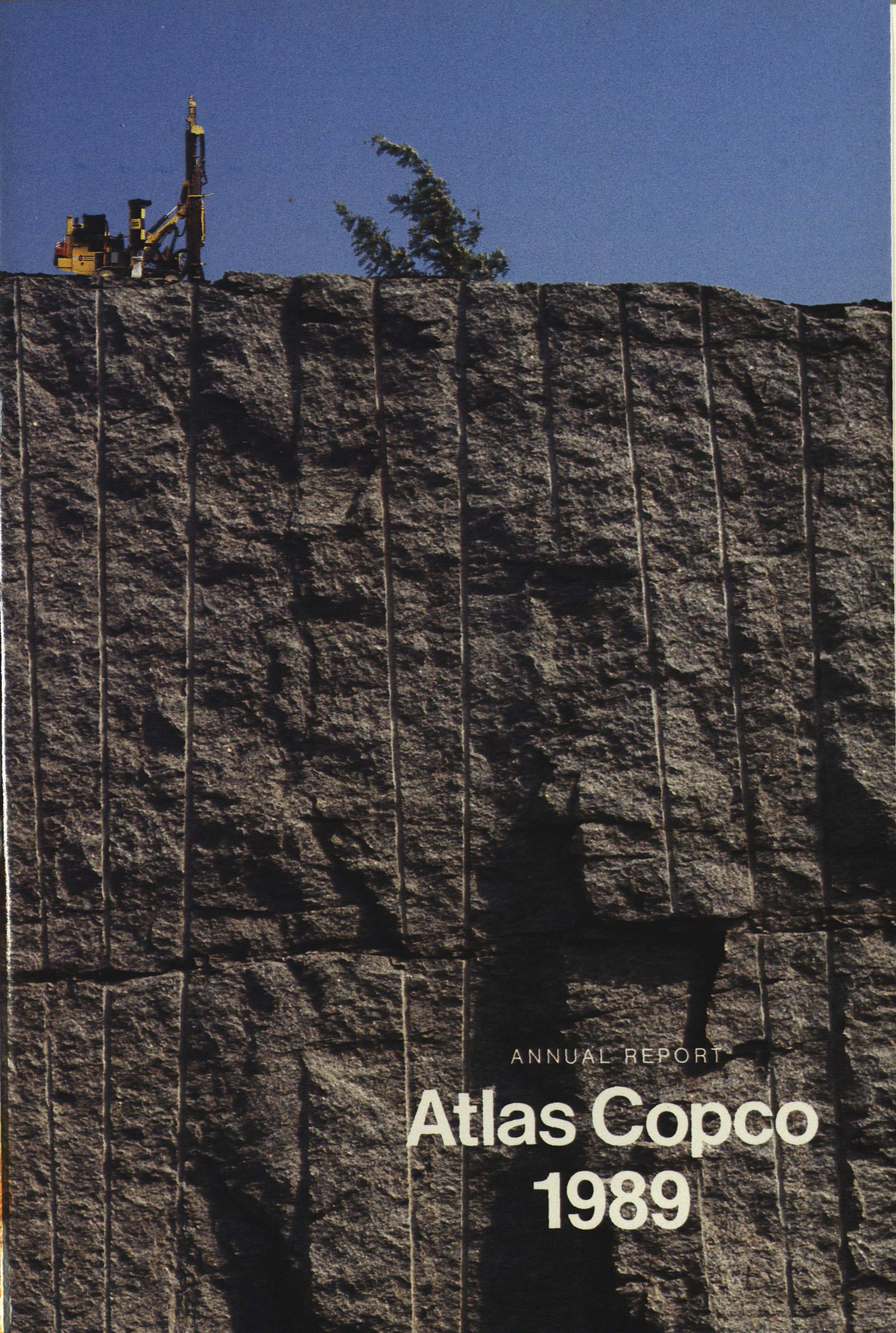


ANNUAL REPORT

Atlas Copco 1989

CONTENTS

INVITATION TO ATTEND ANNUAL GENERAL MEETING

Atlas Copco AB shareholders are hereby notified that the Company's Annual General Meeting will be held on Wednesday, April 25, 1990, at 5.00 p.m. in the Winter Gardens of the Grand Hotel Royal, Stallgatan 4, Stockholm, Sweden.

FINANCIAL INFORMATION FROM ATLAS COPCO

Atlas Copco will publish the following financial reports in respect of 1990 operations:

Group President's Address to Shareholders at the AGM	April 25
Interim Report on first quarter	May 17
on first six months	August 23
on first nine months	November 20
Preliminary 12-month Report	February 1991
1990 Annual Report	April 1991

☐ Additional copies of Atlas Copco's Annual Report in English can be ordered through Atlas Copco AB, Information, S-105 23 Stockholm, Sweden.

Atlas Copco's focus on total rock drilling technology means that customers will be offered total expertise and a complete range of products for the entire drilling cycle – the drill rig, the rock drill and the drill string – from one supplier.

The illustration shows one of the new ROC hydraulic surface drilling rigs that has contributed to Atlas Copco's strengthened position in quarrying and construction.

1989

Sales

Group invoiced sales increased 17 percent, to SEK 15,035 m. (1988: 12,812).

Earnings

Group operating profit, after depreciation, increased 48 percent, to SEK 1,726 m. (1,169), and after financial items to SEK 1,521 m. (1,155), up 32 percent.

Company acquisitions

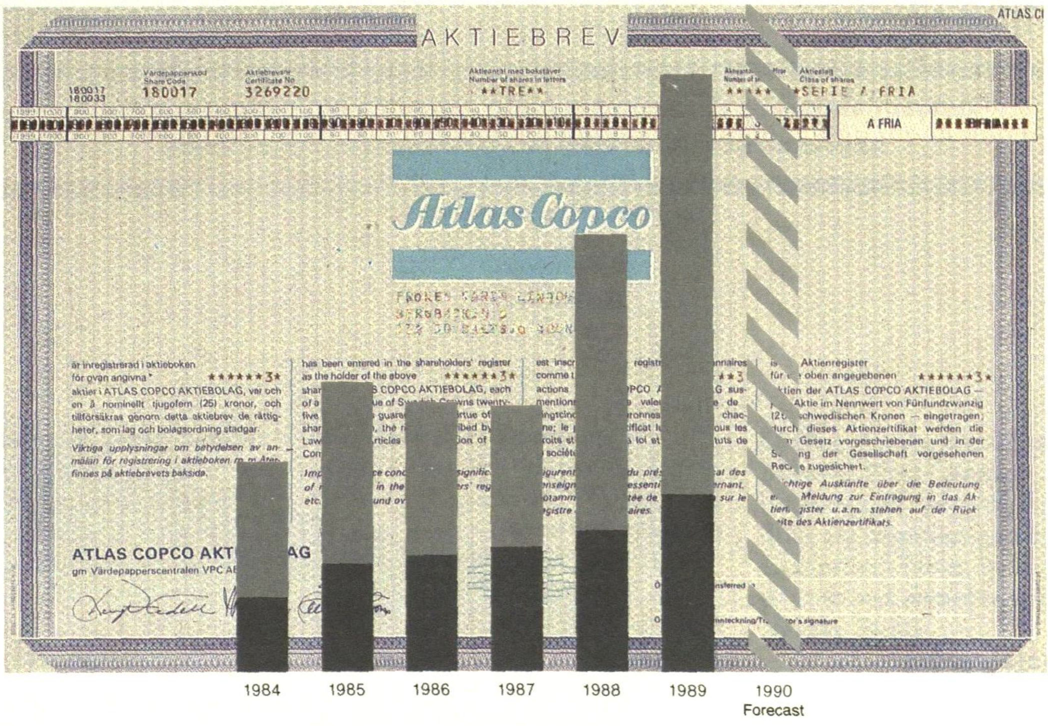
Wagner Mining Equipment, a leading U.S. manufacturer of loading equipment for the mining industry, was acquired during the year.
Through a joint venture agreement, Atlas Copco Iwata KK was established for the manufacturing and sales of stationary compressors in Japan. Atlas Copco has a majority holding.
Following the close of the financial year, Atlas Copco acquired more than 90 percent of the shares in Desoutter Brothers, a leading U.K. producer of industrial tools.

Dividend and earnings per share

The Board is proposing that the dividend be raised by 25 percent to SEK 8.00 per share. The dividend for 1988 was SEK 8.50 per share, corresponding to SEK 6.38, after adjustment for the bonus issue.

Outlook for 1990

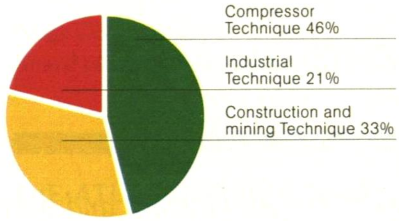
Sales are expected to increase somewhat during 1990 and it is estimated that the profit margin will remain at the same level as in 1989.



Trend in Group's earnings per share and dividend.

ATLAS COPCO TODAY

SALES BY BUSINESS AREA IN 1989



The Atlas Copco Group has invoiced sales of SEK 15 billion and employs a total of approximately 21,000 persons in development work, production, marketing and administration.

Atlas Copco markets around 3,000 products and services to 250,000 registered customers throughout the world via three Business Areas:

Compressor Technique:
- Stationary compressors for industrial applications
- Portable compressors for the building and construction industry
- Service air
- Air and gas compressors for the process industries

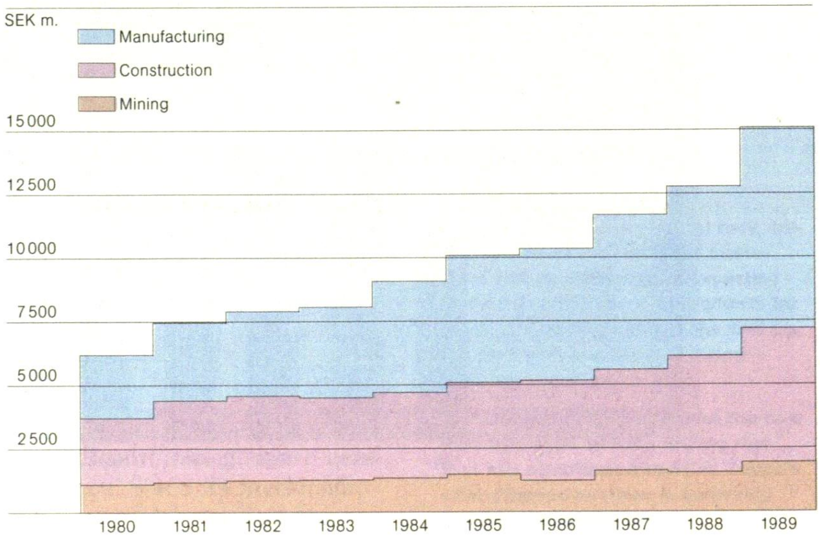
Construction and Mining Technique:
- Drilling rigs for rock tunneling and drift working, etc
- Rock drilling equipment and breakers for contracting operations
- Rock drilling tools
- Loaders and trucks used in underground mining operations
- Equipment for well drilling
- Fuel-powered drills/breakers for construction work

Industrial Technique
- Hand-held power tools
- Assembly systems
- Pneumatic and hydraulic components and systems

Within these three Business Areas, Atlas Copco markets products, equipment and systems designed to make a significant contribution to increasing the productivity of its customers.

Atlas Copco is the world's leading company within its specialist Business Areas. The Group has attained this position through a comprehensive program to improve efficiency, aggressive product development and marketing and through the strategic acquisition of companies. Product development is carried out in close cooperation with customers and end-users.

TEN YEARS SALES, BY INDUSTRY



ORGANIZATION

ATLAS COPCO
Board of Directors

Group management,
Group staff

COMPRESSOR TECHNIQUE

ATLAS COPCO AIRPOWER
- Industrial compressors
- Portable compressors

ATLAS COPCO ACT
- Compressors and expansion turbines for process industry

CONSTRUCTION AND MINING TECHNIQUE

ATLAS COPCO MCT
- Rocktec systems
- Rock drills & breakers

UNIROC
- Rock drilling tools

WAGNER
- Loaders

BEREMA
- Fuel-powered drills/breakers

INDUSTRIAL TECHNIQUE

ATLAS COPCO INDUSTRIAL TECHNIQUE
- POWER TOOLS
  Atlas Copco Tools AB
  Chicago Pneumatic Tool Co
  Ets G. Renault SA
  Desoutter PLC
- ASSEMBLY SYSTEMS
  Atlas Copco Assembly Systems AB
  Chicago Pneumatic Tool Co
  Ets G. Renault SA
- FLUID POWER
  Monsun-Tison AB

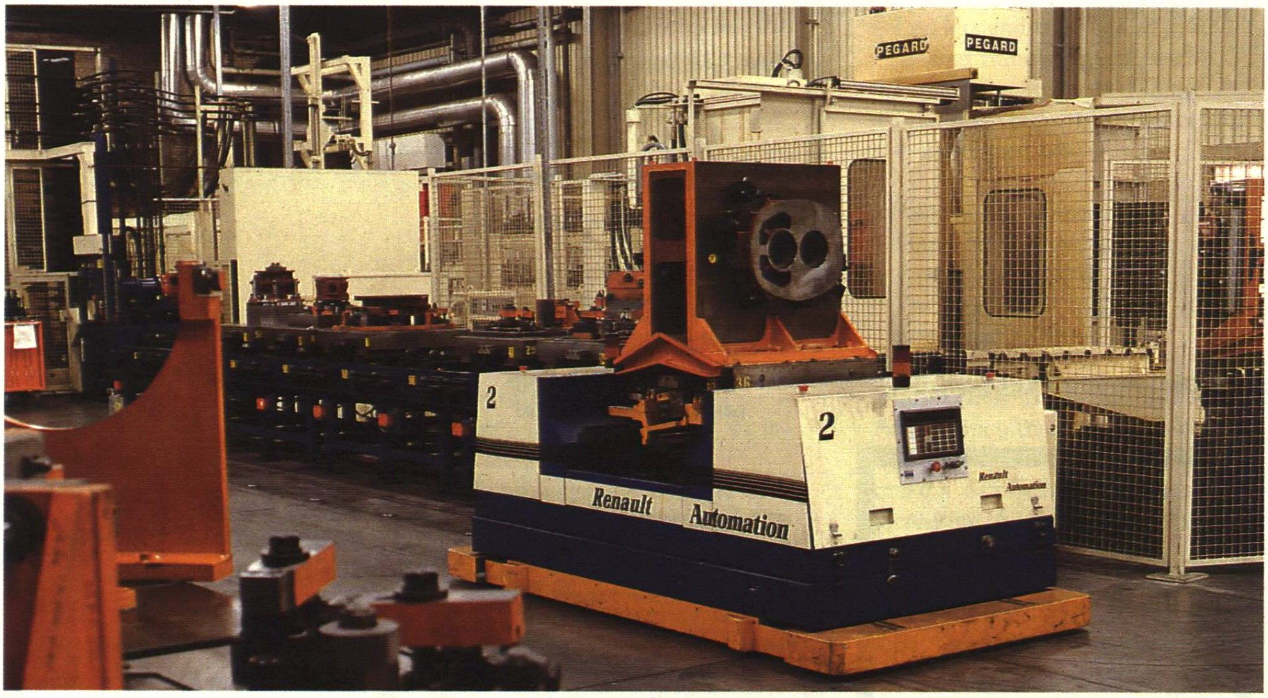
SALES COMPANIES IN 50 COUNTRIES. SALES IN ANOTHER 85 COUNTRIES THROUGH ATLAS COPCO INTERNATIONAL AND INDEPENDENT DISTRIBUTORS.

Worldwide sales organization
Atlas Copco has a well-established marketing organization, with its own sales companies in 50 countries and independent distributors in another 85 countries.

As a result of its worldwide sales organization, Atlas Copco occupies a very strong position and is the leading supplier in its field in most markets.

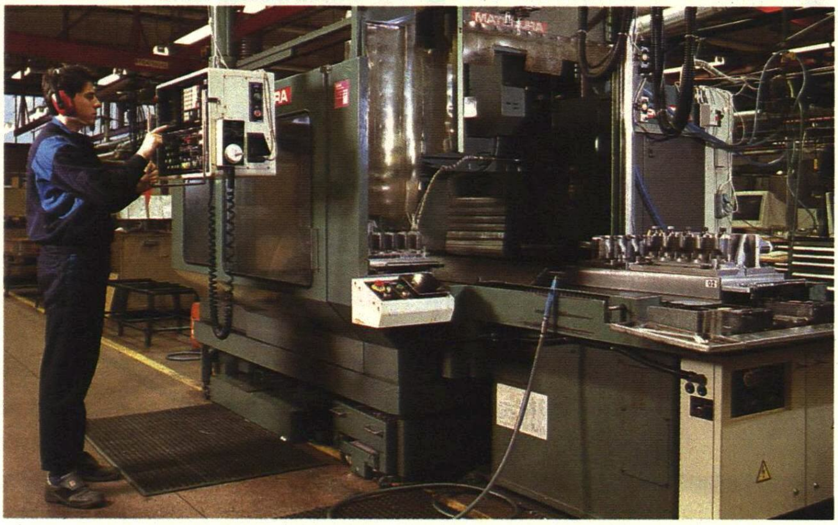
Production in 18 countries
Atlas Copco has 53 manufacturing units in 18 countries. The greater part of its production takes place in plants located in the European Community. Within the EC, the Group manufactures stationary and portable air compressors in Antwerp, Belgium and Belfort, France, while gas compressors are manufactured in Cologne, West Germany. Drilling rigs are manufactured in Bremen, West Germany, pneumatic breakers and down-the-hole rock drills are manufactured in Hemel Hempstead, Great Britain, and power tools and assembly systems in Nantes, France.

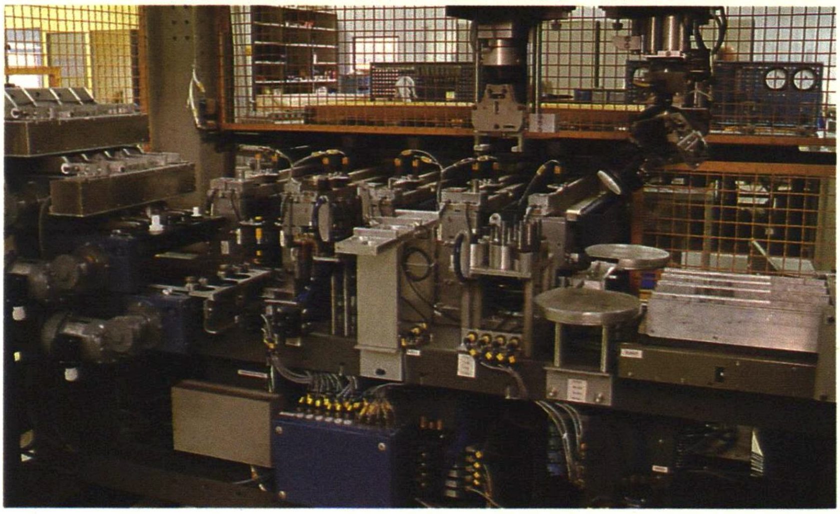
Atlas Copco has a net export value from the EC.



Atlas Copco has made substantial investments in the latest production and assembly technology to improve capacity utilization, increase efficiency, raise quality and reduce production cost. Customer-order controlled, flow-oriented production also results in improved customer service.

The illustration above shows a flexible manufacturing system at Airpower's plant in Antwerp. In the middle, a multifunction machine processes cylinders for use in hand-held rock drills at the MCT plant in Nacka. Below, an assembly robot in operation, which was produced by Atlas Copco STIB for assembling pneumatic cylinders at the Monsun-Tison plant in Ulricehamn, Sweden.





BOARD OF DIRECTORS' REPORT ON 1989 OPERATIONS

SEK m. unless otherwise indicated

THE ATLAS COPCO GROUP

	1989	1988
Invoicing	**15,035**	12,812
Value increase, %	**17**	11
Order bookings	**15,785**	13,533
Value increase, %	**17**	15
Order backlog	**2,878**	2,146
Profit after financial items	**1,521**	1,155
Increase in profit, %	**32**	46

Invoiced sales of the Atlas Copco Group increased 17 percent during 1989, to SEK 15,035 m., compared with SEK 12,812 m. in the preceding year. Markets outside Sweden accounted for 92 percent of Group invoiced sales.

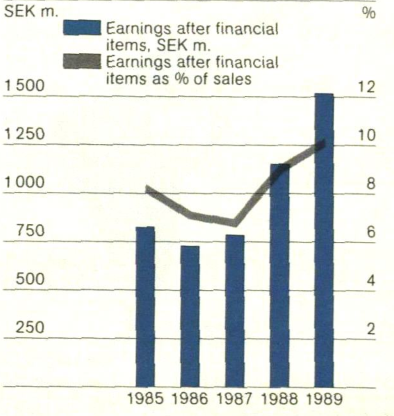
Orders booked rose 17 percent, to SEK 15,785 m. (13,533).

Earnings after financial income and expenses increased 32 percent, to SEK 1,521 m. (1,155), equal to 10.1 percent of invoicing (9.0). After extraordinary items, earnings totaled SEK 1,521 m. (1,158).

Forecast

Sales in the three business areas are expected to rise somewhat during 1990, with profit margins remaining at the 1989 levels. This estimate is based on Atlas Copco's strong market position and on the assumption that the favorable trend of business continues. Indications of a stagnation in business have only been received from some of the minor market segments.

EARNINGS AND PROFIT MARGIN



Structural changes

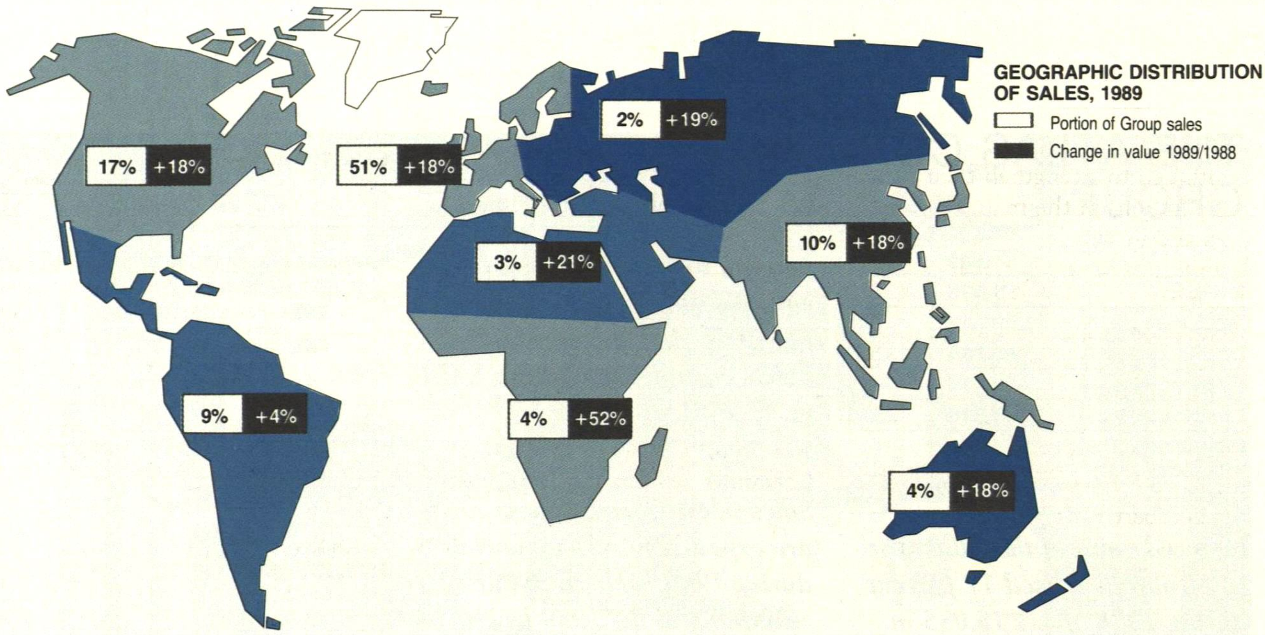
A number of operational functions at Atlas Copco's head office were decentralized to the various business areas. Activities at the head office, which has reduced its staff to some 80 persons, focus on strategic analyses and control, utilization of resources, financing, financial control and legal matters.

Effective October 1, 1989, Atlas Copco Construction and Mining Technique acquired Wagner Mining Equipment, the loader division of the American company, Paccar. Wagner is the world market leader in the area of loaders and trucks for underground mining operations. Wagner has 500 employees and annual sales corresponding to SEK 530 m.

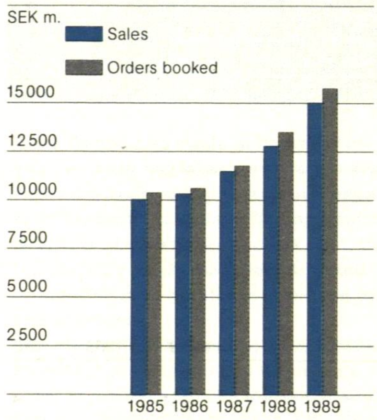
A new rock drilling tools division, Uniroc AB, was formed during the year, with responsibility for all rock drilling tools business. This division has manufacturing operations in 10 countries and sales in 130 countries. During the year, the following four rock drilling tools manufacturing companies, with total annual sales of approximately SEK 120 m., were acquired: Inovac AB in Skellefteå, Sweden, Drillco S A in Chile, T-H Industries Inc. in the U.S. and Hamico Bit (Korea) Co Ltd., in South Korea.

