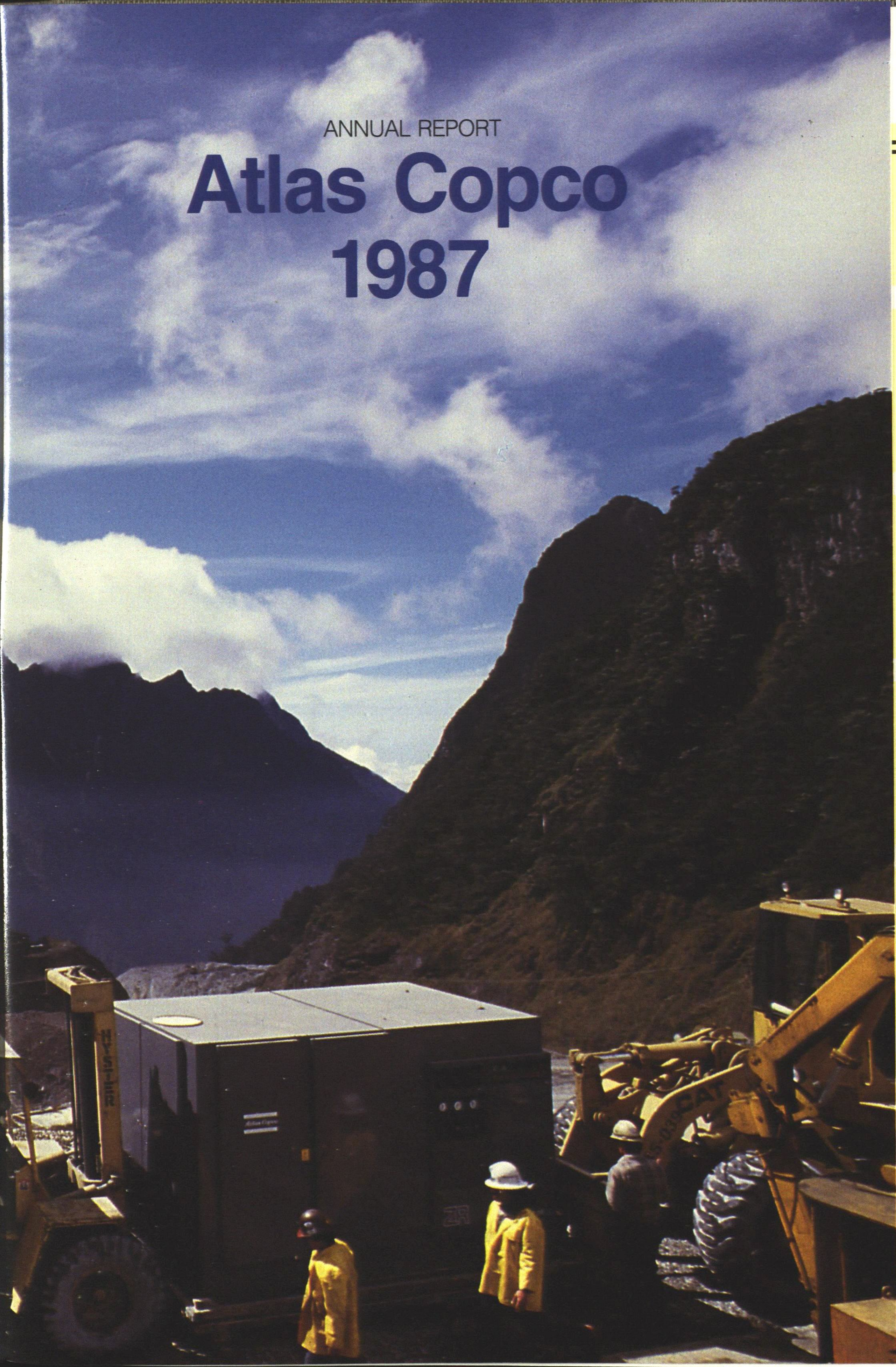
ANNUAL REPORT

Atlas Copco 1987



Atlas Copco

Contents

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Cover photo:
During 1986 and 1987, Atlas Copco delivered five oil-free compressors to the Freeport copper mine on Irian Jaya, Indonesia. The open-pit mine is 4,600 meters above sea level.

Atlas Copco is 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. New areas of technology are gas compression and the mining of soft rock.

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.

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.

Six divisions are responsible for developing, manufacturing and marketing. Manufacturing is conducted at 39 factories in 14 countries.

Atlas Copco Airpower's business concept is to deliver stationary and portable compressors that supply process industries with clean, compressed air. To mines, construction projects and factories compressed air is delivered as an economic and safe energy source.

Atlas Copco ACT's business concept is to supply the process industries in the chemical, petrochemical, oil, natural gas and industrial gas fields with customer-adapted compressors, expansion turbines and vacuum pumps.

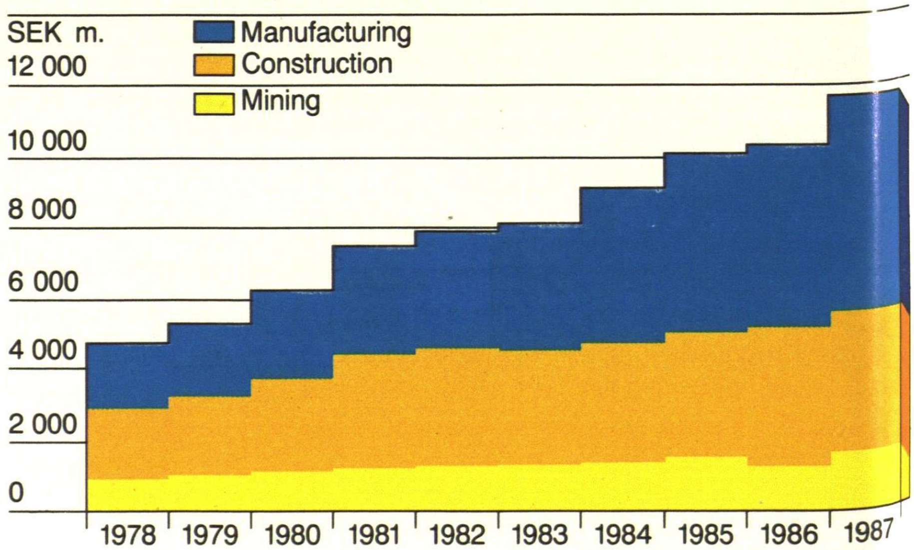
Atlas Copco MCT's business concept is to deliver products and services to the building and construction contractors for road and water works construction, tunneling, demolition, etc., and to the mining and quarry industries.

Atlas Copco Tools' business concept is to supply industrial tools and systems to the mechanical engineering industry for material processing, the automotive industry for assembly and anti-corrosion treatment and for spray painting.

Monsun-Tison's business concept is to deliver hydraulic and pneumatic components for mobile control systems and industrial automation.

Berema's business concept is to supply light contracting operations, municipal street and park administrations, railways, military and civil defence and others with light industrial products.

TEN YEARS SALES, BY INDUSTRY



1987

Sales — Invoiced sales rose 11 percent to SEK 11,520 m. (10,351)

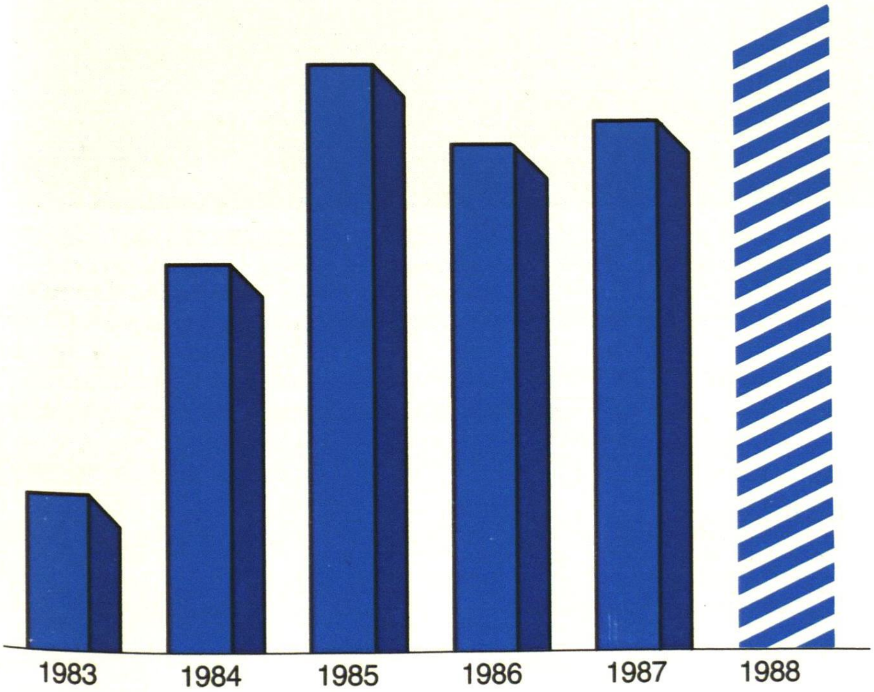
Earnings — Earnings after financial items increased 8 percent to SEK 789 m. (730).

Investments — Investments amounted to SEK 422 m. (507). New factory for MCT products built in Great Britain.

Acquisitions — Chicago Pneumatic, an American company with annual sales of approximately SEK 1,000 m., acquired in June.

Dividend and profit per share — The Board proposes a dividend of SEK 7.50 per share (7.00). Profit per share increases to SEK 15.40 (14.75)

Outlook 1988 — Continued increase in sales and earnings anticipated in 1988.



Trend of profit per share.

Atlas Copco Airpower:

"Sales of portable compressors and industrial compressors continued to increase. Earnings declined as a result of unfavorable currency exchange trend."

Page 32

Atlas Copco ACT:

"Focus on specially designed compressors to strengthen market position."

Page 36

Atlas Copco MCT:

"Structural changes resulted in higher earnings level."

Page 38

Atlas Copco Tools:

"Acquisition of Chicago Pneumatic increased market shares in U.S. and doubled size of the Division."

Page 42

Monsun-Tison:

"Sharp rise in sales contributed to favorable earnings and profitability."

Page 46

Berema:

"Fuel-powered drills/breakers were profitable. Restructuring of certain operating segments adversely affected earnings."

Page 50

Direct daily deliveries from a central warehouse to customers is part of the Group's capital rationalization program. Central distribution reduces inventories held by local sales companies substantially. Major savings are realized, while the customer benefits from more reliable and faster delivery. This delivery system, currently in an expansion phase, is expected to cover most of Western Europe within a year. The picture shows Atlas Copco Airpower's new Distribution Center in Antwerp.

Board of Directors' Report on 1987 Operations

The Atlas Copco Group

Invoiced sales of the Atlas Copco Group in 1987 amounted to SEK 11,520 million, an increase of 11 percent over sales of SEK 10,351 m. in the preceding year. The newly acquired American company, Chicago Pneumatic Inc., accounted for SEK 619 m. of total sales. Markets outside Sweden account for 92 percent of Group invoiced sales.

Order bookings rose 11 percent to SEK 11,797 m. (10,629).

Earnings of the Atlas Copco Group, after financial income and expense, but before extraordinary items, appropriations and taxes, rose 8 percent to SEK 789 m. (730), equal to 6.8 percent (7.1) of invoicing. After extraordinary items, earnings amounted to SEK 987 m. (665).

	1987	1986
Invoicing	11,520	10,351
Orderbookings	11,797	10,629
Value increase, %	+11	+2
Profit after financial items	789	730

Dividend and forecast

The Board of Directors proposes a dividend of SEK 7.50 (7.00) per share.

Group management anticipates favorable business conditions, with continued economic growth in most markets during most of 1988. This also applies to most industries important to Atlas Copco's operations. Possibly, some indicators point to a weakening in the automotive industry in some countries.

Against this background, it is expected that the Atlas Copco Group will achieve an increase in sales during 1988. Combined with the effect of rationalization measures that have been carried out and those in progress, this should result in continued improvement in earnings.

Market development

There was increased demand for Atlas Copco's products in most markets in the industrial countries, whereas a stagnation could be noted in the developing countries. During 1987, the world's total investment in machinery, a good indicator of the Group's sales potential, rose 3 percent. Atlas Copco's sales possibilities, excluding Chicago Pneumatic, increased to an equal degree.

Sales of compressors to the *manufacturing industries*, increased substantially, especially in Western Europe and East Asia. These units supply all sectors of industry with compressed air for energy transfer as well as for process and instrument applications.

The industrial group's activities during the year included the acquisition of several companies whose operations are aimed at the industrial market. (See page 54). Sales of hand-held industrial tools, assembly systems and industrial components developed favorably, primarily in Western Europe as well as in the U.S. through the acquisition of Chicago Pneumatic.

To improve the utilization of the Group's engineering and production resources, advanced air and gas compressor operations were consolidated during the year to form a new division – Atlas Copco Applied Compressor Technique, ACT. For accounting purposes, ACT is included in the Airpower Division.

Sales to industry, Atlas Copco's largest customer group, now comprise 52 percent of total Group sales.

In the *building and construction sector*, an upturn was noted during the year in Western Europe, where several major construction projects were begun. However, demand continued to decline in the developing countries.

Sales of rock drilling equipment, breakers and portable compressors, which are used in the installation and maintenance of roads, railways and power stations, etc., increased in Western Europe and declined in the developing countries.

The building and construction sector accounts for 34 percent of total Group sales.

Business conditions in the *mining industry* improved successively during the year due to sharply rising metal prices. As a result, sales of mining equipment increased substantially in Australia and Canada.

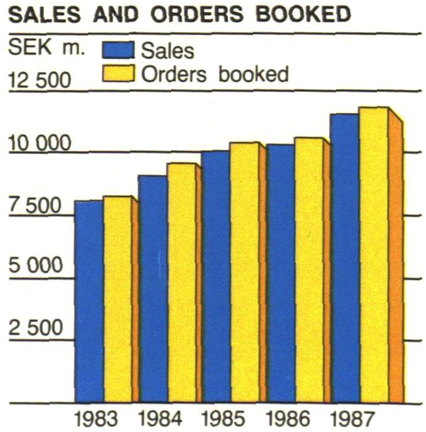
The mining industry accounts for 14 percent of total sales.

SALES COMPANIES

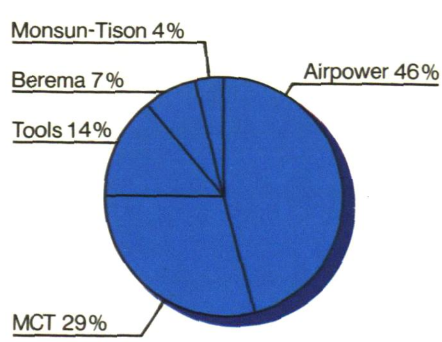
The sales companies in Western Europe, North America, and Australia continued to increase their market shares. Atlas Copco's growing share of the North American market is due largely to the successive acquisitions of companies in the U.S., particularly Chicago Pneumatic.

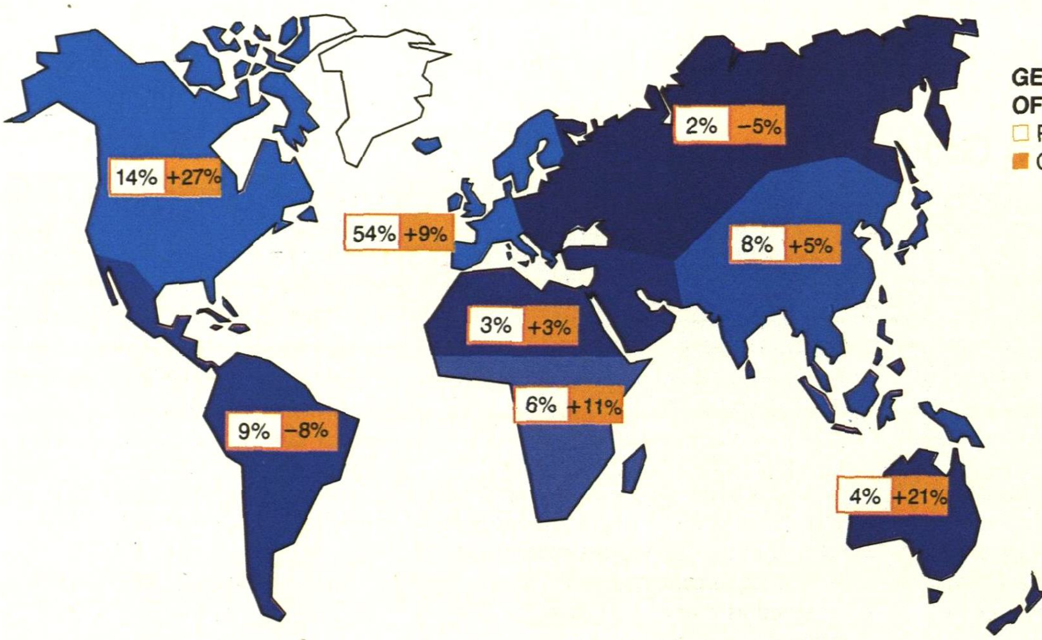
The Group has relatively favorable market shares in the four largest European countries – West Germany, France, Italy and Great Britain – while

SALES AND ORDERS BOOKED



SALES BY DIVISION





GEOGRAPHIC DISTRIBUTION OF SALES, 1987
□ Portion of Group sales
■ Change in value, 1987/1986

market penetration in still limited in the U.S. and Japan, with the exception of certain product lines. These six countries, which account for 60 percent of the world market, show good growth and are totally dominant in terms of growth potential. The Group holds high market shares in most developing and medium-sized industrial countries, as well as in the large mining markets in Canada and Australia.

A new sales company was started in Finland, an expanding market. The company is 80-percent owned by Atlas Copco, with Oy Julius Tallberg Ab, an agency in operation since 1904, holding the remaining interest.

Restructuring of sales operations in Sweden was completed during the year with good results. To better utilize resources also in West Germany, operations were transferred to separate units for industrial compressors and the building and construction sector. A separate company for industrial tools was formed already in 1981.

As a consequence of the boycott legislation in Sweden, management responsibility for the Atlas Copco company in South Africa was taken over on January 1, 1988, by the South African majority shareholders. As of this date, the company is no longer consolidated, but will represent Atlas Copco as a distributor in the South African market.

COMPANY ACQUISITIONS

To strengthen the Group's position in the important North American market for industrial products, Atlas Copco acquired the American company, Chicago Pneumatic, during the year. Like Atlas Copco, this company is a leader in the manufacturing and marketing of pneumatic tools, assembly systems and similar production equipment. The acquisition is strategically important since Chicago Pneumatic and Atlas Copco complement one another geographically. Chicago Pneumatic is included in the Tools Division as a separate company.

Earnings

	1987	1986
Profitmargin, %	6.8	7.1
Profit per share, SEK	15.40	14.75
Return on capital employed, %	15.0	16.0
Return on riskbearing equity capital, %	12.4	13.8

Definitions page 18

SALES AND EARNINGS BY QUARTER

	Sales		Earnings	
	1987	1986	1987	1986
First quarter	2,477	2,264	188	197
Secondquarter	2,823	2,687	216	227
Third quarter	2,865	2,390	149	101
Fourthquarter	3,355	3,010	236	205
Total	11,520	10,351	789	730

Earnings after financial income and expenses for the Atlas Copco Group amounted to SEK 789 m. (730). The profit margin was 6.8 percent (7.1). Earnings per share after standard tax amounted to SEK 15.40 (14.75). After full tax, earnings per share were SEK 16.00 (16.15).
Pretax return on capital employed decreased from 16.0 percent to 15.0 percent. Return on risk-bearing equity capital, after tax, amounted to 12.4 percent (13.8).

The rationalization measures implemented in recent years, combined with a volume increase, contributed to a large extent to the favorable profit development.

Despite the continued unfavorable trend of currency exchange rates and the costs for restructuring, consolidated income, before depreciation, improved by SEK 116 m.

Cost depreciation for the year amounted to SEK 299 m. (232), including SEK 43 m. of a total of SEK 133 m. in goodwill arising in conjunction with the acquisition of Chicago Pneumatic.

The Group's net financial income improved by SEK 10 m. This includes an increase in net interest expense of SEK 45 m. due to higher borrowing in connection with the acquisition of Chicago Pneumatic. This, however, is offset by exchange rate gains in the amount of SEK 54 m. (0), attributed mainly to the dollarbased loans.

At year-end, Atlas Copco sold a call option concerning property in the Sickla area of Nacka, near Stockholm, for SEK 450 m. As part of the agreement, Atlas Copco has the right to repurchase the property within the next 15 years at an already determined amount. The transaction was also linked to a leasing agreement. The capital gain, amounting to SEK 249 m., is shown under extraordinary income and expenses. This item also includes the costs related to the sale of certain operations, mainly in Toolex-Alpha, and in the ACT Division in West Germany and the U.S., amounting to SEK 91 m.

DIVISIONS

The MCT and Tools Divisions showed a strong earnings improvement.

Monsun-Tison largely continued to report high profit level, whereas Airpower and the Berema group did not reach the same earnings level as in the preceding year.

EARNINGS AND RETURN BY DIVISION

	Earnings[1]		Return[2]	
	1987	1986	1987	1986
Airpower	383	431	16	19
MCT	208	118	13	10
Tools	143	108	19	23
Monsun-Tison	51	47	21	22
Berema	4	26	5	10
	789	730	15	16

[1]) After net financial items [2]) On capital employed, %

THE AIRPOWER DIVISION accounted for 50 percent of Group earnings. The continued unfavorable relationship between the Belgium/West German and U.S. currencies adversely affected the Division's earnings. The cost-reduction measures adopted have not yet had any effect on earnings.

THE MCT DIVISION'S earnings increased sharply despite unchanged volume. The earnings improvement is attributable to higher gross margins as well as significant cost reductions achieved as a result of implemented rationalization measures.

ATLAS COPCO TOOLS and MONSUN-TISON'S favorable trend in earnings from previous years continued in 1987. The improvement in earnings for the Tools Division is primarily due to additional cost reductions in production and sales. Chicago Pneumatic's income contribution was only minor. Monsun-Tison's improvement is attributable mainly to a substantial increase in sales.

The *BEREMA GROUP'S* earnings for light industrial products improved, whereas the major divestment and restructuring costs relating to the operations of Toolex Alpha and Atlas Copco Energy were charged against earnings for the year. A decision has been made to further reduce the operations of Toolex Alpha.

SALES COMPANIES: Higher volume of invoiced sales and lower cost levels improved the earnings of the sales companies. This was particularly the case in Great Britain, Spain, Portugal, South Africa, Canada and Australia. Italy and Brazil continue to show strong earnings.

