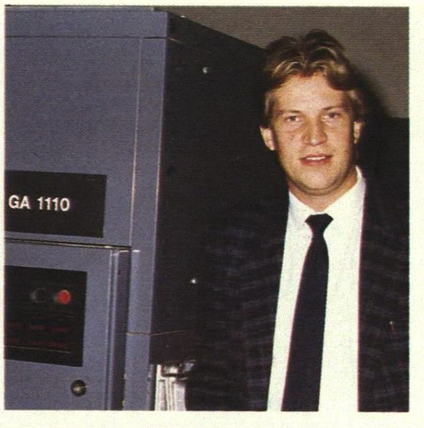
***Romeu Teixeira,*** a saleman in the Brazilian sales company in São Paulo, succeeded after tough negotiations in winning an order for 1,000 pneumatic tools from Embraer, the largest aircraft manufacturer in Brazil. The tools will be used in the production of the Brasilia aircraft and the new AMX jet fighter. He also sold Airpartner to the AMX project.


***Julian García Casado,*** responsible for sales of industrial equipment in the Valencia district of Spain, sold three ZR 4 compressors with dryers to LOIS, makers of designer jeans, a number of angle nutrunners and multiple nutrunners to Ford and several GA compressors and dryers to customers in various industries. He also developed a distributor network which created opportunities for placement of a large number of piston and screw compressors on the market.

***Martin Jiang,*** sales engineer at Atlas Copco (China) Ltd, developed and broadened Atlas Copco's position in industrial markets in China. He secured orders for 16 MACS Compact Systems to the automotive industry as well as Airpartners and Energas products.



***P. K. Dutta,*** sales engineer at Atlas Copco India, won an order in stiff competition for two GAP gas compressors from ONGC, the Oil and Natural Gas Commission. This was Atlas Copco's first compressor order in India for natural gas. The units will be used to increased pressure in the gas pipelines.




***Ray Löfgren,*** responsible for sales of industrial equipment at Atlas Copco International's Middle East office in Cyprus, succeeded in increasing sales five-fold compared with 1985 through his active support to the distributors in the 12 countries he serves. Sales successes in Pakistan were particularly significant. His sales responsibility mainly covers compressors and air treatment equipment.

# Atlas Copco's Productivity Development

*Atlas Copco's basic marketing strategy – providing products and systems that yield significant improvements in customer productivity – involves a responsibility for high quality as well as productivity in its own operations. New methods of improving administration, production and marketing efficiency, combined with modern management concepts, have resulted in major productivity improvements in recent years.*

*For example, inventories in 1976 amounted to 46.5 percent of invoicing, compared with 29.3 percent in 1986. Local stocking in the sales companies has been centralized. Installation of computer systems has significantly expedited adminisitrative routines and cut delivery times. During the past five years, nearly 30 percent of total investments have been for systems and organizational improvements. These are expensive but necessary and profitable investments aimed at increasing the Group's total productivity.*

*Through these measures Atlas Copco has reduced its costs in recent years on an average of approximately SEK 300 m. per year. Invoiced sales per employee has risen 35 percent, calculated in 1986 money values.*

*Several projects that have contributed directly to increasing productivity are presented on the following pages. Advanced electronics and computer technology, combined with marketing efforts and a well-defined strategy for change, can be applied to accelerate development in coming years and result in further improvements in capital utilization and higher sales per employee.*

***Plant computerization***

Atlas Copco's products are compatible with new advanced production technology which facilitates profitable manufacture, even in short series. Accordingly, most of the Group's manufacturing units are now equipped with advanced computer-based production equipment that can handle a wide product range and features automatic control, including change of worn tools. Since 1983, investment in such equipment has increased many fold.

In many factories, installation of this equipment has resulted in a 30-percent decrease in tied-up capital, a 50-percent reduction in the number of machines and a cut in floor-space requirements of 25 to 30 percent. Throughput times have been cut sharply. A compressor which required 50 hours to manufacture in 1978, takes only 30 hours today. The costs at BMI Berema's plant in Kalmar per manufactured drilling rig has been reduced substantially between 1976 and 1982. Capital tied-up in work in progress declined 54 percent during the same period.

***Faster material flow yields positive side-effects***

A comprehensive review of all production steps was carried out in 1981 at Monsun-Tison's plant in Falköping, which manufactures hydraulic and pneumatic cylinders and valves in various dimensions. The aim was to increase the material flow rate and reduce factory inventories. The project resulted in a division of production into three product workshops.

Evaluation after two years showed a 15-percent decrease in

***The Atlas Copco Avos plant in Örebro, Sweden, is one of the Group's most advanced production units with extensively automated manufacture.***

manufacturing costs and an 80-percent decline in scrappage. Throughput times were reduced 55 percent and inventory costs declined 40 percent.