As part of the restructuring of Berema, all of the shares in AB Å Karlssons Mekaniska Verkstad and AB Idesta were divested.

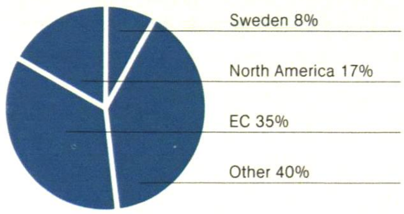
At the end of 1989, Atlas Copco Airpower signed a joint venture agreement with the Japanese company, Iwata Air Compressor Manufacturing Co., whereby a new jointly owned company, Atlas Copco Iwata KK, was formed for the manufacture and sales of stationary compressors in Japan.



SALES AND ORDERS BOOKED



SALES BY GEOGRAPHIC AREA



Atlas Copco Industrial Technique increased its holding in GME System AB to 97 percent.

During the year, the remaining shareholding in AC Greiff Ytbehandling AB and the majority holding in Tedak AB were divested.

Following the close of the 1989 fiscal year, Atlas Copco acquired the U.K. public limited company, Desoutter Brothers (Holdings) PLC, which manufactures and markets industrial tools and assembly systems. Atlas Copco's offer to acquire all of the shares in the company corresponded to GBP 88.7 m. (around SEK 900 m.).

Sales review

The favorable trend of business continued during 1989 throughout all of the Group's product areas. While world industrial production increased four percent in volume and machinery investments by six percent, Atlas Copco's invoiced sales rose approximately 17 percent on current prices.

Atlas Copco's sales of industrial compressors to the *manufacturing industry* were able to be maintained at a high level, particularly in the EC countries and East Asia. Sales of oil-free stationary compressors increased sharply.

Sales of industrial tools and hydraulic components for mobile applications developed favorably, especially in Western Europe and North America.

The Group's sales to the manufacturing industry accounted for 52 percent of total invoicing.

In the *building and construction sector*, sales of the Group's mechanized hydraulic equipment for rock drilling increased. Sales of pneumatic crawler rigs also rose sharply during the year. Particularly rapid growth was reported in EC countries and Japan, while a certain stagnation was noted in the U.S., Latin America and the Middle East. The building and construction sector accounted for 35 percent of Group invoicing.

Sales of modern, mechanized, hydraulic drilling equipment for the *mining industry* continued at a high level. Of total invoicing, the mining industry accounted for 13 percent.

Sales companies' operations

Restructuring work to create specialized sales companies is continuing, with the intention of achieving simplified, more rapid distribution, more reliable deliveries and lower costs. Rationalization activities resulted in a reduction in locally held inventories and in facilities being divested in Denmark, Portugal, West Germany and France. This trend will continue during the years immediately ahead.

During 1989, the sales companies continued to strengthen their market positions in the main EC markets and in Sweden.

In the expanding French market, the new sales organization and the acquisition of Ets. G. Renault contributed to a strong rise in sales.

The sales companies in West Germany, Italy and Spain, where the markets are in a growth phase, also achieved favorable sales results. This applied particularly to industrial tools and contractor's equipment.

In the Swedish market, sales of industrial compressors and rock drilling tools contributed mainly to the increase. Sweden's share of total Group invoicing was 8 percent.

In North America, sales rose 18 percent, mainly due to Chicago Pneumatic. On the building and construction side, orders booked were lower. Sales to the construction and mining industries in the U.S. and Canada are being coordinated to attain increased efficiency.

Financial summary and analysis

Earnings

	1989	1988
Earnings per share, SEK	**26.75**	19.60
Return on capital employed, %	**21.9**	19.0
Return on risk-bearing equity capital, %	**19.7**	16.9
Profit margin, %	**10.1**	9.0

Definitions of key figures, page 18.

Earnings after financial income and expenses for the Atlas Copco Group increased 32 percent, to SEK 1,521 m. (1,155). The profit margin was 10.1 percent (9.0).

Earnings per share, after full tax and full conversion, were SEK 26.75 (19.60). In the figure for 1989, deferred tax on Swedish appropriations to untaxed reserves has been calculated at 30 percent. Prior years' calculations have been retained at the values applying at the time.

Return on equity, after tax, increased to 21.1 percent (14.7). Return on risk-bearing equity capital, after tax, amounted to 19.7 percent (16.9).

Earnings analysis

Operating profit before depreciation improved by SEK 615 m. to SEK 2,063 m., corresponding to a profit margin of 13.7 percent (11.3). The improvement is mainly due to increased sales volumes, as well as to considerably reduced cost levels.

Cost depreciation during the year totaled SEK 337 m. (279). Of the SEK 58 m. increase, newly acquired companies accounted for SEK 18 m. In connection with the acquisition of Wagner, the principles of goodwill depreciation were changed. Effective January 1, 1989, the Group primarily applies a straight-line write-off over a 20-year period (see page 15). Operating profit after depreciation thereby amounted to SEK 1,726 m. (1,169), equal to a profit margin of 11.5 percent (9.1).

Net interest expense increased SEK 135 m., mainly because of a higher average borrowing, compared with the preceding year, due to the recent acquisitions of Secoroc and Wagner Mining Equipment, among other companies. The interest coverage ratio improved, despite higher interest charges, and amounted to 4.2 (4.0).

Foreign exchange differences during the year totaled SEK −49 (+8).

The sharp improvement in earnings in the *Compressor Technique* business area is attributable to a substantial increase in sales and to a reduction in manufacturing cost levels resulting from investments to achieve more efficient production. Reduced administrative costs in both the production and sales areas also contributed to the positive trend.

Earnings in the *Construction and Mining* business area increased due to the addition of Secoroc and Wagner Mining Equipment. Following the restructuring of Berema, its profitability has been further improved.

The improvement in earnings noted in the *Industrial Technique* business area is primarily the result of an increase in the sales of handheld tools in Western Europe and the U.S., and of hydraulic and pneumatic components. Ets. G. Renault, which was acquired at the end of 1988, showed favorable profitability.

GROUP SALES AND EARNINGS BY QUARTER

	Sales		Earnings	
	1989	1988	**1989**	1988
First quarter	**3,489**	2,844	**333**	248
Second quarter	**3,877**	3,159	**379**	282
Third quarter	**3,342**	3,210	**295**	255
Fourth quarter	**4,327**	3,599	**514**	370
Total	**15,035**	12,812	**1,521**	1,155

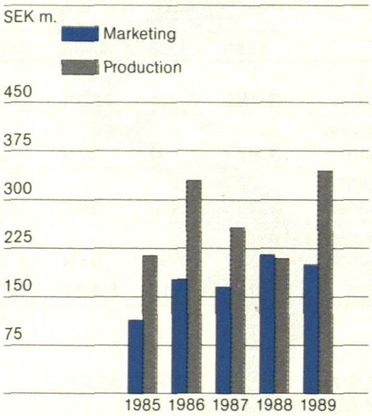
EARNINGS AFTER DEPRECIATION, BY BUSINESS AREA

	1989	1988	1987
Compressor Technique	**1,164**	739	508
Construction and Mining Technique	**441**	370	290
Industrial Technique	**388**	347	242
Corporate items	**−267**	−287	−147
Total	**1,726**	1,169	893

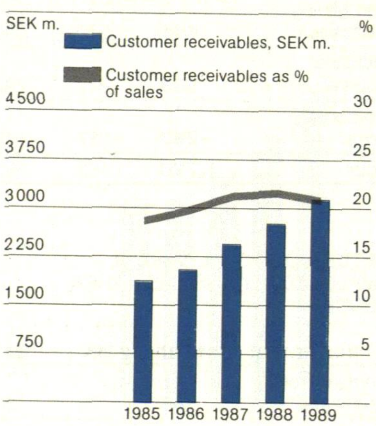
RETURN ON TOTAL CAPITAL EMPLOYED, BY BUSINESS AREA, PERCENT

	1989	1988	1987
Compressor Technique	**38**	28	20
Construction and Mining Technique	**16**	21	15
Industrial Technique	**23**	22	20
Group total	**22**	19	15

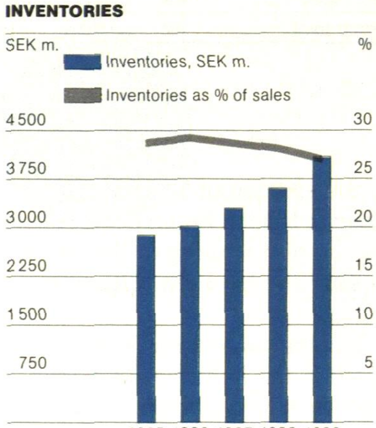
INVESTMENTS IN MACHINERY AND BUILDINGS



CUSTOMER RECEIVABLES



INVENTORIES



Investments

	1989	1988
Investments in machinery and buildings	**545**	424
Sweden	**199**	106
Outside Sweden	**346**	318
Total, as percentage of invoiced sales	**3.6**	3.3

Of total investments, production accounted for SEK 345 m. (209) and marketing for SEK 200 m. (215). The investments related primarily to productivity-improvement measures.

During the year, the Board of Directors took decisions on several major investments, which included a program to rationalize production at the plant in Antwerp, construction of a new plant for Monsun-Tison in Borås, a new distribution center for rock drilling tools in Rotterdam and a new plant for Secoroc in Brazil.

Financial analysis

	1989	1988
Net interest expense	**−160**	−25
Degree of self-financing, %	**225**	233
Rate of risk-bearing equity capital, %	**39.2**	38.3

The improvement in operating profit during the year meant that funds generated internally rose SEK 238 m. to SEK 1,226 m. (988).

The increase in sales and the acquisitions made during the year led, however, to a total rise in the amount of capital tied up in operating assets of SEK 1,144 m. (576). But customer receivables declined to 21.0 percent of invoiced sales (21.6). Inventories could also be reduced, to 27.3 percent (28.2), despite a certain build up of inventory in the new rock drilling tools division.

One third of the increase in capital tied up in operating assets was financed by non-interest-bearing liabilities.

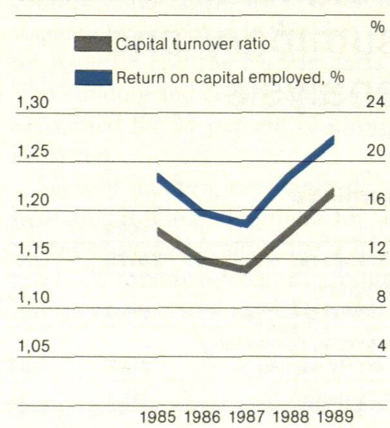
Operations before investments, external borrowing and provision for dividends, resulted in an increase of SEK 455 m. in internal financing, which is lower than in the preceding year.

Investments in fixed assets and new company acquisitions amounted to SEK 1,205 m. (1,205). After sales of fixed assets, dividends and other items, the Group's financing requirement was SEK 672 m. (485).

This financing was raised externally, whereby interest-bearing liabilities increased and at year-end amounted to SEK 4,625 m. (3,940). Liquid funds increased SEK 13 m. (−228) and at year-end totaled SEK 1,864 m., equal to 12 percent of invoiced sales.

The rate of capital turnover was 1.22 (1.18).

CAPITAL TURNOVER RATIO AND RETURN



SUMMARY OF CHANGES IN FINANCIAL POSITION

	1989	1988	1987
Internal funds generated	**1,226**	988	739
Increase in working capital	**−771**	−185	−109
From operations	**455**	803	630
Investments and acquisitions	**−1,205**	−1,205	−604
Dividends and other items	**78**	−83	321
Total	**−672**	−485	347
Increase in interest-bearing liabilities	**685**	257	522
Change in liquid assets	**13**	−228	869

Personnel

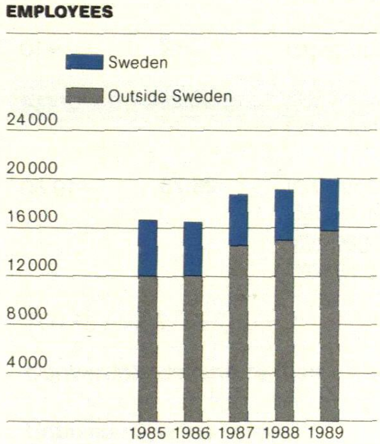
	1989	1988
Average number of employees	**20,057**	19,207
Head office	**76**	66
Sales companies	**8,205**	8,035
Divisions	**11,776**	11,106

At year-end 1989, the number of employees in the Atlas Copco Group was 20,638 persons (19,225). Through acquisitions and divestments, the net increase in employees was 814.

Specification of Atlas Copco Group salaries, wages and other remunerations:

	1989	1988
Boards of Directors and senior executives including bonus payment of 10 (9)	**87**	73
Other employees	**2,825**	2,430
Total	**2,912**	2,503

EMPLOYEES



PARENT COMPANY

Parent Company earnings include Atlas Copco International AB, Atlas Copco Management Consulting AB and Sickla Industrifastigheter AB, all of which operate on a commission basis.

Atlas Copco International AB is responsible for marketing in 85 countries where Atlas Copco has no sales companies. Sales in 1989 totaled SEK 362 m. (301).

Through the decentralization of operational functions, Atlas Copco Management Consulting's previous operations were discontinued. A number of functions were transferred to the operating units and to the Parent Company, while management of property in the Sickla area was transferred to Sickla Industrifastigheter AB.

During the year, the shares orginally held by Atlas Copco Industrial Technique in Atlas Copco Assembly Systems AB, GME System AB and Atlas Copco STIB AB, were transferred to the Parent Company.

An increase in the share capital of Atlas Copco Venezuela S A was carried out during the year. In connection with the formation of a new manufacturing company in South Korea, the previous sales company in the country was discontinued.

Transactions with other Group companies during 1989 accounted for 90 percent of total purchase value and 25 percent of sales.

Earnings

Dividends from subsidiaries amounted to SEK 316 m. (238), including SEK 2 m. (18) from Swedish companies.

Income after financial items totaled SEK 135 m. (147).

The Parent Company reported net income after appropriations and taxes of SEK 344 m. (275). As a result, unappropriated earnings amounted to SEK 944 m. (799).

Financing

The Parent Company's total assets increased by SEK 834 m. (1,060), among other reasons as a result of participation in the financing of the Group's company acquisitions.

Cash, bank deposits and other short-term placements amounted at year-end to SEK 935 m. (937).

The bonus issue of B shares with one tenth of a voting right, approved during the year, was implemented, whereby the share capital was increased from SEK 587 m. to SEK 782 m. The number of shares, which before the bonus issue amounted to 23,460,500 A shares has thereby been increased by 7,820,166 B shares. After full conversion of the outstanding convertible debenture loan, the Company's share capital will amount to SEK 808 m. and the number of shares outstanding to 32.3 million.

Personnel

The average number of employees in the Parent Company during the year was 76 (66), in Atlas Copco International 83 (90), in Atlas Copco Management Consulting 63 (140) and in Sickla Industrifastigheter 13 (–).

Parent Company salaries, wages and remunerations amounted to:

	1989	1988
Board of Directors and senior executives, including bonus payments of 5 (4)	**10**	9
Other employees	**49**	68
Total	**59**	77

Dividend

The Board of Directors proposes a dividend of SEK 8.00 per share, corresponding to SEK 250.3 m. (199.4). In the preceding year, a dividend of SEK 8.50 per share was paid, corresponding to SEK 6.38 after adjustment for the bonus issue.

ATLAS COPCO GROUP
CONSOLIDATED INCOME STATEMENT
Amounts in SEK m.

		1989	1988
Operating income	Invoiced sales	**15 035**	12 812
Operating expense	Cost of goods sold, technical development, sales, administration, etc (NOTE 1)	**−12 972**	−11 364
Operating profit before depreciation		**2 063**	1 448
Cost depreciation (NOTE 2)	Goodwill	**−15**	−8
	Machinery and equipment	**−271**	−226
	Buildings	**−51**	−45
Operating profit after depreciation		**1 726**	1 169
Financial income and expense	Interest received	**321**	359
	Interest paid (NOTE 3)	**−481**	−384
	Dividends received	**4**	3
	Foreign exchange differences (NOTE 4)	**−49**	8
Profit after financial income and expense		**1 521**	1 155
	Extraordinary income and expense (NOTE 5)	**–**	3
Profit before appropriations and taxes		**1 521**	1 158
Appropriations (NOTE 6)		**−167**	−26
Profit before taxes		**1 354**	1 132
Taxes (NOTE 7)		**−587**	−408
Minority interest (NOTE 8)		**−2**	−10
NET PROFIT		**765**	714
Earnings per share, SEK (NOTE 32)		**26:75**	19.60

ATLAS COPCO GROUP

CONSOLIDATED BALANCE SHEET

Amounts in SEK m.

ASSETS			Dec.31 1989		Dec.31 1988
Current assets	Cash, bank and short-term investments (NOTE 9)	1 864		1 851	
	Receivables (NOTE 10)	3 911		3 260	
	Inventories (NOTE 11)	4 105	9 880	3 612	8 723
Blocked accounts in Bank of Sweden (NOTE 12)			18		10
Fixed assets	Shares and participations (NOTE 13)	82		87	
	Goodwill (NOTE 14)	553		111	
	Long-term receivables	65		145	
	Construction work in progress	63		29	
	Machinery and equipment (NOTE 15)	1 276		1 081	
	Buildings (NOTE 16)	1 024		928	
	Land (NOTE 17)	297	3 360	263	2 644
TOTAL ASSETS			13 258		11 377

LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	*Non-interest-bearing liabilities*				
	Notes payable	64		56	
	Suppliers	1 037		1 059	
	Provision for taxes	321		274	
	Accrued expenses and prepaid income	840		785	
	Other current liabilities	1 090		805	
	Interest-bearing liabilities				
	Bank loans (NOTE 18)	2 015		1 361	
	Current portion of long-term liabilities	246		108	
	Other current liabilities	27	5 640	8	4 456
Long-term liabilities	*Non-interest-bearing liabilities*				
	Other long-term liabilities	81		101	
	Interest-bearing liabilities				
	Debenture and bond loans (NOTE 19)	800		805	
	Mortgage and other long-term loans (NOTE 19)	457		700	
	Provision for pensions (NOTE 20)	924	2 262	802	2 408
TOTAL LIABILITIES			7 902		6 864
Convertible debenture loan (NOTE 21)			156		156
Untaxed reserves (NOTE 22)			1 151		963
Minority interest (NOTE 8)			108		112
Shareholders' equity	*Restricted equity*				
	Share capital (NOTE 28)	782		587	
	Restricted reserves (NOTE 29)	843	1 625	919	1 506
	Unrestricted equity				
	Retained earnings (NOTE 30)	1 551		1 062	
	Net profit	765	2 316	714	1 776
TOTAL SHAREHOLDERS' EQUITY			3 941		3 282
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			13 258		11 377
Assets pledged (NOTE 31)			561		559
Contingent liabilities	Notes discounted		161		179
	Other contingent liabilities		365		526
	Capital value of pension obligations		51		37

ATLAS COPCO

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Amounts in SEK m.

	GROUP		ATLAS COPCO AB	
	1989	1988	**1989**	1988
INTERNAL FUNDS GENERATED				
Profit before appropriations	**1 521**		**135**	
and taxes	**337**	1 158	**11**	147
Depreciation		279		11
Capital gain from sales of fixed assets	**−37**	−51	**–**	–
Intra-Group transfers	**–**	–	**207**	129
Taxes	**−587**	−408	**−1**	−2
Withdrawals from blocked accounts	**−8**	10	**1**	2
INTERNAL FUNDS GENERATED FROM OPERATIONS	**1 226**	988	**353**	287
WORKING CAPITAL				
Change in short-term receivables	**−651**	−273	**−492**	31
Change in inventories	**−493**	−303	**2**	5
Change in short-term operating liabilities	**373**	391	**3**	0
CHANGE IN WORKING CAPITAL	**−771**	−185	**−487**	36
NET FUNDS FROM OPERATIONS	**455**	803	**−134**	323
INVESTMENTS				
Investments in property, plant and equipment*	**−734**	−712	**−6**	−18
Investments in shares and participations	**−10**	−14	**−174**	−833
Companies and goodwill acquired	**−461**	−479	**–**	–
Investments in long-term receivables	**80**	6	**49**	−719
Sales of fixed assets	**142**	164		–
NET INVESTMENTS IN FIXED ASSETS	**−983**	−1 035	**−131**	−1 570
OTHER ITEMS				
Funds transferred to subsidiaries	**–**	–	**−6**	−2
Dividend from Parent Company	**−199**	−176	**− 199**	−176
Dividend to minority interests in subsidiaries	**−6**	−10	**–**	–
Minority interest in shareholders' equity	**6**	−68	**–**	–
Change in other liabilities	**−20**	19	**–**	–
Translation differences**	**75**	−18	**–**	–
CHANGE IN OTHER ITEMS	**−144**	−253	**−205**	−178
NET INTERNAL FUNDS GENERATED	**−672**	−485	**−470**	−1 425
INCREASE IN INTEREST-BEARING LIABILITIES	**685**	257	**468**	965
CHANGE IN LIQUID ASSETS	**13**	−228	**−2**	−460

* The amounts include investments of SEK 189 m. (288) in existing properties and machinery at newly-acquired companies.

** Of the total translation differences, SEK 107 m. (−75) is attributable to shareholders' equity, untaxed reserves and minority interests, and SEK −32 m. (57) to fixed assets.

ATLAS COPCO AB

INCOME STATEMENT

Amounts in SEK m.

		1989	1988
Operating income	Invoiced sales	460	399
	Commissions etc. from subsidiaries	113	112
Operating expense	Cost of goods sold, technical development, sales, administration, etc.	–624	–560
Operating profit before depreciation		–51	–49
Cost depreciation (NOTE 2)	Machinery and equipment	–9	–9
	Buildings	–2	–2
Operating profit after depreciation		–62	–60
Financial income and expense	Dividends received from subsidiaries	316	238
	Dividends received from other shares and participations	1	1
	Interest paid to subsidiaries, net	–19	–3
	Interest received, other	120	149
	Interest paid, other (NOTE 3)	–204	–148
	Foreign exchange differences (NOTE 4)	–17	–30
Profit after financial income and expense		135	147
	Extraordinary income and expense (NOTE 5)	–	–
Profit before appropriations and taxes		135	147
Appropriations (NOTE 6)		210	130
Profit before taxes		345	277
Taxes (NOTE 7)		–1	–2
NET PROFIT		344	275

ATLAS COPCO AB

BALANCE SHEET

Amounts in SEK m.

ASSETS			**Dec.31 1989**		Dec.31 1988
Current assets	Cash, bank and short-term investments (NOTE 9)	935		937	
	Receivables (NOTE 10)	1 392		673	
	Inventories	15	2 342	17	1 627
Blocked accounts in Bank of Sweden (NOTE 12)			3		4
Fixed assets	Shares and participations in subsidiaries (PAGE 26)	2 174		2 020	
	Shares and participations (excluding subsidiaries) (NOTE 13) (PAGE 26)	41		21	
	Long-term receivables from subsidiaries	1 107		1 109	
	Other long-term receivables	37		84	
	Machinery and equipment (NOTE 15)	45		48	
	Buildings (NOTE 16)	49		51	
	Land (NOTE 17)	22	3 475	22	3 355
TOTAL ASSETS			5 820		4 986
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	*Non-interest-bearing liabilities*				
	Suppliers	24		23	
	Accrued expenses and prepaid income	57		54	
	Other current liabilities	66		67	
	Interest-bearing liabilities				
	Bank loans (NOTE 18)	1 099		657	
	Liabilities to subsidiaries	861		634	
	Current portion of long-term liabilities	150		21	
	Advances from customers	4	2 261	3	1 459
Long-term liabilities	*Interest-bearing liabilities*				
	Liabilities to subsidiaries	78		72	
	Debenture and bond loans (NOTE 19)	800		805	
	Mortgage and other long-term loans (NOTE 19)	66		182	
	Provision for pensions (NOTE 20)	289	1 233	278	1 337
TOTAL LIABILITIES			3 494		2 796
Convertible debenture loan (NOTE 21)			156		156
Untaxed reserves (NOTE 22)			41		50
Shareholders' equity	*Restricted equity*				
	Share capital (31 280 666 shares, par SEK 25) (NOTE 28)	782		587	
	Legal reserve (NOTE 29)	403	1 185	598	1 185
	Unrestricted equity				
	Retained earnings (NOTE 30)	600		524	
	Net profit	344	944	275	799
TOTAL SHAREHOLDERS' EQUITY			2 129		1 984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			5 820		4 986
Assets pledged (NOTE 31)			1		9
Contingent liabilities	Guarantees and other liabilities, of which 296 (376) on behalf of subsidiaries		446		531
	Capital value of pension obligations		42		37

NOTES TO FINANCIAL STATEMENTS

SEK millions unless otherwise noted

Accounting principles

Compared with the preceding year, the only change in the Group's accounting principles concerns the way in which goodwill is handled. See below.

International guidelines

Atlas Copco follows in all essential respects the guidelines prepared by the OECD for companies that operate internationally.

These guidelines have been observed in the preparation of this Annual Report, except for certain information which, for competitive reasons, cannot currently be disclosed.

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 17. Suffix: m. = millions.

Principles of consolidation

The Consolidated Income Statement 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 depreciated in accordance with the plan for the type of asset. The surplus portion, goodwill, is normally depreciated over 10 years, while goodwill arising from strategic acquisitions is depreciated over a period of 20 years, see below.

Companies acquired during the year have been included in the Consolidated Income Statement with 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.

Earnings of companies divested during the year have been deducted from consolidated earnings on the basis of the Group's reported net assets in these companies at the beginning of the year.