Financing

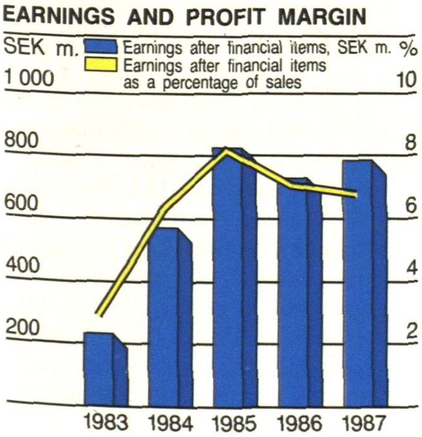
	1987	1986
Net interest expense	–161	–116
Degree of self-financing, %	175	135
Share of riskbearing equity capital, %	40.9	41.7

The Group's liquid funds increased during 1987 by SEK 869 m., amounting to SEK 2,079 m. (1,210) at year-end. The increase is attributable largely to the sale of property in Sweden just prior to yearend as well as an improved cash flow from operations, particularly during the second half of the year. Granted but not utilized credits in Swedish and foreign banks totaled SEK 1,749 m. (1,718).

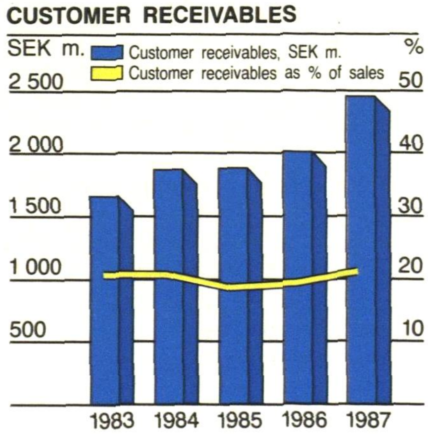
Group investments in fixed assets amounted to SEK 604 m. (520). Of this amount, capital expenditures for property, machinery and equipment accounted for SEK 422 m. (507) and acquired goodwill for SEK 139 m. (3).

Trade receivables and notes receivable rose SEK 405 m. (168) to SEK 2,457 m. (2,052), or 21 percent (20) percent of invoicing. Inventories also increased, amounting to SEK 3,309 m. (3,029),

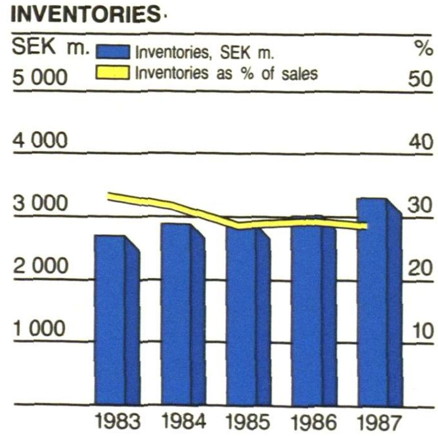
EARNINGS AND PROFIT MARGIN



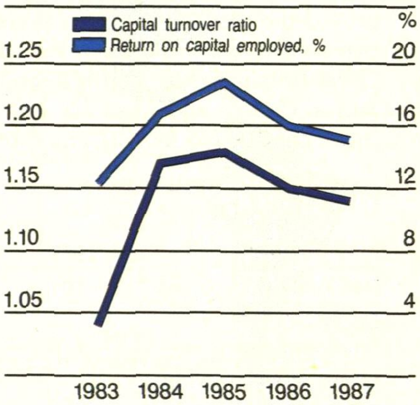
CUSTOMER RECEIVABLES



INVENTORIES



CAPITAL TURNOVER RATIO AND RETURN



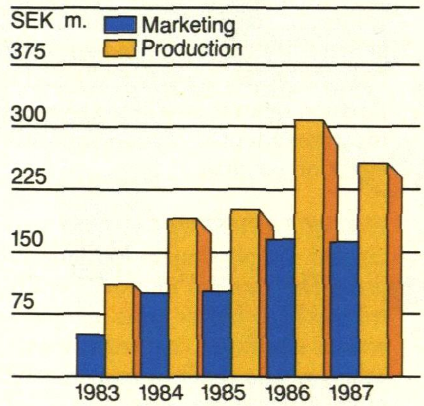
corresponding to 29 percent (29) of invoicing. The rate of capital turnover was 1.14 (1.15).

It should be noted in evaluating these ratios that invoicing by Chicago Pneumatics was only included for seven months of the year. Interest-bearing debt increased by SEK 366 m. (88), mainly as a result of the acquisition of Chicago Pneumatics which was largely financed with new borrowings. Consequently, net interest expense increased by SEK 45 m. to SEK 161 m. (116). Net interest payments corresponded to 1.4 percent (1.1) of invoicing.

Atlas Copco AB increased its Eurocommercial Paper Program during the year by USD 50 m. to USD 100 m. with the aim of capitalizing on the favorable international interest levels and at the same time create a more flexible borrowing position for the Group. In addition, a Medium Term Note Facility amounting to USD 100 m. was established for the same purpose.

Atlas Copco AB also entered into several interest-rate "swap" agreements during 1987 to reduce the Group's exposure to the effects of a higher interest level.

INVESTMENTS IN MACHINERY AND BUILDINGS



Investments

	1987	1986
Investment in machinery and buildings	422	507
Sweden	109	132
Outside Sweden	313	375
Total, as percent of invoiced sales	3.7	4.9

Total investments in buildings and machinery in 1987 amounted to SEK 422 m. (507). Of this amount, production facilities accounted for SEK 257 m. (330) and SEK 165 m. (177) was invested in marketing operations.

The lower level of investments compared with the preceding year was due to the major expansion of Airpower's production facilities in Belgium during 1986.

Capital expenditures included construction of a new plant at Hemel Hempstead, north of London, as well as renovation and modernization of the Group's offices and factories in Nacka, Sweden.

Continued investments were made during the year in EDP equipment and system development.

Research and development

	1987	1986
Number of employees directly involved in R&D	650	724
Direct investments in R&D operations	351	321
Total, as percent of invoiced sales	3.1	3.1

Through reorganization of various operations in the research and product development areas, the number of employees was reduced during the year, mainly in the MCT Division.

Atlas Copco's products and systems were equipped to an increasing extent with automation.

Several years of research efforts with electric drive systems resulted in the introduction during the year of electronically controlled electric nutrunners with low power consumption and a good ergonomic design. In cooperation with Cerac, Tools also introduced an expert system for service of the MACS nut-tightening system.

New types of materials were used in the product line. For example, hand tools with lamella material which permits use of completely oil-free compressed air as a drive source were introduced.

The decision was taken to market on commercial terms the services of the Cerac research unit in the fields of system optimization, measurement systems, capital rationalization and expert systems.

Atlas Copco specialists participated actively in efforts to develop common European standards to reduce technical trade obstacles in accordance with the EC's strategic plan.

Personnel

	1987	1986
Average number of employees	18,777	16,498
Head Office	62	65
Sales companies	8,882	9,088
Divisions	9,833	7,345

At year-end, the number of employees was 18,321 (16,424). Chicago Pneumatic, which employs 2,501 persons, and the 145 employees in the newly formed Finnish sales company accounted for the increase. Excluding these additions, the number of Group employees declined by 749 persons during the past year. The decline is mainly attributable to restructuring in the ACT and MCT Divisions as well as in several sales companies.

Parent company

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

Atlas Copco International AB, which is responsible for marketing in 85 countries in which the Group does not have its own sales companies, reported sales of SEK 340 m. (453).

Atlas Copco Management Consulting AB, which sells its services within the Group, had sales of SEK 112 m. (116).

During the year, the Parent Company acquired all shares in Atlas Copco Finanz AG in Switzerland.

The share capital was increased during the year in Berema AB and Atlas Copco North America Inc.

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

Earnings

The Parent Company's net interest expense increased SEK 47 m., partly as a result of increased borrowing in connection with the acquisition of Chicago Pneumatic, while exchange rate differences improved by SEK 28 m. to SEK 31 m.

Dividends from subsidiaries amounted to SEK 152 m. (192), and were attributable exclusively to companies outside Sweden.

Income after financial items amounted to SEK 180 m. (225). SEK 255 m. was reported as extraordinary income, most of which was related to capital gains in connection with the sale of property in the Sickla area at Nacka to FR FastighetsRenting AB.

The Parent Company reported net income after appropriations and taxes of SEK 459 m. (225). As a result, unappropriated earnings amounted to SEK 700 m. (405).

Financing

The balance sheet total of the Parent Company increased by about SEK 800 m., partly as a result of the financing of the Chicago Pneumatic acquisition. Despite this increase, the share of risk-bearing capital could be maintained at a 50-percent level.

Cash, bank deposits, and other short-term placements rose SEK 610 m. (−107) to SEK 1,397 m.

Personnel

The average number of employees in the Parent Company during the year was 62 (65). The average number in Atlas Copco International was 96 (102), and in Atlas Copco Management Consulting, 176 (196).

Parent company salaries, wages and other remunerations amounted to:

	1987	1986
Board of Directors and senior executives, [including bonus payments of 3 (4)]	9	8
Other employees	73	73
Total	82	81

Salaries, wages and other remunerations in the Atlas Copco Group were:

	1987	1986
Boards of Directors and senior executives	63	62
Other employees	2,275	2,036
Total	2,338	2,098

Convertible debenture loan

The 1987 Annual General Meeting approved the issue of a convertible debenture loan for subscription by all employees in the Atlas Copco Group's Swedish companies and key management personnel in the subsidiaries outside Sweden as well as the members of the Board of Directors of Atlas Copco AB elected by the Annual General Meeting.

The loan, amounting to SEK 156 m., carries interest of 10 percent. Rights to conversion can be exercised during the period August 14, 1989 to March 1, 1993. The conversion price is SEK 200 per share. On full conversion, the number of shares increases by 779,500.

A separate review of the convertible debenture loan is presented on page 59.

Dividend

The Board of Directors proposes a dividend of SEK 7.50 (7.00) per share, corresponding to SEK 176 m. (164).

Consolidated income statement

Amounts in SEK m.

		1987	1986
Operating income	Invoiced sales	11 520	10 351
Operating expense	Cost of goods sold, technical development, sales, administration, etc (NOTE 1)	−10 328	− 9 275
Operating profit before depreciation		1 192	1 076
Cost depreciation (NOTE 2)	Goodwill	− 48	− 5
	Machinery and equipment	− 208	− 185
	Buildings	− 43	− 42
Operating profit after depreciation		893	844
Financial income and expense	Interest received	214	263
	Interest paid (NOTE 3)	− 375	− 379
	Dividends received	3	2
	Foreign exchange differences (NOTE 4)	54	0
PROFIT AFTER FINANCIAL INCOME AND EXPENSE		789	730
	Extraordinary income and expense (NOTE 5)	198	− 65
Profit before appropriations and taxes		987	665
Appropriations (NOTE 6)		− 80	− 92
Profit before taxes		907	573
Taxes (NOTE 7)		− 282	− 223
Minority interest (NOTE 8)		− 33	− 20
NET PROFIT		592	330

Consolidated balance sheet

Amounts in SEK m.

ASSETS		Dec. 31 1987		Dec. 31 1986	
Current assets	Cash, bank and short-term investments (NOTE 9)	2 079		1 210	
	Receivables (NOTE 10)	2 987		2 716	
	Inventories (NOTE 11)	3 309	8 375	3 029	6 955
Blocked accounts in Bank of Sweden (NOTE 12)			20		44
Fixed assets	Shares and participations (NOTE 13)	69		37	
	Goodwill (NOTE 14)	99		8	
	Long-term receivables	151		332	
	Construction work in progress	31		39	
	Machinery and equipment (NOTE 15)	944		808	
	Buildings (NOTE 16)	851		825	
	Land (NOTE 17)	212	2 357	214	2 263
TOTAL ASSETS			10 752		9 262

LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	*Non-interest bearing liabilities*				
	Notes payable	73		145	
	Suppliers	826		668	
	Provision for taxes	246		169	
	Accrued expenses and prepaid income	690		480	
	Other short-term liabilities	753		684	
	Interest-bearing liabilities				
	Bank loans (NOTE 18)	1 550		1 149	
	Current portion of long-term liabilities	119		258	
	Other short-term liabilities	30	4 287	50	3 603
Long-term liabilities	*Non-interest bearing liabilities*				
	Other long-term liabilities	82		88	
	Interest-bearing liabilities				
	Debenture and bond loans (NOTE 19)	330		290	
	Mortgage and other long-term loans (NOTE 19)	767		740	
	Provision for pensions (NOTE 20)	731	1 910	674	1 792
TOTAL LIABILITIES			6 197		5 395
Convertible debenture loan (NOTE 21)			156		–
Untaxed reserves (NOTE 22)			948		856
Minority interest (NOTE 8)			193		128
Shareholders' equity	*Restricted equity*				
	Share capital	587		587	
	Restricted reserves (NOTE 28)	1 480	2 067	1 543	2 130
	Unrestricted equity				
	Retained earnings (NOTE 29)	599		423	
	Net profit for the year	592	1 191	330	753
TOTAL SHAREHOLDERS' EQUITY			3 258		2 883
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			10 752		9 262
Assets pledged (NOTE 30)			387		391
Contingent liabilities	Notes discounted		78		95
(NOTE 31)	Other contingent liabilities		665		612

Statements of changes in financial position

Amounts in SEK m.

		GROUP		ATLAS COPCO AB	
		1987	1986	**1987**	1986
SOURCES OF FUNDS	**Internal funds supplied***	**739**	682	**463**	240
	Sales of fixed assets	**325**	55	**26**	4
	Decrease in long-term receivables	**181**	–	**72**	–
	Increase in long-term liabilities	**274**	–	**303**	–
	Minority interest in shareholder's equity	**51**	– 12	–	–
	Translation differences[1])	**– 61**	34	–	–
	Expired share rights sold	–	1	–	1
TOTAL FUNDS SUPPLIED		**1 509**	760	**864**	245
APPLICATION OF FUNDS	Investments in property, plant and equipment	**422**	507	**18**	23
	Investments in shares and participations	**43**	10	**111**	69
	Goodwill acquired	**139**	3	–	–
	Increase in long-term receivables	–	71	–	27
	Decrease in long-term liabilities	–	68	–	112
	Reserves transferred to subsidiaries	–	–	**4**	15
	Dividend from Parent Company	**164**	152	**164**	152
	Dividend to minority interests in subsidiaries	**5**	8	–	–
TOTAL FUNDS APPLIED		**773**	819	**297**	398
CHANGE IN WORKING CAPITAL		**+736**	– 59	**+ 567**	–153
	Change in inventories	**+280**	+133	**– 16**	+ 4
	Change in short-term receivables	**+271**	+327	**+197**	+183
	Change in short-term liabilities	**–684**	–311	**–224**	–233
	Change in liquid funds	**+869**	–208	**+610**	–107
TOTAL CHANGE		**+736**	– 59	**+567**	–153
***) Internal funds supplied**					
	Profit before appropriations and taxes	**987**	665	**435**	225
	Depreciation	**299**	232	**8**	7
	Capital loss/gain on fixed assets sold	**–289**	4	**13**	0
	Intra-group transfers	–	–	**4**	8
	Taxes	**–282**	–223	**– 7**	– 8
	Withdrawals from blocked accounts	**24**	4	**10**	8
		739	682	**463**	240

[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 –6 m.

Income statement

Amounts in SEK m.

		1987	1986
Operating income	Invoiced sales	452	569
	Commissions etc. from subsidiaries	131	167
Operating expense	Cost of goods sold, technical development, sales, administration, etc.	–573	–741
Operating profit before depreciation		10	– 5
Cost depreciation (NOTE 2)	Machinery and equipment	– 6	– 5
	Buildings	– 2	– 2
Operating profit after depreciation		2	– 12
Financial income and expense	Dividends received from subsidiaries	152	192
	Interest paid to subsidiaries, net	– 2	– 14
	Interest received (excluding subsidiaries)	107	159
	Interest paid (excluding subsidiaries) (NOTE 3)	–111	–104
	Dividends received (excluding subsidiaries)	1	1
	Foreign exchange differences (NOTE 4)	31	3
PROFIT AFTER FINANCIAL INCOME AND EXPENSE		180	225
	Extraordinary income and expense (NOTE 5)	255	–
Profit before appropriations and taxes		435	225
Appropriations (NOTE 6)		31	9
Profit before taxes		466	234
Taxes (NOTE 7)		– 7	– 9
NET PROFIT		459	225

Balance sheet

Amounts in SEK m.

ASSETS		Dec. 31 1987		Dec. 31 1986	
Current assets	Cash, bank and short-term investments (NOTE 9)	1 397		787	
	Receivables (NOTE 10)	704		507	
	Inventories	22	2 123	38	1 332
Blocked accounts in Bank of Sweden (NOTE 12)					17
Fixed assets	Shares and participations in subsidiaries (PAGE 27)	1 190		1 083	
	Shares and participations (excluding subsidiaries) (NOTE 13) (PAGE 27)	18		17	
	Long-term receivables from subsidiaries	399		294	
	Other long-term receivables	75		252	
	Construction work in progress	2		15	
	Machinery and equipment (NOTE 15)	47		21	
	Buildings (NOTE 16)	46		79	
	Land (NOTE 17)	20	1 797	24	1 785
TOTAL ASSETS			3 926		3 134
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	*Non-interest-bearing liabilities*				
	Suppliers	22		15	
	Provision for taxes	–		3	
	Accrued expenses and prepaid income	50		42	
	Other current liabilities	72		96	
	Interest-bearing liabilities				
	Bank loans (NOTE 18)	560		136	
	Liabilities to subsidiaries	386		446	
	Current portion of long-term liabilities	16		146	
	Advances from customers	2	1 108	0	884
Long-term liabilities	*Interest-bearing liabilities*				
	Debenture and bond loans (NOTE 19)	330		290	
	Mortgage and other long-term loans (NOTE 19)	132		102	
	Provision for pensions (NOTE 20)	261	723	184	576
TOTAL LIABILITIES			1 831		1 460
Convertible debenture loan (NOTE 21)			156		–
Untaxed reserves (NOTE 22)			54		84
Shareholders' equity	*Restricted equity*				
	Share capital (23 460 500 shares, par SEK 25)	587		587	
	Legal reserve (NOTE 28)	589	1 185	598	1 185
	Unrestricted equity				
	Retained earnings (NOTE 29)	241		180	
	Net profit for the year	459	700	225	405
TOTAL SHAREHOLDERS' EQUITY			1 885		1 590
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			3 926		3 134
Assets pledged (NOTE 30)			9		9
Contingent liabilities (NOTE 31)	Guaranteees and other liabilities, of which 390 (597) on behalf of subsidiaries		653		819
	Capital value of pension obligations		28		28

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 currently be disclosed. The Annual Report thus provides information on the following:

	Page number
Company's structure – name, and legal headquarters – Shares and participations in subsidiaries, percentage of ownership and ownership between companies.	Cover, page 2; Shares and participations, page 27
Geographical areas in which operations are carried out and the principal activities conducted there.	Introduction to sections on the divisions, page 32, 36, 38, 42, 46, and 50
Invoiced Sales by geographical area	Board of Directors' report, map page 4
Capital investments, by geographical area and by marketing/production sector.	Board of Directors' report, table and diagram, page 6
Statement of changes in financial position for the Atlas Copco Group.	Page 10
Research and developments costs for the company as a whole.	Board of Directors' report, table on page 6 and NOTE 1, page 18
Principles applied in transfer pricing.	NOTE 11, page 21
Principles also applied, with respect to consolidated accounting	Notes, page 13

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 14. 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. The difference between the cost of acquisition and shareholders' equity in acquired companies is first distributed among fixed assets and depreciation in accordance with the plan for the type of asset. The surplus portion, goodwill, is normally depreciated over 1 to 5 years.

Companies acquired during the year have been included in the consolidated income statement in the amounts related to the period following the date of acquisition. In the case of subsidiaries formed, share capital contributed has been offset against the book value of the companies' shares in their respective parent companies. Differences resulting from bonus issues of shares in subsidiaries have been transferred to the Group's restricted reserves.

Translation according to current rate method

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 indepen-dent 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 highly inflationary 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' balance sheets are translated at year-end rates, and all items in the income statement are translated at the average exchange rates for the year.

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

For those subsidiaries 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 highly inflationary countries (primarily in Latin America).

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

The companies are here given two possibilities: *Alternative 1* entails that the accumulated translation difference that arises from translation according to the current-rate method is automatically shown for each subsidiary. Through applying this method, the company – in accordance with international practice – can report the entire accumulated translation difference in a specific amount. In Swedish consolidated accounting this is divided into restricted and unrestricted equity. *Alternative 2* is a simplified method whereby translation differences are offset directly against each item in untaxed reserves and shareholders' equity.
Atlas Copco has chosen to report in accordance with Alternative 1.

Associated companies

The Atlas Copco Group has interests in companies whose earnings and equity are not reported in the Group's consolidated income statement and balance sheet. 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 8 m. (7). Atlas Copco's share of the associated companies' equity and untaxed reserves, including deduction for deferred taxes (50%), amounted to SEK 63 m. (31) at the end of the fiscal year.

Exchange rates

Country	Value	Currency Code	Year-end-rate 1987	Year-end-rate 1986	Average rate 1987	Average rate 1986
Australia	1	AUD	4.22	4.55	4.44	4.80
Austria	100	ATS	52.00	49.50	50.50	47.00
Belgium	100	BEC	17.50	16.80	17.00	15.90
Brazil	1	BRC	0.08	0.46	0.08	0.46
Canada	1	CAD	4.47	4.94	4.76	5.11
France	100	FRF	108.00	105.50	105.50	103.00
Great Britain	1	GBP	10.84	9.99	10.35	10.45
India	100	INR	45.50	52.00	49.00	56.50
Italy	100	ITL	0.495	0.500	0.489	0.477
Japan	100	JPY	4.73	4.26	4.40	4.20
Luxembourg	100	LUF	17.50	16.80	17.00	15.90
The Netherlands	100	NLG	325.00	309.00	313.50	291.00
Norway	100	NOK	93.00	91.50	94.00	96.50
South Africa	1	ZAR	3.05	3.08	3.12	3.08
Spain	100	ESP	5.36	5.14	5.14	5.06
Switzerland	100	CHF	452.00	417.50	427.00	396.50
U.S.A.	1	USD	5.83	6.815	6.325	7.12
West Germany	100	DEM	366.00	349.50	354.00	328.50
European Currency Unit	1	ECU	7.545	7.25		

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. The interest arbitrage transactions carried out by the Company that fulfill the above criteria have been reported in this manner.

Acquired goodwill in Chicago Pneumatic

The acquisition of well-established companies active in an international business environment normally means that the acquisition price substantially exceeds visible net worth. The market price is determined primarily by future expectations, which are based on the market position and the know-how existing in the company.