***New design improves profitability***

The main factor contributing to increased profitability at the Aros plant in Örebro was the result of new or redesigned products. The LM loader is one such example. Designed in the 1950s, it remains one of the best loaders on the market. The problem was unprofitable production. After redesign, it is now manufactured with less components, better materials and other improvements which reduced manufacturing costs and again made the loader a highly competitive product.

***Daily deliveries replace inventories***

Each night the Norwegian market is supplied with deliveries of the Tools Division's complete standard range and spare parts from the central warehouse in Skara. A customer order received before 3 p.m. is shipped to arrive in Oslo the following morning for delivery to the customer. This service is particularly important in ensuring fast and reliable deliveries to customers in the offshore industry, which otherwise would be hit by high stoppage costs.

As a result of this routine, the Norwegian sales company's stocking of Tool's products could be reduced sharply. Savings in the range of NOK 1 m. can be achieved annually through more efficient handling, a reduction in total inventories and the rental or sales of unneeded warehousing space.

After one year of experience it has been determined that customer deliveries are faster than previously. In addition, the frequency of incomplete orders has been reduced to zero since the availability of products and spare parts is higher than with local stocking. Based on the success of this delivery system, studies are under way concerning introduction in other countries, for example, Denmark. Other Divisions will also benefit from this experience.

***Electronic ordering speeds up cash flow***

Maintaining sales and service inventories ties up a substantial amount of capital and is expensive to administer. Consequently, Atlas Copco has developed a system whereby all distributors in Sweden are linked to Atlas Copco's order handling system via a data communications network. As a result, a product or spare part order can be delivered to the distributor within 24 hours. This fast and efficient delivery to the customer results in major cost savings.

The system will be gradually complemented with price lists, catalogues and automatic inventory replacement.

***Electronic mail is faster and more cost-efficient***

The expansion of Atlas Copco's data communications network has facilitated a cost-efficient exchange of information between the various Group units.

Memo, an electronic message system, is an important administrative application which has increased the speed of information exchange. In addition, the system has resulted in a significant reduction in telephone, telex, postage and mail handling costs. The system is currently in operation linking the head office in Stockholm and all manufacturing units and large sales companies in Europe. The system will also be introduced in the Group's North American units.

***Invoiced sales per employee rising sharply***

Atlas Copco is continually adapting its organization in response to changes in the market and production technology. During the past ten-year period the number of employees has declined by 1,847 persons, while at the same time sales rose from SEK 4,157 m. to SEK 10,351 m. As a result, invoiced sales per employee increased from SEK 230,000 in 1977 to SEK 630,000 in 1986 at current prices. After eliminating the effect of inflation, the real productivity improvement is 35 percent.

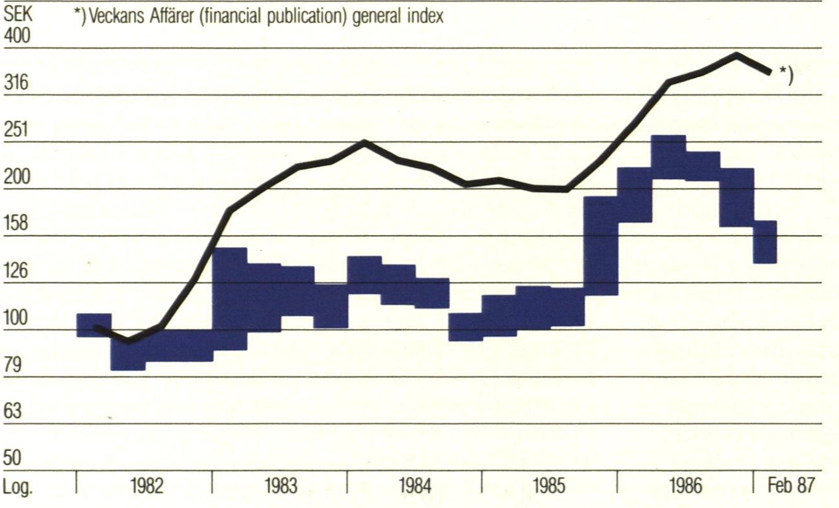
Currently, an organizational change is under way involving the transfer of sales operations in Sweden to the divisions. This is a step in the continued improvement of the Group's productivity, without any adverse effect on customer service.

***Change requires training***

A rapid restructuring is under way in the Group that will require personnel in all categories to accept changes. This applies to thought and decision processes as well as routines and systems. New computerized systems and equipment are being continually introduced, requiring extensive operator training. Participation in training programs have, therefore, increased sharply: at the executive level through attending strategy and organizational management seminars, and at the operations level, where training is being focused on computer technology, programming and operations management.