Goodwill

The acquisition of well established companies active in an international 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 company's position in the market and on the know-how contained in the company.

A company acquisition, where the acquisition cost exceeds the company's adjusted equity, means that so-called intangible assets are capitalized and depreciated over a certain period. Determining how long this period should be depends on accounting practice and laws in different countries.

The methods used today to account for amortization of goodwill are largely as follows:

Immediate amortization against equity

This method is based on treating goodwill as a short-term asset and that purchased goodwill should be reported in a way that does not deviate from the reporting of the goodwill a company has gradually accumulated through market activities, which is expensed directly. To achieve comparability between purchased and accumulated goodwill, purchased goodwill must be written off immediately in such a way that minimizes the distortion to reported results. Goodwill is therefore written off against equity.

Compared with goodwill that is amortized through the Income Statement, this will subject future earnings and return on capital employed to excessive taxation. The method is in conflict with the continuity principle, since changes in equity are not reported in the Income Statement.

Short-term amortization in the Income Statement

The reason for employing the method by which goodwill is depreciated over a short period is to distinguish between purchased goodwill and accumulated goodwill. Applying a stringent FIFO accounting method, such purchased goodwill will disappear during a relatively short period. The accumulated goodwill which replaces it and causes its value to appreciate in real terms, is not reported in the Balance Sheet, but is, instead, expensed immediately. This method results in the company being subjected to two goodwill charges, one for accumulating new goodwill and another for writing off old goodwill.

Permanent goodwill

This method most closely follows normal practise used to account for the acquisition of assets and it means that goodwill is not amortized. In accordance with the LIFO method, goodwill is not written down until its value has declined to below book value. In most cases, the value of the goodwill will probably increase rather than decrease through accumulation. Accordingly, no depreciation will occur.

The disadvantage with this method becomes apparent when the amortization of goodwill actually occurs. The company is then subject to substantial goodwill amortization, at the same time that earnings from ongoing operations are often less satisfactory.

Long-term amortization in the Income Statement

Amortization of goodwill in the Income Statement over a long period may be regarded as a compromise between allowing goodwill to remain permanently in the Balance Sheet and removing it from the Balance Sheet. A long depreciation period means that the effect on earnings becomes so small that an analysis can be made.

According to U.S. accounting practice, goodwill may be amortized over a period not exceeding 40 years. In U.S. acquisition calculations, assets are revalued to a greater extent and across a wider range of types, compared with Swedish accounting practice. Annual amortization of 2.5 percent does not have any substantial impact upon earnings, but still results in the gradual disappearance of goodwill.

Regardless of the amortization period used, the general rule is that the Group must be evaluated on an annual basis to establish if goodwill remains. If there is no remaining goodwill, additional write-downs must be made.

The long goodwill amortization period is the method that best combines Atlas Copco companies' financial view of goodwill with a prudent amortization process that enables a corporate-economic analysis to be made.

Progressive amortization
The method selected by Atlas Copco is based on the same theory used in long-term depreciation. From a corporate-economic viewpoint, no amortization is actually needed but for reasons of prudence, a certain degree of amortization is still applied.

The goodwill arising as a result of strategic acquisitions is amortized by Atlas Copco at an effective real rate over a period of 20 years, which means that amortization increases exponentially over the years at approximately the same rate as inflation. The justification for this is that amortization does not result in payments and that funds may therefore be retained in the company and earn interest, thus contributing to future amortization. The effect, during initial years, corresponds to about 1/33 of nominal goodwill. In connection with this change in method, the amortization plan for 1989 and subsequent years has been adjusted for goodwill arising from the acquisition of Chicago Pneumatic.

Translation of year-end accounts of foreign subsidiaries
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) suggested recommendations. In applying this method, the subsidiaries are primarily reported as independent units with operations conducted in foreign currencies and in which the parent company has a net investment. The exceptions from this treatment are those subsidiaries which are located in highly inflationary countries. The accounts of these subsidiaries are translated according to the monetary/non-monetary method. In accordance with the FAR's suggested 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 beginning 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 cost of goods sold, 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 by the International Accounting Standard Committee (IAS 21), as well as with the corresponding American recommendations (SFAS 52).

Choice of methods
In a separate point, the FAR's suggested 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).

Receivables and liabilities in foreign currencies
Receivables and liabilities in foreign currencies are translated at year-end exchange rates, with the exception that unrealized exchange gains are only reported to the extent they offset unrealized exchange losses. In cases where the rate is secured through forward contracts, receivables and liabilities are translated using the forward contract rate.

In the event of a currency exchange through a swap agreement, the loan is valued at the highest of the historical exchange rate and the year-end rate for the swapped currency. In cases where the swapped loan, translated at the year-end rate for the original currency, exceeds the liability that is booked, the difference is included under contingent liabilities.

Associated companies
Those companies in which Atlas Copco's voting right totals between 20 and 50 percent are reported as associated companies. Atlas Copco's share in the income and capital of associated companies is not reported in the consolidated Income Statement and Balance Sheet, but is instead defined in NOTE 13.

Interest arbitrage
With the aim of improving the Company's net interest income, Atlas Copco made several interest arbitrage transactions during the year. This entails that a short-term loan, normally in foreign currency, is taken and guaranteed against the Swedish krona, and subsequently invested at a higher interest rate in bank certificates, treasury bills, or other similar Swedish debt instruments.

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 (NOTES 3 and 9).

Treasury activities

Market review

During 1989 the financial markets were characterized by concern for the U.S. economy, leading to speculation about a sharp recession. However fears did not materialize. The so-called soft-landing scenario of the U.S. economy during the latter part of the year was reflected in decreased U.S. interest rates and a falling U.S. dollar.

Meanwhile, the relatively overheated economic situation in Western Europe saw rising interest rates and strengthened currencies vis-à-vis the U.S. dollar.

Swedish interest rates followed the rest of Europe. Consequently, short and long-term interest rates rose towards the end of the year. The Swedish krona, which during the first part of the year was relatively strong, weakened during the autumn.

Liability management

During the year, the Atlas Copco Group increased its borrowing by approximately SEK 600 m., mainly as a result of acquisitions. The additional borrowing requirement was financed primarily through further utilization of the Eurocommercial Paper Program, which was raised from USD 100 m. to USD 150 m.

During 1989, a credit rating was undertaken in the Swedish market, in which Atlas Copco AB received the best possible rating (K1). Consequently, future financing in Swedish krona can be made at a lower cost.

Currency management

Within Atlas Copco AB, Corporate Finance functions as the Group's internal bank.

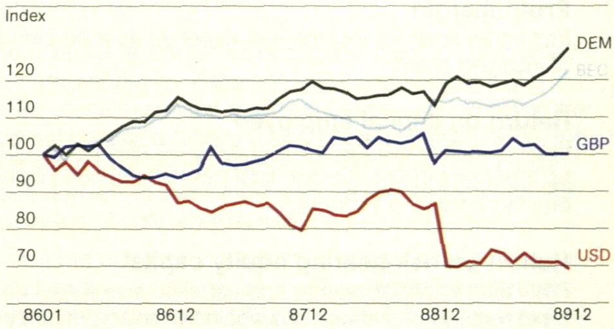
All currency management is centralized to Corporate Finance. This enables the Group to minimize currency exposure by netting in and out-flow in each currency.

Atlas Copco Group's sales companies are invoiced in their own currencies by the manufacturing companies and the manufacturing companies hedge their own exposure through Corporate Finance.

EXCHANGE RATES

	Currency		Year-end rate		Average rate	
Country	Value	Code	1989	1988	1989	1988
Australia	1	AUD	4.92	5.27	5.10	4.81
Austria	100	ATS	52.50	49.00	49.00	49.50
Belgium	100	BEC	17.40	16.40	16.50	16.70
Canada	1	CAD	5.36	5.15	5.42	4.95
France	100	FRF	107.00	101.00	101.50	103.00
Great Britain	1	GBP	9.95	11.04	10.56	10.90
India	100	INR	37.00	41.00	40.00	44.00
Italy	100	ITL	0.488	0.466	0.473	0.471
Japan	100	JPY	4.32	4.89	4.68	4.78
Luxemburg	100	LUF	17.40	16.40	16.50	16.70
The Netherlands	100	NLG	324.50	305.00	305.50	310.50
Norway	100	NOK	94.00	93.50	93.50	94.00
Singapore	1	SGD	3.29	3.17	3.30	3.05
South Korea	100	KRW	0.930	0.899	0.962	0.833
Spain	100	ESP	5.65	5.38	5.46	5.26
Switzerland	100	CHF	402.00	407.00	396.50	420.50
USA	1	USD	6.200	6.120	6.410	6.095
West Germany	100	DEM	366.50	344.50	345.00	349.50

TRENDS OF EXCHANGE RATES



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

Liquidity management

The Group's interest-bearing assets amount to approximately SEK 2.0 billion, half of which is invested in the Swedish money and bond market. A substantial portion has been invested on a short-term basis. Atlas Copco has thereby been able to benefit from the rise in Swedish interest rates.

Financial risk management

Corporate Finance has overall responsibility for the Group's Treasury activities, and provides subsidiaries with such banking services as currency trading, deposits and loans, export and import financing and treasury consulting.

In its role as the Group's internal bank, Corporate Finance is also responsible for handling financial risk exposure.

Financial risk exposure can be divided into the following areas:

– borrowing risk	Risk that the Group's borrowing capability declines
– interest risk	Risk that changes in interest-rate levels will have an adverse effect on Group earnings.
– transaction and translation risks	Risk that exchange rate fluctuations on the commercial flow and on net investments made abroad will have a negative effect on Group earnings.

The basis for management of financial risk exposure is the establishment of a so-called zero-risk level. This indicates those measures which must be taken, in accordance with an established policy, in order to eliminate financial risks to the greatest extent possible.

Within the framework of the established policy, Corporate Finance will be granted a risk mandate, which defines approved deviation from financial policy. The financial risk management in Corporate Finance is measured daily and compared with the established risk mandate.

Definitions

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

Return on capital employed
Profit after financial income and expense plus interest paid, as a percentage of average total assets less non-interest-bearing operating liabilities.

Return on risk-bearing equity capital
Profit after financial income and expense less actual tax as a percentage of average shareholders' equity, minority interests and untaxed reserves.

Return on shareholders' equity
Profit after financial income and expense less standard tax (40 percent, previously 50 percent) as a percentage of average shareholders' equity, minority interests and 60 percent (previously 50 percent) of untaxed reserves (after 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
Internal funds generated as a percentage of investments in machinery and buildings.

Capital turnover ratio
Invoiced sales divided by average total assets.

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

Earnings per share
Profit after financial income and expense less full tax and minority interests in the year's operations, divided by the number of shares outstanding after full conversion.

Earnings per share after extraordinary items
Profit after extraordinary income and expense less full tax and minority interests in the year's operations, divided by the number of shares outstanding after full conversion.

Earnings per share are calculated according to NBK's recommendations (NOTE 32).

Notes

1. Operating expenses

	Group	
	1989	1988
Cost of goods sold	9,268	8,062
Marketing and administrative costs	3,302	2,955
Technical development costs	402	347
Operating expenses	12,972	11,364

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		Parent Company	
	1989	1988	1989	1988
Cost depreciation	337	279	11	11
Book depreciation	493	364	12	14
Depreciation in excess of cost (NOTE 24)	156	85	1	3

Book depreciation includes write-downs charged against investment reserves of SEK 0 m. (13).

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 507 m. (437) and thus exceeded cost depreciation by SEK 170 m. (158).

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 at an interest rate of 9.5 percent (10.0) for index pensions and 3.5 percent (3.5) for pensions liabilities expressed in fixed amounts. The interest portion for 1989 amounted to SEK 57 m. (54). The corresponding sum for the Parent Company amounts to SEK 26 m. (25). 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 1989 totaled SEK 18 m. (37).

4. Foreign exchange differences

	Group		Parent Company	
	1989	1988	1989	1988
Exchange differences in translation of foreign subsidiaries	−16	1	–	–
Other exchange differences	−33	7	−17	−30
	−49	8	−17	−30

Exchange differences in translation of foreign subsidiaries refer to differences arising from translation of the balance sheets 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

Gains and losses on the current scrapping and/or sale of fixed assets are included in operating income. Capital gains and losses made on the divestment of larger, non-operating, assets are shown under the heading "extraordinary income and expense" and are calculated as the difference between sales revenue and planned residual value.

	Group		Parent Company	
	1989	1988	1989	1988
Capital gain on buildings sold	–	31	–	–
Capital loss on buildings sold	–	−1	–	–
Divestment costs	–	−27	–	–
	–	3	–	–

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, Berema AB and Monsun-Tison AB.

	Group		Parent Company	
	1989	1988	1989	1988
General inventory reserves (NOTE 23)	−3	29	2	2
Investment reserves (NOTE 25)	−7	−16	–	−6
Other reserves (NOTE 27)	−22	−11	–	–
Difference between book depreciation and cost depreciation (NOTE 24)	−156	−85	−1	−3
Accumulated additional depreciation on assets sold (NOTE 24)	16	27	–	–
Withdrawals from investment reserves (NOTE 25)	–	13	–	–
Withdrawals from development reserves (NOTE 26)	5	17	2	9
Group contributions, net	–	–	207	128
	−167	−26	210	130

7. Taxes

Total tax expenses for the year, amounting to SEK 587 m. (408) corresponded to 38.6 percent (35.3) of income after financial items.

At year-end 1989, companies outside Sweden had tax-deductible loss carryforwards of SEK 164 m. (290). The capital loss deductions absorbed during the year reduced the Group's reported tax expenses.

Of total reported tax expenses, SEK 4 m. (2) was attributable to taxes in Sweden and SEK 583 m. (406) to taxes in the other countries in which the Group is active.

The federal tax rate in Sweden was 40 percent in 1989, calculated as a percentage of nominal booked income, with the addition of non-deductible items and less tax-free revenues and other deductions. Foremost among the latter, in respect of the Parent Company, were so-called Annell deductions (deductions for dividends on new capital stock issues) and tax-free dividends from holdings in subsidiaries. In addition, profit-sharing tax of 20 percent and special profit tax of 15 percent was paid on inflation-adjusted earnings during 1989. In percentage terms, the accumulated tax payment on marginal profit above a certain level totaled 61 percent.

A provision of SEK 1 m. (1) was made for federal income tax by the Parent Company. Profit-sharing tax and special profit tax were not paid by the Parent Company, while other Swedish companies paid minor amounts.

In calculating tax based on the full tax method, meaning tax reported in the Income Statement plus estimated tax on appropriations and tax on utilized loss carryforwards, the proportion of tax was 43.8 percent (45.0).

8. Minority interest in subsidiaries' equity and earnings

The Income Statement reports the minority shares in the Group's profit after tax as totaling SEK 2 m. (10). These minority interests primarily relate to Atlas Copco India, Atlas Copco Morocco and subsidiaries of Chicago Pneumatic.

If the minority shares had been reported under profit before appropriations and taxes, the Income Statement would have been as follows:

	1989	1988
Profit before appropriations and taxes	1,521	1,158
Minority interest	−16	−23
Profit before appropriations and taxes, excluding minority	1,505	1,135
Appropriations	−166	−21
Profit before taxes	1,339	1,114
Taxes	−574	−400
Net profit	765	714

Minority interest in Group equity as shown in Balance Sheet:

	Shareholders' equity
Minority interest Dec. 31, 1988	112
Minority acquired	8
Minority sold	−2
Dividends	−6
Translation differences	−6
Net profit	2
Minority interest Dec. 31, 1989	108

The minority interest in untaxed reserves amounted to SEK 10 m. (8).

9. Cash, bank and short-term investments

	Group		Parent Company	
	1989	1988	1989	1988
Cash, bank	1,075	870	152	23
Government Treasury bills	39	150	39	150
Treasury notes	–	60	–	60
Other short-term investments	750	771	744	704
	1,864	1,851	935	937

The Group's available but unutilized bank credits at December 31, 1989 amounted to SEK 4,245 m.

Unconcluded interest-arbitrage transactions in the Parent Company have been reported in net form and amount to SEK 58 m. (190). Loans are the same amount and have been offset against other short-term investments.

10. Receivables

	Group		Parent Company	
	1989	1988	1989	1988
Notes receivable	246	194	3	9
Receivables from subsidiaries	–	–	1,198	501
Trade receivables	2,904	2,574	77	104
Prepaid expenses and accrued income	171	142	26	31
Other receivables	590	350	88	28
	3,911	3,260	1,392	673

11. Inventories

Inventories are valued at the lower of cost or market, in accordance with the "first in/first out" principle and the 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	
	1989	1988
Raw materials	220	168
Work in progress	690	528
Semi-finished goods	1,002	868
Finished goods	2,193	2,048
	4,105	3,612

12. Blocked accounts in 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

	Number of shares	Percent held	Par value loc cur	Book value SEK m.
Shares and participations reported by Atlas Copco AB: (as specified on page 26):				41
Shares and participations reported by subsidiaries:				
Associated companies				
Toku-Hanbai KK	200,000	50	500	22
Atlas Copco TBM Developing AB	4,000	50	100	1
Kiruna Electric AB	126	25	100	0
Atlas Copco-Eickhoff Roadheading Technic GmbH	1	50	[1]	7
Delair Droogtechniek & Luchtbehandeling BV	52	26	1,000	1
NEAC Compressor Service GmbH & Co KG	1	50	[1]	1
NEAC Compressor Service Verwaltungs GmbH	1	50	[1]	0
Other companies				
Tedak AB	3,150	9	100	1
Rasa Corporation, Tokyo	400,000	5	50	0
Misc. shares and participations				8
Total for Group				82

[1]) Without par value

The Parent Company's holdings of shares in listed companies (Bilspedition and SILA) had a book value at year-end 1989 of SEK 15 m. (7) and a market value of SEK 93 m. (51).

Associated companies

The Atlas Copco Group's share in the income of associated companies before appropriations and taxes amounted to SEK 13 m. (10), of which SEK 2 m. (1) was received in the form of dividends. The Group's share in the shareholders' equity and the untaxed reserves of associated companies, with deduction for deferred tax (40 percent) at the end of the fiscal year was SEK 48 m. (61).

14. Goodwill – group excess value

Group excess value in 1989 amounted to SEK 594 m. (153). This has been distributed over the following items in the balance sheet: Goodwill, SEK 553 m. (111), buildings and land SEK 23 m. (16) as well as machinery and equipment SEK 18 m. (26). Depreciation of Group excess value amounts to SEK 22 m. (16), distributed as follows:

	Group	
	1989	1988
Goodwill	15	8
Machinery and equipment	6	7
Buildings	1	1
	22	16

Change in goodwill value as shown in balance sheet.

	1989	1988
Acquired goodwill, Jan. 1	169	149
Accumulated depreciation	−58	−50
Acquired goodwill	477	18
Goodwill sold	−4	−2
Depreciation for the year	−15	−8
Translation differences	−16	4
Planned residual value, Dec 31	553	111
Accumulated depreciation in excess of cost depreciation (Note 24)	−118	–
Book value, net	435	111

15. Machinery and equipment

	Group		Parent Company	
	1989	1988	1989	1988
Cost	2,726	2,360	97	93
Accumulated cost depreciation	−1,450	−1,279	−52	−45
Planned residual value	1,276	1,081	45	48
Accumulated depreciation in excess of cost depreciation (NOTE 24)	−343	−319	−21	−19
Book value, net	933	762	24	29

Future commitments related to leased assets are normally not capitalized. The estimated acquisition value of premises, machines, vehicles major computer and office equipment leased by the Group is SEK 919 m. (1,143). The leasing costs for this property and equipment, SEK 163 m. (219), are reported under operating expenses. The amount includes rental for the properties in Nacka that were sold in 1987, for which the Parent Company has a buy-back option. Future costs for non-cancellable leasing contracts amount to SEK 357 m. (464).

16. Buildings

	Group		Parent Company	
	1989	1988	1989	1988
Cost	1,478	1,349	65	63
Undepreciated amount of write-ups	12	13	0	1
Accumulated cost depreciation	−466	−434	−16	−13
Planned residual value	1,024	928	49	51
Accumulated cost depreciation (NOTE 24)	−162	−151	−11	−12
Book value, net	862	777	38	39
Tax assessment value	172	173	27	27

The amount shown for Group "Tax assessment value" relates exclusively to companies in Sweden.

17. Land

	Group		Parent Company	
	1989	1988	1989	1988
Cost	273	238	18	18
Write-ups	24	25	4	4
Book value, net	297	263	22	22
Tax assessment value	48	48	23	23

The amount shown for Group "Tax assessment value" relates exclusively to companies in Sweden.

18. Bank loans

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

	1989	1988
PARENT COMPANY		
Available under "USD 150 m. Eurocommercial Paper Program"		
Outstanding USD 119 m.	738	527
Available under "GBP million Sterling Acceptances Program"		
Outstanding USD 10 m.	62	116
Other short-term loans	299	14
The Parent Company's bank loans and promissory notes as shown in balance sheet	1,099	657
SUBSIDIARIES	916	704
Group bank loans as shown in balance sheet	2,015	1,361

19. Long-term loans

Loans in foreign currencies are translated in accordance with the highest value principle. A number of loans are valued in a currency other than that of the country of origin, in accordance with so-called swap agreements.

Bond loans	1989	1988
PARENT COMPANY		
1978 12 ¾% loan SEK 100 m.,	26	33
1985 CHF 75.5 m.		
Outstanding, USD 30.2 m.+CHF 20 m.	268	266
1987 loan LUF 300 m.		
Outstanding, USD 7.9 m.	51	51
1988 loan LUF 300 m.		
Outstanding, USD 7.6 m.	47	47
1988 loan CHF 100 m.	415	415
Less: next year's maturities	−7	−7
Bond loans as shown in balance sheets	800	805

Mortgage loans and promissory notes	1989	1988
PARENT COMPANY		
Available under "USD 100 m. Medium Term Note Program"		
Outstanding USD 29 m.	180	180
1984 multicurrency-loan, GBP 1 m.	–	11
1984 loan, SGD 0.8 m.	–	2
1989 loan FRF 25 m.	27	–
Other mortgage loans and promissory notes	2	3
Less: next year's maturities	−143	−14
Parent Company's mortgage loans and promissory notes as shown in balance sheet	66	182
SUBSIDIARIES	487	605
Less: next year's maturities	−96	−87
Group mortgage loans and promissory notes as shown in balance sheet	457	700

The Atlas Copco Group's short- and long-term loans can be divided into the following currencies:

			1989	1988
CURRENCY	AMOUNT m.	SEK m.	%	%
USD	269	1,668	47	42
CHF	122	504	14	17
FRF	209	223	6	4
CAD	27	145	4	2
ITL	27,600	135	4	3
INR	346	128	4	4
BEC	571	99	3	5
KRW	10,300	96	3	1
Other		520	15	22
		3,518	100	100

Bond loans, mortgage loans and promissory notes are being amortized as follows, based on exchange rates at December 31, 1989:

	Group	Parent Company
1990	246	150
1991	396	274
1992	152	91
1993 – and thereafter	709	501
	1,503	1,016

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	
	1989	1988	1989	1988
Swedish companies				
FPG/PRI-pensions	616	559	276	256
Other pensions	16	26	13	22
Companies outside Sweden	292	217	–	–
Total provisions for pensions	924	802	289	278

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. After adjustment for the 1989 bonus issue, the conversion price is SEK 150 per share. Upon full conversion the total number of shares will increase by 1,039,333. See page 57 for further detail.

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 appears below.

	Group		Parent Company	
	1989	1988	1989	1988
General inventory reserves (NOTE 23)	339	335	6	8
Accumulated additional depreciation (NOTE 24)	623	470	32	31
Investment reserves (NOTE 25)	76	66	–	6
Development reserves (NOTE 26)	8	13	3	5
Other reserves (NOTE 27)	105	79	–	–
	1,151	963	41	50

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 40 percent of the value after a deduction for obsolescence.

	Group	Parent Company
General inventory reserves, Dec. 31, 1988	335	8
Allocations	23	–
Withdrawals	–20	–2
Translation differences	1	–
General inventory reserves, Dec. 31, 1989	339	6

Unutilized rights to make allocations to inventory reserves in the Swedish companies amount to SEK 51 m. (8).

24. Accumulated additional depreciation

	Group			
	Intangible assets	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, Dec. 31, 1988	–	319	151	470
Difference between book depreciation and cost depreciation in 1989	118	26	12	156
Accumulated additional depreciation on fixed assets sold	–	–10	–6	–16
Translation differences	–	8	5	13
Accumulated additional depreciation, Dec. 31, 1989	118	343	162	623

	Parent Company		
	Machinery and equipment	Buildings	Total
Accumulated additional depreciation, Dec. 31, 1988	19	12	31
Difference between book depreciation and cost depreciation in 1989	2	–1	1
Accumulated additional depreciation, Dec. 31, 1989	21	11	32

25. Investment reserves

Up until year-end 1988, Swedish companies had 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, e.g. Belgium, Finland and Norway also have the opportunity to make appropriations to similar investment reserves.

	Group	Parent Company
Investment reserves, Dec. 31, 1988	66	6
Allocations	7	–
Transferred to subsidiaries	–	–6
Translation differences	3	–
Investment reserves, Dec. 31, 1989	76	–

26. Development reserves

Swedish companies with an adjusted annual income in excess of SEK 0.5 m. were 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. The reserve may also be utilized for the financing of employee training programs and research and development work. Withdrawals are reported under appropriations.