Company acquisitions, in which the acquisition value exceeds the company's reported capital, means that so-called intangible assets are capitalized and depreciated during a certain period. Determining how long this period should be depends on accounting practice and laws in different countries.

The purchase of Chicago Pneumatic in 1986 can be considered a strategic acquisition, which is calculated to contribute to the growth of the Atlas Copco Group during a very long period and particulary yield a long-term effect on the Group's total market shares.

Atlas Copco has chosen to depreciate the goodwill arising from the acquisition, SEK 133 m., by charging approximately 30 percent against earning for the year. The remaining amount is depreciated based on an estimated economic life of a maximum of 20 years.

Interest and currency risks

As in the preceding year, the international currency and capital markets fluctuated sharply in 1987. This further sharpened the demand for effective monitoring and management of the financial risks to which Atlas Copco is exposed. During the year, the Group's interest and currency risks were centralized by the Group finance staff, which increasingly acts as an internal bank for subsidiaries.

Interest risks

The Atlas Copco Group is exposed to interest risks on its assets as well as its liabilities.

Cash management: Currently, the Atlas Copco Group has interest-bearing assets amounting to approximately SEK 2 billion, of which liquid funds in Sweden account for the largest amount. The interest risk to which the Group is exposed means that changes in market interest rates affect the interest-bearing placements and thereby the yield on liquid funds.

Group Staff Finance is active daily on the Swedish money market within the framework of a well-defined placement policy.

This policy details what securities are approved investment objects. As a result of the exceptionally high demands placed on credit worthiness, most of the portfolio consists of securities issued by the Swedish government. Placements are made along the entire yield curve, with interest rate options and futures as a complement to the current account portfolio.

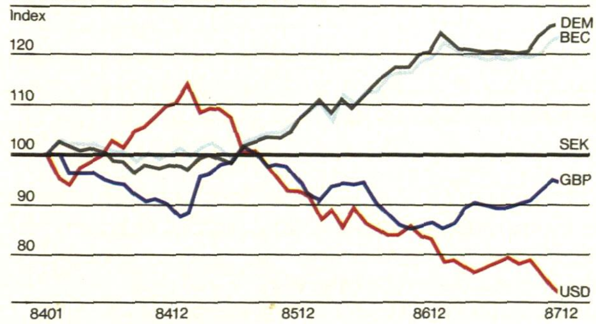
The placement policy also established the interest risk to which the portfolio is permitted to be exposed. Each morning an analysis is made of the portfolio's calculated interest risk exposure. This analysis, and the staff members' perception of the interest trend, then governs the decisions regarding new or reinvestments.

Debt management: The goal is that the Company's borrowing of funds is carried out long-term in a manner which, in terms of currency and interest risk, is optimized within a framework for reasonable risk-taking. This is achieved through active participation in the international money and capital markets. Currently, interest-bearing debt amounts to about SEK 4 billion.

In recent years, the Group's capital requirements have been largely financed with floating-rate loans. To minimize the adverse effect on earnings which would result from an increase in interest rates, several measures were taken in 1987 to hold fixed interest costs at the same level for a longer period. For example, during 1987 a Euro Medium-Term Note Program was initiated in the amount of USD 100 m. which provides the opportunity to issue notes with terms of one to five years at a fixed interest rate. In addition, several interest swap agreements were made. An interest swap is an agreement between two parties, in which one party is committed to pay a fixed set interest during a longer term (for example, 5 years) in exchange (swap) got a floating-interest (normally rolling, six-month LIBOR).

These agreements provide very good protection against changes in interest rates. At the same time they provide a high degree of flexibility, since in the case of a change in interest it is possible to quickly withdraw from the swap agreement.

TRENDS OF EXCHANGE RATES



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

Currency risks

Changes in currency exchange rates effect the value of the Group's invoiced sales as well as its assets and liabilities, and thereby the Group's earnings. When production is concentrated in a few countries and sales are made worldwide, currency rate fluctuations become a significant risk for the Group. The operative currency risks are complex and not always unequivocal. To increase the possibilities for efficient management of currency risks, Group Finance operates as an internal bank for the subsidiaries. The Group's policy is for the sales companies to invoice in their own currencies to the greatest extent possible. This means that the production units must carry the currency risk. By Group Finance guaranteeing these units given exchange rates for each month, the currency risk is transferred to a central level. The advantages of this system include:

- better control of the Group's overall cuurency exposure
- cost-efficiency through larger volumes and being able to minimize the number of transactions
- central monitoring of the market.

The aims is that the value of a Division's sales is not affected adversely by currency rate fluctuations. This is mainly accomplished through forward contract sales of currencies, which provides favorable protection in the short and medium term.

Currency risk also arise on the Group's loans and liquid funds. With an aim of minimizing these risks, the Group's policy is that all loans and placements, if possible, should be made in the different companies local currency. As a result, a balance is achieved between assets and liabilities.

Deviation from this rule is made at the Parent Company level, where the choice of the borrowing currency is controlled by the Atlas Copco Group's total currency exposure.

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.

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 kronor. 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.

Atlas Copco has chosen to use a model that focuses on three concepts of income to report this effect:

- ☐ 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 1987 amounted to SEK 729 m. (622).

This income figure is SEK 164 m. (222) 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 73 m. (96) more to purchase than they did at date of procurement. Income has also been charged with current cost depreciation that is SEK 91 m. (126) 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 889 m. (796). Price gains of SEK 66 m. (84) occurred on products in inventory and the Company's fixed assets increased in value by SEK 94 m. (90).

Current cost income statement

	1987	1986
Invoiced sales	**11,520**	10,351
Current acost of goods sold	**−10,401**	−9,371
Current cost depreciation	**− 390**	− 358
Operating income	**729**	622
Price changes, inventory	**+ 66**	+ 84
Price changes, fixed assets	**+ 94**	+ 90
Operating income before financial items	**889**	796
Financial items	**− 104**	− 114
Purchasing power adjustment, equity capital	**− 147**	− 132
Real income after financial items	**638**	550

Current cost balance sheet

ASSETS	1987	1986
Cash, bank and short-term investments	**2,079**	1,210
Receivables	**3,007**	2,760
Inventories	**3,347**	3,074
Fixed assets	**3,179**	3,082
Total assets	**11,612**	10,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**4,287**	3,603
Long-term liabilities	**2,066**	1,792
Untaxed reserves	**948**	856
Unrealized price changes	**860**	864
Shareholders' equity	**3,451**	3,011
Total liabilities and shareholders' equity	**11,612**	10,126

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 1987, it should have increased by the average annual price increase, or by SEK 147 m. (132) during the year. The annual average price increase in 1987 has been estimated at 4 percent (4). Atlas Copco's real income after financial items for 1987 becomes SEK 638 m. (550). This income figure is SEK 151 m. (180) lower than the traditional income and corresponds to a real profit margin of 5.5 percent (5.3).

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. Total assets thereby increase by SEK 860 m. (864), 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 792 m. (793) higher.
- □ Inventory is shown at a value SEK 38 m. (45) higher.
- □ Shareholdings are shown at a value SEK 30 m. (26) higher.

Risk capital is shown at a value SEK 860 m. higher, which means that the rate of risk-bearing equity capital thereby amounts to 46 percent, as against 41 percent in accordance with traditional accounting.

Reconciliation between traditional and current cost accounting

Net income according to traditional accounting			789
Change, unrealized price changes:			
Price change, goods sold	– 73		
Price change, depreciation	– 91	– 164	
Price change for the year, inventory	+ 66		
Price change for the year, equipment	+ 94	+ 160	– 4
Adjustment for inflation			– 147
Actual net earnings			638

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, an increasingly 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.

Definitions and notes

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 of total capital.

Degree of self-financing
Funds generated internally as a percentage of investments in machinery and buildings.

Capital turnover ratio
Invoiced sales divided by average total assets.

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

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

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

1. Operating expenses

	GROUP 1987	GROUP 1986
Cost of goods sold	7,224	6,387
Marketing and administrative costs	2,826	2,663
Technical development costs	351	321
Price gains realized on inventory	– 73	– 96
Operating expenses	10,328	9,275

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 1987	GROUP 1986
Cost depreciation	299	232
Book depreciation	386	312
Depreciation in excess of cost (NOTE 24)	87	80

Book depreciation includes write-downs charged against investment reserves of SEK 11 m. (34).

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 390 m. (358) and thus exceeded cost depreciation by SEK 91 m. (126).

3. Interest expense
In conformity with recommendations of the Swedish Institute of Authorized Public Accountants (FAR) and the Swedish Pension Registration Institute (FPG/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 11.0 percent (11.5) for index pensions and 3.5 percent (3.5) for pensions liabilities expressed in fixed amounts. The interest portion for 1987 amounted to SEK 50 m. (51).

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 1987 totaled SEK 17 m. (19).

4. Foreign exchange differences

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

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Realized exchange differences, net	29	3	9	2
Unrealized exchange differences:				
Long-term loans	37	3	22	1
Other receivables and liabilities	17	9	–	–
Translation differences	– 29	– 15	–	–
	54	0	31	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 income and expence" and are calculated as the difference between sales revenue and the planned residual value.

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Capital gain on shares, participations and other securities	268	9	268	–
Capital gain on buildings sold	41	1	7	–
Capital loss on shares, participations and other securities	– 1	– 5	– 1	–
Capital loss on buildings sold	– 19	– 9	– 19	–
Liquidation costs	– 91	– 61	–	–
	198	– 65	255	–

Capital gains on the sale of property in Nacka is included under the heading "Capital gain on sales of shares, participations and other securities". This transfer was carried out through the sale of a purchase (call) option on shares in an indirectly joint-owned real estate company. Liquidation costs are attributable to the shutdown and restructuring of operations in the ACT Division in West Germany and the U.S. and in the Berema Group.

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 22, 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 Atlas Copco Compressor AB, Atlas Copco Tools AB, Monsun-Tison AB and Atlas Copco Iran AB. The Parent Company made group contributions to Atlas Copco MCT AB, Berema AB and Atlas Copco Svenska Försäljnings AB.

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
General inventory reserves (NOTE 23)	– 51	– 38	– 4	– 6
Investment reserves (NOTE 25)	– 5	– 4	–	–
Other reserves	– 13	– 12	–	–
Difference between book depreciation and cost depreciation (NOTE 24)	– 87	– 80	– 4	– 9
Accumulated additional depreciation on asset sold (NOTE 24)	58	2	31	–
Withdrawals from investment reserves (NOTE 25)	8	12	–	–
Withdrawals from special investment reserves (NOTE 26)	3	22	–	10
Withdrawals from development reserves (NOTE 27)	7	6	4	6
Group contributions, net	–	–	4	8
	– 80	– 92	31	9

7. Taxes

Of the provision for taxes amounting to SEK 282 m. (223), taxes outside Sweden accounted for SEK 260 m. (210) and taxes in Sweden for SEK 22 m. (13).

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 7 m. (6) was made for federal income taxes in Sweden, of which SEK 3 m. (4) in the Parent Company. Profit-sharing taxes amounted to SEK 15 m. (6), of which SEK 4 m. (4) in the Parent Company. In addition, the Parent Company allocated SEK 0 m. (1) 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 1987, foreign companies had tax-deductible loss carryforwards amounting to SEK 350 m. (363).

8. Minority interest in subsidiaries' equity and earnings

The earnings statement reports the minority shares of the Group's net earnings of SEK 33 m. (20). These minority interests are primarily in Atlas Copco India, Delfos & Atlas Copco (Pty) South Africa and Chicago Pneumatic.

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

	1987	1986
Earnings after financial income and expense	789	730
Extraordinary items	198	– 65
Earnings before appropriations and taxes	987	665
Minority share	– 68	– 34
Earnings before appropriations and taxes excluding minority	919	631
Appropriations	– 80	– 92
Earnings before taxes	839	539
Taxes	– 247	– 209
Profit for the year	592	330

Minority interest in group equity as shown in balance sheet:

	Own equity	Untaxed reserves	Total
Minority interest December 31, 1986	116	12	128
Minority acquired	55	–	55
Minority sold	– 4	–	– 4
Dividends	– 5	–	– 5
Translation differences	– 14	–	– 14
Earnings for the year	33	0	33
Minority interest December 31, 1987	181	12	193

Amount shown for "Minority acquired" is mainly attributable to Chicago Pneumatic's subsidiary in India.

Of the total translation differences of SEK –14 m., SEK –6 m. is attributable to the weakening of Indian currency. Untaxed reserves consist mainly of inventory reserves.

9. Cash, bank and short-term investments

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Cash, bank	725	376	112	24
Government Treasury bills	734	475	734	475
Treasury notes	68	20	68	20
Other short-term investments	552	339	483	268
	2,079	1,210	1,397	787

The Group's available but unutilized bank credits at December 31, 1986 amounted to SEK 1,749 m. (1,718). Other short-term investments includes interest rate options, which consists of call options written and put options purchased. The call options have been valued on the basis of the market price quoted for closing by repurchase, since the market price exceeds the premium received when the call option was written. Unrealized losses have been charged against earnings. Put options purchased have been valued at the market price quoted for closing by resale of the options.

At year-end, the Parent Company did not have any unclosed interest arbitrage transactions.

10. Receivables

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Notes receivable	250	157	–	–
Receivables from subsidiaries	–	–	559	273
Trade receivables	2,207	1,895	60	101
Prepaid expenses and accrued income	127	83	40	28
Other receivables	403	581	45	105
	2,987	2,716	704	507

Other receivables includes funds which Swedish employers were mandated to deposit into a blocked account with the Bank of Sweden during 1984–1986 according to the "law on payments to liquidity accounts". In total, the Group has paid SEK 29 m.

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	
	1987	1986
Raw materials	127	124
Work in progress	442	434
Semifinished goods	901	772
Finished goods	1,839	1,699
	3,309	3,029

12. Blocked accounts with the bank of Sweden

Funds in blocked accounts in the Bank of Sweden refer to remaining unutilized funds in the development reserves.

13. Shares and participations

	BOOK VALUE		MARKET VALUE	
	1987	1986	1987	1986
Shares and participations reported by Atlas Copco AB: (as specified on page 27):				
Associated companies	5	13		
Bilspedition AB	2	2	11	9
Svensk Interkontinental Lufttrafik AB (SILA)	1	1	22	20
Others	10	1		
Total, Parent Company	18	17		
Shares and participations reported by other subsidiaries:				
Associated companies				
Toku-Hanbai KK	21	–		
GME-Systems AB	10	–		
Lövab AB	2	–		
CD Mastering AB	–	1		
Webster Machine Development Ltd	1	1		
Atlas Copco-Eickhoff Roadheading Technic GmbH	7	7		
Droogtechniek & Luchtbehandeling	1	1		
Other companies				
Cord Capital N.V.	4	4		
Instrument AB Scanditronix	5	5		
Dala Djupgasbolagen	–	1		
Others	0	0		
Total, Group	69	37	33	29

14. Goodwill – group excess value

Group excess value in 1987 amounted to SEK 131 m. (20). This has been distributed over the following items in the balance sheet: Goodwill, SEK 99 m. (8), buildings SEK 12 m (3) as well as machines and equipment SEK 20 m. (9). The Goodwill items pertain mainly to patents, manufacturing rights and know-how. Depreciation of Group excess value amounts to SEK 53 m. (9), distributed as follows:

	GROUP	
	1987	1986
Goodwill	48	5
Machinery and equipment	4	3
Buildings	1	1
	53	9

Change in goodwill value as shown in balance sheet.

Acquired goodwill December 31, 1986	107
Accumulated depreciation December 31, 1986	– 99
Acquired goodwill, 1987	139
Depreciation for the year	– 48
Book value, December 31, 1987	99

15. Machinery and equipment

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Costs	2,010	1,689	91	61
Accumulated cost depreciation	–1,066	– 881	– 44	– 40
Planned residual value	944	808	47	21
Accumulated depreciation in excess of cost depreciation (NOTE 22)	– 275	– 232	– 16	– 11
Book value, net	669	576	31	10

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 870 m. (365). The leasing costs for this property and equipment, SEK 114 m. (127), are reported under operating expenses. Future costs for non-cancellable leasing contracts amount to SEK 368 m. (252).

16. Buildings

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Cost	1,237	1,168	57	91
Undepreciated amount of write-ups	14	15	1	1
Accumulated cost depreciation	– 400	– 358	– 12	– 13
Planned residual value	851	825	46	79
Accumulated cost depreciation (NOTE 22)	– 145	– 151	– 12	– 44
Book value, net	706	674	34	35
Tax assessment value			28	41

17. Land

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Cost	187	189	16	20
Write-ups	25	25	4	4
Book value, net	212	214	20	24
Tax assessment value			20	22

18. Bank loans

Short-term bank loans are shown in the balance sheets of the Group and the parent Company as follows:

	1987
PARENT COMPANY	
Available under	
"USD 100 m. Eurocommercial Paper Program"	
USD 73 m.	426
Available under	
"GBP 30 + 30 m. Sterling Acceptances Program"	
USD 23 m.	134
Bank loans and promissory notes as shown in balance sheet	560
SUBSIDIARIES	
Atlas Copco Airpower	54
Atlas Copco MCT	29
Monsun-Tison	25
Berema	14
Other companies	868
Group bank loans as shown in balance sheet	1,550

In January 1988, Atlas Copco signed an agreement covering a Back-Stop Facility in the amount of USD 50 m. This supplements a previous agreement on USD 50 m. As a result, Atlas Copco AB is guaranteed short-term international borrowing, totaling USD 100 m., during a five-year period at predetermined fixed terms. All short-term loans in the Atlas Copco Group are valued at the year-end exchange rate and are distributed as follows:

CURRENCY	AMOUNT m.	SEK m.	PERCENT
USD	167	974	63
JPY	2,449	116	7
ZAR	28	85	5
FRF	55	60	4
ITL	9,624	48	3
BEC	207	36	2
ATS	56	29	2
ESP	487	27	2
Other	–	175	12
		1,550	100

19. Long-term loans

Bond loans	1987
PARENT COMPANY	
1985 CHF[1]) 75.5 m.	
(amortized CHF 12 m.)	246
1987 loan LUF 300 m.[2])	51
1978 12 3/4% loan SEK 100 m., amortization 1979–1993	40
Less: 1988 maturities	– 7
Bond loans as shown in balance sheets	330

Mortgage loans and promissory notes	1987
PARENT COMPANY	
Available under	
"USD 50 m. Eurocommercial Paper Program"	
USD 19 m.	116
1984 multicurrency-loan, GBP 1 m.	11
1983 loan, LUF 50 m.	9
1984 loan, SGD 0.8 m.	2
National Pension Fund loan	2
National Labor Market Board loan	1
Other mortgage loans and promissory notes	0
Less: 1988 maturities	– 9
Mortgage loans and promissory notes as shown in balance sheet	132
SUBSIDIARIES	
Atlas Copco Airpower	262
Atlas Copco MCT	30
Atlas Copco Tools	8
Monsun-Tison	2
Berema	28
Other companies	408
Less: 1988 maturities	–103
Group mortgage loans and promissory notes as shown in balance sheet	767

Bond loans, mortgage loans and promissory notes are being amortized as follows, based on exchange rates at December 31, 1987:

	GROUP	PARENT COMPANY
1988	119	16
1989	108	21
1990	276	112
1991	315	250
1992	135	59
1993 and thereafter	263	20
	1,216	478

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

CURRENCY	AMOUNT m.	SEK m.	PERCENT
BEC	1,467	257	21
USD	41	251	21
DEM	60	220	18
ECU	22	165	14
FRF	58	62	5
SEK	56	56	5
NOK	40	37	3
AUD	7	30	2
Other	–	138	11
		1,216	100

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. Adjustment was made for this swap in translating to SEK.

2) During 1987, a five-year so-called Private Placement was made in Luxembourg in the amount of LUF 300 m. At the same time, a swap agreement was made, under the terms of which Atlas Copco AB in 1992 will receive LUF 300 m. in exchange for USD 7 m. Adjustment was made for this swap in translating to SEK.

20. Provision for pensions

This item pertains mainly to the Swedish companies and corresponds to the actuarially calculated amount of pension obligations under the negotiated supplementary pension plan in excess of the National Supplementary Pension Plan. In accordance with a recommendation of the Swedish Institute of Authorized Public Accountants, a certain portion of the year's pension cost is shown as interest expense. (NOTE 3.) "Provision for pensions" is accordingly included among interest-bearing liabilities.

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Swedish companies				
FPG/PRI-pensions	502	465	235	161
Other pensions	30	28	26	22
Companies outside Sweden	199	181	–	–
Total provisions for pensions	731	674	261	183

Pensionsregistreringsinstitutet (FPG/PRI) is a public service organization which administers employee pension plans.

21. Convertible debenture loan

Convertible debenture loan 1987/93, issued to employees in the Atlas Copco Group. The loan amounted to SEK 156 m. and carries a fixed interest of 10 percent. Conversion can be made during the period from August 14, 1989 to March 1, 1993. The conversion price is SEK 200 per share. Upon full conversion, the number of shares increases by 779,500. (Refer to page 59).

22. 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	
	1987	1986	1987	1986
General inventory reserves (NOTE 23)	366	314	10	6
Accumulated additional depreciation (NOTE 24)	420	384	28	55
Investment reserves (NOTE 25)	67	68	–	–
Special investment reserves (NOTE 26)	–	3	–	–
Development reserves (NOTE 27)	24	31	16	23
Other reserves	71	56	–	–
	948	856	54	84

23. 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, 1986	314	6
Allocations	59	4
Withdrawals	– 8	–
Translation differences	1	–
General inventory reserves, December 31, 1987	366	10

Unutilized rights to make allocations to inventory reserves in the Swedish companies amount to SEK 10 m. In addition to the inventory reserves shown in the balance sheet, SEK 23 m. has been eliminated in connection with application of the purchase method of accounting.

24. Accumulated additional depreciation

	GROUP		
	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, December 31, 1986	232	152	384
Difference between book depreciation and cost depreciation in 1987	64	23	87
Accumulated additional depreciation on fixed assets sold	– 25	– 33	– 58
Translation differences	4	3	7
Accumulated additional depreciation, December 31, 1987	275	145	420

	PARENT COMPANY		
	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, December 31, 1986	11	44	55
Difference between book depreciation and cost depreciation in 1987	5	– 1	4
Accumulated additional depreciation on fixed assets sold	–	–31	–31
Accumulated additional depreciation, December 31, 1987	16	12	28

25. 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 the whole 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. Allocations for the year are attributable solely to companies outside Sweden.

	GROUP
Investment reserves, December 31, 1986	68
Allocations	5
Withdravels for write-downs	– 8
Translation differences	2
Investment reserves, December 31, 1987	67

26. 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 noninterest-bearing account with the Bank of Sweden for the fiscal year 1983 and also later for 1984. The remaining amount of SEK 3 m. (22) was withdrawn during 1987 and utilized for write-downs in the Group.