# Atlas Copco Share Data

**TREND OF SHARE PRICES**




**DIVIDEND POLICY**

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

The Company's aim is to cover the greater part of the Parent Company's dividend payments with 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 average growth in dividends for the ten-year period up to and including 1982 was 10.7 percent, compared with a decline in money value during the same period of 10.3 percent. Viewed over a five-year perspective, the corresponding figures were 8.4 and 10 percent, respectively. The lower dividend for fiscal year 1983 was the result of the profit decline which the Group experience in 1982 and 1983.

The Board of Directors has proposed an increase in the dividend for fiscal year 1986 to SEK 7.00 (6.50), corresponding to 47 percent (38) of the profit per share. Expressed as a percent of risk-bearing equity capital per share, the dividend is unchanged at 4,3 percent.

**SHARE TRADING**

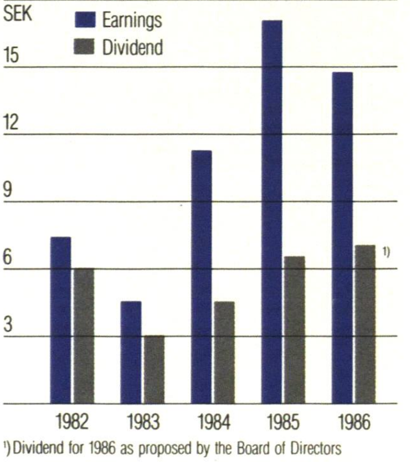
During 1986, 9,412,824 (8,144,773) Atlas Copco shares were traded on the Stockholm Stock Exchange, an average of 37,802 (32,710) shares per trading day. The number of shares traded was equal to 40 percent of the Company's total shares outstanding.

The market value of the Company's shares at December 31, 1986 was SEK 3,941 m.

In addition to the Stockholm Stock Exchange, Atlas Copco shares are listed on the exchanges in Frankfurt am Main, Düsseldorf and Hamburg.

During the year, AB Patricia sold its 2,300,000 shares in Atlas Copco to foreign investors, sharply increasing the proportion of foreign-owned shares. At year-end, foreign institutions and persons residing outside Sweden own 20 percent of the total shares outstanding.

**EARNINGS AND DIVIDEND PER SHARE**




1) Dividend for 1986 as proposed by the Board of Directors

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

Beginning in April 1984, all employees of Atlas Copco Group's Swedish companies were offered the opportunity of participating in the company affiliated Atlas Copco's General Saving Fund. In February 1987, the Fund's shareholding was 23,300 shares, corresponding to a market value of SEK 3.5 m.

In January 1981, the Swedish employees were offered the opportunity to participate in Atlas Copco's Share Saving Fund. Effective April 1, 1984, no further saving in the Fund was permitted. In January 1987, the savings accumulated during 1981 were released and 132,131 shares were transferred to holders of participations in the Fund. In February 1987, the shareholding in the Share Saving Fund was 86,217 shares.

Both funds are administered by Atlas Copco Fond AB.

**PER SHARE DATA, SEK**

| | 1982[2] | 1983 | 1984 | 1985 | **1986** |
|---|---|---|---|---|---|
| Profit[1] | 7.40 | 4.55 | 11.25 | 17.05 | **14.75** |
| Profit after extraordinary items | 6.85 | −0.65 | 11.30 | 19.15 | **13.35** |
| Dividend | 6.00 | 3.00 | 4.50 | 6.50 | **7.00**[3] |
| Dividend as percent of profit[4] | 87.6 | 65.9 | 40.0 | 38.1 | **47.5** |
| Price quotation, Dec. 31 | 90 | 121 | 96 | 190 | **168** |
| Highest price quoted | 109 | 150 | 143 | 195 | **260** |
| Lowest price quoted | 82 | 90 | 95 | 97 | **159** |
| Average price quoted | 93 | 118 | 118 | 121 | **209** |
| Risk-bearing equity capital[5] | 125 | 117 | 131 | 150 | **165** |
| Direct yield, percent[6] | 6.5 | 2.5 | 3.8 | 5.4 | **3.3** |
| Price/earnings[7] | 12.2 | 24.1 | 10.5 | 7.1 | **14.2** |

For purposes of comparison between years, adjustments have been made to reflect new issues of shares.
[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 profit per share.
[5] Equity capital, minority interests 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 profit per share as defined in 1).