	Group	Parent Company
Development reserves, Dec. 31, 1988	13	5
Transferred to Group companies	–	0
Withdrawals for		
employee training	–3	–
research and development	–2	–2
Development reserves, Dec. 31, 1989	8	3

27. Other reserves

Other reserves pertain primarily to untaxed security reserves in the Group's insurance companies.

	Group	Parent Company
Other reserves, Dec. 31, 1988	79	–
Allocations	22	–
Translation differences	4	–
Other reserves, Dec. 31, 1989	105	–

28. Share capital

	Group	Parent Company
Share capital, Dec. 31, 1988	587	587
Bonus issue through transfer from restricted reserves	195	195
Share capital, Dec. 31, 1989	782	782

29. Restricted reserves

	Group	Parent Company
Restricted reserves, Dec. 31, 1988	919	598
Transferred to share capital	–195	–195
Transferred from retained earnings	45	–
Companies acquired	1	–
Translation differences	73	–
Restricted reserves, Dec. 31, 1989	843	403

"Acquired companies" refers here to negative goodwill arising from the acquisition of a remaining minority in previously jointly owned subsidiaries.

30. Retained earnings

	Group	Parent Company
Retained earnings, Dec. 31, 1988	1,062	524
1988 net profit	714	275
Dividend to shareholders	–199	–199
Transferred to restricted reserves	–45	–
Translation differences	19	–
Retained earnings, Dec. 31, 1989	1,551	600

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.

31. Assets pledged

	Group		Parent Company	
	1989	1988	1989	1988
Real estate mortgages	121	122	1	1
Chattel mortgages	440	437	–	8
	561	559	1	9

32. Earnings per share

Atlas Copco has elected to report earnings per share, after full conversion according to the Swedish Industry and Stock Exchange Committee's guidelines regarding calculation of certain key ratios. The guidelines recommend either the full-tax method, or the so-called partial method. The calculation used to compute earnings per share in accordance with the full-tax method is given 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. In the figure for 1989, deferred tax on Swedish appropriations to untaxed reserves has been calculated at 30 percent. Prior years' calculations have been retained at values applying at the time.

		1989		1988
Income after financial items		1,521		1,155
Tax attributable to the above sum		−666		−520
Minority interest		−2		−10
Income before extraordinary items		853		625
Extraordinary items	–		3	
Tax attributable to extraordinary items	–	–	3	6
Net profit		853		631
Reversals				
Tax charged against net profit		666		517
Minority interest		2		10
Reported profit before appropriations and taxes		1,521		1,158
Earnings per share after full conversion, SEK*				
before extraordinary items		26.75		19.60
after extraordinary items		26.75		19.75

* Tax charges on the interest on the convertible debenture loans (SEK 16 m.) have been estimated at 30 percent (50).

The following key financial ratios, whose definitions follow the NBK's recommendations, using the full-tax method, are based on the above income statement and therefore differ from the corresponding key financial ratios reported elsewhere (page 64).

	1989	1988
Return on shareholders' equity, %	20.1	16.8
Return on capital employed, %	23.2	20.0

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

During the period 1983–1989 loans have been granted to employees under terms of an offer related to savings invested in Atlas Copco shares through Atlas Copco's General Savings Fund.

	Group	Parent Company
Number of borrowers	237	237
The loans are shown in the balance sheets as		
Other current receivables	1	1
Long-term receivables	1	1

The number of borrowers in the Parent Company includes Atlas Copco International AB and Sickla Industrifastigheter AB and Sickla Industrifastigheter AB, as well as other Swedish companies.

Shares and participations Atlas Copco AB

	Number of shares	Per-cent held	Par value loc cur	Book value SEK m.
DIVISIONS				
Atlas Copco Industrial Technique AB	40 000	100	100	5
Atlas Copco Tools AB	100 000	100	100	20
Monsun-Tison AB	400 000	100	100	64
Atlas Copco Assembly Systems AB	90 000	100	100	11
Atlas Copco STIB AB	16 000	100	100	3
GME System AB	34 500	97	100	39
Atlas Copco Construction and Mining Technique AB	700 500	100	100	456
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
Oy Atlas Copco Ab, Finland	144	80	100 000	20
Atlas Copco A/S, Norway	4 498	100	10 000	32
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	512 200	99[2])	500	4
Atlas Copco Ges.m.b.H., Austria	69 990	100	1 000	20
Atlas Copco Argentina S.A.C.I.	17 999	12[2])	1	0
Atlas Copco Boliviana S.A.	4 268	100	100	2
Atlas Copco Brasil Ltda	20 999 996	100	1	21
Atlas Copco Chilena S.A.C.	24 998	100	1 000	6
Atlas Copco Ecuatoriana S.A., Ecuador	39 976	100	1 000	1
Atlaservis S.A., Ecuador	1 990	100	1 000	1
Atlas Copco Venezuela S.A.	37 920	100	1 000	14
Atlas Copco Iran AB, Sweden	3 500	100	100	0
Atlas Copco (Philippines) Inc.	121 995	100	100	3
Atlas Copco KK, Japan	375 001	100	1 000	23
Atlas Copco (HK) Ltd., Hong Kong	2 775	93	1 000	3
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2 500 000	100	1	8
Atlas Copco (Malaysia) SDN BHD	700 000	70	1	2
Atlas Copco Ticaret ve Sanayi T.A.S., Turkey	849 340	30[2])	500	0
Atlas Copco Taiwan Ltd.	64 745	93	100	1
Atlas Copco (India) Ltd.	2 892 000	40	10	0
Atlas Copco Kenya Ltd.	14 999	100	100	0
Atlas Copco Lesotho Pty Ltd	20 000	100	1	0
Atlas Copco Maroc S.A.	1 880	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.	35 506	100	[1])	750
Chicago Pneumatic International Inc.	440	22[2])	[1])	97
Atlas Copco UK Holdings Ltd.	3 623 664	100	1	38
Atlas Copco Beheer bv., The Netherlands	15 712	100	1 000	42
Atlas Copco Holding G.m.b.H., West Germany	5	99[2])	[1])	100
Atlas Copco France Holding S.A.	159 970	100	500	75
OTHER SUBSIDIARIES				
Atlas Copco Airpower Svenska AB	500	100	100	0
Copco Nueva Montaña S.A., Spain, in liquidation	29 999	13[3])	1 000	0
Atlas Copco Andina S.A., Bolivia, in liquidation	18 000	50[2])	1 000	0
Atlas Copco Industrial S.A., Spain	95	50[2])	10 000	0
Atlas Copco Försäkrings AB	50 000	100	100	5
Atlas Copco Reinsurance S.A., Luxemburg	4 999	100	10 000	8
Atlas Copco Finanz AG, Switzerland	5 000	100	1 000	18
Cerac S.A., Switzerland	1 997	100	1 000	2
Atlas Copco Information Systems Development HB	10	10[2])	1 000	0
Atlas Copco Data AB	250	50[2])	100	0
Atlas Copco Oden-fastigheter AB	500	100	100	0
Atlas Copco Fond-aktiebolag	2 500	100	100	0
Atlas Copco Management Consulting AB	500	100	100	0
Sickla Industrifastigheter AB	30 000	100	100	3
18 dormant companies				23
				2 174
MINORITY COMPANIES				
Associated companies				
Atlas Copco Finans AB	38 000	40	100	4
				4
Other companies				
Bilspedition AB	142 240	1	25	5
Svensk Interkontinental Lufttrafik AB (SILA)	508 000	1	10	10
Stabil Fastighets AB	420 000	2	20	10
Handelsbolaget Svenska Dagbladets AB & Co	100	2	1 000	0
AB Sukab	300	0	100	0
Scanditronix AB	45 556	22	100	8
Mechanical Technology Inc., N.Y.	140 000	5	1	0
ADELA Investment Co. S.A., Luxemburg	3 640	0	100	0
SIFIDA Investment Co. S.A., Luxemburg	275	1	500	0
Cord Capital N.V., Curacao, Netherland Antilles	40	3	50	4
Other shares and participations				0
				41

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.

Current cost accounting aims at taking price changes into consideration on those resources used and consumed by the Company in its production operations, 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.

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 1989 amounted to SEK 1,503 m. (971).

This income figure is SEK 223 m. (198) lower than the traditional operating income. This is explained by two factors. Price changes occurred during the year on goods that are included in the Company's products. These goods are estimated to cost SEK 53 m. (48) more to purchase than they did at date of procurement. Income has also been charged with current cost depreciation that is SEK 170 m. (158) 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 1,767 m. (1,141). Price gains of SEK 49 m. (48) occurred on products in inventory and the Company's fixed assets increased in value by SEK 215 m. (122).

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 1989, it should have increased by the average annual price increase, or by SEK 313 m. (261) during the year. The annual average price increase in 1989 has been estimated at 7 percent (6). Atlas Copco's real income after financial items for 1989 becomes SEK 1,249 m. (866). This income figure is SEK 272 m. (289) lower than the traditional income and corresponds to a real profit margin of 8.3 percent (6.8).

Current cost income statement

	1989	1988
Invoiced sales	**15,035**	12,812
Current cost of goods sold	**−13,025**	−11,404
Current cost depreciation	**−507**	−437
Operating income	**1,503**	971
Price changes, inventory	**49**	48
Price changes, fixed assets	**215**	122
Operating income before financial items	**1,767**	1,141
Financial items	**−205**	−14
Purchasing power adjustment, equity capital	**−313**	−261
Real income after financial items	**1,249**	866

Current cost balance sheet

ASSETS	**1989**	1988
Cash, bank and short-term investments	**1,864**	1,851
Receivables	**3,929**	3,270
Inventories	**4,139**	3,650
Fixed assets	**4,199**	3,438
Total assets	**14,131**	12,209

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	**5,640**	4,456
Long-term liabilities	**2,418**	2,564
Untaxed reserves	**1,151**	963
Unrealized price changes	**873**	832
Shareholders' equity	**4,049**	3,394
Total liabilities and shareholders' equity	**14,131**	12,209

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 873 m. (832), 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 761 m. (750) higher.
- Inventory is shown at a value SEK 34 m. (38) higher.
- Shareholdings are shown at a value SEK 78 m. (44) higher.

Risk capital is shown at a value SEK 873 m. (832) higher, which means that the rate of risk-bearing equity capital thereby amounts to 43 percent, as against 39 percent in accordance with traditional accounting.

Return on shareholders' equity amounts to 15.4 percent (10.0), compared with 21.1 percent (14.7) according to the traditional method. The reduction in return is attributable to lower actual earnings and to the fact that equity is SEK 524 m. higher as a result of current cost accounting.

Reconciliation between traditional and current cost accounting

Net income according to traditional accounting			1,521
Change, unrealized price changes:			
Price change, goods sold	– 53		
Price change, depreciation	– 170	– 223	
Price change for the year:			
inventory	49		
equipment	215	264	41
Adjustment for inflation			– 313
Real income after financial items			1,249

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 rather 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.

U.S. GAAP

Generally accepted accounting principles in the United States

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
In the U.S. other rules are governing accounting of pension provisions. In general, these rules are applied by Atlas Copco's U.S. subsidiaries. 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 less than the annual cost for the FPG/PRI plan in accordance with Swedish accounting practice. 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.

Company acquisitions
In accordance with Swedish accounting principles, the Secoroc Group has been included in the consolidated accounts according to the pooling of interests method. The U.S. GAAP criteria for the application of the pooling of interests method differs in certain respects from those used in Sweden. One of the criteria in U.S. GAAP is that none of the merging companies may be a subsidiary of another company during the two years preceding the merger. On the date of acquisition, Secoroc was a subsidiary of Kinnevik, as a result of which it is impossible to apply the pooling of interests method according to U.S. GAAP.

Compared with Swedish accounting regulations, the U.S. rules contain much more detailed instructions about how assets and liabilities are to be valued in an acquired company. The effect of applying U.S. GAAP, is that acquired excess value is assigned to other and, generally, more types of assets/liabilities, which have different amortization periods than apply under Swedish accounting practice. Negative goodwill arising from company acquisitions, which according to Swedish accounting practice is transferred to restricted reserves in shareholders' equity should, in accordance with U.S. GAAP, be used to reduce the value of fixed assets in the Balance Sheet.

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
Under Swedish accounting principles, no provisions are made for the deferral of income taxes. U.S. GAAP, where the Group continues to use the deferred method in accordance with APB 11, requires that operations in each year be charged with the tax for that year. Consequently, deferred tax is calculated on all the differences between book valuation and valuations for tax purposes (so-called temporary differences), including appropriations to untaxed reserves. Under certain conditions, loss carryforwards may be taken into account when calculating deferred tax in accordance with U.S. GAAP. In calculating such tax, the tax rate prescribed by law must be used.

Transactions between Group companies
In accordance with Swedish accounting practice, adjustment of taxes calculated by a sales company and which relate to internal profit are only made to the extent that the individual company has made an allocation to an internal profit reserve. In accordance with generally accepted principles in the U.S., such tax is treated as prepaid tax in certain circumstances.

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.

Earnings per share
In accordance with U.S. GAAP, earnings per share are based on net profit 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, earnings per share calculated in accordance with Swedish accounting practice are normally based upon profit before extraordinary items and appropriations and after estimated taxes.

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

	1989	1988
Income as reported in the Consolidated Statements of Income (in accordance with Swedish accounting principles)	765	714
Items increasing/decreasing reported net income:		
Depreciation of write-ups	1	1
Capitalization of interest expenses	2	−4
Share in net income of associated companies	2	4
Depreciation of goodwill	−14	−3
Appropriations	167	26
Deferred taxes	−88	−105
Calculated net profit	835	633
Calculated earnings per share after full conversion, SEK	27.00	26.45

Total assets	13,855	11,929
Total liabilities	8,525	7,693
Shareholders' equity as reported in the Consolidated Balance Sheet (in accordance with Swedish accounting principles)	3,941	3,282
Net adjustment in reported shareholders' equity	1,389	954
Approximate shareholders' equity	5,330	4,236

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 599,952,530
Net profit for the year	SEK 343,820,485
	SEK 943,773,015

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

To the shareholders, a dividend of SEK 8.00 per share	SEK 250,258,656
To be retained in the business	SEK 693,514,359
	SEK 943,773,015

Nacka, March 9, 1990

PETER WALLENBERG
Chairman

ERIK JOHNSSON

CURT G OLSSON

P HENRY MUELLER

OTTO GRIEG TIDEMAND

BJÖRN SVEDBERG

LENNART JOHANSSON

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 1989. 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 proposal in the Board of Directors' Report, and

that members of the Board of Directors and the President be granted discharge from liability for the fiscal year.

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.

Nacka, March 16, 1990

KARL-G GIERTZ
Authorized Public Accountant

OLOF HEROLF
Authorized Public Accountant

SALESMEN OF THE YEAR 1989


Keith Herbster Ken Kaszubinski Bob Kindig


Erwin Schweingruber


P K Dutta


Edgard de Knop


Roberto Arato

Roberto Pinto Baudilio Guerrero


Roland Smith


Günter Fuchs


Rick Herring

During 1989, many outstanding sales achievements were recorded within the Group's sales companies. Each sales company was requested to send in reports of the most successful individual achievements and from these it has been possible to select the best salesmen of the year. The winners and a description of their sales accomplishments are detailed below:

Keith Herbster, Ken Kaszubinski and **Bob Kindig,** salesmen with Atlas Copco Tools in the U.S., have jointly sold electric tools to the General Motors Saturn Project amounting to over USD 3.5 million. The trio was successful in making Atlas Copco a partner in the Saturn Project, which means that all of the tools used in the project are supplied by Atlas Copco Tools, or through a supplier recommended by Atlas Copco. The project is the first of its kind in the U.S. and is unique in that all tools are delivered through a single source.

Erwin Schweingruber, who sells MCT equipment and portable compressors in Switzerland, has consistently sold well in northeastern Switzerland for many years. During 1989, he further improved Atlas Copco's position in the region, which contains many small and medium-sized contractors. He was especially successful with his launch of hydraulic breakers.

P K Dutta, who sells ACT products in India, has made a major contribution to the breakthrough achieved by Atlas Copco gas compressors in the Indian market in the past two years. In 1988, against extremely tough competition, he secured an order for 15 gas compressors from Oil India Ltd worth USD 7.5 million. In 1989, he successfully negotiated an order worth an additional USD 11 million. The major portion of the initial order was delivered in 1989, and deliveries of the second order commenced in January 1990.

Edgard de Knop, responsible for sales in the Antwerp area of Belgium, increased sales by 25 percent, compared with 1988, which was also a successful year. Notable among his orders were 31 oil-free compressors, most of them equipped with a refrigeration-type of air dryers. The largest individual order totaled SEK 9 and came from Finaneste.

Roberto Arato, sales engineer at the Turin office in Italy, made a major contribution to the company achieving a more than 50-percent increase in sales of assembly systems in 1989. Among other products, he sold six computer-controlled monitoring systems for tightening operations to Fiat Iveco and 24 such systems to Comau, a machine-manufacturing company, for installations at Citroën and Volvo among others.

Baudilio Guerrero, project manager, and **Roberto Pinto,** head of Rock Tools, both from Atlas Copco in Chile, sold Rocktec Systems and rock drilling tools, respectively, to a value of USD 10 million in 1989. Their success was mainly attributable to their excellent knowledge of the products and their markets, in combination with good service and punctual deliveries.

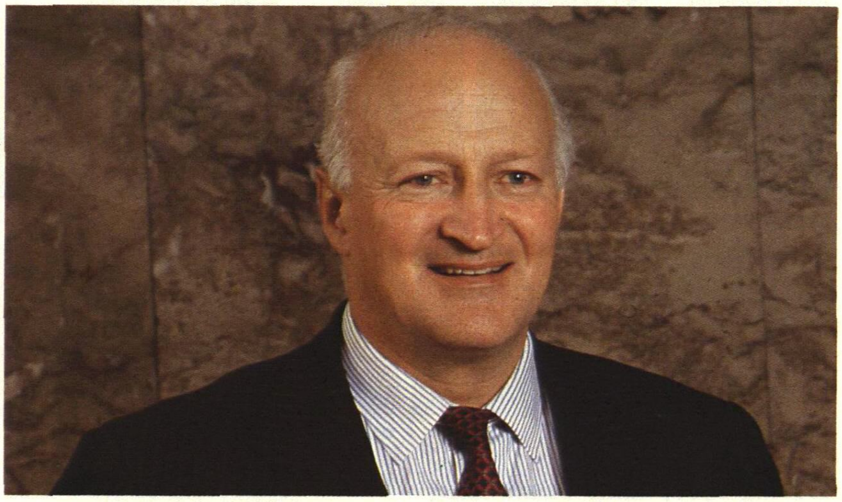
Roland Smith, salesman for Chicago Pneumatic in the southwestern area of the U.S., achieved major sales successes in 1989 through maintaining close contact with dealers. His efforts have resulted in many dealers attaining strong sales increases for Chicago Pneumatic's products.

Günter Fuchs, is product manager for Berema's products in West Germany and also responsible for sales to such key customers as the West German Defense Forces and the Railways Administration. Despite severe domestic competition, he has succeeded in regularly increasing bulk-order sales to these customer sectors over a period of years. In 1989, among other achievements, he secured an order for 35 Cobra 248s from the Railway Administration and an order for 22 Cobra 148s from the Army. Overall, his sales increased 34 percent.

Rick Herring, salesman for Atlas Copco Rental in Houston, Texas, U.S., succeeded in more than doubling his sales, to USD 2.6 million, compared with 1988. Despite heavy competition, he secured contracts for the rental of compressors with most of the oil refineries and petrochemical companies in the area.

GROUP PRESIDENT:

CONTINUED EXPANSION THROUGH INTERNAL GROWTH AND ACQUISITIONS



The continuing improvements in Atlas Copco's sales, earnings, profitability and market positions, which I anticipated in last year's report, were realized in 1989. In addition, during the first quarter of 1990 we have been able to complete another strategic acquisition, that of Desoutter Brothers in the U.K.

In other words, the development strategy initiated a couple of years ago has proven its worth. A number of stages still remain to be implemented before the restructuring of the Group is complete, but there is good reason to note with appreciation that the major efforts made by the operating units, under the direction of Bertil Eriksson and the business area presidents, and the contributions by our personnel all over the world, have now started to produce their intended results.

Our successes are based to a large extent on the utilization of new possibilities in the areas of logistics, and computer and production technology. Even so-called mature segments of the engineering industry can be vitalized through well-planned and consistently implemented rationalization programs in the continual process of change, which today is an integral part of industrial operations.

Sales increased strongly during 1989, across virtually all product lines. We managed to increase the earnings by a full 46 percent between 1987 and 1988, and by another 32 percent in 1989. Return on total capital employed exceeded our stated goal of 20 percent by a wide margin. Compared with other Swedish engineering companies and with our international competitors, our performance was a strong one.

Rationalization measures

The cost reductions achieved can largely be attributed to a streamlined administration, a squeeze that has been carried out in the entire Group in recent years. The role to be played by Atlas Copco's Head Office and Group Management has been redefined and considerable reductions have been made in corporate personnel. Resources have been released for market development activities, product renewal and rationalization of production technology within each business area.

This is in line with our basic philosophy, that we must manufacture efficiently in large volumes to be able to offer competitive prices while maintaining high levels of technological and product development.

Shorter contact routes between the central divisions and their local sales organizations – and end users – are a key element in the program to rationalize administration. The continuing improvement of delivery procedures provide opportunities for cost reductions and improved customer service in tomorrow's Europe.

Strong market position for drill steel

Our leading international position in the industry was further strengthened during the year.

Our decision in 1988 to launch a completely new range of drill steel products under the ATLAS COPCO ROCK TOOLS name was realized in 1989. Confirmation was received at a very early stage that customers appreciated our basic message and want to purchase drill steel from the same company that supplies machines, technical equipment and service in the rock drilling area.

In certain cases, despite greater manufacturing capacity, this led to our encountering delivery problems within the new range. At the same time, Secoroc successfully maintained its former market share. A new structure for the rock drilling business, which retains the successful marketing concept, is described elsewhere in the Annual Report. The new structure will facilitate continuing growth in this important sector.

Growth areas

In recent years, our rate of growth has been largely double that of the market's investments in production machinery. Our growth has been based on the contributions made by both the "old" Atlas Copco companies and the new companies joining the Group. In both cases, the trend has been favorable.

The acquisition of Wagner (see article on page 52) in the Construction and Mining Technique business area illustrates the importance attached to continuing growth.

In the Industrial Technique business area, we are experiencing the favorable results of the acquisitions made in recent years, namely of Chicago Pneumatic in the U.S. and Ets. G. Renault in France. We have every reason to believe that the acquisition in 1990 of Desoutter Brothers in the U.K. will produce similarly positive results. These three acquisitions are good examples of how increased resources can be created for basic product development activities and advances in production technology via careful integration, while offering customers wide choices through existing marketing organizations.

During the year, another important strategic step affecting growth was taken in the Compressor Technique business area through the joint venture agreement with Iwata, the Japanese compressor company. (See page 37). The broader manufacturing and marketing base this provides in Eastern Asia presents very attractive possibilities.

Development in Europe

Cooperation between the member countries of the European Community (EC) continues to develop extremely favorably, at the same time that the ongoing transformation of Eastern Europe will provide us with increased business opportunities over the longer term. Our growth throughout the 1980s was very strong in the EC, our largest future market, as was our development in North America and Eastern Asia.

The excellent network of contacts established throughout Eastern Europe over many years can lead to positive development of business there. This will occur in pace with the change to a market economy in the region as a whole, supported by the EC and other Western organizations and countries.

Our new company in Yugoslavia offers one example of how these opportunities can be utilized. This company is one of the first in the country to be based on a Western European stock-ownership principle, rather than on the post-war Yugoslavian model of a state-controlled cooperative.

A Worldwide Enterprise

In recent years, the Swedish economic-political system has been under fire, at home and abroad. While Sweden is clearly a market-economy and the overwhelming part of Swedish industry is in private hands, the *public sector* is big and inefficient, due to a neglect from the political leadership, for short-term political gains, to reduce the administrative excess. Consequently *taxes* are unacceptably high. The fact that the same thing happens in other countries as well is no excuse. Other problems that plague the Swedish economy are uncertainty of the future *energy supply*, with nuclear power under debate, *high inflation*, caused by excessive wage and salary increases, and *escalating costs* due to widely spread abuse of the Swedish social security network. On top of this, the Swedish government has been slow and hesitant in working towards meaningful participation in *the European Communities*, more important than ever in the light of present development in Eastern Europe.

For the management of Atlas Copco, with close traditional links to Sweden, and with the majority (although shrinking) of its shareholders in Sweden, it is a strongly felt need to convey to decision-makers in Swedish politics its concern for the dangers of present trends. This is being done through direct person-to-person contacts as well as through other appropriate channels. It is my sincere hope that these strong recommendations and expressions of serious concerns are heeded and lead to positive action, for the benefit of Sweden, Swedish industry and our international associates.

At the same time it is important to make it clear to our shareholders abroad, as well as to analysts and other interested parties, that our economic links to Sweden are less significant than one might think.

Atlas Copco today is a truly international company. Our sales in Sweden are less than 8 percent of our total invoicing. Employees in Sweden are about 20 percent of the total number and the Swedish share of our manufacturing has been reduced step by step to, at present, about 20 percent of our total production value. The European Common Market has clearly become our domestic market. We are today less dependent on the vagaries of Swedish economy and politics than we have ever been. Atlas Copco should thus be evaluated on its own merits in the international markets, disregarding the ups and downs of Sweden as a nation.