27. 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 development 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, 1986	31	23
Transferred to Group companies	–	– 3
Withdrawals for research and development	– 7	– 4
Development reserves, December 31, 1987	24	16

28. Restricted reserves

	GROUP	PARENT COMPANY
Restricted reserves, December 31, 1986	1,543	598
Transferred from retained earnings	18	–
Companies acquired	3	–
Translation differences	– 84	–
Restricted reserves, December 31, 1987	1,480	598

Of the Group's restricted reserves, SEK 796 m. is attributable to statutory allocations in Atlas Copco companies.

29. Retained earnings

	GROUP	PARENT COMPANY
Retained earnings, December 31, 1986	423	180
1986 net profit	330	225
Dividend to shareholders	–164	–164
Transferred to restricted reserves	– 18	–
Companies acquired	0	–
Translation differences	28	–
Retained earnings, December 31, 1987	599	241

Of the Group's retained earnings, SEK 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.

30. Assets pledged

	GROUP		PARENT COMPANY	
	1987	1986	1987	1986
Real estate mortgages	128	154	1	1
Chattel mortgages	259	237	8	8
	387	391	9	9

31. 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 100 m. (261) have been sold with a limited repurchase guarantee. The value to Atlas Copco AB amounts to SEK 75 m. (102).

Information on loans 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	409	71	231	55
The loans are shown in the balance sheets as				
Other current receivables	0	0	1	0
Long-term receivables	0	0	2	1

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

32. Application of the Swedish industry and Stock Exchange Committee's (NBK) Recommendations

As a main alternative, Atlas Copco has chosen to report profit per share, after standard tax (50%). The Swedish Industry and Stock Exchange Committee's guidelines regarding calculation of certain key ratios recommends either the full-tax method, or the so-called partial method. The effect of applying this recommendation, using the full-tax alternative, is shown below. Full tax is defined as the tax that the Company calculates for its annual tax declaration plus estimated taxes on appropriations for the year to untaxed reserves.

		1987		1986
Income after financial items		789		730
Tax attributable to the above sum		– 380		– 331
Minority interest		– 33		– 20
Income before extraordinary items		376		379
Extraordinary items	198		– 65	
Tax attributable to extraordinary items	46	244	35	– 30
Net Profit		620		349
Reversals				
Tax charged against net profit		334		297
Minority interest		33		19
Reported earnings before appropriations and taxes		987		665

The following key financial ratios, whose definitions follow the NBKs 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 64).

	1987	1986
Profit per share SEK	16.00	16.15
Profit per share after extraordinary items SEK	26.40	14.85
Return on shareholders' equity, %	17.7	11.2
Return on capital invested, %	16.6	17.4
Interest-bearing debts from adjusted shareholders' equity	0.91	0.96

33. 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 FPG/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 FPG/PRI plan in accordance with Swedish accounting practices.k 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. GAP would have the following approximate effect on consolidated net income and shareholders' equity.

	1987	1986
Income as reported in the Consolidated Statements of Income (in accordance with Swedish accounting principles)	592	330
Items increasing/decreasing reported net income:		
Depreciation of write-ups	2	6
Capitalization of interest expenses	10	16
Share in net income of associated companies	3	3
Appropriations	80	92
Deferred taxes	– 53	– 82
Calculated net profit in accordance with U.S. GAAP	634	365
Calculated profit per share in accordance with U.S. GAAP	27.00	15.55

Shareholders' equity as reported in the Consolidated Balance Sheet (in accordance with Swedish accounting principles)	3,258	2,883
Net adjustment in reported shareholders' equity	562	517
Approximate shareholders' equity in accordance with U.S. GAAP	3,820	3,400

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
Atlas Copco Tools AB	100 000	100	100	20
Berema AB	60 000	100	1 000	90
Monsun-Tison AB	400 000	100	100	64
Atlas Copco Airpower n.v., Belgium	59 500	99	¹)	200
SALES COMPANIES				
Atlas Copco Compressor AB	60 000	100	100	10
Atlas Copco International AB	10 000	100	100	1
Atlas Copco (Cyprus) Ltd.	99 998	100	1	1
Atlas Copco A/S, Denmark	3 003	100	4 000	7
Atlas Copco France S.A.	99 970	100	500	45
Atlas Copco Italia S.p.A.	1 079 996	100	10 000	33
Atlas Copco A/S, Norway	4 498	100	10 000	32
Oy Atlas Copco Ab, Finland	144	80	100 000	20
Soc. Atlas Copco de Portugal Lda	1	100	¹)	22
Atlas Copco (Schweiz) A.G.	7 995	100	1 000	12
Atlas Copco S.A.E., Spain	512 000	99²)	500	4
Atlas Copco G.m.b.H., Austria	69 990	100	1 000	20
Atlas Copco Boliviana S.A.	6 170	100	1 000	2
Atlas Copco Brasil Ltda	370 000 000	100	1	21
Atlas Copco Chilena S.A.C.	24 998	100	1 000	6
Atlas Copco Ecuatoriana S.A., Ecuador	24 000	60²)	1 000	0
Atlaservis S.A., Ecuador	1 990	100	1 000	1
Atlas Copco Venezuela S.A.	7 200	60	1 000	9
Atlas Copco Iran AB, Sweden	3 500	100	100	0
Atlas Copco (Philippines) Inc.	121 995	100	100	3
Atlas Copco Gadelius KK, Japan	375 001	100	1 000	23
Atlas Copco (HK) Ltd., Hong Kong	2 400	80	1 000	2
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2 500 000	100	1	8
Atlas Copco Malaysia Ltd.	700 000	70	1	2
Atlas Copco Korea Co. Ltd.	49 000	49	1 000	1
Atlas Copco Ticaret ve Sanayi T.A.S., Turkey	1 130	100	500	0
Atlas Copco Argentina S.A.C.I.	18 000 000	100	0.001	0
Atlas Copco Taiwan Ltd.	55 996	80	100	0
Atlas Copco (India) Ltd.	1 928 000	40	10	0
Atlas Copco Kenya Ltd.	14 999	100	100	0
Atlas Copco Maroc S.A.	940	50	1 500	1

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

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.

	Number of shares	Per-cent held	Par value loc cur	Book value SEK m.
HOLDING COMPANIES				
Atlas Copco North America Inc.	8 540	42²)	¹)	183
Atlas Copco UK Holdings Ltd.	3 623 664	100	1	38
Atlas Copco Beheer bv. The Netherlands	15 712	100	1 000	35
Atlas Copco Holding G.m.b.H. West Germany	4	99²)	¹)	100
OTHER SUBSIDIARIES				
Atlas Copco Airpower Svenska AB	500	100	100	0
Copco Nueva Montaña S.A., Spain, in liquidation	29 999	13³)	1 000	0
Atlas Copco Andina S.A., Bolivia, in liquidation	18 000	50²)	1 000	0
Atlas Copco Industrial S.A., Spain	95	50²)	10 000	0
Atlas Copco Försäkrings AB	50 000	100	100	5
Atlas Copco Reinsurance S.A., Luxemburg	4 993	100	10 000	8
Atlas Copco Finanz AG, Switzerland	5 000	100	1 000	18
Institut CERAC S.A., Switzerland	1 997	100	1 000	2
Atlas Copco Management Consulting AB	500	100	100	0
Atlas Copco Svenska Försäljnings AB	200 000	100	100	20
Atlas Copco Data AB	250	50²)	100	0
Atlas Copco Fond-aktiebolag	2 500	100	100	0
27 dormant companies	–	–	–	6
				1 190
MINORITY COMPANIES				
Associated companies'				
Atlas Copco Finans AB	38 000	40	100	4
Atlas Copco Trading AB	500	50	100	0
Sickla Industrifastig-heter AB	10 000	33	100	1
				5
Other companies				
Bilspedition AB, A free	71 120	1	25	2
Svensk Interkontinental Lufttrafik AB (SILA)	211 500	2	10	1
Stabil Fastighets AB	56 000	4	100	10
Dala Djupgas-bolagen	2 units	2	–	0
Handelsbolaget Svenska Dagbladets AB & Co	100	2	1 000	0
Sukab Finans AB	640	–	100	0
Mechanical Technology Inc., N.Y.	140 000	5	1	0
ADELA Investment Co. S.A., Luxemburg	3 640	–	100	0
SIFIDA Investment Co. S.A., Luxemburg	275	1	500	0
Minority shares and participations				0
				18

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 241,170,459
Net profit for the year	SEK 458,901,598
	SEK 700,072,057

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

To the shareholders, a dividend of SEK 7.50 per share	SEK 175,953,750
To be retained in the business	SEK 524,118,307
	SEK 700,072,057

Nacka, March 11, 1988

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

GEORG KARNSUND — 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 1987. 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 1987.

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.

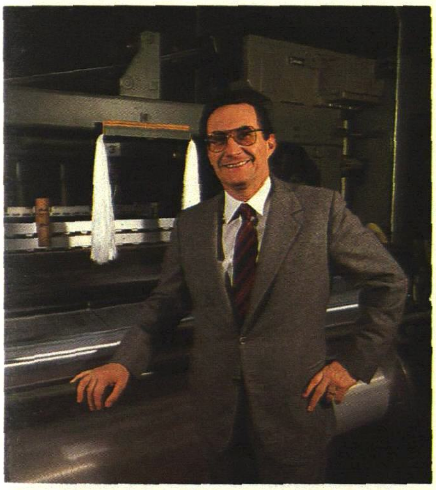
Stockholm, March 18, 1988

KARL-G GIERTZ
Authorized Public
Accountant

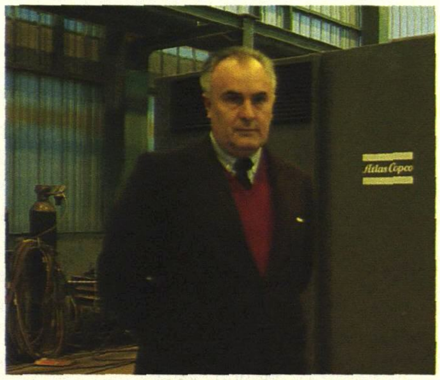
BERTIL E OLSSON
Authorized Public
Accountant

Salesmen of the year

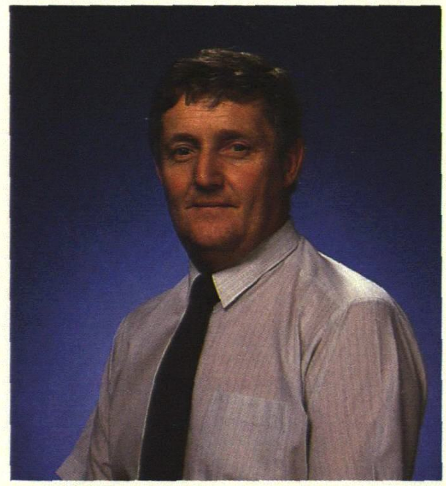
Many outstanding sales efforts by dedicated personnel in the sales companies contributed to the Group's success during the year. A Salesman of the Year was selected in those countries which recorded major sales successes. These salesmen, and a brief description of their achievements, are presented below.



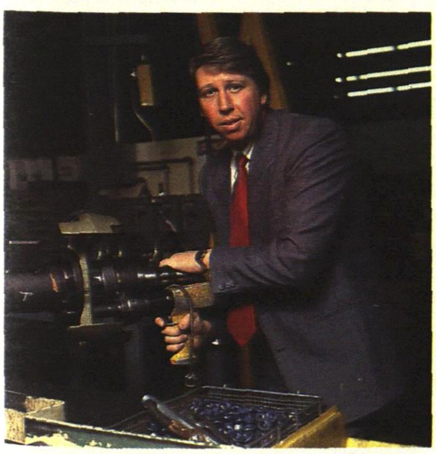
Giorgio Brambilla at the Milan office in Italy carried out a very successful introduction of oil-free compressors in the textile industry. By the end of October, he had already sold 32 units, matching the total number sold in the entire Milan area in the preceding year.



Emilio Oricheta, salesman responsible for the Asturias Province in Spain, sold a large number of oil-free compressors to Spain's largest steel mill, as well as compressors, loaders, drilling equipment and steel to coal mines. In addition, he landed an order for an energy-recovery system to the Figaredo Mine, creating an important reference installation in the mining sector.

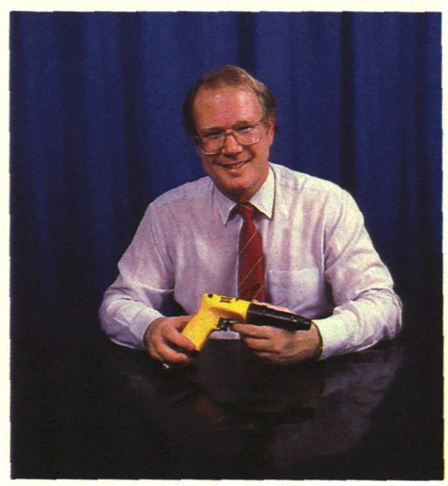


Phil van der Reest, manager of the district office at Kalgoorie in Western Australia, succeeded in increasing the number of installed crawler rigs at the gold mines in the area from two in 1985 to more than 50 units at year-end 1987.



Wayne Timmins, a salesman based in the Toronto office in Canada, landed orders from one and the same customer for advanced assembly systems amounting to CAD 500,000 to 600,000. This is the largest single order for the Tools Division in Canada. The order was won in stiff competition and through persistent sales efforts in which quality and service benefits were the decisive factors.

Tero Vierros, responsible for sales of underground equipment and Coromant rock-drilling tools in the newly established Finnish sales company, sold three Boomers, including the first Rocket Boomer in Finland. This was the largest single order for MCT equipment ever landed in Finland. The equipment will be used for tunneling on a district heating project in Helsinki.



Steve Latham, sales engineer at the Tools Division in the U.K., through his exceptional sales efforts, contributed to an increase of more than 40 percent in the volume of sales of industrial tools in Great Britain during 1987. One of his best efforts involved the sale of 210 electric screwdrivers during a four-month campaign aimed at the leading competitor.

Market position for profitability

In 1987, despite the turbulence in currency and financial markets, we succeeded in achieving our sales and profit objectives. As forecast, the improvements in both areas were made in the third and fourth quarters as a result of aggressive and successful marketing programs, and because our rationalization program began to yield results.

Strong order bookings during the latter part of 1987 and the first two months of the current year indicate continuing sales increases, notably in Western Europe, our home market.

Our leading market positions in core areas of our business, combined with intensive rationalization measures in production, distribution and marketing, are about to yield the profitability we are seeking to achieve.

Leading market position

In a mature industry, few factors affect profitability more than *market position;* being number one or two in important business areas is of central importance. The acquisition of Chicago Pneumatic gave us a leading market position in two additional areas, beyond the five or six major areas in which we are already a world leader. The new areas – fully in line with the growth programs in Atlas Copco' s Industrial Group in recent years – are pneumatic hand tools used in industry, and assembly systems. As a result, Atlas Copco is now the largest company in the world in the main product ranges that account for about 80 percent of our business, with 20 to 30 percent shares of the market.

A clear strategy

Our new strategy was forged during 1987. It is being disseminated, through training seminars, to the entire Group, which is now seeking to concentrate on attractive product areas. The strategy includes requirements for higher profitability, to be achieved through a more rapid flow of materials and knowledge within the Group, as well as between us and our customers. All of the Group' s product development and marketing is being focused on products and services that boost our customers' productivity.

Rationalization measure

The process of rationalizing operations continued during the year. Typical important projects included a new high-productivity plant for contractors' tools in Great Britain, new systems for daily direct deliveries from factories, a new sales organization in West Germany, and the formation of a new division for gas and process compressors. A large number of other projects designed to increase productivity and reduce administration costs were implemented throughout the Group. The most dramatic improvement occurred in the MCT Division, where a number of years of intensive rationalization work has now paid off in a 75-percent increase in earnings. In all, more than SEK 200 m. was invested in this process of change.

Acquisition of Chicago Pneumatic

There is still excess capacity in certain branches of our industry. However, we are participating actively in the structural rationalization that is under way in the industry. The acquisition of CP is a good example.

The CP acquisition has a favorable impact on both aspects of the currency relationships described below. It strengthens our production base in the United States, notably for our growing line of industrial tools, and it was financed mainly through borrowing in U.S. dollars.

In addition, the CP acquisition offers every prospect of being a commercial success, especially after the productivity improvement measures that are now being carried out. The first seven months' operations have already contributed to profits.

Remaining areas

Programs are still under way in certain problem areas. These include currency matters, which are having a sharp impact on profitability of the Airpower Division; excess capacity in the gas and process compressor segment; and certain companies within the Berema Division. These problems are discussed in separate sections of this Report. All are the objects of corrective measures that will yield positive results during 1988.

Currency relationships

As we have described in detail in this and earlier Annual Reports, changes in foreign exchange rates in the world market are an important factor in determining our competitiveness and profitability.

The relationships between, on the one hand, the European currencies that are important to us and, on the other, the U.S. dollar, affect Atlas Copco in two ways: *operationally* and *financially*.

We are affected *operationally* since we have the greater part of our production, approximately 70 percent, in Belgium, West Germany and Sweden. As regards currencies, our production costs are balanced rather well since we have the major portion of our sales revenues in Western Europe. But a large part of our sales, about 30 percent, are made in such countries as the United States, Canada and Australia, and in parts of Latin America, that are dependent on the dollar. As a result of the now stronger Belgian and West Germany currencies and the weaker U.S. dollar, our margins are shrinking. Our U.S.-based competitors, in contrast, obtain benefits in their home market and in connection with exports to Western Europe. The situation is complicated and it is difficult to set an exact price on these currency effects, but the impact is substantial.

Financially, we have been able to utilize the current currency relationships to our advantage by increasing our borrowing in dollars to more than 40 percent of our total debt. This contributed to earnings in 1987, since our liabilities were lower when translated to Swedish kronor.

The European market

The dynamic development within the European Community gives us reason to actively monitor, and participate in, the unique process that is under way. It is my considered opinion the Sweden is taking great risks in not actively probing the opportunities for full membership in the Community. In the process of negotiation, Sweden should be able to formulate the reservations necessary to safeguard the nation' s policy of neutrality. It will then be up to the EC to decide whether or not they can be accepted.

Atlas Copco is already operating within the EC, but it is difficult for Sweden and Swedish companies to share in many aspects of the Community if Sweden, as a country, does not show its willingness to become fully involved on the same conditions as other European countries.

Southern Africa

At year-end 1987, the Atlas Copco company in South Africa ceased to be a member of the Group. This step was a direct consequence of special Swedish legislation which imposes burdens of a foreign-policy nature on Swedish-owned companies.

Our view, stated many times, that the system of apartheid is a burden on the development of South Africa, is shared by strong segments of South African business and industry. Our attitude on the South Africa question is therefore not influenced by a desire to preserve an outdated social system. On the contrary, economic and industrial development is an essential requirement for positive change in the country. We regret that Swedish companies no longer have the right to participate constructively in this process.

For our part, the consequences of the 1987 legislation include reduced industrial employment in Swedish plants, lower sales and impaired opportunities to remain in direct contact with groups of customers who are important to us.

Delfos & Atlas Copco, in which the Atlas Copco Group retains its minority interest, is continuing its operations as an independent distributor in South Africa, selling Atlas Copco products that are not manufactured in the Swedish factories.

Our interest in Southern Africa spans the *entire* region, as indicated by the technical and personnel resources we have built up in a number of countries over a period of many years.

We therefore look forward expectantly to new Swedish aid programs in these countries. We are counting on mutually trustful cooperation with Swedish authorities in the projects that being planned to promote peaceful economic development in the area.

Asia and the Pacific Ocean area

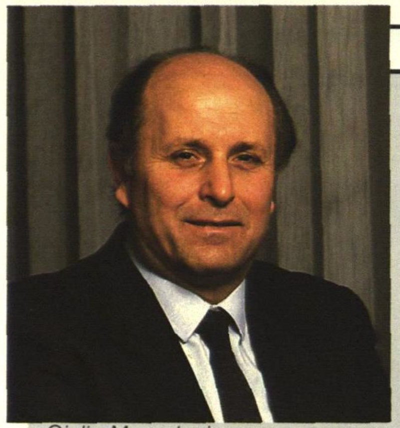
We see great opportunities for continuing growth for Atlas Copco in Asia and the entire Pacific Ocean area. The People' s Republic of China, Japan and Korea are examples of countries in which Atlas Copco today is developing on its own and in cooperation with domestic companies in the region.

Soviet Union

The current signals from Moscow may open new opportunities for for peaceful international cooperation. Assuming that there will be a more open economic system in the future, the growth potential represented by the Soviet Union can provide a base for attractive projects in both the European and Asiatic parts of the country. In this connection, our experience with various forms of cooperation with Chinese companies and authorities can be useful.

On solid ground

To summarize, I feel that Atlas Copco is operating on solid ground. The changes implemented during the year provide a good base for the Company. I am today more optimistic than before about the Atlas Copco Group' s growth capacity during the next few years, in terms of both volume of business and profitability, and we are prepared for further aggressive measures. This is confirmed by, among other things, our high liquidity and our strong balance sheets showing very high percentages of riskbearing capital by Swedish corporate standards – 41 percent for the Group as a whole and 50 percent for the Parent Company.



Giulio Mazzalupi

MANAGEMENT COMMITTEE

Giulio Mazzalupi
President (Effective Oct. 20, 1987)

C. Melville Errington
President (Until Oct. 19, 1987)

Carl G. Johansson
Executive Vice President, Finance (Until Jan. 31, 1988)

Jan Petersson
Finance (Effective Feb. 1, 1988)

Erik Lebrocquy
Personnel and Administration

Roger Docx
Production

Henri Ysewijn
Product Development

Art Droege
Marketing

Summary of 1987

The Airpower Division's sales of portable and industrial compressors continued to increase. Order bookings for non-lubricated compressors were high during the entire year. Earnings were adversely affected by currency fluctuations in key markets.

The Division's operations in the fields of gas compressors, expansion turbines and customer engineered compressors, primarily in the process industry, were separated on October 1, 1987 to form a new division, Atlas Copco ACT (Applied Compressor Technique). For accounting purposes, Atlas Copco ACT is included in the Airpower Division.

Outlook for 1988

With Airpower Division's concentration on the manufacturing industry, as well as the building and construction market combined with its very strong position in Western Europe, the outlook for 1988 is favorable. As a result of efforts to develop its market shares through introduction of new products, an increasingly effective market organization, and further development of customer-oriented applications, new opportunities will be created to further improve profitability.