**LARGEST SHAREHOLDERS**

The largest shareholders, as reported by VPC (Swedish Securities Register Center) in February 1987, are shown in the following table:

| | Number of shares | Percent of total |
|---|---|---|
| AB Patricia | 3,163,393 | 13.5 |
| Förvaltnings AB Providentia | 3,072,851 | 13.1 |
| AB Investor | 2,817,802 | 12.0 |
| Livsförsäkrings AB Skandia | 681,900 | 2.9 |
| Sparbankernas Aktiesparfond | 568,700 | 2.4 |
| Morgan Guaranty Trust Co. N.Y. | 395,580 | 1.7 |
| SPP Mutual Insurance Company | 374,369 | 1.6 |
| Deutscher Auslandkassaenveiren AG | 307,206 | 1.3 |
| General Pension Fund, Fourth Fund Board | 262,693 | 1.1 |
| Chase Manhattan Bank | 249,720 | 1.1 |

**SHARE ISSUES 1965 TO 1986**

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

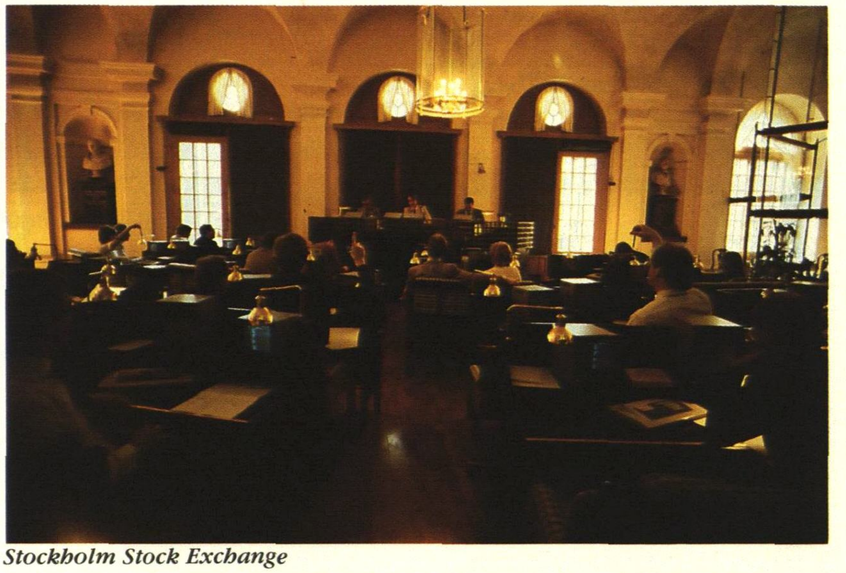
| | | | Increase of share capital | Amount paid-in |
|---|---|---|---|---|
| 1965 Bonus issue | 1:4 | | 19.1 | – |
| New issue | 1:4 | 60 SEK | 19.1 | 46.0 |
| 1971 Bonus issue | 1:10 | | 11.5 | – |
| New issue | 1:10 | 100 SEK | 11.5 | 46.0 |
| 1973 Bonus issue | 1:2 | | 69.2 | – |
| 1974 New issue | 1:4 | 25 SEK | 51.7 | 51.7 |
| 1976 New issue | 1:5 | 20 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 |

**OWNERSHIP STRUCTURE 1986**

| Number of shares | Number of shareholders | Percentage of total number of shares |
|---|---|---|
| > 100 000 | 24 | 59,7 |
| 50 001–100 000 | 16 | 4,8 |
| 10 001–50 000 | 115 | 10,7 |
| 2 001–10 000 | 308 | 6,2 |
| 501–2 000 | 1 486 | 6,1 |
| 1–500 | 36 495 | 12,5 |

***Atlas Copco's 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 39,000 shareholders. The portion of shares held by funds, investment companies, insurance companies and other institutional investors is estimated at 75 percent.***


*Stockholm Stock Exchange*

**ATLAS COPCO CALL OPTIONS**
Two types of options carry rights to acquire existing Atlas Copco shares are traded in the Swedish capital market. The options can be divided into according to their terms of maturity: options with a 10-year maturity, and options with a 3 to 9-month maturity.

***Options with 10-year maturity***
A totally new security appeared on the Swedish capital market in 1984 when AB Patricia introduced options with the right to *buy* already existing shares. 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 option gives the shareholder the right to purchase one Atlas Copco share from AB Patricia at SEK 150 per share during the period 1985 to 1994. There are a total of 3.2 million options outstanding.

The highest exercise price for the options during the year was SEK 150 (100), and the lowest 68 (34).

***Options with 3 to 9-month maturity***
During 1985, an additional method of trading in Atlas Copco options appeared. All Atlas Copco shareholders have the opportunity to write these options. The options were written with varying maturities of 3, 6 or 9 months. The writer is obligated to sell the corresponding shares at a predetermined exercise price during the term of the options. All bearers of Atlas Copco shares are entitled to write options. An option is written for each block of 100 shares. Brokerage is handled through Stockholms Optionmarknad, OM Fondkommission AB which act as a clearing house.