As shown also by the initiative to launch a new shares issue internationally, it is my clear intention to work for a continuation of this process of internationalization, which I believe to be in the best interest of Atlas Copco's shareholders, customers and employees.

In closing I would like to express Group Management's sincere thanks to the Atlas Copco employees worldwide for fine performance in our transformation process.

COMPRESSOR TECHNIQUE

	1989	1988
INVOICED SALES, SEK m.	**6,916**	**5,793**
OPERATING PROFIT AFTER DEPRECIATION, SEK m.	**1,164**	**739**
RETURN ON CAPITAL EMPLOYED, %	**38**	**28**

The business area Compressor Technique comprises Atlas Copco Airpower which develops, manufactures and markets portable and industrial compressors, and Atlas Copco ACT which focuses on specially built air and gas compressors, expansion turbines and cryogenic pumps. Headquarters are in Antwerp, Belgium and their largest plants in Antwerp and Cologne, West Germany. Manufacturing is also carried out in plants in 9 other countries.

Management Committees

Atlas Copco Airpower
Giulio Mazzalupi, President
Jan Petersson, Finance
Stig Svärd, Production
Henri Ysewijn, Product Development
Erik Lebrocquy, Personnel and Administration
Arthur Droege, Marketing

Atlas Copco ACT
Theo Dietz, President
Lars Lindén, Executive Vice President
Anders Björkdahl, Finance and Administration
Ulrich Grundmann, Technical Development

Giulio Mazzalupi, President, Atlas Copco Airpower, (left) and Theo Dietz, President, Atlas Copco ACT.

Strategy

The role of business area Compressor Technique is to develop Atlas Copco's position as world market leader in the field of compressors and expansion turbines. As part of this strategy, the Business Area markets quality products and services, designed to help customers maintain their production efficiency levels.

Sales

Invoiced sales of the business area Compressor Technique during 1989 rose 19 percent to SEK 6,916 m. (5,793). Orders booked from customers amounted to SEK 7,425 m. (6,319), up 18 percent.

Earnings

The Business Area's operating profit after depreciation increased 58 percent to SEK 1,164 m. (739), corresponding to 17 percent of invoiced sales.

The sharp increase is mainly attributable to increased sales volume and lower costs, related to production, administration and sales.

Return on capital employed was 38 percent (28).

Investments

Investments in land and buildings related to production amounted to SEK 27 m. (12) and investments in machinery and equipment totaled SEK 52 m. (52). The investments were mainly related to improvements in manufacturing to raise productivity and quality levels.

Business Development

Sales in all product groups increased during the year. Significant increases were recorded by the sales companies in the business area's prime markets in Western Europe and in South Korea and Japan.

In East Asia, demand for portable compressors rose due to strong economic development and heavy focus on projects to improve infrastructures.

The favorable sales of industrial compressors achieved in past years, especially of the oil-free type, continued to rise during 1989. This was mainly attributable to the increasing demand from customers for quality air and also led to sharp increases in the sales of air dryers and filters in all markets.

The increase in demand for ACT's products during 1988 continued in 1989. Orders booked for all products rose sharply, mainly as a result of expanded capacity and new technology within the important chemical process industry.

New applications for smaller industrial compressors allowed the market for OEM (original equipment manufacturer) customers to be broadened.

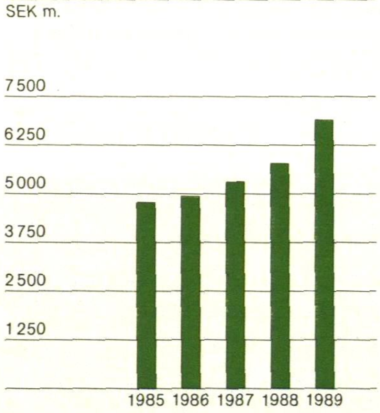
Toward the end of the year, Atlas Copco Airpower signed a joint venture agreement with the Japanese compressor manufacturer, Iwata Air Compressor Manufacturing Co, regarding the manufacture and marketing of a new range of industrial compressors in Japan.

Outlook for 1990

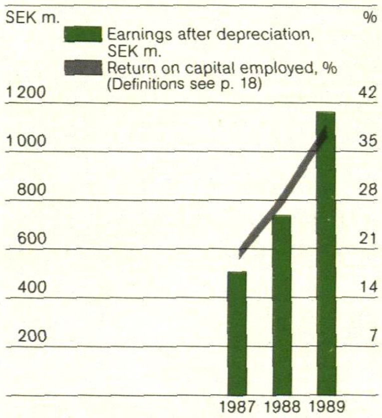
As a consequence of the expected positive development of the manufacturing industry and the building and construction sector the Business Area will continue to concentrate activities on these areas in its major markets. By focusing on the successful introduction of new products, further investments in manufacturing and distribution and high capacity utilization, the Business Area will strengthen its leading position in the worldmarket.

Sales of gas compressors and expansion turbines are expected to increase as a result of the continuing growth of the process industries in industrialized countries.

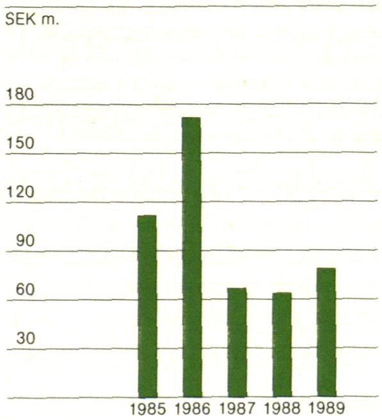
SALES

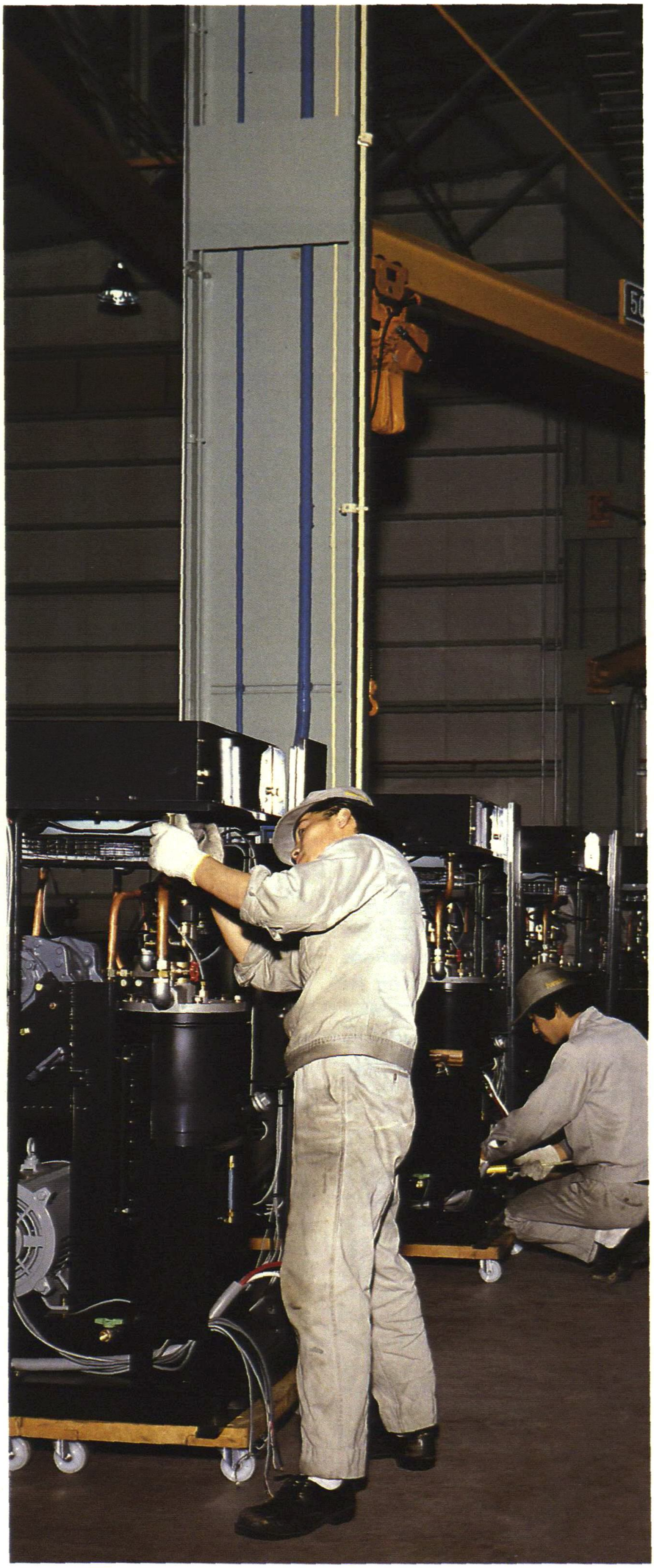


EARNINGS AND RETURN

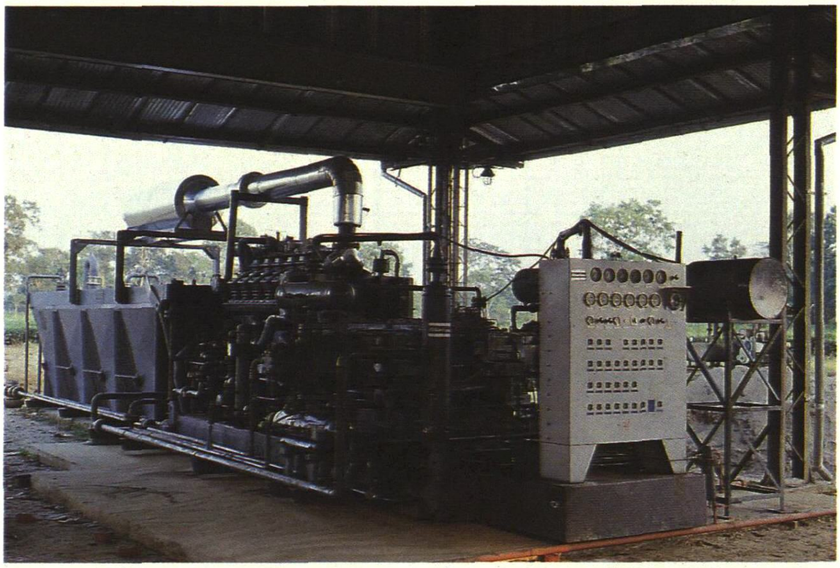


INVESTMENTS, RELATED TO PRODUCTION





Compressors for the Japanese market being assembled at the new plant in Fukushima.



A number of compressors have been delivered to a Himalayan oilfield in India. Picture shows one of these installations.

Assembly of a six-stage turbo compressor at the ACT plant in Cologne, West Germany. Standardization of assembly techniques for the various components has resulted in considerable time savings in production.

Market Breakthrough for Gas Compressors

Atlas Copco Applied Compressor Technique (ACT) is today one of the world's leading suppliers of compressors for the gas industry, large turbo compressors for air and other gases, and certain types of expansion turbines.

Coordination of the manufacturing units in West Germany and the U.S. required substantial management input. The differences in technological traditions and marketing focus between the two countries had to be overcome, while the invaluable resources contained in the two original companies needed to be safeguarded.

Advanced production technology has been a major factor in the transformation of Atlas Copco ACT into a profit-generating company. The present types of compressors and expansion turbines are built to individual specifications and are thus produced against customer orders. With today's computer technology, much of the manufacturer's specialist know-how can be built into systems, which based on the modern production technology applying to components and assembly operations, provide high manufacturing efficiency, even in the case of series as short as one unit. Such concepts, which combine series planning and individual customer adaptation, have improved profitability through reduced production times and better utilization of manufacturing resources.

Orders booked increased strongly in all product sectors during 1989. The buying wave was headed primarily by the investment-active chemical industry.

Geographically, the order bookings came mainly from the EC countries, which are engaged in restructuring programs prior to 1992, India and certain other Asian countries.

The variety of problems that have to be resolved by Atlas Copco ACT can best be illustrated by examples of some of the more interesting deliveries made by the company in 1990: Turbo compressors for the recycling of gases onboard an LNG tanker vessel engaged in traffic between Australia and Japan; compressors in an oilfield in the Himalayas; expansion turbines for the extraction of previously unutilized energy in the Italian natural gas network; compressors for process air in Swedish chemical plants; turbocompressors for propylene gas in a petrochemical plant; and centrifugal compressors for the fermentation process in a U.S. pharmaceutical plant.

Major Investment in New Production Technology

During the past year, Atlas Copco Airpower made substantial investments in state-of-the-art production and assembly technology at its plants throughout the world in order to improve the capacity utilization and to increase efficiency.

A flexible manufacturing system in operation at the Airpower plant in Antwerp, Belgium, has reduced production time for components considerably.

The investments include flexible manufacturing resources, which have led to increased efficiency, shorter product throughput times and reduced production lead-times. These developments have also resulted in the plants being able to maintain quality levels and to reduce the amount of capital tied up in work-in-progress. With the same production structure, the volume increased during 1989 by 15 percent compared to 1988.

It is planned to continue this focus on production automation, a trend which is expected to further improve quality and cost control. Through flexible assembly systems, better control over lead-times will be attained, while at the same time final assembly operations against customer orders can be implemented.

During the year continuation of the investment plans to substantially upgrade the Airpower production facility in Antwerp was approved. This investment includes an extension and rationalization of the production and is a further step towards meeting customer demands and to shortening delivery times. At the same time Atlas Copco Airpower will strengthen its leading position with a global production capability second to none.

Joint Venture in Japan Extends the Industrial Market

European and North American industry has often considered Japan to be a difficult market to penetrate. Legal and cultural differences have been seen as marketing constraints. Atlas Copco entered during 1989 into a joint venture with a local Japanese partner, a significant step in order to increase market shares in Japan.

The Japanese market is large and continues to expand. Atlas Copco has had an own sales company in Japan for many years and has gradually increased its sales. The products that have recorded the greatest successes are the Company's most sophisticated products, particularly oil-free compressors for quality air. Fiscal year 1989 was a notable year in this context, marked by the delivery of the 1,000th Atlas Copco oil-free compressor to Japan.

With respect to standard equipment, however, it has been more difficult to compete with equipment manufactured in Japan.

Against this background, the signing in 1989 of a joint venture agreement by Atlas Copco Airpower and Iwata, one of Japan's largest compressor manufacturers, constituted a major step. The agreement includes a clause whereby the two parties agree to jointly manufacture Atlas Copco's industrial compressors in Japan. As a result of the agreement, Iwata's 300 distributors throughout Japan will also sell compressors equipped with Atlas Copco's patented screw compressor elements. Atlas Copco Airpower has thereby strengthened its position in Japan's large and active industrial compressor market.

Cooperation with Iwata will be conducted within the framework of the joint venture agreement, whereby Iwata holds 44 percent of the shares, Sumitomo Corporation 5 percent and Atlas Copco Airpower 51 percent. The new company, Atlas Copco Iwata KK, started manufacturing operations in a new plant in January, 1990.

In 1989, Airpower launched a new series of portable compressors equipped with many new customer related functions.

New Portable Compressor – EC-adapted and Customer Compatible

The Atlas Copco product most commonly seen in operation by the public is the well-known yellow portable compressor, used in contracting operations.

Atlas Copco occupies a leading market position in the world market for such products. Following the introduction of a new portable compressor at the end of 1989, Atlas Copco's position should be further enhanced.

The new range of portable compressors is the result of more than two years of intensive development work, involving frequent customer contacts.

According to field research, the most important customer demand is operational reliability. Several new compressor features were introduced in order to surpass their predecessors and to meet customer requirements that the compressors should withstand the rough treatment they have to endure. Despite rough treatment, dusty conditions and variations in temperature, compressors must continue to operate smoothly, supplying breakers, drills, pumps and other pneumatic equipment with the robust, convenient and reliable form of energy provided by compressed air. Each compressor undergoes thorough quality testing at the plant prior to delivery, to ensure that market requirements are fulfilled.

Safety is another major customer requirement. The new compressors are equipped with brakes that follow the European Community's (EC) safety standards. In addition, they have a low center of gravity, which enables them to be towed safely, even at high speed.

Other features of the new compessor are its economic power consumption, achieved by an automatic regulating system, and the requirement for minimum maintenance.

In addition, the compressors conform with ease to the ECs new environmental requirements relating to noise and emission levels.

Rental Compressors a Growing Business

A rental-compressor operation was started on a small scale in the U.S. many years ago, with the objective of providing an additional and fuller scope of service to customers. This operation has increased substantially and now comprises a large independent organization, Atlas Copco Rental, which reports favorable profitability.

Initially, this operation focused on the renting of various types of compressors for applications in the industrial area. The service was normally used by customers suffering from temporary operating problems or as a contingency to cover unforeseen circumstances.

However, rentals soon became a business concept in the U.S. Application areas were expanded and Atlas Copco started to actively market its rental compressors. Today, the

Compressor rental operations have increased and are now conducted in a growing number of countries. During the year, Shell Nederland Chemie BV in the Netherlands rented 13 oil-free Atlas Copco compressors to ensure continuity of production during a two-week inspection and maintenance break.

company's customer base covers most industries and the compressors are used for virtually every conceivable application. The area has developed to such an extent that customers no longer rent equipment for only short periods. The average rental period has increased from one to two months, and certain rental contracts are signed for even longer periods, since many customers have realized that in some applications it is more economical to rent than to invest in the equipment.

The successes of the U.S. rental business has continued to develop favorably and an increasing number of rental companies is introducing Atlas Copco compressors into their fleets.

Direct Deliveries Within Europe – Improved Customer Service and Reduced Inventories

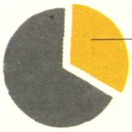
With its main plant located centrally in Europe, the Airpower Division is favorably positioned to utilize the benefits that the new borderless Europe will offer after 1992. Based on modern logistics and technology, new systems are currently being developed to enable the Division to offer rapid deliveries and, at the same time, reduce the capital tied up in inventories.

A new automated distribution system has been established in Europe, which includes a central warehouse located in Antwerp, Belgium. The system will facilitate daily direct distribution – a project developed to provide an improved customer service. The System ensures that an order for spare parts and components in any given mix, will be met by stock and supplied within 24 hours directly to customers in Belgium, France, Italy, the Netherlands, Great Britain, West Germany and the Nordic countries. The system will be expanded in stages to include other European countries. In the area of direct daily deliveries of complete compressors to customers, the present system already functions smoothly for most countries in Europe.

The system has already contributed to a sharp decrease in both plant and service inventories worldwide. It has also resulted in a reduction in total distribution costs.

The automatic distribution system in Antwerp, Belgium, guarantees deliveries within 24 hours to customers in the major EC countries and the Nordic region.

CONSTRUCTION AND MINING TECHNIQUE



	1989	1988
INVOICED SALES, SEK m.	5,029	4,257
OPERATING PROFIT AFTER DEPRECIATION, SEK m.	441	370
RETURN ON CAPITAL EMPLOYED, %	16	21

The Business Area Construction and Mining Technique consists of seven divisions, which develop, manufacture and market a complete range of drill rigs (Atlas Copco MCT), tunnel boring machines (MCT), rock drills and breakers (MCT), rock drilling tools (Uniroc), loaders (Wagner), fuel-powered drills (Berema) and well-drilling equipment (Atlas Copco Energy). The products are marketed to building and construction companies, quarries and mining companies throughout the world.

Management Committee

Magnus Unger, President of the Business Area
Anders Bohlin, Rock Drilling Tools
Håkan Svendenius, Rocktec Systems
Gustaf Bråkenhielm, Rock Drills and Breakers
Rod Brown, Loaders
Jörgen Krook, Fuel-powered Drills
Claes Silfverstolpe, Finance and Administration
Anne-Christine Nordin, Personnel and Organization

Standing (from left): Rod Brown, Magnus Unger, Håkan Svendenius, Anders Bohlin. Sitting (from left): Gustaf Bråkenhielm and Jörgen Krook.

Strategy

The strategy of the business area is to provide, from a leading market position, a complete range of quality products under own brand names, and after sales services designed to assure the reliability of the products.

The intention is to become market leader in all areas of operation. Further market penetration will be achieved through the divisions' extensive sales organizations. Continued growth will be effected by focusing on the research and development of existing products and through company acquisitions.

Sales

Invoiced sales in the fiscal year amounted to SEK 5,029 m. (4,257). The improvement is mainly due to an increase in sales of rock drilling tools.

Orders booked rose 18 percent, to SEK 5,095 m. (4,324).

Earnings

Operating profit after depreciation increased 19 percent, to SEK 441 m. (370), comparable to 9 percent of invoicing. The improvement in profit is attributable to the acquisition of Secoroc and Wagner Mining Equipment and to Berema, the profitability of which was further improved by the restructuring.

The return on capital employed was 16 percent (21).

Investments

Investments in land and buildings amounted to SEK 11 m. (8), and in machinery and equipment to SEK 160 m. (62). To these figures should be added the acquisition of Wagner Mining Equipment and a number of minor acquisitions within the Rock Drilling Tools division.

Business Development

Demand from the building and construction industry continued to develop positively during the year. Countries within the EC showed the most favorable trend. In contrast, a certain weakening of the Norwegian market was noted.

A continuing need for substantial investments to be made in mechanized mining equipment resulted in favorable demand from this sector throughout the year.

Uniroc, a new rock drilling tools division was formed. The division has responsibility for the development and manufacturing of all rock drilling tools and their marketing worldwide. Sales developed favorably and Uniroc is today the leading supplier in the world.

Sales of mechanized rock drilling rigs for both underground and surface operations increased and strengthened the Rocktec System's position in Western European markets especially. The introduction of new hydraulic surface rigs broadened the market. A strategically important order for hydraulic underground rigs was received from the Soviet Union.

The market for breakers is expanding. Sales of rig-mounted hydraulic breakers increased sharply in Western Europe. Hand-held compressed-air breakers also developed positively, with increased sales volumes.

During the autumn, Atlas Copco acquired Wagner Mining Equipment, with head office and plant located in Portland, Oregon, U.S. The company is the market leader for loaders and trucks mainly used in underground mining operations.

Berema's sales of Cobra and Pionjär fuel-powered drills rose sharply in 1989. In order to broaden the range, a newly developed fuel powered hand-held breaker was introduced during the year.

A new compact well-drilling rig was introduced during the autumn by Atlas Copco Energy.

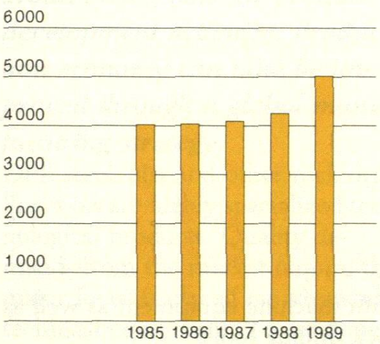
Outlook for 1990

Sales are expected to remain at a high level, despite forecasts of low growth in the international construction and mining markets.

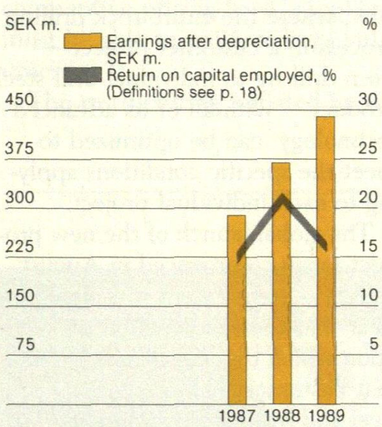
Measures will continue to be implemented to further improve efficiency and increase profitability.

SALES

SEK m.

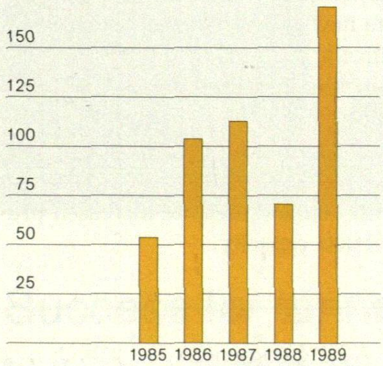


EARNINGS AND RETURN

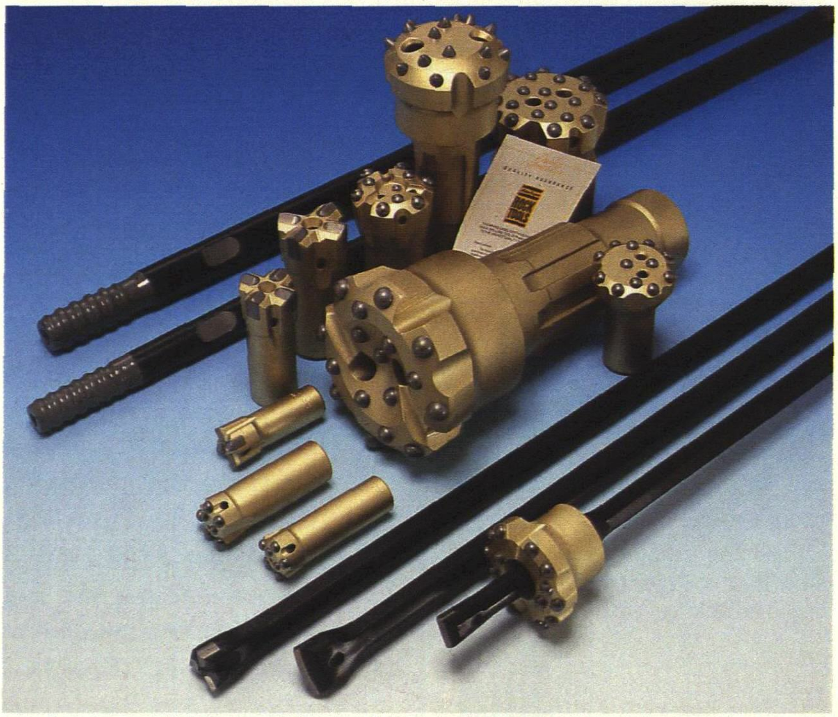


INVESTMENTS, RELATED TO PRODUCTION

SEK m.