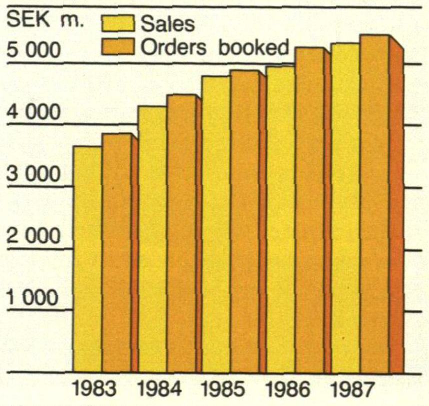
Continued sales increase

	1987	1986
Invoiced sales, SEK m.	5,323	4,950
Earnings after financial items, SEK m.	383	431
Return on capital employed, %	16	19

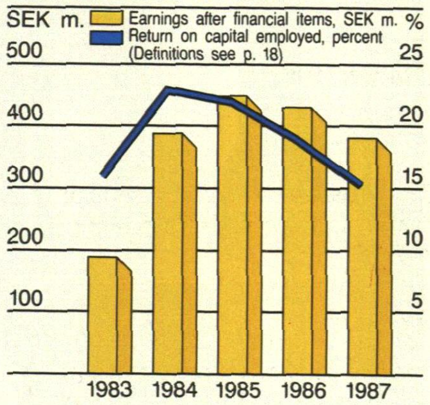
Snow machines, which mix compressed air with water to make snow, are increasingly becoming standard equipment at winter resorts. Atlas Copco oil-free compressors are used to produce clean snow without oil particles. The picture shows a permanent installation at Lech, Arlberg, in the Austrian Alps.

Atlas Copco Airpower develops, manufactures and markets portable and stationary compressors, air dryers, after coolers, control systems and filters. The product program also includes generators and industrial energy recovery systems. The Airpower Division has its head office and largest factory in Antwerp, Belgium. Manufacturing is also carried out in factories in eight other countries.

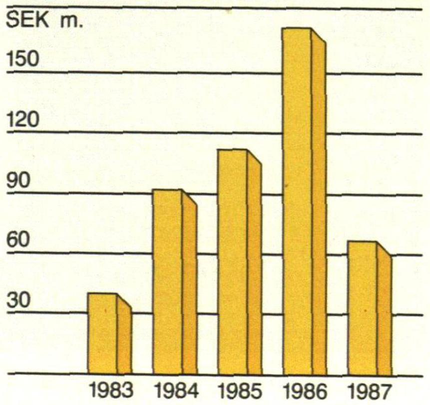
SALES AND ORDERS BOOKED



EARNINGS AND RETURN



INVESTMENTS, RELATED TO PRODUCTION



Sales
Invoiced sales of the Airpower Division rose 8 percent to SEK 5,323 m. (4,950). Orders booked from customers amounted to SEK 5,470 m. (5,250), up 4 percent.

Earnings
Earnings after financial income and expenses amounted to SEK 383 m. (431), corresponding to 7 percent of invoiced sales. Earnings were affected by lower margins in production due to the trend of the currency market. Measures have been taken to offset this effect through cost reductions in production and administration.

The return on capital employed was 16 percent (19).

Investments
Investments in land and buildings related to production amounted to SEK 5 m. (41), and investments in machinery and equipment totaled SEK 62 m. (131). The investments were related to modernization of production facilities and expansion of the distribution system.

Market Development
World trade in industrial goods during 1987 was affected by the trade imbalance between the U.S., Japan and West Germany and the payment crisis in developing countries. As a result, development in the geographical market segments varied.

Despite the reduction in exports from the EC countries due to declining value of the U.S. dollar, growth in capital expenditures in industrial machinery increased in Western Europe.

Outside Europe, investment by industry in machinery remained unchanged, with a few exceptions.

Market growth in the building and construction industry in Western Europe was favorable, while other markets remained weak.

Competitive situation
Due to the sharp fall in the dollar exchange rate during the year, American competitors were able to substantially recover price margins on exports. In contrast, Japanese manufacturers experienced growing problems in dollar-based countries due to the rise in the Japanese currency.

Atlas Copco delivered the compressor central to Motorola's electronics industries in Kuala Lumpur, Malaysia. The oil-free compressors are also equipped for energy recovery.

Atlas Copco has delivered 21 large portable compressors as power sources in drilling for geothermal heat and steam in Larderello, Italy. The steam is piped to a power station that generates electricity.

Business Area: Industrial Air
Sales of nonlubricated screw compressors increased, due mainly to a positive trend in Western Europe. New customer-oriented applications in the process industry and the textile industry for air-jet weaving also contributed to the sales growth. As a result, the Business Area's strong position in these areas was strengthened. The largest sales successes were recorded in France, Italy, Spain and Sweden as well as in Japan and other East Asian countries. The centrifugal compressors for industrial applications launched in the autumn opened new opportunities for sales to large volume consumers of nonlubricated industrial air.

The new series of oil-lubricated screw compressors scored major sales successes. These compressors, equipped with advanced control systems for monitoring and energy savings, offer the customers such benefits as cost-efficient operations, higher productivity and ease of maintenance.

Business Area: Service Air
Sales of small stationary compressors rose in Western Europe, mainly as a result of new application areas and expanded distributor network.

Implementation of a new service policy cut costs related to servicing installed equipment.

Rationalization measures in manufacturing resulted in a significant improvement in profitability and improved quality of these products.

Business Area: Portable Energy
Demand for portable compressors continued to be high, despite the decline in the building and construction market. Sales of smaller compressors, in particular, were successful in Western Europe due to necessary infrastructural improvements.

Atlas Copco increased its market share in this business area.

Introduction of diesel-powered generators in a number of new markets continued during the year.

Business Area: Service and Spare Parts
The increased importance of the compressors as a key component in customer production processes resulted in the development during the year of a complete service package. This program included the introduction of new types of service contracts covering all repairs and maintenance, including spare parts, during a specified period. The contracts ensure better operating reliability for customers and facilitate better utilization of Atlas Copco's service resources.

Product Development
Airpower's research and product development efforts during the year focused on new designs aimed at improving efficiency in customer production processes.

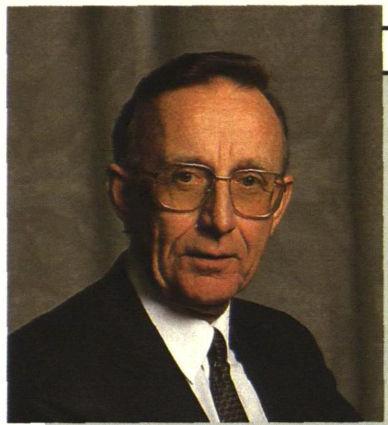
Production
Comprehensive changes in production resulted in faster throughput times for products and a sharp decline in factory inventories.

Distribution
Daily direct deliveries to certain markets and more rapid order-handling routines at Airpower in Antwerp were implemented during the year with the aim of providing increased service to customers. These routines also contributed to reducing capital tied-up in inventories at the central warehouse and at the sales companies.

Personnel
The average number of employees in the Division, excluding the sales companies, totaled 2,983 (3,196).

A training program designed to permit trainees to alternate theoretical instruction with practical training at the Wilrijk factory was carried out during the year.

Training of technical personnel for routine application of CAD systems continued.



Theo Dietz

Specialization in advanced compressors

MANAGEMENT COMMITTEE
Theo Dietz
President
Lars Lindén
Executive Vice President
Anders Björkdahl
Finance and Administration
Ulrich Grundmann
Technical Development

Atlas Copco ACT (Applied Compressor Technique) was formed on October 1, 1987. The Division's operations will focus on specially built air and gas compressors, expansion turbines and vacuum pumps.

The Division will serve customers in such process industries as the chemical, petrochemical, oil and gas process industries, companies engaged in air separation and engineering consulting firms in these fields.

The purpose of forming a separate division is

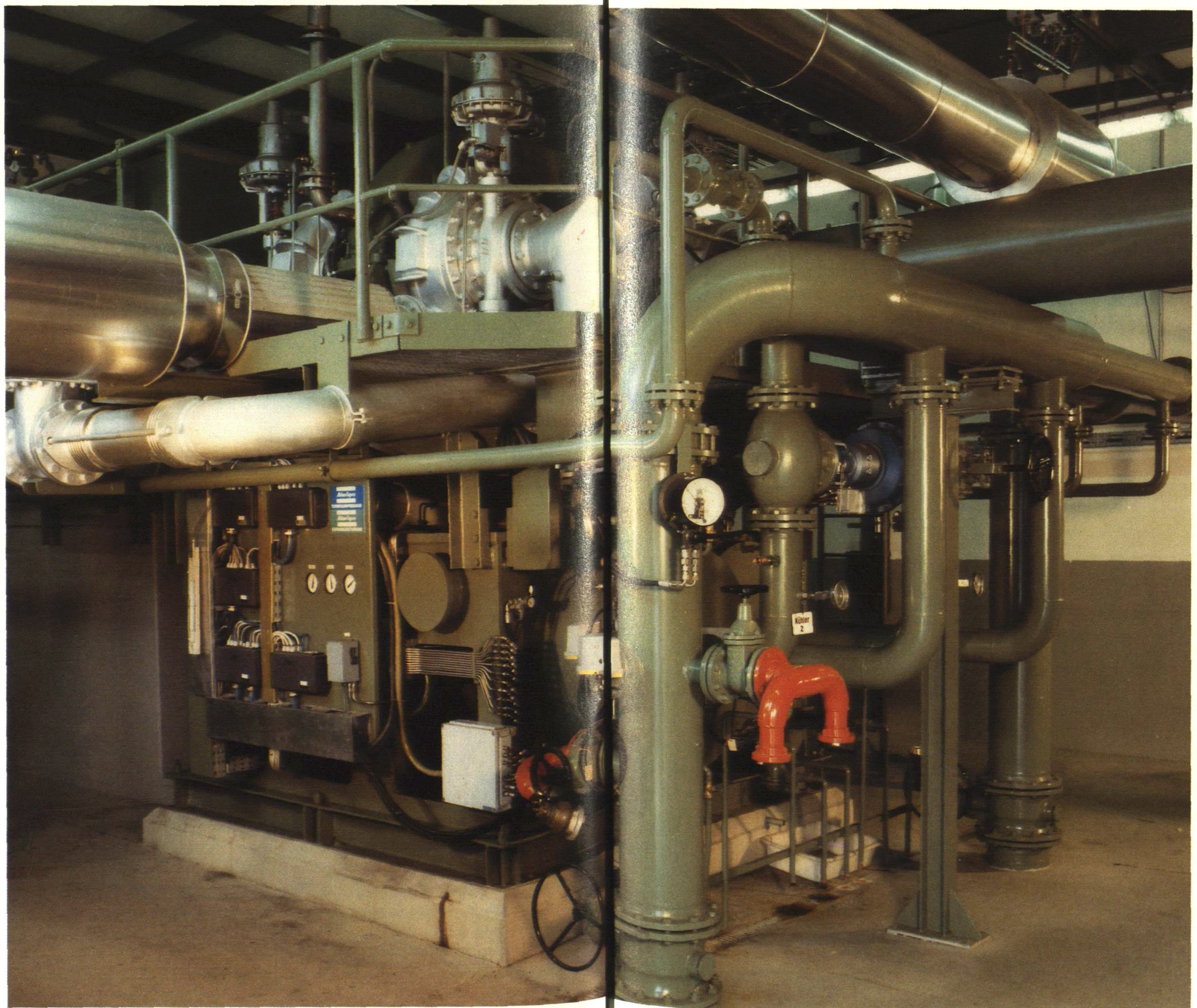
to increase service to the process industries.

to coordinate and rationalize the Group's development, manufacturing, and sales of customer engineered compressors.

to capture a strong position in this special market segment.

Organization

Atlas Copco ACT, with its head office in Antwerp, has research and production units in West Germany, the U.S. and Belgium. Each factory has an International Application Center whose main task is to develop and propose the most suitable solution to the specific problems of each customer. There are also National Application Centers in important markets to maintain close contact with customers.



Atlas Copco supplied a three-stage centrifugal compressor combined with a single-stage expansion turbine to Phenol Chemie in Flodbeck, West Germany. The unit compresses 25,556 cubic meters of air per hour from 1 bar up to a pressure of 8.6 bar.

Operations in 1987

For 1987, operations have been consolidated in the accounts of the Airpower Division.

Investments were made during the year in modern production machinery and special equipment for testing the technically advanced products.

Market Development

The past year was characterized by rising sales of equipment in the energy sector for transport, environmental control and energy recovery. However, this positive trend could not fully offset the low demand in the chemical and petrochemical industries.

The market for centrifugal compressors and expansion turbines for the air separation industries developed favorably during the year. The first orders were received for a six-stage centrifugal compressor for compression of nitrogen gas.

In the U.S., three turbo-compressors, with a capacity of 200,000 cubic meters of air per hour, were installed at a Chicago waste treatment plant.

The Japanese company Mitsubishi placed an order for turbo-compressors to be installed on board five LNG vessels which annually will transport six million tons of liquid natural gas from Australia for delivery to electricity and gas plants in Japan.

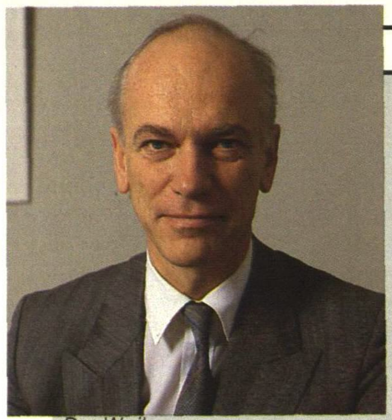
A three-stage centrifugal compressor was delivered to the international group L' Air Liquide and an expansion turbine for production of nitrogen gas in the U.S. During the year, Union Carbide Corp. in New Jersey ordered a two-stage compressor for compression of carbon monoxide.

Product Development

Development was aimed primarily at designs to increase efficiency and component standardization to achieve more rational production.

Outlook for 1988

The outlook for 1988, ACT's first full fiscal year, is favorable. The establishment of a separate division with its own profit responsibility as well as an improved business climate in the process industries should result in a substantial increase in sales and earnings. Sales for the year are anticipated to amount to SEK 800 m.



Per Wejke

Sharp improvement in earnings

	1987	1986
Invoiced sales, MSEK	3,352	3,350
Earnings after financial items, MSEK	208	118
Return on capital employed, %	13	10

Atlas Copco MCT (Mining and Construction Technique) develops, manufactures and markets drilling rigs, rock drills and breakers. The product range also includes rock drilling tools from Sandvik Coromant and a number of equipment lines from other manufacturers. The Division has its headquarters in Nacka. Products are manufactured at factories in Sweden and seven other countries.

MANAGEMENT COMMITTEE

Per Wejke,
President

Bengt Ljung,
Rocktec Systems

Gustaf Bråkenhielm,
Rock Drills and Breakers

Hans Fernberg,
Rock Drilling Tools

Lars Calmered,
Production and Logistics

Claes Silverstolpe,
Finance and Administration

Nils-Åke Jenstav,
Personnel and Organization
(Until Dec. 31, 1987)

Allan Rothlind,
Personnel and Organization
(From Feb. 1, 1988)

Summary of 1987

Sales of the MCT Division were unchanged compared with the preceding year. As a result of launching new, highly productive equipment, the Division strengthened its position in a number of key markets.

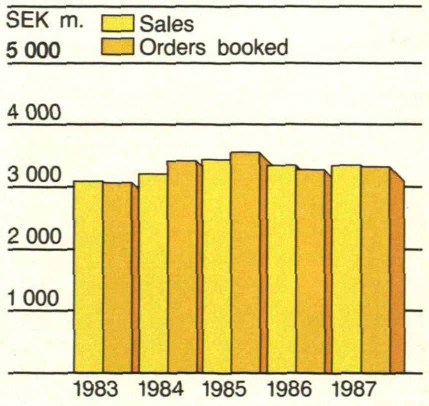
The marked improvement in earnings is attributable mainly to the effects of the structural measures taken.

Outlook for 1988

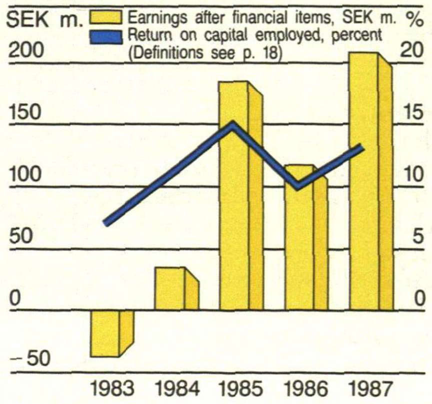
Continued high demand for hydraulic equipment is foreseen from major international contractors. Demand for mining equipment is expected to remain high. However, the substantial deliveries to South Africa from the Division's factories in Sweden will be lost. Rationalization measures, which are continuously being applied, are expected to result in further cost reductions.

During the past two years, Atlas Copco has sold more than 50 drilling rigs to contractors at gold mines in Kalgoorlie, Australia.

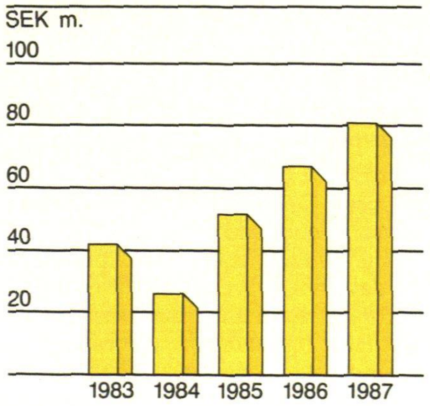
SALES AND ORDERS BOOKED



EARNINGS AND RETURN



INVESTMENTS, RELATED TO PRODUCTION



Sales
Invoiced sales of the MCT Division amounted to SEK 3,352 m. (3,350). Order bookings increased to SEK 3,337 m. (3,278).

Earnings
Profit after financial income and expense rose 76 percent to SEK 208 m. (118), corresponding to 6 percent of sales. The improvement in earnings was due to cost reductions and improved margins in the production and sales companies. Return on capital employed was 13 percent (10).

Investments
Capital expenditures for land and buildings amounted to SEK 30 m. (14), and for machinery and equipment SEK 51 m. (53). Investments included construction of a new factory in Hemel Hempstead, England, for manufacturing of pneumatic breakers and down-the-hole drills.

Structural changes
The organization of the MCT Division was simplified during the year, with complete sectors, each with own profit responsibility: Roctec Systems (customer-adapted, system-oriented products), Rock Drills and Breakers (mobile standard products), and Rock Drilling Tools. This change facilitated substantial rationalization.

Sales companies for the MCT Division's products were established in Sweden and West Germany.

Market development
The business climate in the mining market improved gradually during the year. Many mines with older machinery invested in modern mechanized equipment to meet international competition. The price of gold and several other metals rose on world markets during the year. One result was new investments in gold and copper mines.

The building and construction industry developed favorably in Western Europe, resulting in good demand for tunneling rigs and light contracting equipment. In contrast, a sharp decline in order booking was noted in developing countries, particularly oil-exporting countries in the Middle East.

Competitive situation
During the year, the Division strengthened its position as a leading supplier to the mining industry. The consistent emphasis in recent years on a modern production program with new drill rigs for tunneling as well as a new series of crawler rigs contributed to an increase in market shares.

The Division increased its share of the Scandinavian market for contracting equipment. Competition from Japanese suppliers continued to be keen, and competition from U.S.-based manufacturers was increasing.

Business Area: Rocktec systems
Sales of hydraulic tunneling equipment developed well during the year. Major orders were received from mines in South Africa, the Soviet Union, People's Republic of China, Australia and Portugal. Several drilling rigs were also delivered to the Brazilian market.

The market for production drilling also showed favorable demand. The first equipment in the new-generation of rigs for production drilling, featuring remote-controlled, TV-monitored, automatic hole drilling, was delivered to LKAB in Sweden.

A large number of orders were received during the year for rock-reinforcement equipment.

New light-weight, high-capacity hydraulic crawler rigs were very favorably received by contractors and quarry operators. A large number were delivered already in 1987.

Several drilling rigs, including portable compressors, drill steel bits and spare parts, were delivered to a hydropower project in the Middle East.

Atlas Copco also delivered a number of large hydraulic crawler rigs for surface applications to the new International Kanzai Airport in Japan, which is being constructed about five kilometers offshore scheduled to be completed in 1993. Part of the 18-meter-deep Osaka Bay is being filled with 150 million cubic meters of earth and rock.

Demand for tunneling equipment was high, with deliveries made to Japan and several European countries. Orders for the fast-drilling Rocket Boomer included a delivery in the autumn to a tunnel project under the city of Helsinki.

A large order for crawlers, tunneling rigs, compressors and drill steel was secured from a Korean contractor for a railway project in the Middle East. The project includes construction of 12 tunnels with a total length of 30 kilometers.

Business Area: Rock Drills and Breakers
Sales of light contracting equipment were favorable in industrial countries, but remained weak in developing countries, particularly in the Middle East.

A new vibration-dampened pneumatic breaker, introduced during the year on markets in Northern Europe, resulted in high demand, as a result of its outstanding ergonomic properties.

Sales of heavy demolition equipment were concentrated on certain products

Contractors for a rock tunnel in Helsinki, Finland, have purchased Atlas Copco's new Rocket Boomer drill rig which has a drilling rate of about 2.6 meters per minute.

and markets. Sales of hydraulic breakers increased sharply.

Business Area: Rock Drilling Tools
The market for Sandvik Coromant rock drilling tools was unchanged compared with the preceding year. However, increased sales were achieved to gold mines in Latin America and Australia.

The low level of activity in the building and construction market in the oil-producing countries in the Middle East and North Africa resulted in a decline in demand for drill steel.

By establishing direct distribution channels between the sales companies and Sandvik, distribution and warehousing costs were reduced.

Production
Capacity utilization in MCT's factories was high. During the last quarter, however, utilization decreased in the Swedish factories as a result of the export ban to South Africa. This affected especially the Avos factory in Örebro, where structural changes and personnel reductions were made. Further measures at the Swedish factories may become necessary due to the export restriction.

The new factory in Hemel Hempstead for manufacturing of pneumatic breakers and down-the-hole rock drills started operation in the autumn as planned. Production increased substantially through increased automation, while at the same time floor space and the number of employees were reduced. Inventories were reduced throughout the organization as a result of better delivery service.

Personnel
During the year, the MCT Division employed an average of 1,632 persons (1,703), of whom 1,146 (1,219) in Sweden. The structural changes resulted in a decline in staff personnel by 150 employees. Further reductions will be made during 1988.

Programs carried out within the framework of the development fund included training of workers in Nacka, focusing on technical data processing and numerically controlled machines. A training course was conducted for plant foremen providing increased knowledge about future production technology and equipment.

Atlas Copco's deliveries of mining equipment to the largest private copper mine in Chile include a Simba rig, capable of boring straight holes 6½ inches thick and 60 meters in length.