In December 1986, option contracts accounted for about two million shares, approximately 8 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 price can vary in relation to anticipated market value. This variation reflects the various investor's 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 corresponding 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.

EXERCISE PRICE
The exercise 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 exercise 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 exercise price at some point during the maturity period.

DIVIDEND AND YIELD
The option carries no dividend rights. A dividend increase thus results in a lower option value. Conversely, a dividend increase generally results in a higher share quotation and thus a higher option value.

BANK RATE OF INTEREST
Higher interest rates increase the value of the option.

# Five years in summary

*SEK m. unless otherwise noted. For definitions, see page 20.*

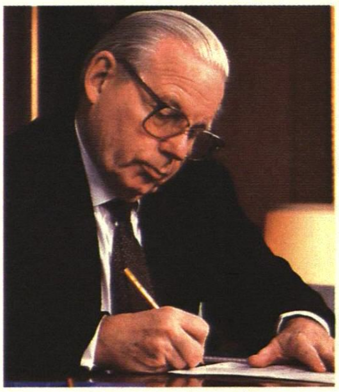
| ATLAS COPCO GROUP | 1982 | 1983 | 1984 | 1985 | **1986** |
|---|---|---|---|---|---|
| Earnings per share, SEK | 7.40 | 4.55 | 11.25 | 17.05 | **14.75** |
| Profit margin, percent | 4.3 | 2.9 | 6.3 | 8.2 | **7.1** |
| Return on capital employed, before tax, percent | 15.3 | 12.3 | 16.8 | 18.9 | **16.0** |
| Return on risk-bearing equity capital, after tax, percent | 6.2 | 3.4 | 11.1 | 15.8 | **13.8** |
| Rate of risk-bearing equity capital, percent | 38.4 | 38.3 | 37.3 | 40.6 | **41.8** |
| Orders booked | 7877 | 8277 | 9581 | 10400 | **10629** |
| Invoiced sales | 7924 | 8093 | 9100 | 10062 | **10351** |
| Percent change, current prices | + 6 | + 2 | + 12 | + 11 | **+ 3** |
| Percent change in volume | – 8 | – 10 | + 8 | + 6 | **+ 3** |
| Sales outside Sweden, percent | 92 | 91 | 92 | 91 | **91** |
| Profit after financial income and expense | 343 | 235 | 573 | 828 | **730** |
| Net interest expense | – 418 | – 305 | – 285 | – 193 | **–116** |
| As percent of invoiced sales | 5.3 | 3.8 | 3.1 | 1.9 | **1.1** |
| Interest coverage ratio | 1.6 | 1.4 | 2.2 | 2.9 | **2.9** |
| Return on shareholders' equity, after tax, percent | 6.8 | 4.5 | 10.5 | 13.7 | **11.1** |
| Earnings per share, after extraordinary items, SEK | 6.85 | –0.65 | 11.30 | 19.15 | **13.35** |
| Total assets | 8021 | 7665 | 8217 | 8675 | **9262** |
| Ratio of assets to liabilities | 1.6 | 1.6 | 1.6 | 1.7 | **1.7** |
| Ratio of current assets to current liabilities | 2.0 | 2.1 | 1.9 | 2.1 | **1.9** |
| Capital turnover ratio | 1.05 | 1.04 | 1.16 | 1.18 | **1.15** |
| Ratio of interest-bearing liabilities to adjusted shareholders' equity* | 1.25 | 1.19 | 1.13 | 0.98 | **0.95** |
| Investments in machinery and buildings | 287 | 175 | 311 | 325 | **507** |
| As percent of invoiced sales | 3.6 | 2.2 | 3.4 | 3.2 | **4.9** |
| Average number of employees | 18402 | 16974 | 16484 | 16659 | **16498** |
| Invoiced sales per employee, SEK thousands | 431 | 477 | 552 | 604 | **627** |