ROC 722 is a newly developed surface drilling rig, which is part of a series of powerful and flexible crawler rigs for construction, quarrying and mining operations.



Atlas Copco manufactures and markets drill steel, drill bits and other rock drilling tools worldwide.

ATLAS COPCO ROCK TOOLS – new brand name in the world market

Given today's tough business climate, the successful launch of any new product range, simultaneously, in all of the world's markets is unique. The Group's introduction of new rock drilling tools under the brand name of Atlas Copco Rock Tools was such an event that has resulted in a number of notable successes in this highly competitive market.

When the former cooperation with Sandvik was terminated, Atlas Copco took the decision to produce its own range of high-quality drill steel and drill bits for sale through the Atlas Copco organization. In this way, the market gains a full-range supplier, with total rock drilling know-how, which can provide customers with machine equipment as well as rock drilling tools.

For Atlas Copco, it means the total integration of a key area of know-how, where the entire rock drilling process in a customer project – from drill rig to individual drill steel product – with all of its advanced technology, can be optimized to meet the specific conditions applying to each individual project.

The global launch of the new product range commenced in August. And to a great extent it is already clear that the fundamental precept upon which the launch was based – that customers will buy quality drill steel and machine equipment from one and the same supplier – has largely been confirmed. Atlas Copco's marketing organization has with its personal customer contacts and the new product range retained significant portions of the market, despite the increased competition resulting from the new market situation. The main problem during the initial phase was to match deliveries with demand, despite increased production capacity.

New division to coordinate market-leading technology within rock drilling

The strategical aspects of the Secoroc acquisition are now becoming increasingly more apparent. The Secoroc trademark, which for many years has been the leading brand in the market for high-quality drill steel products and drill bits, is maintaining its strong position and continues to be marketed as previously. A new range of rock drilling products were introduced under the brand name, Atlas Copco Rock Tools, during the year. Both brands are marketed globally. In addition, locally produced products are sold under their own brand names. All of the brands are sold via different sales channels and

separate marketing concepts. As a result of the leading position, a broad base exists for product development activities. Production economy can now be improved through a global manufacturing strategy.

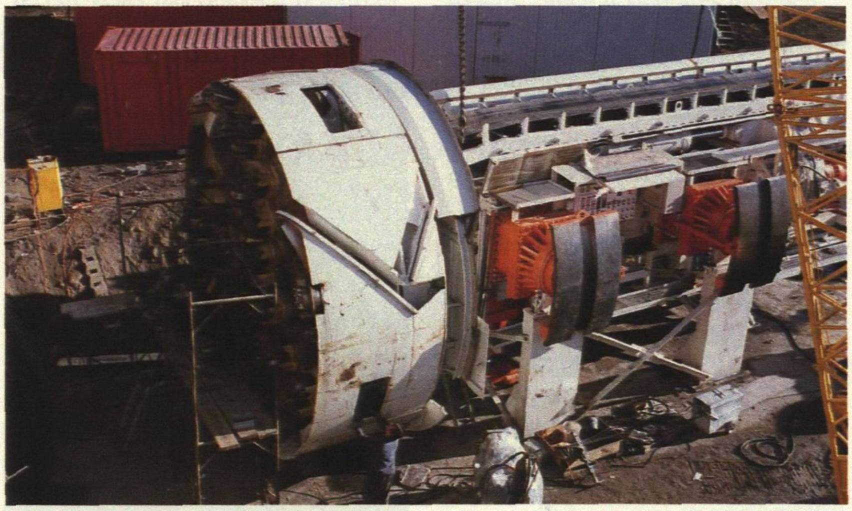
Drill steel, bits and other rock drilling tools are highly specialized technological products. Quality demands from the market require that major focus is placed on advanced technical equipment. To combine these demands and the substantial development investments with a competitive pricing level, suppliers must be able to produce large volumes.

The restructuring initiated by Atlas Copco through its acquisition of Secoroc has led to exactly such important customer benefits. The base for the company's technological development has been broadened, production volumes in new and older plants are able to be maintained at high levels, and market contacts can be formulated to meet the varying demands encountered within the different customer categories.

In many markets, such as Chile, Korea and the U.S., manufacturers with strong local market contacts have been acquired and integrated in the new organization. This means that such suppliers gradually gain access to existing expertise and the ongoing development work being conducted centrally.

In this way, these units are able to attain quality levels that would otherwise have been very difficult to meet economically.

The new division created to safeguard and develop these new coordination benefits is called Uniroc. Synergistic effects will be obtained mainly in basic product development work, production technology, inventory management and distribution, while marketing and service activities are conducted on a decentralized basis, close to the market.



During the year, Atlas Copco delivered a 5.9-meter diameter tunnel boring machine to Italy. The machine was equipped with advanced technological features and new disc cutters with significantly prolonged life spans.

Success for tunnel boring machines

A highly educational and technologically successful project carried out in hard rock below central Stockholm was concluded at the beginning of the year. That is when breakthrough was achieved of the 8-kilometer-long Saltsjö tunnel for purified waste water. This project has led to new orders for tunnel boring equipment from customers in Italy, Norway and Austria.

For the Italian project, Atlas Copco delivered a machine with a 5.9-meter drill diameter and equipped with an over-boring system – a new feature that enables the diameter of the tunnel to be increased temporarily in order to conduct rock reinforcement. The 9-kilometer-long tunnel will supply the town of Catania and the surrounding area with drinking water.

In Norway, a machine with a 3.5-meter drill diameter was delivered for the boring of an 8-kilometer-long sewage tunnel in Stavanger. The order was received in March. Design, components manufacturing, on-site assembly and drilling start-up was achieved within just seven months.

The successes achieved in this market are to a great extent attributable to this new, highly advanced technology and disc cutters that have a significantly longer operational life.

Wagner manufactures and markets a broad range of modern loaders for underground mining operations.

Wagner supplements the range

Through the previously mentioned acquisition of Wagner Mining Equipment, Portland, Oregon, U.S., Atlas Copco can provide customers in the mining and tunneling market with a modern, internationally market leading range of loaders. This means a strategically important broadening of the business area's total range. For more details about the newly acquired company, see page 52.

Hydraulic breakers – new products in a growth market

Today, there is a great need in many countries to rebuild such concrete constructions as bridges, buildings, harbors and other similar structures dating from prior generations. Accordingly, the market for efficient equipment that can be used by contractors for both small and larger demolition projects is growing.

Major demolition work, as with quarrying, often requires mechanized, rig-mounted hydraulic breakers. Within this product group, Atlas Copco increased its sales volume in 1989 and thereby strengthened its position in this market. Western Europe is a very good market for such applications.

Two new heavy, rig-mounted hydraulic breakers were introduced during the year. In the development work leading up to the launch, top priority was given to high product reliability. In addition, Atlas Copco's hydraulic breakers are well known for their high impact power, in relation to their weight.

Atlas Copco has supplied various types of compressed-airpowered breakers for asphalt and concrete operations for many years. Hand-held compressed-air breakers are still an important part of the range, particularly for light work. During the year, a new breaker was introduced in this area. The focus of the development work has been to assure the highest possible operating reliability under tough working conditions. Special attention was paid to the difficult problems associated with freezing, which is linked to the cooling effect caused by the expanding compressed air inside the actual percussion mechanism.

New, rig-mounted hydraulic breakers, with increased impact power and high reliability, contributed to the substantial sales increases reported in Western Europe in particular, where the market for maintenance and rebuilding operations is growing.

Concentration provides development opportunities

In recent years, a concentration of products to the central fuel-powered drill and breaker area has been implemented in the Berema division. As a result, resources were able to be focused on strengthened product and marketing development, which resulted in sharply increased sales.

During the year, Berema divested more companies, namely Idesta and Å. Karlssons Mekaniska Verkstad. The concentration of operations in recent years has released resources for intensive product development work, for investments in the plant in Kalmar, and in the marketing of the main business, fuel-powered drills and breakers.

Several large military orders for the easily handled, fuel-powered drills/breakers, Cobra and Pionjär, contributed to the sharp increase in sales.

A new fuel-powered breaker was introduced. The product's main feature is high capacity in relation to its weight. Since it operates independently of any external power supply, it provides users with great flexibility.

A new, modernized version of the Cobra, for many years an internationally best-selling multi-purpose machine, was presented during the year.

Eastern Europe is a large and growing market. An important contract regarding the distribution of fuel-powered drills in the Soviet Union was entered into during the year and a joint venture agreement was signed with a local partner in Hungary. Major sales successes were attained with military customers. Fuel-powered machines from Berema have been used by the Swedish Armed Forces and Civil Defense organization for field work and rescue operations for many years. During 1989, the Company received its largest order ever for fuel-powered drills from the Swedish Defense Establishment.

New structure for the Business Area

The Construction and Mining Technique Business Area was restructured during 1989 to provide the divisions with better opportunities to utilize its total know-how in rock drilling, loading and demolition in their marketing.

A strategic development program was initiated, with clearly defined goals, designed to further improve market positions, product and quality development and profitability.

The business of rock drilling is traditionally a central area of knowledge within Atlas Copco. Atlas Copco's leading role in the hydraulic rock drilling field has provided a platform for continued market penetration. In both the construction and mining markets, equipment suppliers must possess solid, specialist know-how of the entire process, from product development to service.

Hydraulic rock drilling is becoming increasingly dominant in mining and tunneling operations and in surface construction work. New rock drilling equipment, with higher capacities, greater precision and availability has been presented at regular intervals.

Atlas Copco's broad range of rigs for surface and underground drilling are technologically the most advanced in the market.

New construction equipment, with improved operating features, was launched during the year.

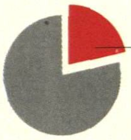
Through its own, internal development and company acquisitions, Atlas Copco, strengthened its leading position in recent times.

The acquisition of Secoroc created the basic requirements for establishing a new, wider grasp on the rock drill tools area.

Through the acquisition of Wagner (see page 52), the loading business has been greatly strengthened.

By gathering these activities within one business area new conditions have been created for a functional, customer-oriented operation. The specialized divisions have the opportunity to develop in accordance with their own requirements but are still able to utilize the joint resources available, particularly within the areas of technology, product development, applications know-how and customer service.

INDUSTRIAL TECHNIQUE



	1989	1988
INVOICED SALES, SEK m	**3,090**	**2,762**
OPERATING PROFIT AFTER DEPRECIATION, SEK m.	**388**	**347**
RETURN ON CAPITAL EMPLOYED, %	**23**	**22**

The Business Area Industrial Technique consists of five divisions, which are engaged in the development, production and marketing of tools, systems and components for industrial production, automation and maintenance operations: Atlas Copco Assembly Systems AB (advanced assembly systems), Atlas Copco Tools AB (industrial tools), Chicago Pneumatic Tool Company (industrial tools and assembly systems), Monsun-Tison AB (hydraulic and pneumatic components) and Ets. G. Renault S.A. (industrial tools and assembly systems).

Management Committee
Michael Treschow, President of the Business Area
Richard Besser, President, Chicago Pneumatic Tool Co
Lennart Evrell, President, Atlas Copco Assembly Systems AB
Lars Larson, President, Atlas Copco Tools AB
Jacques Manceron, President, Ets. G. Renault SA
Carl Axel Rudd, President, Monsun-Tison AB
Lennart Johansson, Controller
Allan Rothlind, Personnel (through Jan 31, 1990)

Standing (from left): Lars Larson, Carl Axel Rudd, Lennart Evrell and Michael Treschow. Sitting (from left): Richard Besser and Jacques Manceron.

Strategy
The business area is aiming to be a leading international supplier of production equipment and components to manufacturing industries. Activities shall be conducted with high volume growth and good profitability.

Sales
Invoiced sales increased by 12 percent, to SEK 3,090 m. (2,762). Orders booked totaled SEK 3,265 m. (2,890).

Earnings
Operating profit after depreciation increased 12 percent, to SEK 388 m. (347), corresponding to a profit margin of 13 percent (13).

The improvement in earnings is primarily attributable to an increased sales volume of hand-held tools, mainly in Western Europe and the U.S., and of hydraulic and pneumatic components. Ets. G. Renault, which was acquired at the end of 1988, reported good profitability.

Return on capital employed was 23 percent (22).

Investments
Investments in land and buildings related to production amounted to SEK 10 m. (7) and in machinery and equipment to SEK 85 m. (68). The substantial investment program decided for Chicago Pneumatic's plant in the U.S. continued to be implemented according to plan.

Business Development
Sales for the business area continued to rise. The trend in Western Europe was especially favorable. Strong demand from within the automotive industry continued. In North America, sales of the business area's products were maintained, despite the weakened conditions experienced by major car producers. There was high activity in the aircraft industry and demand increased. Trends in other customer segments were also favorable, particularly for manufacturers of mobile machinery.

Weakened demand, albeit from a high level, was noted for hand-held tools used in the maintenance and repair sectors of the automotive industry and for industrial-automation components.

Structural Changes
During 1989, Atlas Copco increased its holding in GME System AB to 97 percent.

Atlas Copco acquired in March 1990 Desoutter Brothers (Holdings) PLC, a British public limited company that manufactures and markets industrial tools and assembly systems. (See page 52).

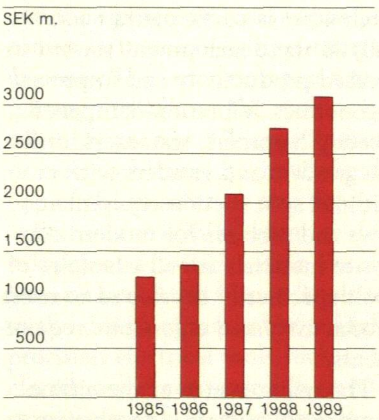
During the year, the remaining shareholding in AC Greiff Ytbehandling AB was sold. However, Atlas Copco Tools will continue to distribute the company's standard products, such as spray guns and paint pumps, in certain markets.

In addition, 91 percent of the shares held in Tedak AB, in Eskilstuna, was sold.

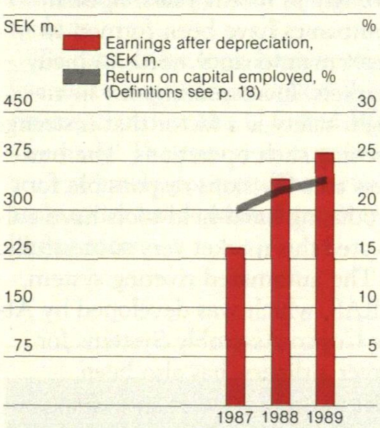
Outlook for 1990
Industrial Technique anticipates continuing favorable growth within most of its major customer segments. Demand in Western European markets is expected to remain at a high level, with the exception of the Nordic region. A certain weakening in demand is forecast for North America.

It is estimated that earnings can be further improved through volume growth and the continuation of measures to increase efficiency, primarily within the production and distribution areas.

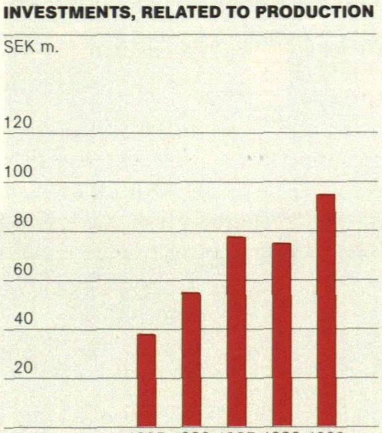
SALES



EARNINGS AND RETURN

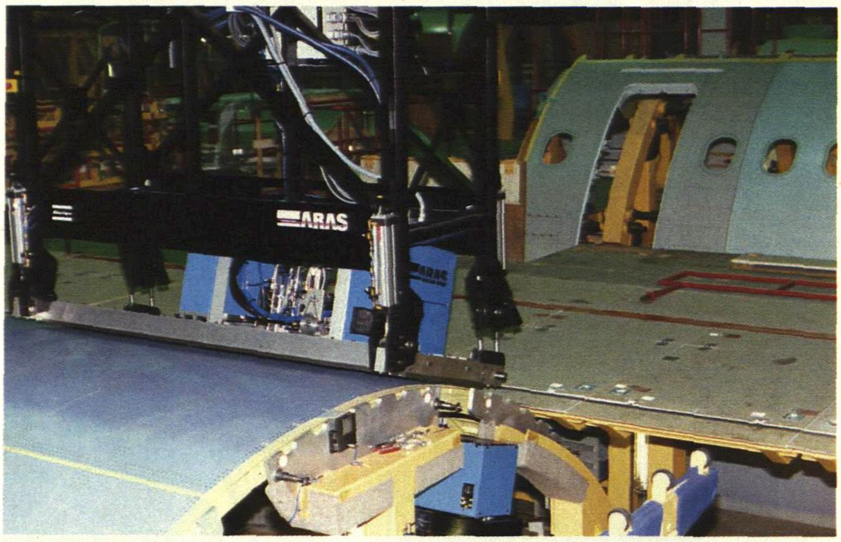


INVESTMENTS, RELATED TO PRODUCTION



The aviation industry is an important sector for the Industrial Technique Business Area. This virtually vibration-free riveting hammer and bucking bar system is in use at a British Aerospace plant.

Atlas Copco's ARAS automatic riveting systems have long been used by the German members of the Airbus consortium, Messerschmitt-Bölkow-Blohm. Picture shows the latest system in operation on an A-300 Airbus.



World's aircraft industry – increasingly important

The world's major aircraft producers are currently in an expansive phase. New types of aircraft are being introduced at the same time that existing carrier fleets are in need of inspection from the point of view of both security and operating efficiency. During the year, several Industrial Technique divisions received substantial orders for hand-held tools and automatic riveting equipment from European and American aircraft manufacturers.

Today, the aircraft industry is one of the most expansive branches of industry. As with Sweden's Saab-Scania and the European cooperation project, Airbus Industries, the two leading North American aircraft companies, Boeing and McDonnell Douglas, currently have full order books and are working intensively to expand production capacity.

In this situation, it is natural that the industry attaches major importance to attaining maximized productivity. Business area Industrial Technique is participating successfully in the development toward increased productivity and improved ergonomics. Vibration-dampened riveting hammers, squeezers, drills, die grinders and grinders with or without spot suction equipment, saws and nibblers for modern composite materials are all examples of tools specifically developed to meet productivity and ergonomic requirements.

The maintenance of the airline companies' aircraft is another important area that has developed strongly in recent years. Special companies have been formed to meet maintenance needs in many markets. Increased interest in airflight safety is a factor that is strengthening such operations. The business area divisions responsible for producing hand-held tools have cultivated this market very successfully.

The automated riveting system, ARAS, which was developed by Atlas Copco Assembly Systems for larger airliners, has also been adapted for small aircraft. The division has delivered to and received additional orders for ARAS from Europe's leading aircraft production companies.

Electronic systems and electrical tools grow in importance

Electronic systems are used increasingly to control and monitor production processes. This applies equally to traditional pneumatic equipment and electrically powered tools and systems.

Several of the divisions occupy leading positions as suppliers of automated assembly technology. The shift toward electrical tightening systems is becoming increasingly pronounced. Today, new assembly lines are equipped with servomotors controlled by specially designed computer systems for tightening operations. Through Atlas Copco Assembly Systems' acquisition of GME System AB, all key components have been integrated within the division.

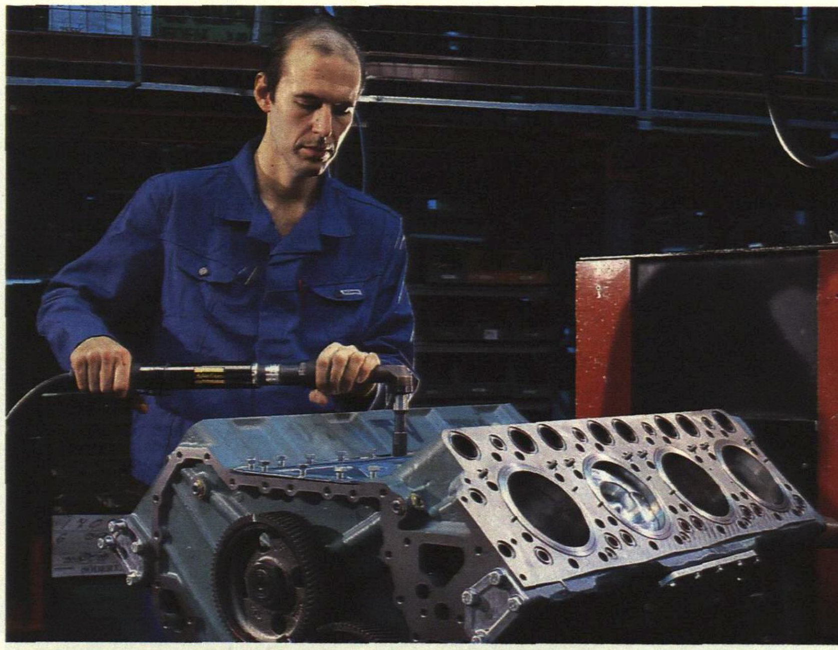
As part of the automotive industry's efforts to attain optimal production quality, statistical process control is used increasingly in assembly operations. The components

The tightening result attained by each nutrunner in the final assembly stage is checked and analyzed at a U.S. car production plant.

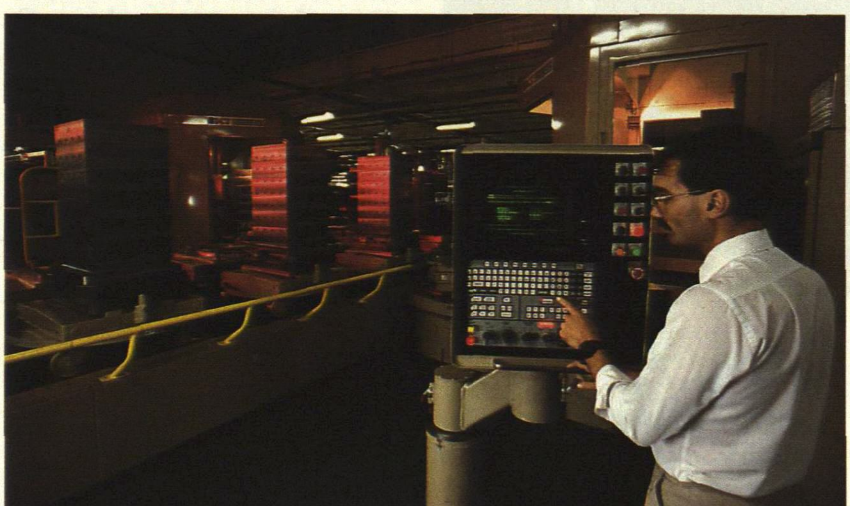
used are exposed to quality controls and the tightening system thus becomes an increasingly important aid to controlling, monitoring and reporting throughout the entire assembly process. Chicago Pneumatic quickly became acknowledged as one of the pioneers in this field.

During the 1980s, intensive development activities within Ets. G. Renault and Atlas Copco Tools led to the design of a number of high-precision electrical tools such as the electric angle nutrunner. In terms of smooth operation, ergonomical properties and efficiency, these compare favorably with pneumatic tools.

To date, these tools have been delivered to large car producers in France, Sweden, the U.S. and West Germany. The experiences gained are extremely positive. The new tools series have resulted in several large orders.



Considerable interest has been shown in Atlas Copco's electric angle nutrunner. Saab Scania uses this new range of tools for assembly of large diesel engines.



Investments in new processing machines at the Chicago Pneumatic plant in Utica, N.Y., have resulted in reduced costs and increased capacity for the manufacture of high-quality components.

Advanced production technology – improved service and reduced production costs

Those divisions supplying industrial tools, assembly systems, electrically powered systems and automation components today test and use the most advanced production technology available in their own plants.

Major investments have been made in the business area's Swedish plants in recent years. These will advance Atlas Copco to the position expressed in the Group's corporate strategy as the world's leading engineering company in the field of production technology during the 1990s. The Atlas Copco Tools' plant in Tierp has often functioned as a test unit, where many new customer-order controlled and flow-oriented production ideas have been tested under practical operating conditions, to later be developed by other units within the divisions. Working duties have become more varied and employees' skills more diversified. This means that all employees working in the engineering plants receive greater opportunities for personal development through job rotation and continual training.

Work to convert the Chicago Pneumatic plant in Utica, U.S., into a modern production facility is in progress and has been assigned high priority. This program is intended to improve customer service and reduce tied-up capital.

A similar program will be implemented at the Ets. G. Renault plant in Nantes in France during the next two years.

With a more customer-order controlled production process, there is an increasing need to make both component manufacturing and assembly operations a great deal more flexible. The long production series that previously dominated these operations all too easily created a costly build up of inventory. These are now being replaced by short series, allowing rapid switches between different products.

In component manufacturing, new computer controlled multi-purpose machines, which combine operations as cutting, drilling and turning in the same unit, play a key role. Another important area of manufacturing currently under development is automatic flexible assembly. The business area's extensive know-how in this field is resulting in continued efficient production, reduced manufacturing costs and improved customer service.

Logging machines are increasingly equipped with electro-hydraulic control systems from Monsun-Tison. Productivity is improved via these systems and felling operations can be controlled with just two mini levers. The operator is also provided with a more ergonomic working position.