Atlas Copco Tools

Michael Treschow

Acquisition doubles sales

	1987	1986
Invoiced sales, MSEK	1,641	964
Earnings after financial items, MSEK	143	108
Return on capital employed, %	19	23

Atlas Copco Tools develops, manufactures and markets industrial machines and systems. Operations are divided into three business areas: Industrial Tools, Advanced Assembly Systems and Finishing Equipment and Systems. The Division's head office is in Stockholm. Manufacturing and assembly is carried out at 15 factories in six countries.

MANAGEMENT COMMITTEE

Michael Treschow,
President

Lennart Johansson,
Controller

Lars Larson,
Industrial Tools and Equipment

Lennart Evrell,
Assembly Systems

Lennart Dock,
Finishing

Jess Ball,
Chicago Pneumatic
(Until February 20, 1988)

Gösta Henningson,
Technology Development

Håkan Magnusson,
Finance

Allan Rothlind,
Personnel and Organization development
(Until Jan. 31, 1988)

Stefan Börjesson,
Materials Administration

Rolf Carlsson,
Data Processing

Summary of 1987

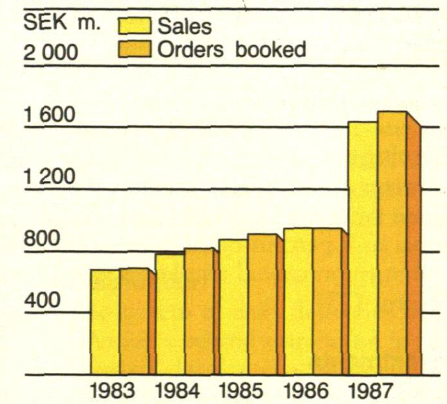
A favorable sales increase was recorded in all business areas, primarily in Western Europe. Through the acquisition of Chicago Pneumatic, the Division increased its market shares in North America substantially. The improvement in earnings is mainly attributable to cost reductions in production and sales. The acquisition of CP effected the increase in earnings only to a minor degree.

Outlook for 1988

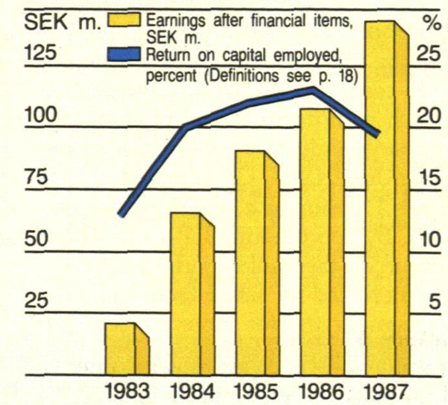
Atlas Copco Tools anticipates modest growth in prioritized industries and markets. However, the Division expects to increase market shares as a result of rationalization of production, distribution channels and planned marketing activities. Conditions are favorable for a continued increase in earnings.

The automotive industry is one of Atlas Copco Tools' most important customer categories. The Volkswagen assembly plant at Emden, West Germany, like most other auto plants, is equipped with Atlas Copco Tools' industrial tools for manufacturing and assembly.

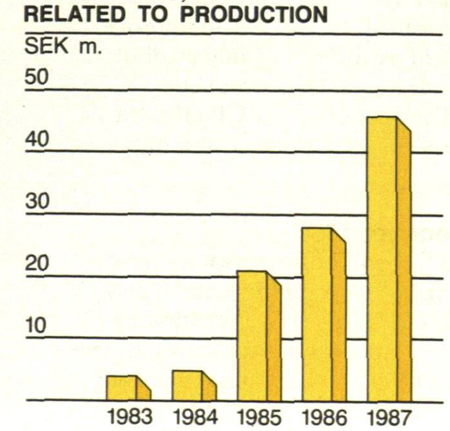
SALES AND ORDERS BOOKED



EARNINGS AND RETURN



INVESTMENTS, RELATED TO PRODUCTION



Sales

Invoiced sales of the Atlas Copco Tools Division rose SEK 677 m. to SEK 1,641 m. (964), including SEK 619 m. sales of Chicago Pneumatic (CP) for a seven-month period. Order bookings from customers increased SEK 738 m. to SEK 1,701 m. (963), of which CP accounted for SEK 630 m.

Earnings

Earnings after financial income and expense amounted to SEK 143 m. (108), equal to 9 percent of sales.

Return on capital employed was 19 percent (23).

Investments

Investments in land and buildings amounted to SEK 13 m. (4), and in machinery and equipment to SEK 33 m. (24).

Company acquisitions

During 1987, Atlas Copco acquired the U.S. company Chicago Pneumatic, which manufactures and markets primarily industrial tools and systems. Since June 1987, CP is included in the Tools Division as a separate business area. By coordinating CP's and Tools' resources, favorable conditions have been created for faster technical advancement and for more efficient production and distribution. As a result of the acquisition, Atlas Copco became the world's largest manufacturer of pneumatic tools and assembly systems.

Icotron AB, acquired during 1987, develops and manufactures powder painting systems. The company, part of the Finishing Business Area, complements Atlas Copco Tools' own technology.

As a step toward closer cooperation, Atlas Copco Tools acquired a shareholding in GME-System AB, specialists in industrial electronics.

Market development

The fight for market shares was hard in Industrial Tools, the Division's largest business area. Tools succeeded in increasing its market shares in several important markets. In the automotive industry, particularly in the U.S., positions were improved for Atlas Copco's assembly systems, despite unfavorable currency trends. The Division reported favorable sales increase in the household appliance industry. Production in the aircraft industry showed a positive trend and the Division increased sales in this segment. Environmentally safe surface treatment with water-based paints and electrostatic powder coating attracted increasing interest.

Ergonomically well designed tools are of greatest importance to the user. A chipping hammer, part of the Ergoline tool series from Atlas Copco Tools, is used at the Mälar Shipyard in Stockholm.

Competitive situation

Atlas Copco Tools' modern product lines in the the areas the Division prioritized have resulted in an advantageous competitive situation. However, the trend of the U.S. dollar gave American manufacturers a price edge. Stiff competition and aggressive marketing was also noted from British and West German companies as well as from local manufacturers in certain markets.

The company's focus on high customer productivity, good ergonomic properties and well-designed work stations for operators resulted in competitive advantages for Atlas Copco Tools.

Business Area: Industrial Tools

Invoiced sales and profitability continued to increase. Order bookings were also good, particularly in the U.S., where customer interest in ergonomically well designed tools was very substantial. Favorable sales results were also recorded in West Germany and Sweden.

The Division's focus on high-productivity tools with good ergonomic characteristics contributed substantially to the favorable sales growth, particularly in the automotive industry.

A series of newly designed electric angle-nutrunners were launched on the market and were very well received. The Division also scored successes with the introduction of oil-free tools.

Business Area: Assembly Systems
Sales and order bookings increased and profitability improved sharply. Better margins and tight cost controls contributed to the improvement in earnings. Major sales successes were recorded primarily in the U.S., Italy and Great Britain. The automotive industry, the predominant customer category, is increasingly demanding complete systems featuring high technology.

A new generation of the ARAS automatic riveting assembly system, with a new robot arm, was introduced on the market. Orders were placed by customers in the British, French and West German aerospace industries, among others.

Business Area: Finishing
Favorable sales increases were noted in Sweden, Italy and Belgium.

A decision was made to coordinate sales in Belgium, The Netherlands and Luxembourg. This will result in higher profitability and better utilization of technical know-how. Continued success was recorded for anti-corrosion treatment systems for the vehicle industry, equipment for automatic spray painting and complete work stations.

Technical development was focused on equipment and products that improve the work environment, including a new system for electrostatic powder coating.

Business Area: Chicago Pneumatic
Operations of Chicago Pneumatic (CP) cover four product lines: Industrial tools, auto aftermarket tools, assembly systems, compressors and tools for the contracting industry.

The company's products are marketed in the U.S. through distributors and by its own sales companies in Canada, Great Britain, Belgium, West Germany, Italy, South Africa and Australia.

Industrial tools, which account for one third of CP's sales, developed favorably in 1987, reporting higher sales and order bookings. The industrial tools product line is manufactured in the U.S. and marketed through a well-established network of distributors, mainly in the American market. Investments in new machines started during the second half of the year at the factory in Utica, N.Y., to rationalize production.

Tools for auto aftermarket are manufactured in Japan and marketed in the U.S. This product line accounts for one fourth of CP's total sales. The sales trend was favorable during the year, while profitability declined as a result of the change of the U.S. dollar against the Japanese yen.

Compressors and tools for the contracting industry account for 20 percent of CP's operations. The equipment is manufactured in Japan and India and marketed mainly in the U.S. and India. Sales in 1987 were favorable.

Assembly systems are manufactured in the U.S. and marketed mainly in the North American market. CP holds a major share of the market. The product line is profitable.

Several measures were taken during the autumn to strengthen CP's profitability. The factory in Scotland was sold and certain administrative coordination has been arranged with Atlas Copco's British subsidiary. A substantial reduction in the inventory of finished goods and faster production throughput times will reduce tied-up capital.

Production
A decision was made to discontinue manufacturing in Finland to improve the Division's productivity. Production of percussive tools will be shifted to Sweden, and assembly of the ARAS automatic riveting system moved to STIB in Vallentuna, Sweden.

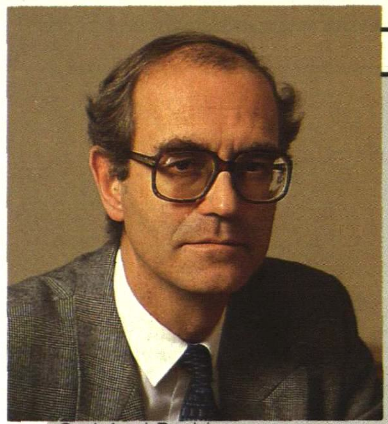
An office and a factory building were sold at the Skara plant. Investments were made in multi-operation machines at the two Swedish factories. Throughput times continued to decline.

Distribution
The system of daily deliveries from the Division's central warehouse in Skara, Sweden, developed as planned. Expansion and adaptation of the warehouse facilities will be completed in early 1988. This system resulted in a significant reduction of inventory costs and continued high delivery service to customers. Most of Western Europe will be served from the Swedish warehouse terminal during 1988.

Personnel
The Tools Division employed an average of 3,639 persons (919) in production, of whom 2,736 (121) at units outside Sweden. CP's operations accounted for 2,620 of these employees.

Chicago Pneumatic is recognized as one of the leading suppliers of pneumatic tools to industry in the U.S. Deliveries to John Deere include nutrunners for assembly of drive wheels.

Monsun-Tison



Carl Axel Rudd

Sharp rise in sales

	1987	1986
Invoiced sales, MSEK	449	393
Earnings after financial items, MSEK	51	47
Return on capital employed, %	21	22

Monsun-Tison develops, manufactures and markets hydraulic and pneumatic components and systems for mobile applications and industrial automation. Customers are manufacturers of forestry and mining equipment, cranes, packaging machines and transportation equipment. The Division's head office is in Borås, Sweden. Manufacturing is carried out at factories in Borås and Falköping, Sweden.

MANAGEMENT COMMITTEE
Carl Axel Rudd
President
Anders Perning
Finance and Administration
Hans-Jörgen Lindström
Industrial Automation
Lennart Hammarström
Mobile Hydraulics

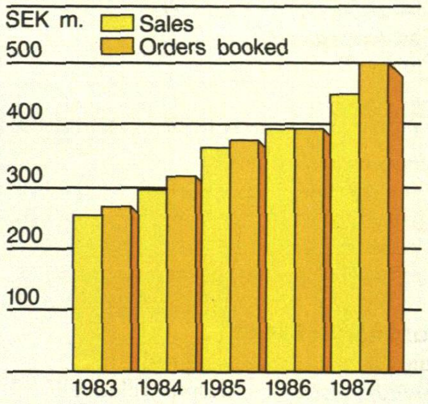
Summary of 1987
Sales of the Division's products continued to increase, despite relatively low growth in the mobile hydraulics market. Price competition was increasingly intense in industrial automation.

Outlook for 1988
Further improvements in profitability are expected in Mobile Hydraulics as a result of anticipated favorable volume growth. Ongoing restructuring and rationalization measures in production will also contribute to the improvement.

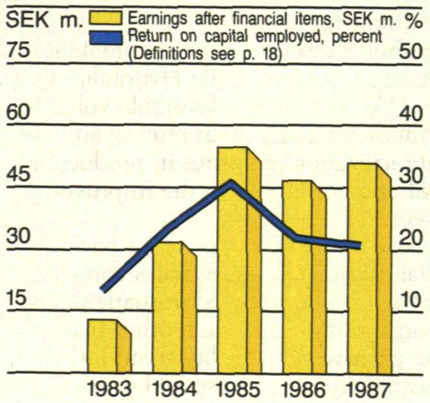
As a result of a large order backlog, establishment of a new sales company in the important Swedish market and reorganization in certain other markets, the positive profitability trend in Industrial Automation should continue.

ÖSA feller-skidder logging machines are equipped with remote controls and working cylinders from Monsun-Tison, one of the world's leading suppliers of hydraulic valves for mobile machinery.

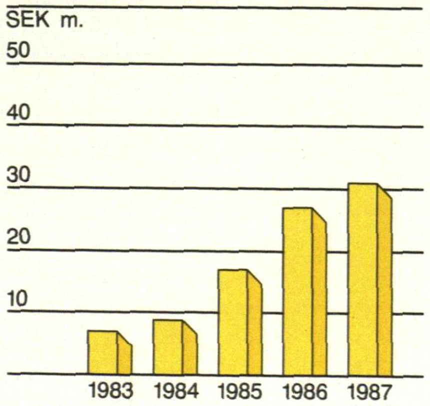
SALES AND ORDERS BOOKED



EARNINGS AND RETURN



INVESTMENTS, RELATED TO PRODUCTION



The assembly robot at the J S Medical factory in Husqvarna, Sweden, is controlled by a pneumatic control system from Monsun-Tison, who also delivered the compressed-air cylinders. The robots assemble disposable items used in medical care.

Sales
Invoiced sales amounted to SEK 449 m. (393), a 14-percent increase. This figure includes SEK 38 m. (46) in sales to other companies in the Atlas Copco Group. Order bookings rose 27 percent to SEK 500 m. (393), corresponding to a volume increase of 19 percent.

Earnings
Earnings after financial income and expense totaled SEK 51 m. (47). Earnings for the year were charged with extraordinary costs of SEK 3 m. The improvement in operating income is mainly attributable to the increase in sales.

Return on capital employed was 21 percent (22).

Investments
Investments in land and buildings amounted to SEK 5 m. (10), and in machinery and equipment to SEK 26 m. (17).

Modern production equipment was acquired for machining and material handling.

An important stage of the building program, involving 2,000 square meters of office and workshop space, was completed at the production unit for industrial automation in Falköping.

Market development
Business Area: Mobile Hydraulics

The sales trend in the business area was favorable, despite a market characterized by low growth. Market shares increased in several areas.

The highest volume increase was recorded in remote-control systems, primarily for use in contracting machinery. Hydraulic cylinders with built-in position indicators, launched during the year, attracted considerable interest, with positive sales growth in several markets.

The Division strengthened its position in Sweden substantially through a significant order from a manufacturer of forklift trucks and contracting machinery. The leading position in the forestry machinery market was maintained.

Continued intensive cultivation of the marine market in Norway, primarily deck cranes and winches, resulted in increased sales.

Major orders were received from manufacturers of excavators, work platforms and garbage trucks in the North American market.

In France, a strong increase was noted in sales to manufacturers of marine equipment. Breakthroughs into attractive new markets were achieved in Great Britain, including the work platform market.

Profitability improved further.

Business Area: Industrial Automation

Order bookings during the year were very favorable for standard products as well as for products manufactured to customer specifications. In the latter area, a significant order was received from an aluminum smelter in Venezuela. In the standard products areas, attractive orders were booked by major manufacturers of pneumatic components such as producers of packaging machines, food processing and material handling equipment. However, the market was characterized by increasingly intensive price competition.

The market organization was strengthened further during the year. As of January 1, 1987, sales in the key Swedish market were transferred to a separate sales company, Atlas Copco Automation Svenska AB. The company is based in Borås, Sweden. A reorganization of sales in Belgium and The Netherlands to a joint unit for the Benelux countries was implemented in autumn 1987.

Profitability improved markedly.

Production

Lead times were reduced substantially at the hydraulic valves factory, mainly as a result of recent investments and closer cooperation with suppliers. In addition, the ongoing investment program will improve the company's competitiveness in terms of delivery service and quality.

Lead times were also shortened at the hydraulic cylinder factory. Structural changes and rationalization measures were carried out to improve profitability.

Decisions involving two major investments at the Sika factory in Falköping, Sweden, were made during the year.

Product development

Investments in CAD equipment and computer-based measurement and testing equipment were made during the year to raise the quality and efficiency of development efforts.

A renewal of the valve program in Mobile Hydraulics resulted in several new products. Development in the remote-control field focused on microcomputer-based electrohydraulic control systems with new ergonomic control units. The auxiliary valve product line was supplemented with valves for safety functions.

A highly competitive, wide range of products has been developed during recent years in Industrial Automation. This line was further expanded during the year through the addition of a new valve series, a new mini-cylinder series, designed primarily for packaging machines, and a new-generation electronic control system.

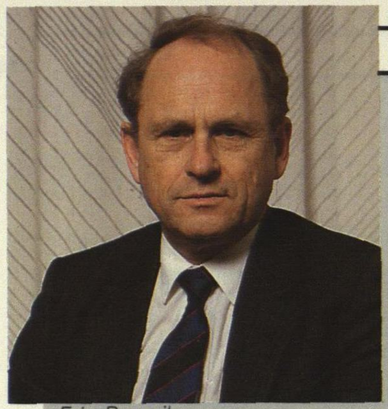
Personnel

The Division employed an average of 803 persons (768) during 1987, of whom 144 (137) outside Sweden.

The increase is attributable partly to the newly established sales company in Sweden for industrial automation.

Continued attention was given to training of sales and technical personnel. Courses for the CAD system and in language training, were carried out during the year.

The flow of letters through the post office departments new Klara Terminal in Stockholm is controlled pneumatically. Monsun-Tison delivered the control system and the working cylinders to the terminal, one of the most modern in the world.


Eric Bursvik

Profitable base operations

	1987	1986
Invoiced sales, MSEK	755	694
Earnings after financial items, MSEK	4	26
Return on capital employed, %	5	10

With base operations in fuel-powered drills/breakers for construction work, Berema's business concept is to invest in and develop other operations with light industrial products. Berema is headquartered in Solna (Stockholm). Products are manufactured at six factories in Sweden.

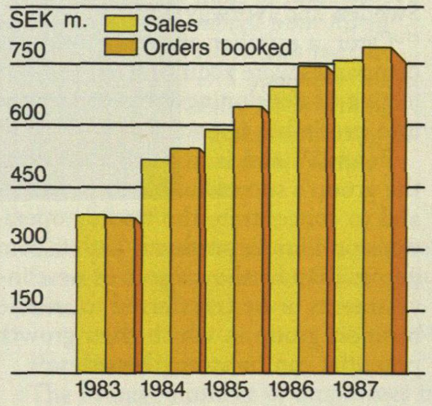
MANAGEMENT COMMITTEE
Eric Bursvik,
President
(From Jan. 11, 1988)
Gösta Fernström,
President
(Until Jan. 11, 1988)
Arne Gerold,
Finance and Administration
Per Hallström,
Markets
Olav Heinsoo,
Business Development

Summary of 1987
Berema continued its volume growth. Substantial losses were incurred during the year in certain of the group's subsidiaries. A restructuring, which also added heavy costs, was initiated. Therefore, total earnings are not satisfactory, though the base operations continued to be very profitable.

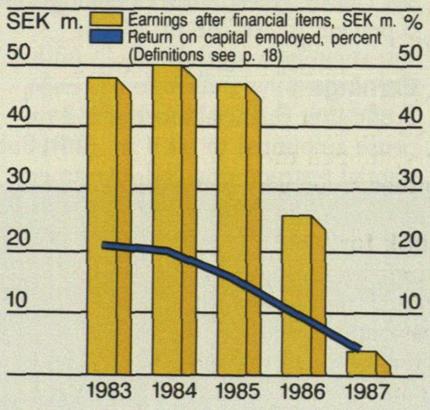
Outlook for 1988
Continued heavy investment in marketing will be carried out in 1988 in the base operation, including the launch of new attractive products. The profitability of those companies with problems will be improved by ongoing restructuring and rationalization measures. Long term, these actions will contribute to improving the earnings of the Berema group.

Laying pavement stone in Milan, Italy, is one of the many tasks handled by the Cobra, a fuel-powered portable drill/breaker. It is also used for rock drilling, breaking, light compaction and digging.

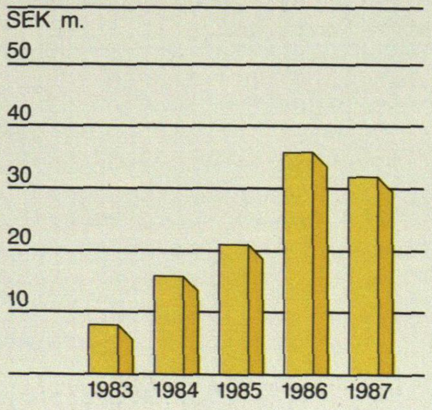
SALES AND ORDERS BOOKED



EARNINGS AND RETURN



INVESTMENTS, RELATED TO PRODUCTION



Berema's development

Originally, Berema was a trading company that sold fuel-powered drills/breakers manufacturered by an outside supplier. Among others, Berema represented Honda Power Products in Sweden and Norway.

Later, a number of manufacturing companies were acquired, with the objective of developing them long-term into profitable operations.

Berema's aim is to further develop the group's successful base operations, and to concentrate the trading operations on Honda products. Other companies may be the subject of new investments or be transferred to another business group in which their growth potential can be strengthened.

Sales

Invoiced sales of the Berema group increased 9 percent during the year to SEK 755 m. (694). Order bookings rose 6 percent to SEK 788 m. (745).

Earnings

Profit after financial income and expense amounted to SEK 4 m. (26). Substantial restructuring and divestment costs were charged against earnings for the year. These were related mainly to Toolex Alpha and Atlas Copco Energy.

Return on capital employed in Berema was 5 percent (10).

Investments and company acquisitions

Investments in land and buildings amounted to SEK 12 m. (17), and in machinery and equipment to SEK 20 m. (19).