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

# Board of directors

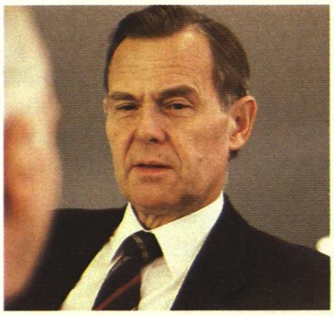
## BOARD OF DIRECTORS

**Elected by the General Annual Meeting**

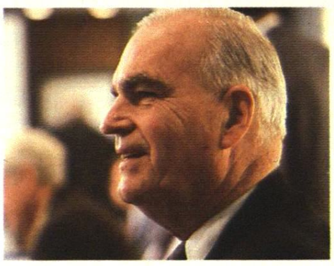


*Peter Wallenberg*
Chairman (1970). Dr. Econ. h.c. and Dr. of Letters h.c. Born 1926. First Vice Chairman of the Board of Skandinaviska Enskilda Banken. Employed in various positions within Atlas Copco 1953–1974.
Chairman of the Boards of Investor, Papyrus, Providentia, STORA, Enskilda Securities (Great Britain). Vice Chairman of the Boards of ASEA, Broströms, Electrolux, LM Ericsson, SKF and the Federation of Swedish Industries.
Vice President of International Chamber of Commerce (ICC) Paris. Member of the Board of the Nobel Foundation and Scandinavian Airline System (SAS) and Lauder Institute – University of Pennsylvania.
50 000 Atlas Copco shares
8 500 options

*Erik Johnsson*
Vice Chairman (1972). Dr. Tech. h.c. Born 1909. President of Atlas Copco AB, 1970–1975.
8 732 Atlas Copco shares



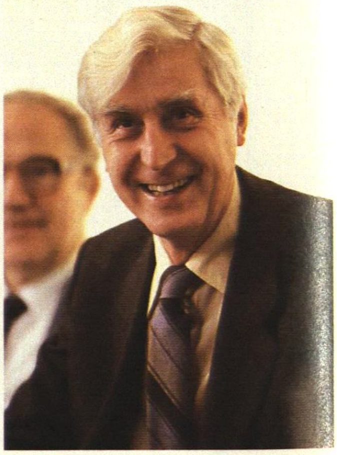
*Curt G Olsson*
(1976). Born 1927. Chairman of the Board of Skandinaviska Enskilda Banken, Esselte, Svenska Dagbladet and the Stockholm Chamber of Commerce. Member of the Boards of Hufvudstaden and Skandia.
325 Atlas Copco shares
750 options



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

*Pehr 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) and Reuters, (Great Britain). Member of the International Advisory Committee of Chase Manhattan Bank, (USA).

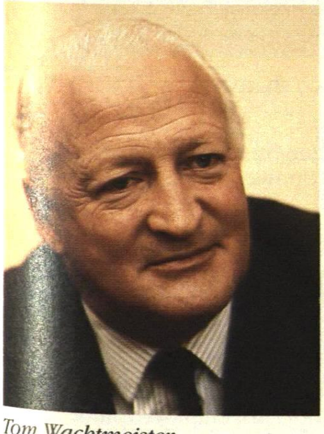


*Sten Rudholm*
(1985). Dr. Jur. h.c. Born 1918. Member of the Swedish Academy. Chairman of the Board of the Arbitration Institute of Stockholm Chamber of Commerce. Member of the Boards of LM Ericsson, Nobel Industries and Investor.
215 Atlas Copco shares

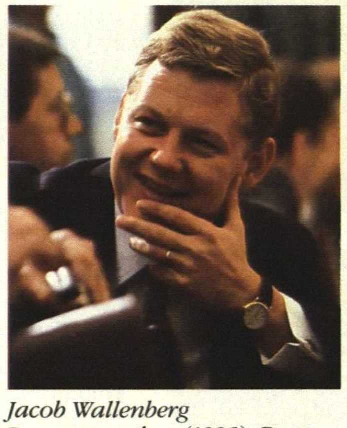
*Lennart Johansson*
(1985). Dr. Tech. h.c. Born 1921. Chairman of the Boards of SKF and Federation of Swedish Industries. Vice Chairman of ESAB, S-E-Banken and Volvo. Member of the Boards of ASEA, Investor, Skanska, STORA, Svenska BP, Swedish Employers' Confederation and Swedish Engineering Employers'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

*Björn Svedberg*
(1983). Dr. Tech. h.c. Born 1937. President and Chief Executive Officer, LM Ericsson. Member of the Boards of AGA and LM Ericsson.

*Per Lundberg*
(1985). Born 1943. President of Providentia and Patricia. Member of the Boards of Alfa-Laval, Atlas Copco Finans, Billerud, Bohusbanken, LM Ericsson Finans, Garphyttan-Hesselman, Saab-Scania (deputy), Scanditronix, Stora Timber, Tour & Andersson, Finans Vendor, SPP and Ångpanneföreningen.
250 Atlas Copco shares



*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, Swedish Taxpayers' Association and the Sweden-China Trade Council.
Member of the Boards of Export-Invest, Hasselfors, Providentia, Saab-Scania and S-E-Banken.
15159 Atlas Copco shares
14000 options



*Jacob Wallenberg*
Deputy member (1985). Born 1956. Deputy member of the Boards of Investor, Providentia, STORA and Fastighets AB Stockholm Saltsjön.
500 Atlas Copco options

**Employee representatives**

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

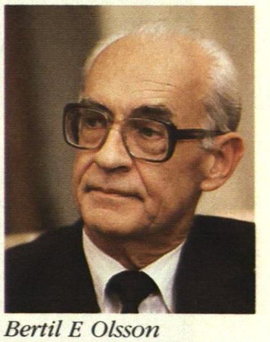
*Per-Erik Nyholm*
(1973). Born 1937. Chairman, Atlas Copco local of the Metal Workers' Union, Nacka.