Monsun-Tison's success provides basis for investment in Sweden

During recent years, Monsun-Tison has developed extremely favorably in terms of both order bookings and invoiced sales. In 1988, a need to increase the company's manufacturing capacity was met through the acquisition of Hydro-Pneumatic in Ulricehamn. In 1989, the decision was taken to make a major investment in a completely new production plant in Borås.

The new plant for mobile hydraulics will be built in stages. During the first phase, the focus will be on assembly and rational inventories – an investment of approximately SEK 60 m.

The background to this investment is the extensive volume growth experienced by Monsun-Tison, which works with components for hydraulic systems in mobile machinery and industrial automation. Demand has been very satisfactory and the company's annual growth of around 10 percent has exceeded that of the total market.

The company's sales success is based on its range of high-performance, high-quality products. The products themselves often contain an innovative added value, which has been a decisive competitive factor.

The sales organizations in Europe and North America are based to a great extent on specialist salesmen supported by the marketing organization in Borås. The know-how of the individual salesman is not confined exclusively to the products. They also contribute to ensuring that their customers' total systems are developed in the most optimal manner.

Ets. G. Renault manufactures many different pneumatic and electrically powered tools. One of the company's leading products is this powerful surface grinding machine.

Screwdrivers are one of the major groups of tools supplied by Atlas Copco Tools. During 1989, the company launched this ergonomically designed, lightweight tool, which was very well received by the market. Here, it is being used in the manufacture of Miele washing machines in West Germany.

Multibrands in the market

In recent years, the Atlas Copco Group has increased the range of products and services it offers by encouraging acquired companies to maintain their individual characters in the markets they serve. Within Industrial Technique, this applies to Chicago Pneumatic and Ets. G. Renault. Synergistic effects have been achieved in the areas of technical development, production technology and distribution.

Through the acquisitions of Chicago Pneumatic in 1987 and Ets. G. Renault in 1988, Industrial Technique developed into a group of companies, in which the individual trademarks and various brands are encouraged to compete against each other in the same market sectors. The products, which consist primarily of air-powered and electrical hand-held tools and assembly systems, are marketed through the respective sales organizations and under their own, well-established brand names.

Each company's sales organization focuses on its own trademark, products and services. This means that the products from Chicago Pneumatic, Ets. G. Renault and Atlas Copco Tools are profiled according to their individual properties and characteristics and in relation to those market sectors they each have the best opportunity to serve.

For many years, Chicago Pneumatic has built up considerable know-how in the area of impact wrenches and tools for the service and repair sectors of the automotive industry. Ets. G. Renault has also developed specialist expertise, primarily in the grinding tools area. Atlas Copco Tools has traditionally focused on tools with good ergonomic properties, an area that is becoming increasingly important to customers.

As a result of its geographic position, Chicago Pneumatic occupies a strong position in North America for its tools and assembly systems. Ets. G. Renault is strong in its home market, France, and Atlas Copco Tools mainly in the European markets.

Atlas Copco Assembly Systems has established regional applications centers, one of which is located in West Germany to serve the important EC market. In the assembly systems area, Chicago Pneumatic and Ets. G. Renault have focused primarily on their domestic markets.

The various companies in the business area maintain their individual cultures and identities and lead their own lives. However, they are able to benefit from each other's experience through the exchange of knowledge in technical development, production control and production technology.

STRATEGIC ACQUISITIONS BROADEN OPERATIONS

Atlas Copco strengthened its position in all business areas in 1989 through the establishment of new companies and the strategic acquisition of companies that complement and broaden existing Group operations.

In the Construction and Mining Technique business area, Atlas Copco acquired Wagner Mining Equipment, based in Portland, Oregon, U.S., thereby broadening its product range to include loading equipment.

During the year, Atlas Copco Airpower signed a joint venture agreement with Iwata Air Compressor Manufacturing Co, one of Japan's largest manufacturers of compressors. On January 1, 1990, a new company, Atlas Copco Iwata KK, was jointly established for the manufacture and sales of stationary compressors.

Atlas Copco Industrial Technique increased its shareholding in GME System AB, which specializes in electronic products and, in March 1990, acquired Desoutter Brothers (Holdings) PLC, which is the largest manufacturer of industrial tools and assembly systems in the U.K.

Wagner specializes in the manufacture and sales of loading equipment and trucks for underground mining operations.
Top picture: the plant in Portland.
Middle picture: delivery of a loader.
Bottom: interior of the manufacturing plant.

Wagner's loading equipment will form a new product area

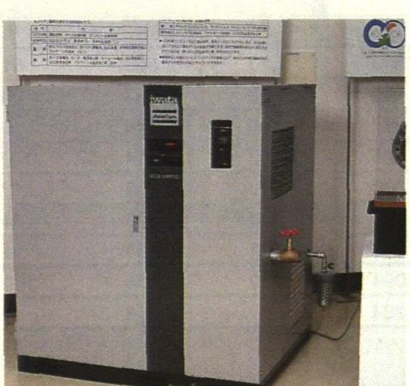
The acquisition of Wagner Mining Equipment means that Construction and Mining Technique can now provide customers with a complete range of products, from rock drilling rigs and tools to loading equipment.

Wagner has annual sales corresponding to approximately SEK 530 million, with 500 employees. Effective October 1989, the company became a division within the Construction and Mining Technique business area.

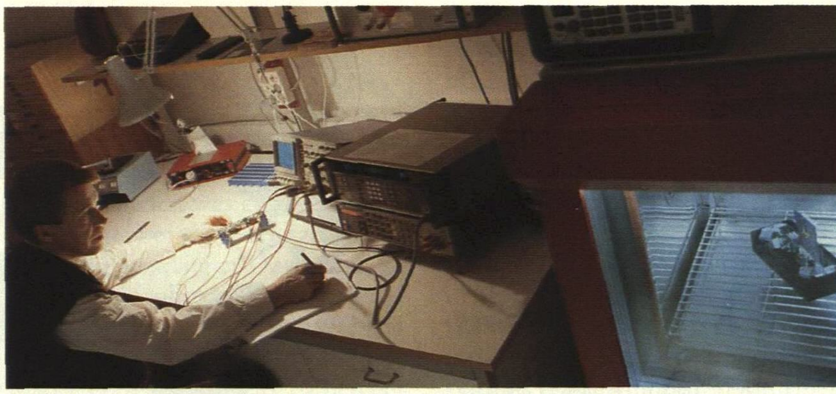
Wagner manufactures and markets about 30 different models of diesel and electrically powered loaders and trucks for underground mining operations and is the world market leader in its field. Products are sold mainly via dealers and the greater portion of the company's sales occur in North and Latin America. Manufacturing takes place in Portland, Oregon, U.S.

Atlas Copco Iwata – a joint venture in Japan

Together with the Japanese company, Iwata Air Compressor Manufacturing Co, Atlas Copco Airpower has established a new company to manufacture and sell stationary compressors in Japan. Atlas Copco owns 51 percent of the shares, Iwata 44 percent and the Japanese trading company, Suitomo Corporation, 5 percent.



A compressor manufactured by Atlas Copco Iwata KK for the Japanese market.



GME System focuses on electronic products. The picture shows laboratory testing in a climate chamber.

Manufacturing of the compressors, which are jointly designed by Iwata and Atlas Copco to meet the special demands of the Japanese market, is located in a completely new plant some 300 kilometers north of Tokyo.

The products are sold under the Atlas Copco Iwata name by Iwata's more than 300 distributors in Japan.

Strategic acquisition of electronics company

The acquisition of 97 percent of the shares in GME System is part of Industrial Technique business area's strategy to acquire integrated knowhow in the motion control area.

GME is a high-tech company that manufactures and markets microelectronics with controls for electric motors as a specialty. Among orders secured during the year, the company received a major contract for servo amplifiers for the brushless motors used in ABB's robotics program.

GME System has annual sales of about SEK 60 million, with some 80 employees.

Desoutter acquisition completed

As part of its strategy to strengthen the Company's position in the industrial sector and within the EC, Atlas Copco has acquired the London Stock Exchange-listed industrial company, Desoutter Brothers, after having received approval to implement the transaction from the British Monopolies and Mergers Commission. Desoutter is a leader in the industrial tools area and also manufactures light assembly systems.

In 1989, the company had sales corresponding to approximately SEK 510 million, with 1,200 employees, of whom 600 work in production. Manufacturing takes place in two plants located in southern England.

Desoutter has its own sales companies in five European countries and two elsewhere. Other markets are covered by agents. Some 70 percent of sales is exported, primarily to Western Europe and North America.

It is expected that the acquisition will create substantial synergistic effects. Atlas Copco's knowhow in the areas of production control and logistics will be of significant value to Desoutter. Technological development is another area expected to provide synergy. Atlas Copco can benefit from Desoutter's experience in the area of low-cost design and simplified adaptation of the tools to customer specifications.

PERSONNEL

SEK thousands	1989	1988
Sales per employee	**750**	667
Earnings per employee	**76**	60
Value added per employee	**304**	255

The average number of employees in the Atlas Copco Group in 1989 increased 850 to 20,057 (19,207). As a result of acquisitions and divestments, there was a net increase of 407 persons in the average number of employees. Personnel employed at companies in Sweden accounted for 21 percent (22), while companies operating in the EC accounted for 31 percent (31). Total labor costs amounted to SEK 4,031 m. (3,456), of which social costs accounted for SEK 1,119 m. (953).

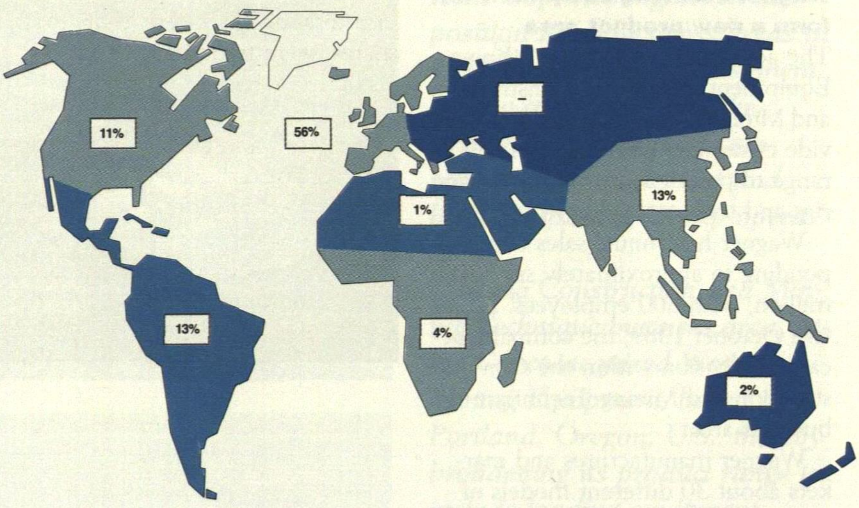
Value added and parties involved

Value added consists of the Group's total invoicing, SEK 15,035 m., less the costs of purchased raw materials, finished and semifinished goods, and services, SEK 8,941 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 1989, value added amounted to SEK 6,094 m. (4,904), a 25-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 – m. (3), should be added to this item.

GEOGRAPHIC DISTRIBUTION OF PERSONNEL



SEK m.		Average number of employees* 1989	1988	Wages, salaries and other costs 1989	1988
SWEDEN	Headquarters	76	66	47	45
	Divisions	3 853	3 785	936	806
	Sales companies	347	358	73	68
Total, Sweden		4 276	4 209	1 056	919
OUTSIDE SWEDEN	Divisions	7 923	7 321	1 484	1 191
	Sales companies	7 858	7 677	1 491	1 346
Total, outside Sweden		15 781	14 998	2 975	2 537
TOTAL		20 057	19 207	4 031	3 456

*) 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.

DISTRIBUTION OF VALUE ADDED	1989 SEK m.	%	1988 SEK m.	%
Wages and salaries	2 912	48	2 503	51
Social costs	1 119	18	953	20
Depreciation	337	6	279	6
Capital costs, net	205	3	14	0
Corporate and municipal taxes	587	10	408	8
Dividends paid	256	4	209	4
Retained in business	678	11	538	11
Value added, total	6 094	100	4 904	100
Value added per employee, SEK thousands	304		255	

ATLAS COPCO SHARE

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

The Company's aim is to cover the greater part of the Parent Company's dividend payments with dividend income from the subsidiaries outside Sweden.

If the Board of Directors' proposal to increase the dividend for fiscal year 1989 to SEK 8.00 (6.38) is adopted, the average growth in dividends for the five-year period from 1985 to 1989 is 19 percent. The proposed dividend is corresponding to 30 percent (33) of the earnings per share. Expressed as a percentage of risk-bearing equity capital per share, the dividend is 4.8 percent (4.6).

Share trading and listings
During 1989, Atlas Copco shares in the amount of SEK 1,219 m. (1,903), or a total of 3,994,891 (9,687,612) shares, were traded on the Stockholm Stock Exchange, corresponding to an average of 15,916 (38,291) shares per trading day. The number of shares traded was equal to 13 percent (41) of the Company's total shares outstanding at December 31. In addition, subsequently registered transactions amounted to SEK 934 m. (790), or 3,208,775 (4,303,100) shares, corresponding to 10 percent (18) of the company's total number of shares. The above information does not take into account the distribution between various classes of share.

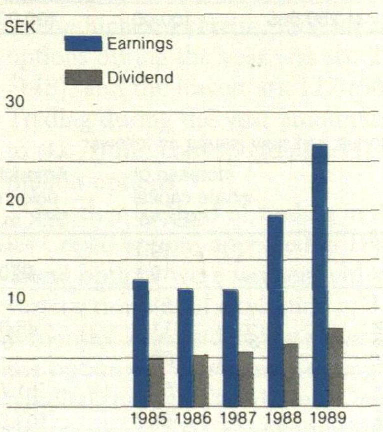
Although total trading on the Stockholm Stock Exchange was only marginally lower in 1989 than the preceding year, the trading value of the Atlas Copco share declined by 20 percent. Despite this, in terms of value, the Atlas Copco share was the 16th (12th) most traded share based on trading on the Stockholm Stock Exchange and subsequently registered transactions. The Company's market value at December 31, 1989 was SEK 9,024 m. (6,475), of which A shares accounted for SEK 6,780 m. and B shares SEK 2,244 m., corresponding to 1.2 percent (1.1) of the total value of shares listed on the Stockholm Stock Exchange.

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

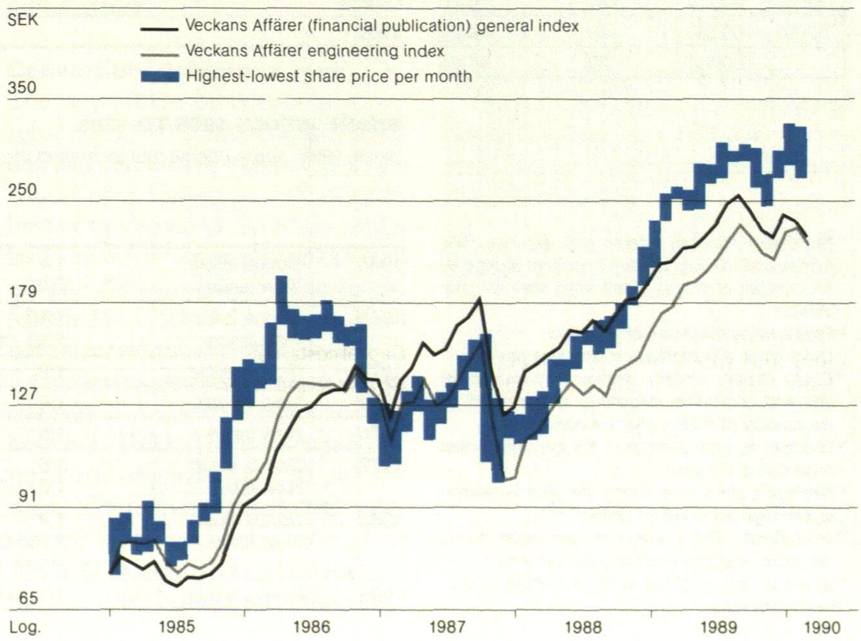
The proportion of foreign-owned shares increased during 1989. At year-end, foreign institutions and persons residing outside Sweden held approximately 20 percent of the total shares outstanding.

Atlas Copco's General Savings 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 Savings Fund. In February 1990, the Fund's shareholding was 46,599 shares, corresponding to a market value of about SEK 14.7 m. The Funds are managed by Atlas Copco Fondaktiebolag.

EARNINGS AND DIVIDEND PER SHARE



TRENDS OF SHARE PRICES



Share capital

Atlas Copco's share capital amounts to SEK 782,016,650, represented by 31,280,666 shares, each with a par value of SEK 25. All shares are unrestricted. Shares are traded on the Stockholm Stock Exchange in lots of 100. At the Annual General Meeting in April 1989, shareholders approved a 1:3 bonus issue, where all the newly issued shares were B shares. Following the bonus issue, Atlas Copco has two classes of shares, series A (one vote) and series B (one-tenth of a voting right). On full conversion of the convertible debentures outstanding, share capital amounts to SEK 807,999,975, represented by 32,319,999 shares.

Atlas Copco has approximately 32,000 shareholders. The portion of shares held by funds, investment companies, insurance companies and other institutional investors is estimated at 70 percent.

OWNERSHIP STRUCTURE 1989

Number of shares	Number of shareholders	Percent of total number of shares
1– 500	30 032	11.7
501– 2000	1 749	5.0
2001– 10000	386	5.5
10001– 50000	121	8.7
50001–100000	19	4.2
>100000	33	64.9

PER SHARE DATA*

SEK	1985	1986	1987[8]	1988	**1989**	Average growth per year, 84–89, %
Earnings [1]	13.00	12.10	11.95	19.60	**26.75**	23
Earnings after extraordinary items	15.25	11.15	19.65	19.75	**26.75**	24
Dividend	4.88	5.25	5.63	6.38	**8.00**[2]	19
Dividend as percent of earnings [3]	37.5	43.3	47.0	32.6	**29.9**	
Price quotation, Dec. 31	143	126	116	207	**278**	31
Highest price quoted	146	195	161	215	**312**	
Lowest price quoted	73	119	99	112	**201**	
Average price quoted	91	157	128	144	**263**	
Risk-bearing equity capital [4]	113	124	141	140	**166**	11
Direct yield, percent [5]	5.4	3.3	4.4	4.4	**3.0**	
Price/Earnings [6]	7.0	12.9	10.7	7.4	**9.8**	
Price/sales[7]	0.28	0.47	0.35	0.36	**0.57**	

* Adjusted for share issues.

LARGEST SHAREHOLDERS

The largest shareholders, as reported by VPC (Swedish Securities Register Center) in February 1990 are shown in the following table:

	Number of shares	% of votes	% of total
Robur, Aktie- och Allemansfonder	5 270 027	17.30	16.85
Förvaltnings AB Providentia	2 965 000	12.23	9.48
AB Investor	2 865 000	11.82	9.15
AB Patricia	1 476 027	6.09	4.71
Livförsäkrings AB Skandia	461 000	1.59	1.47
Försäkrings AB SPP, Ömsesidigt	411 124	1.39	1.31
Allm Pensionsf Fjärde Fondstyrelsen	328 924	1.05	1.05
Wasa Livförsäkring Ömsesidigt	474 366	1.02	1.51
AMF Pensionsförsäkringar	261 449	0.83	0.83
Trygg Ömsesidigt Livförsäkring	453 400	0.82	1.45
	14 966 317	54.14	47.81
Others	16 314 349	45.86	52.19
Total	31 280 666	100.00	100.00

SHARE ISSUES 1965 TO 1989

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

				Increase of share capital SEK m.	Amount paid-in SEK m.
1965	Bonus issue	1:4		19.1	–
	New issue	1:4	60 SEK	19.1	46.0
1971	Bonus issue	1:10		11.5	–
	New issue	1:10	100 SEK	11.5	46.0
1973	Bonus issue	1:2		69.2	–
1974	New issue	1:4	25 SEK	51.7	51.7
1976	New issue	1:5	50 SEK	51.7	103.5
1979	Bonus issue	1:6		51.7	–
	New issue	1:6	60 SEK	51.7	124.1
1982	Bonus issue	1:4		103.5	–
	New issue	2 765 000 shares at SEK 135		69.1	373.3
1989	Bonus issue	1 B share: 3 A shares		195.5	–

[1] Profit after financial income and expense, less full tax and minority interest in income divided by the number of shares outstanding after full conversion.

[2] Proposed by the Board of Directors.

[3] Dividend as a percentage of earnings per share.

[4] Equity capital, minority interests, untaxed reserves and convertible debenture loan divided by the number of shares after full conversion.

[5] Dividend as a percentage of the average quoted price during the year.

[6] Average quoted price during the year in relation to earnings per share as defined in 1).

[7] Price/Sales. The average quoted price during the fiscal year in relation to sales per share.

[8] Based on the weighted average number of shares outstanding.

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 options 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 holder the right to purchase 1.33 Atlas Copco shares from AB Patricia at a price of SEK 112 per share at any time during the period January 2, 1985 to September 2, 1994. All of the shares which may be purchased are unrestricted class A shares. There are approximately 1.1 million options outstanding.

The highest exercise price for the options during the year was SEK 275 (148), and the lowest SEK 127 (54). Trading during the year amounted to SEK 70 m., corresponding to 0.4 million options.

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

In 1989, option contracts accounted for about 2.8 million shares, approximately 10 percent of all Atlas Copco shares.

The 1989 Annual General Meeting was opened by Board Chairman, Peter Wallenberg.

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.

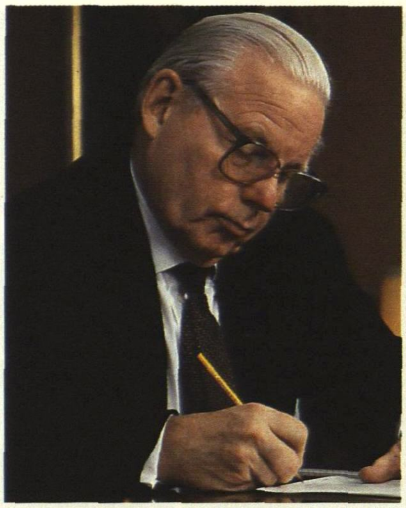
Convertible debenture loan
The convertible debenture loan, subscribed for by employees in Sweden and certain key executives in the Atlas Copco Group, as well as members of the Board of Directors of Atlas Copco AB, amounts to SEK 155.9 m. The debenture loan matures on March 15, 1993, if conversion has not occurred prior to this date.

Conversion may take place during the period August 14, 1989 to March 1, 1993. The conversion price was originally SEK 200 per share. On full conversion, the number of shares would increase by 779,500 shares. After adjustment for the 1989 bonus issue, the conversion price is SEK 150 per share. This means that three convertible debenture certificates, with a par value of SEK 200, can be exchanged for four unrestricted class A shares in Atlas Copco AB. The loan carries a fixed interest rate of 10 percent.

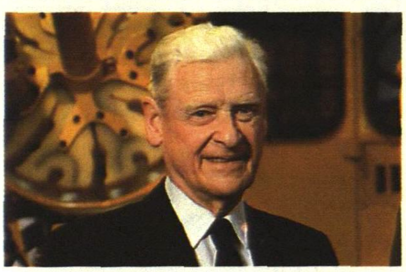
On full conversion, the number of shares increase by 1,039,333, corresponding to 3.3 percent of the current share capital.

BOARD OF DIRECTORS AND AUDITORS

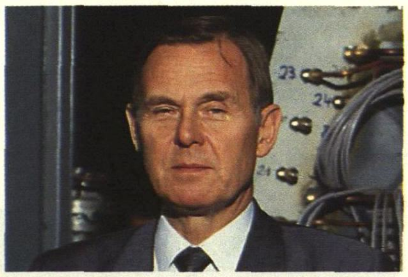
Elected by the Annual General Meeting



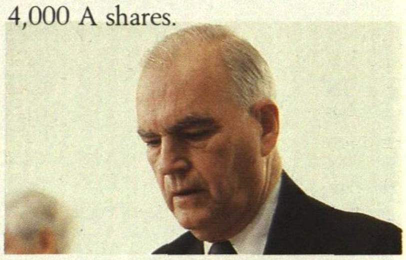
Peter Wallenberg Chairman (1970). Dr.Econ. h.c. and Dr. of Letters h.c. Born 1926. First Vice Chairman of the Board of S-E-Banken. Employed in various positions within Atlas Copco 1953-1974. Chairman of the Boards of Investor, Providentia, STORA. Vice Chairman of the Boards of ASEA, Electrolux, L M Ericsson and SKF. President of the International Chamber of Commerce (ICC), Paris. Member of the Boards of the Nobel Foundation, Scandinavian Airlines System (SAS), ABB Asea Brown Boveri and the Lauder Institute – University of Pennsylvania.
Stockholdings: 50,000 A; 16,667 B.



Erik Johnsson Vice Chairman (1972). Dr. Tech. h.c. Born 1909. President of Atlas Copco AB, 1970-1975.
Stockholdings: 8,892 A; 2,964 B; Debentures convertible to 1,000 A shares.

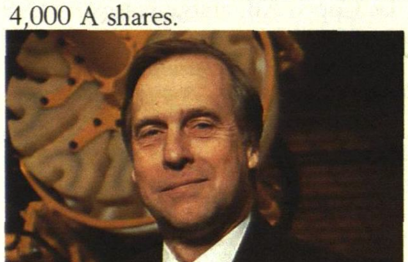


Curt G. Olsson (1976). Born 1927. Chairman of the Boards of S-E-Banken, Esselte and the Stockholm Chamber of Commerce. Member of the Boards of Hufvudstaden and Skandia. Stockholdings: 500 A; Debentures convertible to 4,000 A shares.