During 1987, the following acquisitions and divestments were carried out among others:

- Berema A/S acquired ABEM's agent in Norway, Semitronic A/S.
- Atlas Copco Energy purchased a 47.7-percent interest in Lövab AB from Wermia AB.
- Atlas Copco Energy divested the entire heat pump operations.
- Toolex Alpha cut back its own production of Compact Discs.
- Atlas Copco ABEM discontinued its subcontracting operations in the electronics field.

Market development

Fuel-powered drills/breakers are manufactured by Berema and marketed worldwide by own sales companies, dealers and the Atlas Copco sales organization. Honda Power Products are sold in Sweden and Norway in the Industrial, Garden and Marine business areas. Berema's other operations include equipment for water supply, geotechnics, filter technology, CD technology, commercial kitchens as well as hydraulic components and small compressors, which are marketed by the various companies in the group. '

Business Area: Drills/Breakers

The sales volume of fuel-powered drills/breakers rose 10 percent during 1987. Major market successes were noted in Canada, Belgium and Turkey. The establishment of separate sales units in the Atlas Copco sales companies contributed significantly to the favorable sales trend, particularly in Canada and Great Britain. An increased number of large orders were received during the year. In the U.S., the sales organization was expanded to widen the scope of operations in the American market. Profitability of the business area was very favorable.

Berema's first electric-powered breaker, Rebel 20, introduced in certain markets during the autumn, was well received.

Berema Sweden

Honda products showed favorable volume growth, primarily snow throwers and generators.

Profitability was satisfactory, despite the price freeze in Sweden and the rising yen rate.

During the year, Berema introduced a new electropneumatic breaker. Designed primarily for chiselling in concrete and brick, it is also excellent for digging, tamping, light compaction and breaking asphalt.

Berema Norway
The Honda Power Products showed continued growth. The agencies for Grindex pumps and Peddinghaus cutting machines developed favorably.

During the year, Berema Norway acquired Norsk Kompressorservice A/S, which distributes light industrial products from KGK, and Semitronic A/S, which markets computerized measuring equipment manufactured by ABEM and others.

Atlas Copco Energy
During the year, Atlas Copco Energy concentrated operations on well-drilling equipment. All marginal operations were divested, resulting in a personnel reduction from 66 to 40 persons.

Sales of well-drilling equipment developed favorably, recording a volume increase. Profitability was unsatisfactory.

Atlas Copco ABEM
Sales of seismic instruments remained at the same level during the year. The prospecting market continued to be weak.

Operations were consolidated to the seismic and industrial measurement business areas. The workforce was reduced from 45 to 35 persons.

KGK Mekaniska Verkstad
KGK gained new product agencies in 1987, expanded its distributor network and strengthened its organization to cultivate new customer categories. As a result, the heavy dependence on the agriculture sector can be eliminated.

Flodins Filter
Sales of protective gasmask filters, used in asbestos removal projects and other applications, rose sharply.

A modernization of production is under way to meet the increased demand.

Idesta
Sales of equipment to commercial kitchen suppliers, restaurants and municipal authorities increased. SEK 6 m. was invested in modern production equipment.

Photo courtesy of The Brand Companies.

Suits for asbestos removal from Racal Airstream Inc., a U.S. company, are fitted with breathing masks containing filters from Flodins Filter.

Karlssons Mekaniska Verkstad
Sales of hydraulic components during 1987 showed a strong volume increase, with continued favorable profitability. A new machine hall was taken in operation during the year to meet the increase in demand.

Toolex Alpha
Overcapacity in the production of Compact Discs resulted in sharply reduced prices in international markets. As a result of this trend, and to avoid competition with its own customers, Toolex Alpha cutback production of CDs and focused operations on manufacture of equipment for CD production.

Personnel
The average number of employees increased during the year to 776 persons (759). Restructuring measures led to a reduction of 21 employees. New acquisitions added 47 persons.

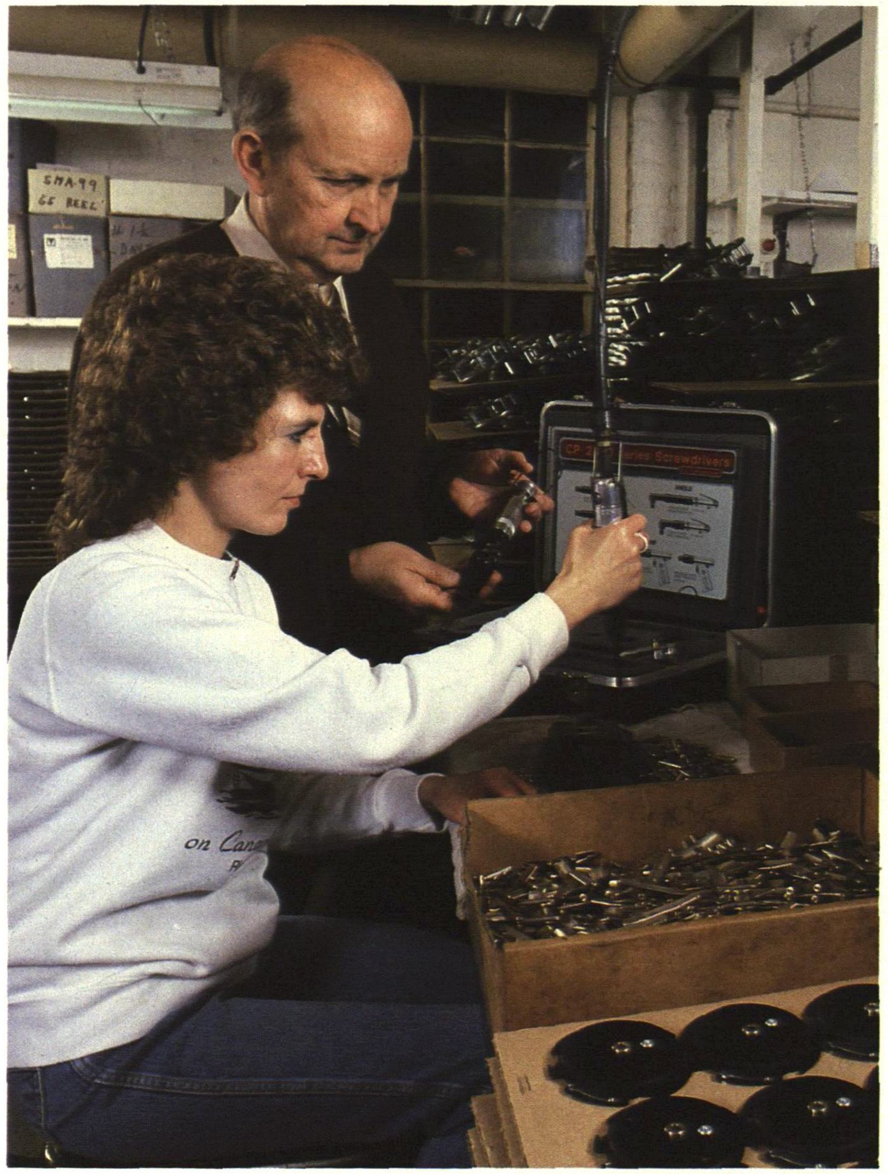
Atlas Copco Energy, worldwide suppliers of well-drilling equipment, delivered this unit at work in northern Spain.

Major investment by the Industrial Group

In Atlas Copco' s Industrial Group, which consists of Atlas Copco Tools and Monsun Tison, work has been under way for several years to strengthen the Group's position in the industrial market. The objective is to become a leading supplier of both production equipment and components to engineering industries.

As part of this program, Atlas Copco in 1987 acquired a large American company, Chicago Pneumatic, which manufactures compressed air tools, assembly systems and compressors.

The program has also resulted in the acquisition of a number of smaller companies in important areas of technology. These include a manufacturer of systems for dry-powder painting and a consulting firm that specializes in the mechanization and automation of factory processes.



A sales engineer from one of CP's distributors demonstrates new industrial tools at an assembly station in an American factory.

Atlas Copco's largest acquisition

Chicago Pneumatic (CP), which has annual sales of approximately SEK 1,000 m., and about 2,600 employees, is Atlas Copco's largest acquisition to date. As a result of the acquisition, the combined resources of two of the world's leading companies in the fields of compressed air tools, assembly systems and similar production equipment are now available to Group customers. The purchase is also a step towards Atlas Copco's objective of becoming a leader in these areas in the American market. Chicago Pneumatic is now a separate business area within Atlas Copco Tools, the Group's industrial technology division. Chicago Pneumatic is currently active in four product areas:

Industrial tools, manufactured in a plant at Utica, New York, in the U.S.

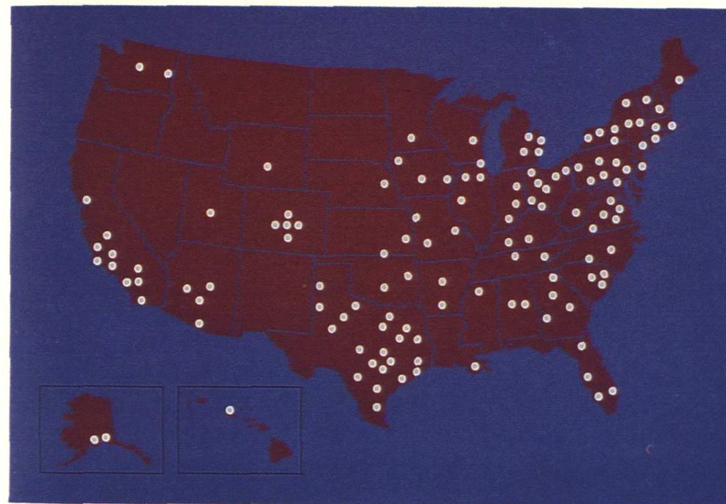
Auot aftermarket tools, produced in Japan for the American market.

Compressors and tools for the construction industry, manufactured in Japan and India.

Assembly systems, produced at a plant in Sterling Heights, outside Detroit, Michigan.

The product program comprises many types of compressed air tools, assembly systems, compressed air drills, rock-drilling machines and compressors.

Most of Chicago Pneumatic's products are sold in the U.S. market through a well-developed distribution network. In Canada, they are marketed through a CP sales company. India, where the company sells compressors and tools for the construction industry, is the firm's second-largest market. These products are manufactured locally in a plant in Bombay. There is also a production unit in India for hydraulic drilling equipment, as well as a foundry. Chicago Pneumatic has a 40-percent interest in the Indian companies. The greater part of CP' s sales in Western Europe are made in Great Britain. There are also marketing companies in Belgium, West Germany and Italy.



Through its acquisition of Chicago Pneumatic, Atlas Copco gained access to the U.S. company's well-developed distribution network.

Major investments in new machinery are being made in the CP plant in Utica, New York, in the U.S.

CP' s historical background

Chicago Pneumatic was founded in 1901 through the merger of a number of manufacturers of compressed air machines. The company's first product was a pneumatic riveting hammer. Atlas Copco's first tool was also a riveting hammer which, interestingly, was also designed in 1901. Chicago Pneumatic's product line was gradually broadened to include percussion and rotary tools and lifting devices. The company also entered a number of unrelated areas. Among other products, it made an instrument that recorded the speed, braking capacity and acceleration of locomotives; batteries for electrically powered vehicles; printing presses; vacuum cleaners; gasoline-powered trucks and diesel engines.

During the 1920s and 1930s Chicago Pneumatic began to develop both compressed-air-powered and electricpowered tools for the aircraft industry. By the end of the 1940s, production had increased to the point where the company decided to build a new factory in Utica, in upstate New York. This plant, which was placed in service in 1950, is still the company's largest manufacturing unit.

In 1967, CP acquired Clyde Corporation, based in Troy, Michigan, a company highly respected in the field of automation for its production and installation of sophisticated machinery and systems used in the automotive industry. Clyde was merged with CP' s assembly system division to form a strong unit whose operations are now based in Sterling Heights, outside Detroit.

During the 1960s Chicago Pneumatic began to manufacture compressed air tools and portable compressors in India.

Personnel

SEK thousands	1987	1986
Sales per employee	614	627
Earnings per employee	42	44
Value added per employee	238	241

The average number of employees in the Atlas Copco Group in 1987 increased 2,279 to 18,777 (16,498), including 2,765 in companies acquired or established during the year. Personnel employed at companies in Sweden accounted for 22 percent (27). Total labor costs amounted to SEK 3,269 m. (2,895), of which social costs accounted for SEK 931 m. (797).

		Average number of employees*)		Wages, salaries and other costs	
		1987	1986	1987	1986
SWEDEN	Head office	62	65	39	35
	Divisions	3,459	3,440	722	627
	Sales companies	678	902	164	189
Total Sweden		4,199	4,407	925	851
OUTSIDE SWEDEN	Divisions	6,374	3,905	865	773
	Sales companies	8,204	8,186	1,479	1,271
Total outside Sweden		14,578	12,091	2,344	2,044
TOTAL		18,777	16,498	3,269	2,895

*) 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.

Value added

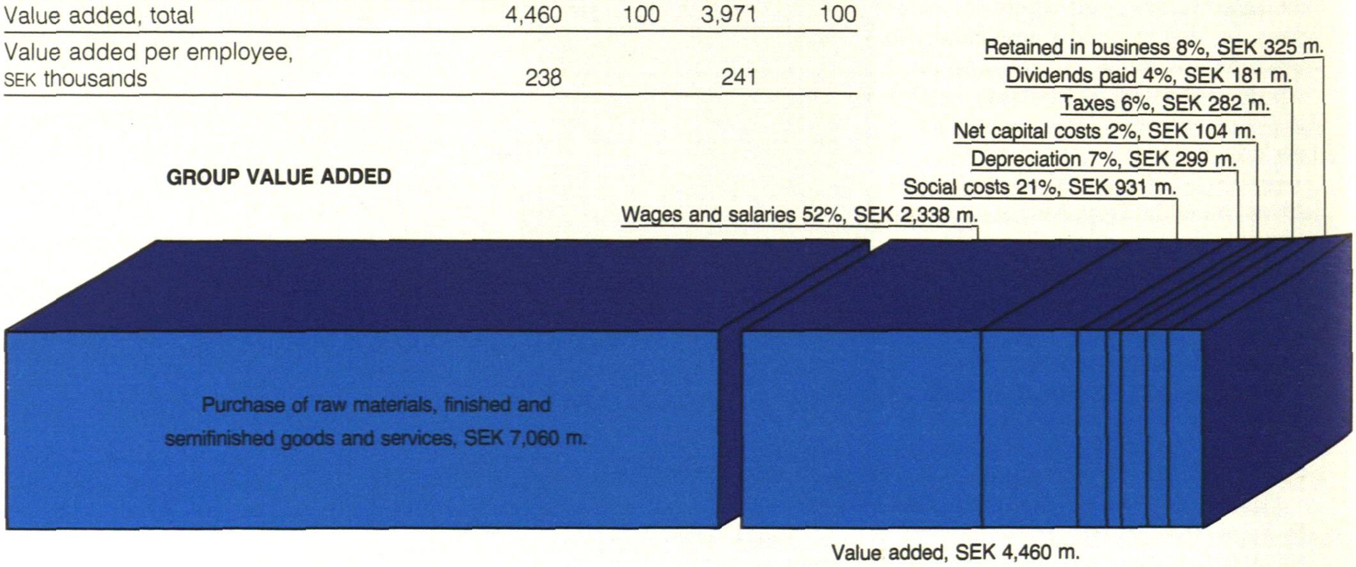
Value added consists of the Group's total invoicing, SEK 11,520 m., less the costs of purchased raw materials, finished and semifinished goods, and services, SEK 7,060 m. Value added is a measurement of the production input made by the Company; that is, the increase in value that arises through handling, processing, etc.

For 1987, value added amounted to SEK 4,460 m. (3,971), a 12-percent increase attributable mainly to the increased volume of sales and more efficient utilization of the Company's production resources.

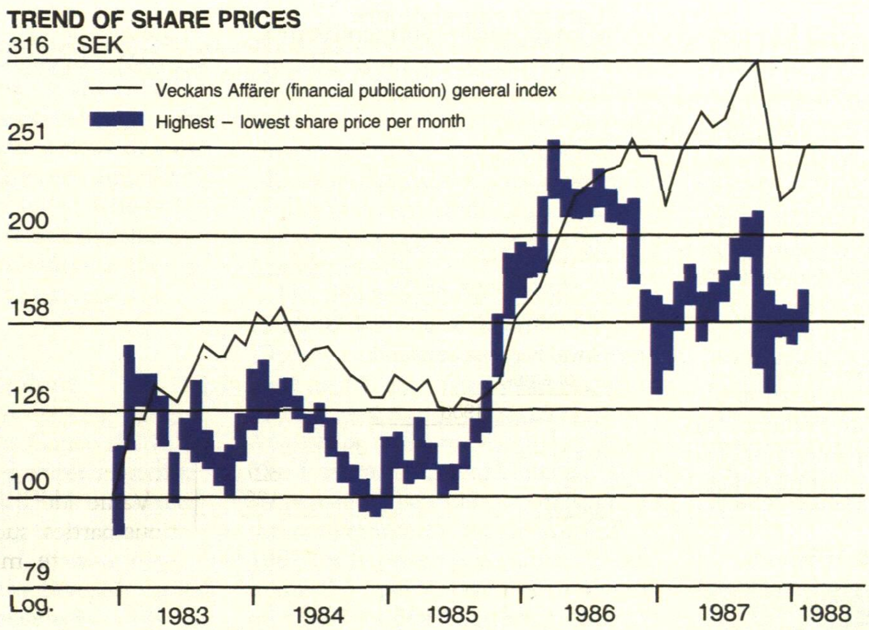
Value added is distributed among various parties, such as employees, lenders, the state, municipalities and shareholders. The remaining portion is retained by the Company to cover the costs of normal wear to equipment and machinery (Depreciation), and to permit continued expansion of operations (Retained in business). Net of extraordinary income and expense, SEK 198 m. (expense: 61), should be added to this item.

	1987		1986	
DISTRIBUTION OF VALUE ADDED	MSEK	%	MSEK	%
Wages and salaries	2,338	52	2,098	53
Social costs	931	21	797	20
Depreciation	299	7	232	6
Capital costs, net	104	2	114	3
Corporate and municipal taxes	282	6	223	6
Dividends paid	181	4	172	4
Retained in business	325	8	335	8
Value added, total	4,460	100	3,971	100
Value added per employee, SEK thousands	238		241	

GROUP VALUE ADDED



Atlas Copco Share



Dividend policy

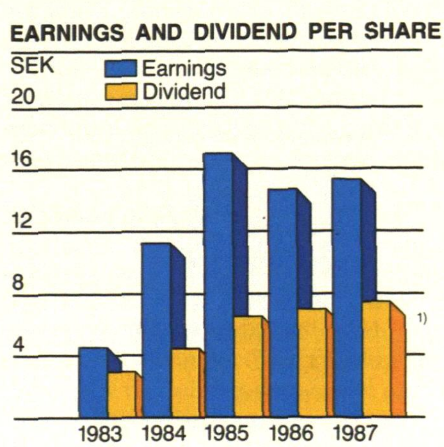
The Board's intention is that dividends to shareholders should amount to between 30 to 40 percent of profit per share. The Board considers that Atlas Copco, in common with many non-European companies, could permit dividends to reflect the fluctuations in the Company's earnings to a greater extent than 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 annual average growth in dividends for the four-year period from 1984 to 1987 was 26 percent.
The Board of Directors has proposed an increase in the dividend for fiscal year 1987 to SEK 7.50 (7.00), corresponding to 49 percent (47) of the profit per share. Expressed as a percent of risk-bearing equity capital per share, the dividend is 4.0 percent (4.3).

Share volume and trading

During 1987, 18,481,868 (9,412,824) Atlas Copco shares were traded on the Stockholm Stock Exchange, an average of 73,051 (37,802) shares per trading day. The number of shares traded was equal to 79 percent of the Company's total shares outstanding. The market value of the Company's shares at December 31, 1987 was SEK 3,636 m. (3,941). In addition to the Stockholm Stock Exchange, Atlas Copco shares are listed on the exchanges in Frankfurt am Main, Düsseldorf and Hamburg.
The proportion of foreign-owned shares is consistently high. At year-end, foreign institutions and persons residing outside Sweden own approximately 18 percent of the total shares outstanding.



1) Dividend for 1987 as proposed by the Board of Directors

Atlas Copco's General Saving Fund and Share 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 1988, the Fund's shareholding was 26,800 shares, corresponding to a market value of about SEK 4.5 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. The savings accumulated during 1981 and 1982 were released and a total of 201,926 shares were transferred to holders of participations in the Fund. In February 1988, the shareholding in the Share Saving Fund was 19,922 shares.

Both funds are administered by Atlas Copco Fond AB.

Share capital

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. On full conversion of the convertible debentures outstanding, share capital amounts to SEK 606,000,000, represented by 24,240,000 shares.

Atlas Copco has approximately 38,000 shareholders. The portion of shares held by funds, investment companies, insurance companies and other institutional investors is estimated at 75 percent.

Ownership structure 1987

Number of shares	Number of shareholders	Percentage of total number of shares
>100 000	28	56,6
50 001–100 000	11	3,3
10 001– 50 000	103	9,7
2 001– 10 000	351	7,2
501– 2 000	1 513	6,3
1– 500	36 247	16,9

[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] Proposed by the Board of Directors.
[3] Dividend as a percentage of profit per share.
[4] Equity capital, minority interests and untaxed reserves divided by the number of shares.
[5] Dividend as a percentage of the average quoted price during the year.
[6] Average quoted price during the year in relation to profit per share as defined in 1).
[7] Based on the weighted average number of shares outstanding.

Largest shareholders

The largest shareholders, as reported by VPC (Swedish Securities Register Center) in February 1988, are shown in the following table:

	Number of shares	Percent of total
AB Patricia	3,158,092	13.5
Förvaltnings AB Providentia	2,700,000	11.5
AB Investor	2,635,302	11.2
Morgan Guaranty Trust Co. N.Y.	548,900	2.3
Livsförsäkrings AB Skandia	364,700	1.5
SPP Mutual Insurance Company	286,869	1.2
Royal Bank of Scotland	258,900	1.1
General Pension Fund, Fourth Fund Board	246,693	1.1
AMF Pension Insurance Fund	229,100	1.0
North Fund	200,000	0.9
	10,628,556	45.3
Others	12,831,944	54.7
Total	23,460,500	100.0

Share issues 1965 to 1987

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

Per share data SEK

	1983	1984	1985	1986	**1987**
Profit[1]	4.55	11.25	17.05	14.75	**15.40**
Profit after extraordinary items	–0.65	11.30	19.15	13.35	**19.65**
Dividend	3.00	4.50	6.50	7.00	**7.50**[2]
Dividend as percent of profit[3]	65.9	40.0	38.1	47.5	**48.7**
Price quotation, Dec. 31	121	96	190	168	**155**
Highest price quoted	150	143	195	260	**215**
Lowest price quoted	90	95	97	159	**132**
Average price quoted	118	118	121	209	**171**
Risk-bearing equity capital[4]	125	131	150	165	**188**
Direct yield, percent[5]	2.5	3.8	5.4	3.3	**4.4**
Price/earnings[6]	24.1	10.5	7.1	14.2	**11.1**
After full conversion:					
Profit[1]	4.55	11.25	17.05	14.75	**15.30**[7]
Risk-bearing equity capital[4]	125	131	150	165	**188**

Options and convertibles

Call options

A call option gives the holder the right, but not the obligation, at any time within a determined period, time until expiration, to purchase a share at a predetermined price. The call option is written by the shareholder, who is thereby committed to sell the share during time until expiration, if the option holders choose to exercise the right.