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

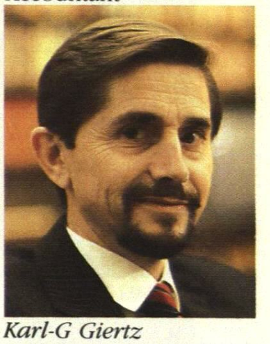
*Christer Améen*
Deputy member. (1986). Born 1939. Vice Chairman Atlas Copco local of the Swedish Association of Graduate Engineers.
281 Atlas Copco shares

## AUDITORS

*Birger Sonesson*
Authorized Public Accountant



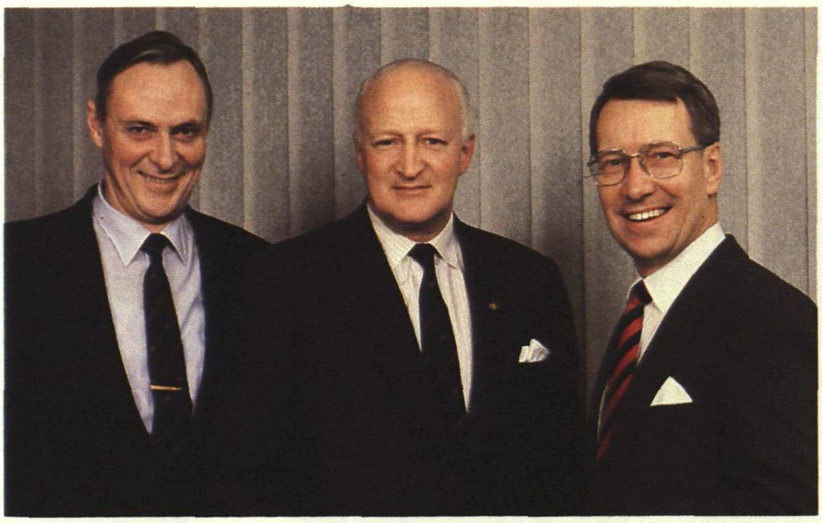
*Bertil E Olsson*
Authorized Public Accountant



*Karl-G Giertz*
Authorized Public Accountant, Deputy

*Bo Ribers*
Authorized Public Accountant, Deputy

# Group management



BERTIL ERIKSSON, TOM WACHTMEISTER OCH MAGNUS SCHMIDT

MICHAEL TRESCHOW, PER WEJKE OCH C MELVILLE ERRINGTON

EINAR LIWENDAHL, BO EKLÖF, BO JOHANSSON OCH SVEN-INGVAR SVENSSON

**GROUP MANAGEMENT**

*Tom Wachtmeister* (1931), President, Atlas Copco AB and Chief Executive Officer employed since 1959.
15159 Atlas Copco shares
14000 options

*Bertil Eriksson* (1934), Senior Executive Vice President and Chief Operating Officer, employed 1959–1979, and since 1982.
3000 Atlas Copco shares
3000 options

*Magnus Schmidt* (1940), Executive Vice President, Corporate development and control, employed since 1986.
2000 Atlas Copco shares

*Einar Liwendahl* (1927), Executive Vice President, employed since 1953.
2100 Atlas Copco shares
175 options

*Sven-Ingvar Svensson* (1932), Executive Vice President, employed since 1958.
600 Atlas Copco shares
1000 options

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

*Per Wejke* (1937), President, Atlas Copco MCT AB, employed 1964–1970 and since 1980.
100 Atlas Copco shares
2500 options

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

*Bo Eklöf* (1941), Administrative Director, employed since 1974.
100 Atlas Copco shares