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

Otto Grieg Tidemand (1982). Born 1921. Shipowner, Belstove Shipping, Oslo. Chairman of the Board of Atlas Copco A/S (Norway). Chairman and Board member of various shipping and oil companies in Norway and other countries. Debentures convertible to 4,000 A shares.



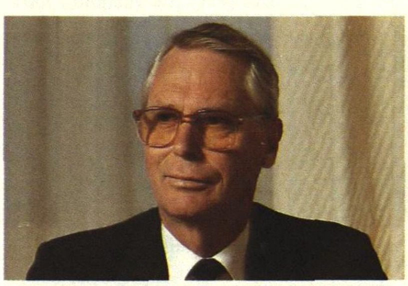
Björn Svedberg (1983). Dr. Tech. h.c. Born 1937. President and Chief Executive Officer of L M Ericsson. Member of the Boards of AGA and L M Ericsson.

Lennart Johansson (1985). Dr. Tech. h.c. Born 1921. Chairman of the 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 Swedish Engineering Employers' Association.

Per Lundberg (1985). Born 1943. President of Providentia. Chairman of the Boards of Bohusbanken, L M Ericsson Finans and Stockholm Saltsjön AB. Member of the Boards of Alfa-Laval, Atlas Copco Finans, Atlas Copco MCT, Atlas Copco Airpower, Billerud, Garphyttan Industrier, Incentive, Saab-Scania, Scanditronix, Stora Timber, Tour & Andersson, SPP and Ångpanneföreningen. Stockholdings: 250 A; 83 B; Debentures convertible to 4,000 A shares.

Georg Karnsund (1987). Born 1933. President and Chief Executive Officer of Saab-Scania. Member of the Board of L M Ericsson. Debentures convertible to 4,000 A shares.

Tom Wachtmeister (1975). Born 1931. President and Chief Executive Officer of Atlas Copco AB since 1975. Employed in the Company since 1959. Member of the Boards of Export-Invest, Hasselfors, Providentia, Saab-Scania and S-E-Banken. Chairman of the General Export Association of Sweden, Swedish Taxpayers' Association and the Sweden-China Trade Council. Stockholdings: 18,400 A; 6,133 B; 21,000 options; Debentures convertible to 4,000 A shares.



Gösta Bystedt Deputy Member (1987). Born 1929. Chairman of the Boards of Gränges, Scanditronix and Åhléns. Vice Chairman of the Boards of Electrolux, Export-Invest and Axel Johnson. Member of the Boards of ESAB, SKF, S-E-Banken and the Federation of Swedish Industries. Stockholdings: 1,000 A; 333 B; Debentures convertible to 667 A shares.

Jacob Wallenberg Deputy Member (1985). Born 1956. Member of the Boards of Stockholm Saltsjön AB, Stora Finans AB, Stora News AB and the Wharton Undergraduate Executive Board, University of Pennsylvania (U.S.). Deputy Board Member of Investor, Providentia, STORA, Knut and Alice Wallenberg Foundation.
Stockholdings: 500 options; Debentures convertible to 4,000 A shares.

Employee representatives

Bo Henning (1973). Born 1933. Chairman, Atlas Copco local of the Swedish Union of Clerical and Technical Employees in Industry (SIF), Nacka. Debentures convertible to 1,000 A shares.

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

Kjell Nordström Deputy Member. (1977). Born 1949. Chairman of the Metal Workers' Union, Skara. Member of the Swedish Parliament.

Christer Améen Deputy Member. (1986). Born 1939. Chairman Atlas Copco local of the Swedish Association of Graduate Engineers.
Stockholdings: 372 A; 24 B; Debentures convertible to 667 A shares.

Auditors

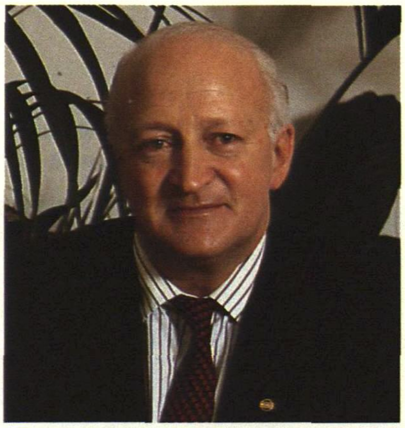
Karl-G Giertz
Authorized Public Accountant

Olof Herolf
Authorized Public Accountant

Stefan Holmström
Authorized Public Accountant, Deputy

Bo Ribers
Authorized Public Accountant, Deputy

GROUP MANAGEMENT

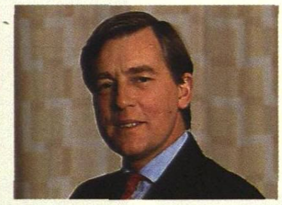


Tom Wachtmeister (1931), President, Atlas Copco AB and Chief Executive Officer, employed since 1959.
Stockholdings: 18,400 A; 6,133 B; 21,000 options; Debentures convertible to 4,000 A shares.

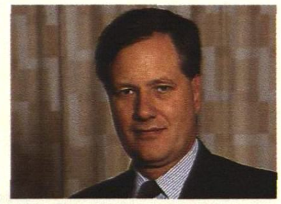
Bertil Eriksson (1934), Senior Executive Vice President and Chief Operating Officer, employed 1959-1979, and since 1982.
Stockholdings: 3,000 A; 1,000 B; 3,000 options; Debentures convertible to 4,000 A shares.

Magnus Schmidt (1940), Executive Vice President, Corporate development and control, employed since 1986.
Stockholdings: 2,000 A; 667 B; Debentures convertible to 4,000 A shares.

Giulio Mazzalupi



Magnus Unger

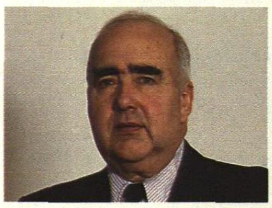


Michael Treschow

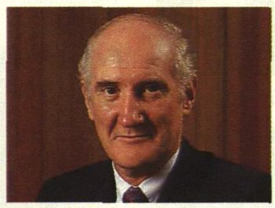
Giulio Mazzalupi (1940), Executive Vice President, Atlas Copco AB and President, Atlas Copco Airpower n.v., employed since 1971.
Debentures convertible to 4,000 A shares.

Magnus Unger (1942), Executive Vice President, Atlas Copco AB and President, Atlas Copco Construction and Mining Technique AB, employed since 1983. Stockholdings: 1,200 A; 400 B; 25 options.

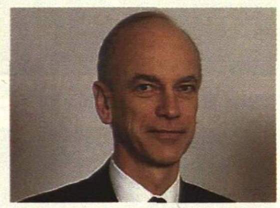
Michael Treschow (1943), Executive Vice President, Atlas Copco AB and President, Atlas Copco Industrial Technique AB, employed since 1975.
Stockholdings: 314 A; 106 B; 900 options; Debentures convertible to 4,000 A shares.



Sven-Ingvar Svensson



Jack Mackenzie



Per Wejke

Sven-Ingvar Svensson (1932), Executive Vice President, Sales companies, employed since 1958. Stockholdings: 778 A; 260 B; 500 options; Debentures convertible to 4,000 A shares.

Jack Mackenzie (1933), Executive Vice President, Sales companies South-East Asia and President, Atlas Copco Australia Pty Ltd., employed since 1958. Stockholdings: 425 A; 141 B.

Per Wejke (1937), Executive Vice President, Atlas Copco AB and President, Atlas Copco Canada Inc., employed 1964-1970 and since 1980.
Stockholdings: 278 A; 92 B; 1,300 options; Debentures convertible to 4,000 A shares.

Bo Eklöf

Bo Johansson

Hans Sandberg

Bo Eklöf (1941), Senior Vice President, Administration, Secretary to the Board of Directors, employed since 1974.
Stockholdings: 123 A; 41 B; Debentures convertible to 4,000 A shares.

Bo Johansson (1944), Senior Vice President, Group Treasurer, employed since 1969.
Stockholdings: 251 A; 83 B; Debentures convertible to 4,000 A shares.

Hans Sandberg (1946), Senior Vice President, General Counsel, employed since 1975. Debentures convertible to 2,000 A shares.

Group Staffs

Communications and Public Affairs *Hans Johnsson*
Controller *Bertil Stjernqvist*
Corporate Planning *Carl Caldenius*
Finance *Bo Johansson*
Group Accounting *Hans Lindblad*
Legal *Hans Sandberg*
Executive development *Nils-Åke Jenstav*

Special Advisers

Ambassador *Iwo Dölling*
Ambassador *Lennart Petri*

ATLAS COPCO'S

WORLDWIDE SALES AND SERVICE ORGANIZATION

■ AFRICA

Algeria
Atlas Copco Assistance Technique
Algiers
Lars Hultgren

Egypt
Atlas Copco International Egypt Office
Cairo
John Vanezos

Kenya
Atlas Copco Kenya Ltd
Nairobi
Eric N Smith

Lesotho
Atlas Copco Lesotho Ltd
Maseru
Anders Lindahl

Malawi
Atlas Copco (Malawi) Ltd
Blantyre
I M A Mojoo

Morocco
Atlas Copco Maroc S A
Casablanca
Edmond Rigaumont

Nigeria
Nitro Atlasco Nigeria Ltd*
Lagos
Jan Szlapczynski

South Africa
Fagersta Pty Ltd
Springs Transvaal
Rolf Söderman

Consolidated Pneumatic Tool Company S A (Pty) Ltd
Isando Transvaal
Magnus Gyllö

Delfos & Atlas Copco (Pty) Ltd*
Benoni
Sergio Camozzi

Zaire
Atlas Copco EDCA Technical Office
Lubumbashi
Albert Herbigneaux

Zambia
Atlas Copco (Zambia) Ltd
Ndola
Anders Lindahl

Zimbabwe
Atlas Copco Zimbabwe (Private) Ltd
Harare
Don Ferreira

■ ASIA

China
Atlas Copco (China) Ltd
Kowloon
Thomas Kung

Hong Kong
Atlas Copco (HK) Ltd
Kowloon
Thomas Kung

India
Atlas Copco (India) Ltd
Bombay
Antonio Belcastro

Consolidated Pneumatic Tool Co (India) Ltd
Bombay
Narain Mirchandani

Revathi – CP Equipment Co
Coimbatore
R K Raghavendra

Indonesia
P.T. Atlasco Sakti*
Jakarta
José Santos

Iran
Atlas Copco Iran AB
Tehran
Bertil Lindsten

Iraq
Atlas Copco Technical Service Bureau
Baghdad
Ronny Onkelinx

Japan
Atlas Copco KK
Tokyo
Necip Soyak

Atlas Copco Iwata KK
Fukushima
Necip Soyak

Korea
Atlas Copco Mfg Korea Co Ltd
Seoul
Jan Barendregt

Hamico Bit (Korea) Co Ltd
Seoul
Hans Hedensjö

Malaysia
Atlas Copco (Malaysia) Sdn Bhd
Kuala Lumpur
Dawid TW Tan

Philippines
Atlas Copco (Philippines) Inc
Paranaque
Patrik Wennerström

Saudi Arabia
Atlas Industrial Equipment Co Atlasco*
Jeddah
Jean Pierre Fauque

Singapore
Atlas Copco (South-East Asia) Pte Ltd
Singapore
Yvo Goossens

Taiwan
Atlas Copco Taiwan Ltd
Taipei
Tore Bergersen

Turkey
Atlas Copco Makinalari Imalat AS
Istanbul
Marc Lambert

■ EUROPE

Austria
Atlas Copco GesmbH
Vienna
Wolf Lackschewitz

Atlas Copco International Büro Wien
Vienna
Vladimir Ĉukiĉ

Belgium & Luxemburg
Atlas Copco Belgium nv/sa
Overijse
Gaston Moisse

Chicago Pneumatic SA Tool Company
Diegen-Machelen
Trevor Scrace

Cyprus
Atlas Copco Cyprus Ltd
Nicosia
Demetrios Angelides

Atlas Copco International (Middle East) Ltd
Nicosia
Anders Arvidsson

Denmark
Atlas Copco A/S
Glostrup
Jens Karmann

Atlas Copco Tools Denmark
Ishøj
Flemming Vikbjerg

Monsun Automation A/S
Ishøj
Henrik Burkal

Finland
Oy Atlas Copco Ab
Helsinki
Reijo Siimes

Kometa Oy
Esbo
Juhani Lukumaa

France
Atlas Copco Compresseurs Industriels SA
Franconville
Alain Rodrigues

Ets Mauguière SA
Sermamagny
Luc Hendrickx

Atlas Copco Mines & Travaux Publics S A
Franconville
Peter G Foertig

Secoroc S A
Ivry sur Seine
Philippe Derobert

Le Burin Commercial S A
Franconville
Peter G Foertig

Atlas Copco Applications Industrielles S A
Franconville
Jean-Yves Frin

Ets Georges Renault S A
Nantes
Jacques Manceron

Monsun-Tison S A
Cergy
Philippe Corrège

Great Britain
Atlas Copco Great Britain Ltd
Hemel Hempstead
Lennart Hedlund

Consolidated Pneumatic Tool Company Ltd
Hemel Hempstead
Koen Lemmen

Monsun-Tison Ltd
Ossett, West Yorkshire
Per Johansson

Greece
Atlas Copco Hellas A E
Athens
Peter Meyer

Hungary
Atlas Copco International Representative Office
Budapest
Gunnar Hindrum

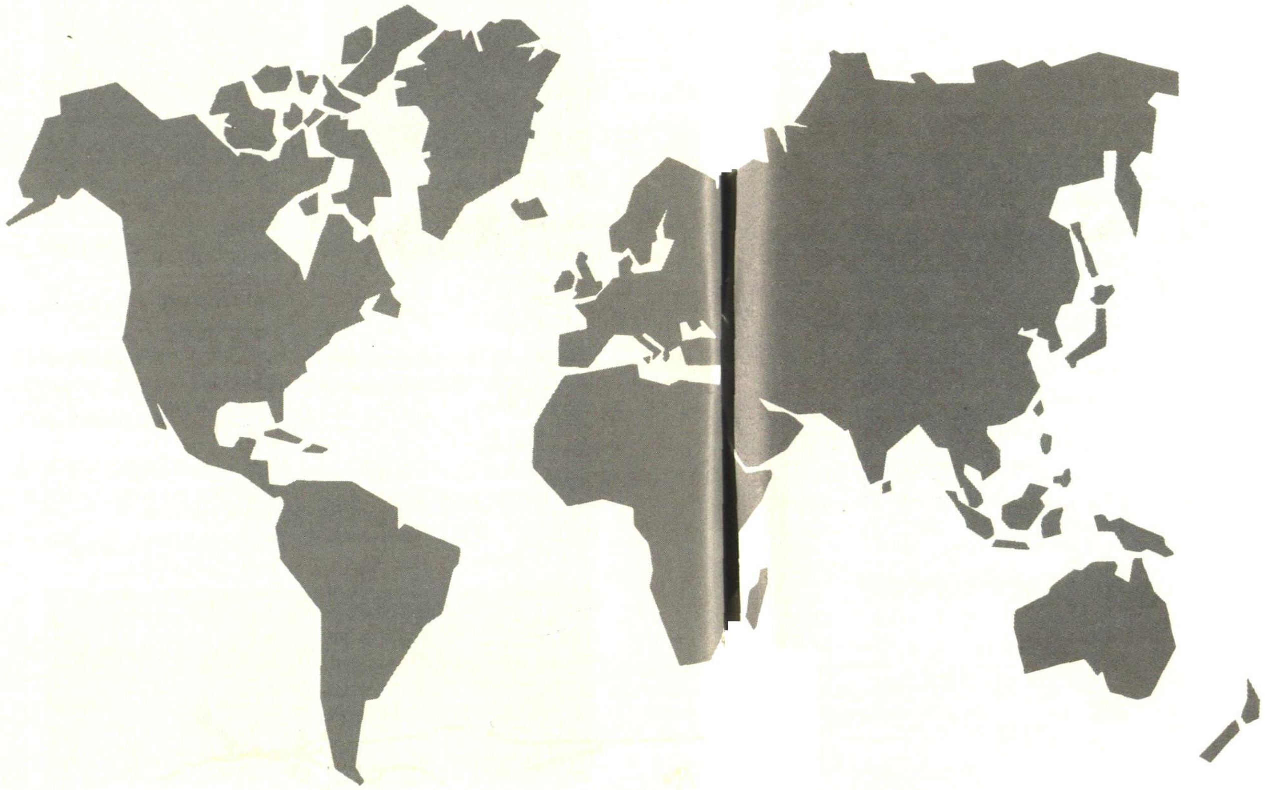
Ireland
Atlas Copco (Ireland) Ltd
Dublin
Ernest G Power

Italy
Altas Copco Italia SpA
Milan
Erland von Redlich

Secoroc Italiana s r l
Naviglio
Guiseppe Baietta

*Not consolidated in the Atlas Copco Group

SALES AND SERVICE ORGANIZATION



Chicago Pneumatic
Tool Co SpA
Milan
Giorgio Marconi

Atlas Copco Automazione SpA
Milan
Maurizio Baita

Netherlands

Atlas Copco Nederland B V
Zwijndrecht
Thomas Larsson

Norway

Atlas Copco Kompressor-
teknikk A/S
Ski
Martin Hagen

Atlas Copco Anlegg- & Gruv-
teknikk A/S
Ski
Gunnar Pedersen

Secoroc A/S
Oslo
Erik Löftingsmo

Berema A/S
Lorenskog
Per Finsveen

Atlas Copco Tools Norway
Ski
Per Arne Martinsen

Monsun-Tison A/S
Ski (Oslo)
Ole Ingar Vee

Portugal

Soc Atlas Copco
de Portugal Lda
Lisbon
Bengt Dahlgren

Spain

Atlas Copco S A E
Madrid
Romano Girardi

Sweden

Atlas Copco Compressor AB
Nacka
Leif Boll

Atlas Copco MCT Sverige AB
Nacka
Bertil Sundberg

Atlas Copco Energy AB
Nacka
Per Gunnar Skoglundh

Secoroc AB
Fagersta
Christer Strandh

Inovac AB
Skellefteå
Jan Sidén

Lövab
Sunne
Berndt Karlsson

Rebit AB
Ockelbo
Stig Brännström

Kometa AB
Kopparberg
Aappo Fagerhill

Berema Sverige AB
Solna
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Stockholm
Roland Lindqvist

Chicago Pneumatic Tool Co
Trade Div.
Stockholm
Radmon Sukhia

Atlas Copco Assembly
Systems AB
Stockholm
Lennart Evrell

Atlas Copco STIB AB
Vallentuna
Sverker Lindbo

GME System AB
Stockholm
Hans Friberger

Monsun-Tison Hydraulik AB
Borås
Åke Eliasson

Atlas-Copco Automation
Svenska AB
Borås
Hans Törner

Switzerland

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(Schweiz) AG
Studen/Biel
Hans W Brodbeck

GME System AG
Küttingen
Kjell Sjöberg

West Germany

Atlas Copco Kompressoren
GmbH
Essen
Freek Nijdam

NEAC Compressor Service
GmbH & Co KG*
Ubach-Palenberg (Aachen)
André Schmitz

Atlas Copco MCT GmbH
Essen
Paolo Duca

Secoroc GmbH
Hilden
Sven Axelsson

Atlas Copco Eickhoff
Roadheading Technic GmbH*
Bochum
Bo Ruda

Atlas Copco Tools GmbH
Essen
Yngve Revander

Chicago Pneumatic
Tool GmbH
Wiesbaden am Rhein
W D Wittek

Atlas Copco EAC GmbH
Essen
Bo Hellmark

Monsun-Tison GmbH
Darmstadt
Rainer Borkowsky

Yugoslavia

Atlas Copco Delegate
Belgrade
Georges Herbeaux

■ LATIN AMERICA

Argentina

Atlas Copco Argentina SACI
Buenos Aires
Jan Ahlin

Bolivia

Atlas Copco Boliviana S A
La Paz
Olof Hössner

Brazil

Atlas Copco Brasil Ltda
Saõ Paulo
Jan Ahlin

Fagersta Secoroc
Ind e Com Ltda
Saõ Bernando do Campo, SP
Anders Carlén

Chile

Atlas Copco Chilena S A C
Santiago
André Richard

Drillco S A
Santiago
Per-Arne Lindqvist

Colombia

Atlas Copco Colombia Ltda
Bogotá
Antoine Santiago

Ecuador

Atlas Copco Ecuatoriana S A
Quito
Jo Cronstedt

Mexico

Atlas Copco Mexicana
S A de CV
Tlalnepantla, Edo de Mexico
Kåre Engström

Fagersta Secoroc de Mexico
S A de CV
Mexico 1, DF
Malcolm Herlenius

Chicago Pneumatic Tool de
Mexico S A
Delg. V Carranza
Mexico DF
Jaime Cadaval

Peru

Atlas Copco Peruana S A
Lima
Olof Hössner

Fagersta Secoroc del Peru S A
Callao
Julio Tamayo

Venezuela

Atlas Copco Venezuela S A
Caracas
Staffan Nordin

■ NORTH AMERICA

Canada

Atlas Copco Canada Inc
Montreal, Quebec
Per Wejke

Secoroc Ltd
Burlington, Ontario
Sten Pettersson

Kenroc Tools Corporation
North Bay, Ontario
Stanley Lundberg

Canadian Pneumatic Tool
Company Ltd
Toronto, Ontario
George Blandford

USA

Atlas Copco Industrial
Compressors Inc
Holyoke, Massachusetts
Arthur J Droege

Atlas Copco Rental Inc
Fairfield, New Jersey
Anthony A Limongelli

Atlas Copco Comptec Inc
Voorheesville, New York
Bengt-Ivar Nilsson

Atlas Copco Roctec Inc
Golden, Colorado
Alan K Weiner

Secoroc Inc
Commerce City, Colorado
Torbjörn Redaelli

Kenroc Inc
Springfield, Montana
Jim Sunstrum

T-H Industries, Inc
Ft Loudon, Pennsylvania
Torbjörn Redaelli

Wagner Mining Equipment Co
Portland, Oregon
Rod Brown

Berema Inc
Norwalk, Connecticut
Leif Eiderberg

Atlas Copco Industrial
Tools Inc
Farmington Hills, Michigan
Charles Robison

Chicago Pneumatic Tool
Company
Utica, New York
Richard D Besser

GME System Inc
Wexford, Pennsylvania
Björn Karlström

Monsun Hydraulics Inc
Elk Grove Village, Illinois
Kjell Jansson

■ OCEANIA

Australia & New Guinea

Atlas Copco Australia Pty Ltd
Sydney
Jack Mackenzie

Secoroc Australia Pty Ltd
Charlestown
Bruce Johnson

Kenroc Tools Pty Ltd
Sydney
John Brodie

Consolidated Pneumatic
Tool Co Pty Ltd
Sydney
Kevin Boorer

New Zealand

Atlas Copco (N Z) Ltd
Wellington
Bill Gibson

FIVE YEARS IN SUMMARY

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

ATLAS COPCO GROUP	1985	1986	1987	1988	**1989**
Earnings per share, SEK	13.00	12.10	11.95*	19.60	**26.75**
Earnings per share after extraordinary items, SEK	15.25	11.15	19.65*	19.75	**26.75**
Profit margin, percent	8.2	7.1	6.8	9.0	**10.1**
Return on capital employed, before tax, percent	18.9	16.0	15.0	19.0	**21.9**
Return on risk-bearing equity capital, after tax, percent	15.8	13.8	12.4	16.9	**19.7**
Rate of risk-bearing equity capital, percent	40.6	41.7	40.9	38.3	**39.2**
Rate of risk-bearing equity capital after full conversion, percent	40.6	41.7	42.4	39.7	**40.4**
Dividend per share, SEK	4.88	5.25	5.63	6.38	**8.00****
Orders booked	10 400	10 629	11 797	13 533	**15 785**
Invoiced sales	10 062	10 351	11 520	12 812	**15 035**
Percent change, current prices	+11	+3	+11	+11	**+17**
Sales outside Sweden, percent	91	91	92	92	**92**
Profit after financial income and expense	828	730	789	1 155	**1 521**
Net interest expense	−193	−116	−161	−25	**−160**
As percent of invoiced sales	1.9	1.1	1.4	0.2	**1.1**
Interest coverage ratio	2.9	2.9	3.1	4.0	**4.2**
Return on shareholders' equity, after tax, percent	13.7	11.2	10.9	14.7	**21.1**
Total assets	8 675	9 262	10 752	11 377	**13 258**
Ratio of assets to liabilities	1.7	1.7	1.7	1.6	**1.6**
Ratio of current assets to current liabilities	2.1	1.9	2.0	2.0	**1.8**
Capital turnover ratio	1.18	1.15	1.14	1.18	**1.22**
Ratio of interest-bearing liabilities to adjusted shareholders' equity***	0.98	0.95	0.94	1.02	**0.98**
Investments in machinery and buildings	325	507	422	424	**545**
As percent of invoiced sales	3.2	4.9	3.7	3.3	**3.6**
Average number of employees	16 659	16 498	18 777	19 207	**20 057**
Invoiced sales per employee, SEK thousands	604	627	614	667	**750**

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

** According to the Board of Directors' proposal.

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

DIRECTIONS

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Telefax: +46-8-44 90 45
Telex: 14090 copco s

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Atlas Copco

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