Atlas Copco call options

Two types of options carrying rights to acquire existing Atlas Copco shares are traded in the Swedish capital market. When AB Patricia in 1984 introduced options with the right to *purchase* shares in Atlas Copco, it was a new type of security on the Swedish capital market. 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 approximately 3.2 million options outstanding.

The highest exercise price for the options during the year was SEK 125 (150), and the lowest SEK 55 (68).

During 1985, another method of trading in Atlas Copco options appeared. These options were written with varying times until expiration of 3, 6 or 9 months. The underlying value of the option is 100 shares. Trading is handled through Stockholms Optionsmarknad, OM Fondkommission AB.

In February 1988, option contracts accounted for about one million shares, approximately 4 percent of all Atlas Copco shares.

Since call options give the holder the right to buy outstanding Atlas Copco shares at a predetermined price, the options do not create a dilution effect.

Convertible debenture loan

The 1987 Annual General Meeting approved the issue of a convertible debenture loan for subscription by the employees in Sweden and certain key executives in the Atlas Copco Group, as well as members of the Board of Directors of Atlas Copco AB elected at the Annual Meeting.

The debenture loan amounts to SEK 155.9 m. and matures on March 15, 1993, if conversion has not occurred prior to this date. Conversion rights can be exercised during the period from August 14, 1989 to March 1, 1993. The loan carries a fixed interest rate of 10 percent. The interest corresponds to the market interest rate at April 21, 1987 for five-year government bonds minus 0.65 percentage units rounded off to the nearest whole one quarter percent. The conversion price, which was also the issue price, was determined on April 21 and based on the weighted average price of Atlas Copco shares during the two weeks prior to the date the price was set, with an addition of 15 percent.

During this period the lowest paid price for the share was SEK 168 and the highest SEK 180. The volume of shares traded was 218,325.

The weighted average price was 173.25 per share. As a result, the conversion price was set at SEK 200, which means that a convertible debenture certificate with a par value of SEK 200 can be exchanged for one share in Atlas Copco AB.

The amount paid per share exceed net worth. Therefore, no dilution effect can be considered to have occurred.

On full conversion, the number of shares increase by 779,500, corresponding to 3.3 percent of the current share capital.

Allocation of the loan

The loan is divided into two parts. The first, at a nominal value of SEK 89 m., was issued to those persons who were permanent employees at a Swedish company in the Atlas Copco Group at the end of the subscription period on June 2, 1987. The second loan, at a nominal value of SEK 66.9 m., was issued to permanent employees who were key executives in the Atlas Copco Group in Sweden and other countries, where subscription was not restricted by law and other practical circumstances. The second also included the members of the board of directors of Atlas Copco AB elected by the Annual Meeting.

Each employee included in the offer was guaranteed an allotment in the first loan of SEK 20,000, and was entitled, to the extent possible, to subscribe for a maximum allotment of SEK 150,000. Certain reduction had to be made. The lowest subscription amount was SEK 5,000.

About 35 percent of all those entitled to subscribe in Sweden accepted the offer and subscribed for an average of SEK 60,000.

Amount SEK	Number of persons	Total amount MSEK
up to 20,000	652	12.3
20,001 to 50,000	399	19.9
50,001 to 100,000	169	16.9
100,001 to 150,000	266	39.9
	1,486	89.0

The second part of the loan was subscribed by 333 persons, of whom 201 resided in 41 countries, excluding Sweden. The highest subscription amount, SEK 600,000, was subscribed by Group management and the board members elected by the Annual General Meeting. Other senior executives were entitled to subscribe in amounts ranging from SEK 150,000 to SEK 300,000.

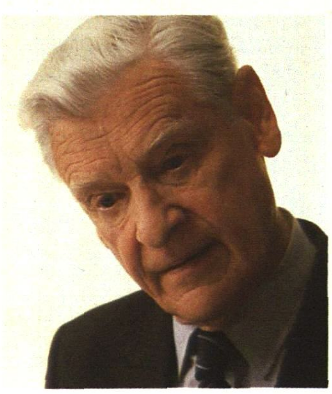
Amount SEK	Number of persons	Total amount MSEK
up to 150,000	220	26.3
150,001 to 300,000	88	25.8
300,001 to 600,000	25	14.8
	333	66.9

All employees were offered loan opportunities through external financing institutions.

Board of Directors

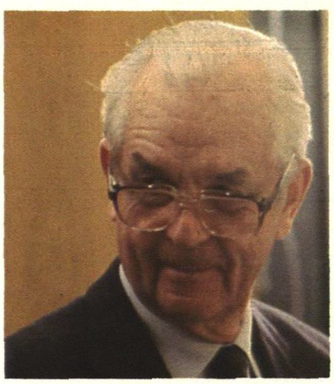
Elected by the Annual General Meeting

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

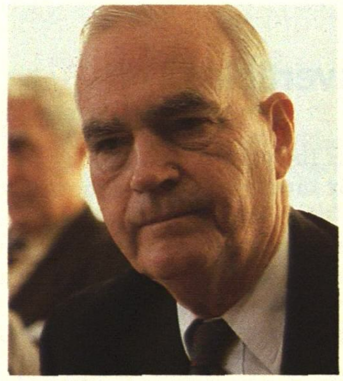


Erik Johnsson
Vice Chairman (1972). Dr. Tech. h.c. Born 1909. President of Atlas Copco AB, 1970-1975. 8,732 Atlas Copco shares. Debentures convertible to 750 shares.

Curt G. Olsson
(1976). Born 1927. Chairman of the Boards of S-E-Banken, Esselte, Svenska Dagbladet and the Stockholm Chamber of Commerce. Member of the Boards of Hufvudstaden and Skandia. 500 Atlas Copco shares. Debentures convertible to 3,000 shares.

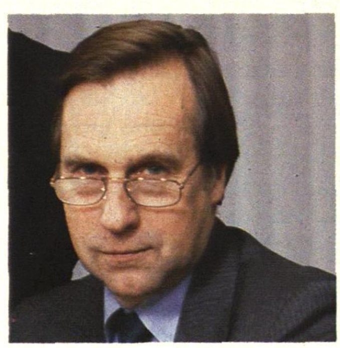


Otto Grieg Tidemand
(1982). Born 1921. Shipowner, Belstove Shipping, Olso. Chairman of the Boards of A/S Kosmos and Atlas Copco A/S (Norway). Chairman and Board member of various shipping companies in Norway and other countries. Debentures convertible to 3,000 Atlas Copco shares.

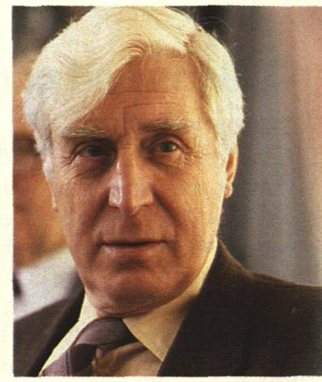


P. Henry Mueller
(1982). Dr. Litt. h.c. Born 1917. Chairman of the Boards of Atlas Copco North America Inc. and Saab-Scania of America Inc., (U.S.).

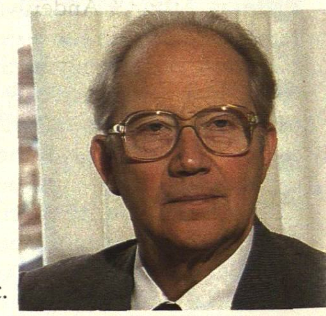
Pehr G. Gyllenhammar
(1982). M.D. h c., D. Tech. h c. Born 1935. Chairman of the Board and Chief Executive Officer of AB Volvo. Member of the Boards of S-E-Banken, United Technologies Corp. (U.S.), Pearson plc (U.K.) and Reuters Holding PLC (U.K.). Member of the International Advisory Committee of Chase Manhattan Bank (U.S.).



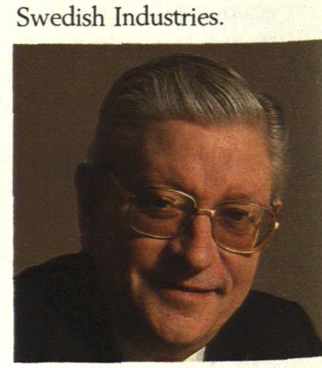
Björn Svedberg
(1983). Dr. Tech. h.c. Born 1937. President and Chief Executive Officer of LM Ericsson. Member of the Boards of AGA and LM Ericsson.



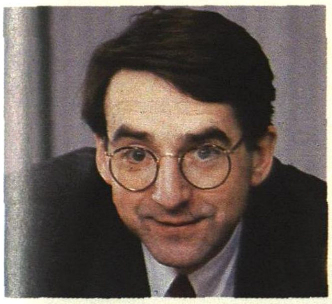
Sten Rudholm
(1985). Dr. Jur. h.c. Born 1918. Member of the Swedish Academy. Member of the Boards of LM Ericsson, Nobel Industries and Investor. 215 Atlas Copco shares. Debentures convertible to 750 shares.



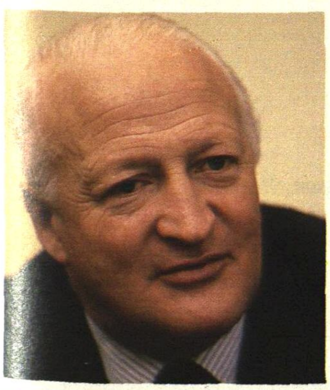
Lennart Johansson
(1985). Dr. Tech. h.c. Born 1921. Chairman of the Board of SKF. Vice Chairman of the Boards of ESAB, S-E-Banken and Volvo. Member of the Boards of ASEA, Investor, Skanska, STORA, Svenska BP, Swedish Employer's Confederation and Federation of Swedish Industries.



Georg Karnsund
(1987). Born 1933. President and Chief Executive Officer of Saab-Scania. Member of the Board of LM Ericsson. Debentures convertible to 3,000 Atlas Copco shares.

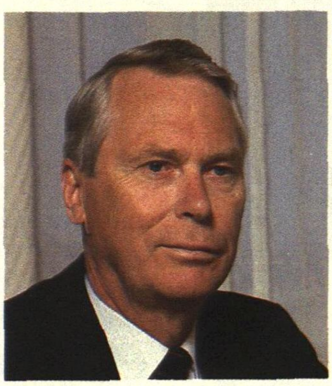


Per Lundberg
(1985). Born 1943. President of Providentia and Patricia. Chairman of the Boards of LM Ericsson Finans and Fastighets AB Stockholm-Saltsjön. Member of the Boards of Alfa-Laval, Atlas Copco Finans, Billerud, Bohusbanken, Garphyttan Industrier, Saab-Scania (deputy), Scanditronix, Stora Timber, Tour & Andersson, Finans Vendor, SPP and Ångpanneföreningen. 250 Atlas Copco shares. Debentures convertible to 3,000 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. 17,220 Atlas Copco shares. 14,000 options. Debentures convertible to 3,000 shares.

Jacob Wallenberg
Deputy Member (1985). Born 1956. Member of the Boards of Fastighets AB Stockholm-Saltsjön and the Wharton Undergraduate Executive Board, University of Pennsylvania (U.S.). Deputy Board Member of Investor, Providentia and STORA. 500 Atlas Copco options. Debentures convertible to 3,000 shares.



Gösta Bystedt
Deputy Member (1987). Born 1929. Chairman of the Board of Scanditronix. Vice Chairman of the Boards of Electrolux, Export-Invest and Axel Johnson AB. Member of the Boards of ESAB, SKF, Swedish Match, S-E-Banken and the Federation of Swedish Industries. Debentures convertible to 500 Atlas Copco shares.

Employee representatives

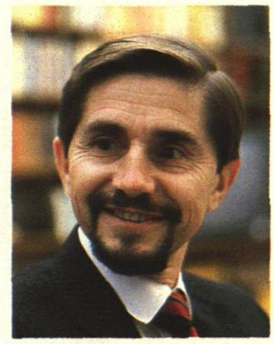
Bo Henning
(1973). Born 1933. Chairman, Atlas Copco local of the Swedish Industrial Salaried Employees' Union, Nacka.

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

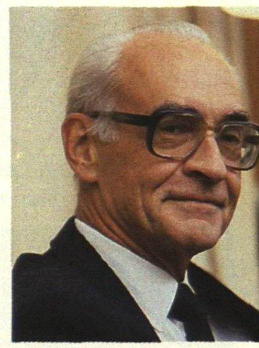
Kjell Nordström
Deputy member. (1977). Born 1949. Member of the Board of Ecco Works local of the Metal Workers' Union, Skara. Member of the Swedish Parliament.

Christer Améen
Deputy member. (1986). Born 1939. Vice Chairman Atlas Copco local of the Swedish Association of Graduate Engineers. 372 Atlas Copco shares. Debentures convertible to 500 shares.

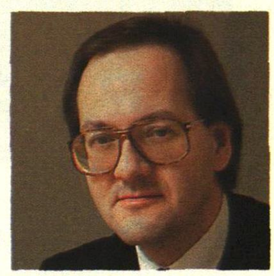
Auditors



Karl-G Giertz
Authorized Public Accountant



Bertil E Olsson
Authorized Public Accountant



Stefan Holmström
Authorized Public Accountant, Deputy

Bo Ribers
Authorized Public Accountant, Deputy

Group management

Magnus Schmidt, Tom Wachtmeister, Bertil Eriksson (l–r).

Michael Treschow, Per Wejke, Giulio Mazzalupi (l–r).

Sven-Ingvar Svensson, Bo Eklöf, Bo Johansson (l–r).

GROUP MANAGEMENT

Tom Wachtmeister
(1931), President, Atlas Copco AB and Chief Executive Officer employed since 1959.
17,220 Atlas Copco shares. 14,000 options. Debentures convertible to 3,000 shares.

Bertil Eriksson
(1934), Senior Executive Vice President and Chief Operating Officer, employed 1959-1979, and since 1982.
3,000 Atlas Copco shares.
3,000 options. Debentures convertible to 3,000 shares.

Magnus Schmidt
(1940), Executive Vice President, Corporate development and control, employed since 1986.
2,000 Atlas Copco shares. Debentures convertible to 3,000 shares.

Sven-Ingvar Svensson
(1932), Executive Vice President, employed since 1958.
600 Atlas Copco shares. 1,000 options. Debentures convertible to 3,000 shares.

Giulio Mazzalupi
(1941), President, Atlas Copco Airpower n.v., employed since 1971.
Debentures convertible to 3,000 shares.

Per Wejke
(1937), President, Atlas Copco MCT AB, employed 1964-1970 and since 1980.
191 Atlas Copco shares. 2,500 options. Debentures convertible to 3,000 shares.

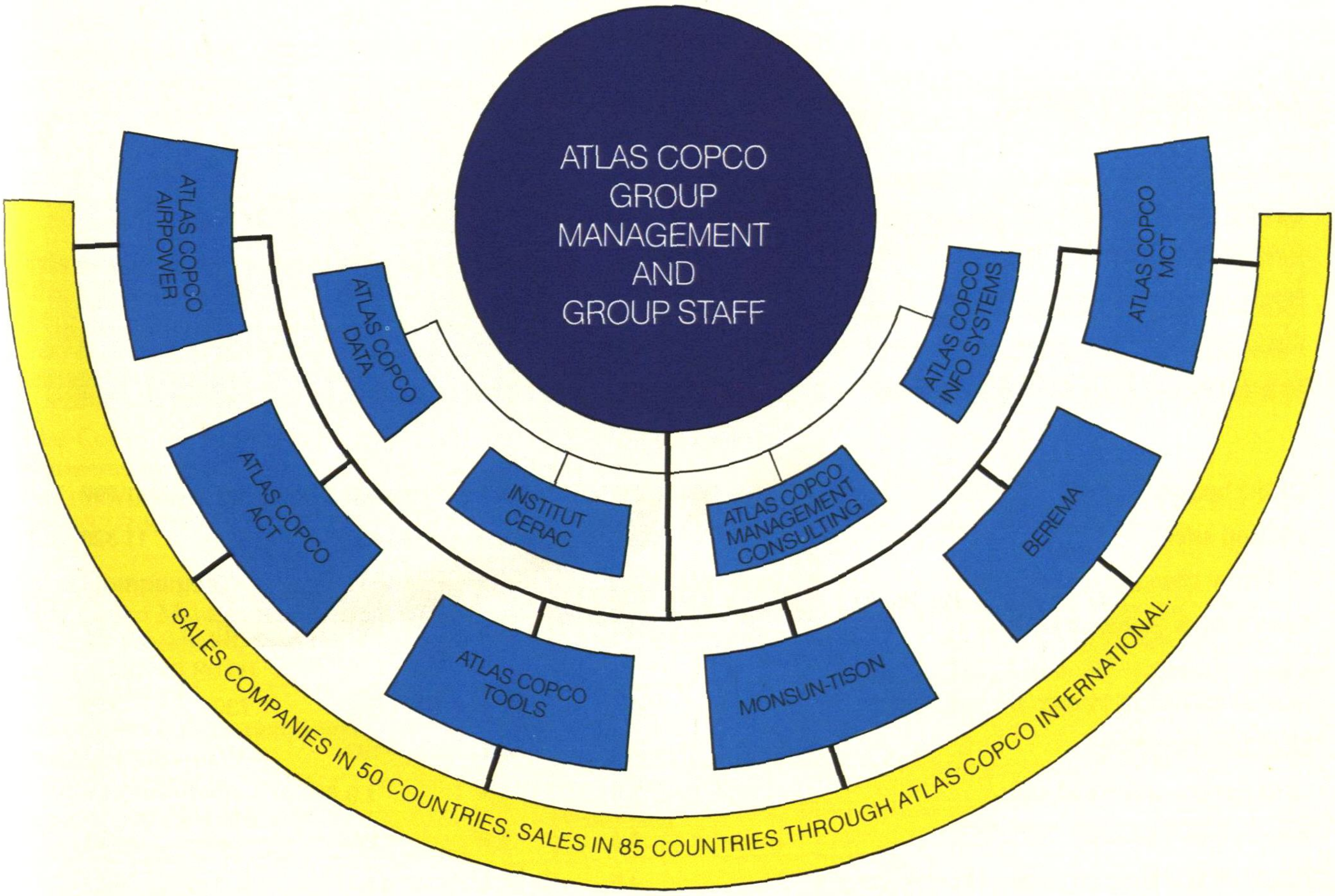
Michael Treschow
(1943), President, Atlas Copco Tools AB, employed since 1975.
227 Atlas Copco shares. 900 options. Debentures convertible to 3,000 shares.

Bo Eklöf
(1941), Administrative Director, employed since 1974.
100 Atlas Copco shares.
Debentures convertible to 3,000 shares.

Bo Johansson
(1944), Finance Director, employed since 1969.
251 Atlas Copco shares.
Debentures convertible to 3,000 shares.

Organization

February 1988



ATLAS COPCO AB

Group Staffs

Communications and Public Affairs
Hans Johnsson
Corporate Planning *Carl Caldenius*
Economy *Bertil Stjernqvist*
External Products *Bengt Dahlgren*
Finance *Bo Johansson*
Group Accounting *Hans Lindblad*
Information Systems *Christer Jonasson*
Legal *Hans Sandberg*
Logistics *Tord Berggren*
Personnel *Nils-Åke Jenstav*
Technique *Jan Holdo*

Special Advisers

Ambassador *Iwo Dölling*
Ambassador *Lennart Petri*

ATLAS COPCO ACT
Theo Dietz, President

BEREMA-GROUP
Eric Bursvik, President

MONSUN-TISON
Carl Axel Rudd, President

OTHER COMPANIES

Atlas Copco Management Consulting AB
J-A Darlin, President

Atlas Copco International AB
Peter Lindberg, President

Atlas Copco Data AB
Rolf Johansson, President

Atlas Copco Information Systems Development HB
Nils Bergkvist

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

Five years in summary

SEK m. unless otherwise noted. For definitions, see page 18.

ATLAS COPCO GROUP	1983	1984	1985	1986	1987
Earnings per share, SEK	4.55	11.25	17.05	14.75	**15.40**
Earnings per share after full conversion, SEK	4.55	11.25	17.05	14.75	**15.30***
Profit margin, percent	2.9	6.3	8.2	7.1	**6.8**
Return on capital employed, before tax, percent	12.3	16.8	18.9	16.0	**15.0**
Return on risk-bearing equity capital, after tax, percent	3.4	11.1	15.8	13.8	**12.4**
Rate of risk-bearing equity capital, percent	38.3	37.3	40.6	41.7	**40.9**
Orders booked	8 277	9 581	10 400	10 629	**11 797**
Invoiced sales	8 093	9 100	10 062	10 351	**11 520**
Percent change, current prices	+ 2	+ 12	+ 11	+ 3	**+ 11**
Sales outside Sweden, percent	91	92	91	91	**92**
Profit after financial income and expense	235	573	828	730	**789**
Net interest expense	–305	–285	–193	–116	**–161**
As percent of invoiced sales	3.8	3.1	1.9	1.1	**1.4**
Interest coverage ratio	1.4	2.2	2.9	2.9	**3.1**
Return on shareholders' equity, after tax, percent	4.5	10.5	13.7	11.2	**10.9**
Earnings per share, after extraordinary items, SEK	–0.65	11.30	19.15	13.35	**19.65**
Total assets	7 665	8 217	8 675	9 262	**10 752**
Ratio of assets to liabilities	1.6	1.6	1.7	1.7	**1.7**
Ratio of current assets to current liabilities	2.1	1.9	2.1	1.9	**2.0**
Capital turnover ratio	1.04	1.16	1.18	1.15	**1.14**
Ratio of interest-bearing liabilities to adjusted shareholders' equity**	1.19	1.13	0.98	0.95	**0.90**
Investments in machinery and buildings	175	311	325	507	**422**
As percent of invoiced sales	2.2	3.4	3.2	4.9	**3.7**
Average number of employees	16 974	16 484	16 659	16 498	**18 777**
Invoiced sales per employee, SEK thousands	477	552	604	627	**614**

* For 1987 based on the weighted average number of shares outstanding.

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

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