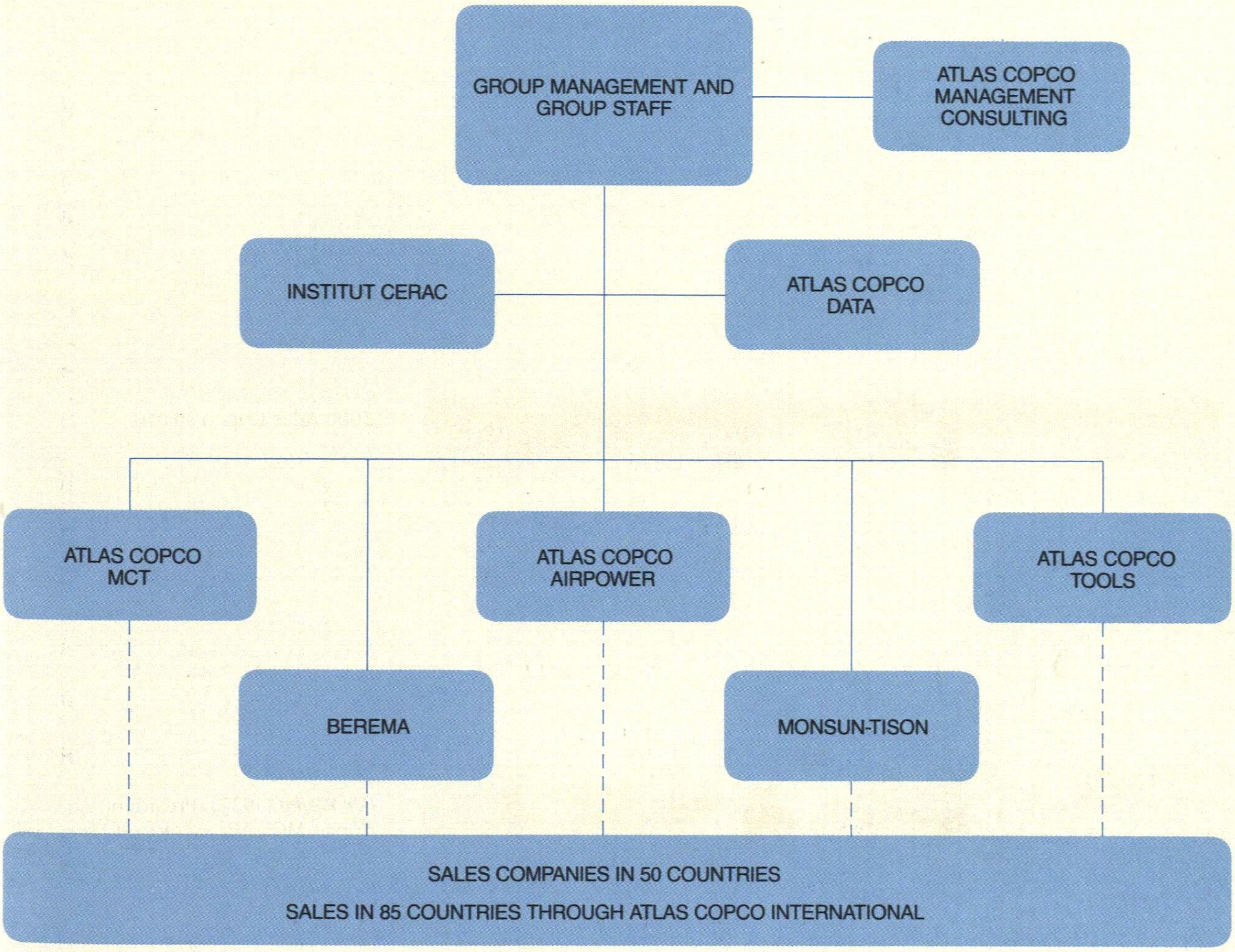
*Bo Johansson* (1944), Finance Director, employed since 1969
160 Atlas Copco shares

**BEREMA – GROUP**
*Gösta Fernström,* President

**MONSUN – TISON AB**
*Carl Axel Rudd,* President

# Organization

February 1987




**ATLAS COPCO AB**

*GROUP STAFFS*
Communications and Public Affairs *Hans Johnsson*
Corporate Planning *Carl Caldenius*
Economy *Jan Petersson*
Group Accounting *Hans Lindblad*
External Products *Bengt Dahlgren*
Finance *Bo Johansson*
Information Systems *Christer Jonasson*
Legal *Hans Sandberg*
Logistics *Tord Berggren*
Markets *Anders Björk*
Personnel *J-A Darlin*
Technique *Jan Holdo*

*SPECIAL ADVISERS*
*Eric Bursvik*
*Ambassador Iwo Dölling*
*Ambassador Lennart Petri*

**OTHER COMPANIES**

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

*ATLAS COPCO INTERNATIONAL AB*
*Peter Lindberg, President*
(Effective Febr 1, 1987)
*Erland von Redlich, President*
(Until Jan 31, 1987)

*ATLAS COPCO DATA AB*
*Rolf Johanson, President*

*INSTITUT CERAC S A, Switzerland*
*Techn. Dr. Barry Edney, President*

ATLAS COPCO
offers with its technology and marketing organization its customers all over the world increased productivity in such areas as rock drilling, compression of air and other gases as well as industrial automation.

Atlas Copco