Atlas Copco

Annual Report 1995

95

Nineteen ninety-five was Atlas Copco's best year so far. Profit after net financial items rose by 45 percent to SEK 2,840 m. Earnings per share were SEK 9.93, compared with 6.51 previous year.

Atlas Copco

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Atlas Copco AB
A Public Company (publ)

Invitation to participate in Annual General Meeting

Atlas Copco shareholders are hereby notified that the Company's Annual General Meeting will be held on Tuesday, April 23, 1996, at 5.00 p.m. at Cirkus, Kungl. Djurgården, Stockholm.

Financial Information from Atlas Copco

Atlas Copco will publish the following financial reports in respect of 1996 operations:

President's Address to Shareholders at the AGM.	April 23, 1996
Interim Report on first three months of operations	May 6, 1996
Interim Report on first six months of operations	August 20, 1996
Interim Report on first nine months of operations	November 21, 1996
1996 Preliminary 12-month Report	February, 1997
1996 Annual Report	April, 1997

Additional copies of Atlas Copco's Annual Report in English can be ordered through Atlas Copco AB, Corporate Communications, S-105 23 Stockholm, Sweden, Telefax: +46-8-643 3718.

Financial Information on Atlas Copco

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Barclays de Zoete Wedd, London	*Mikael Sjöwall*
Banque Paribas, London	*Christian Diebitsch*
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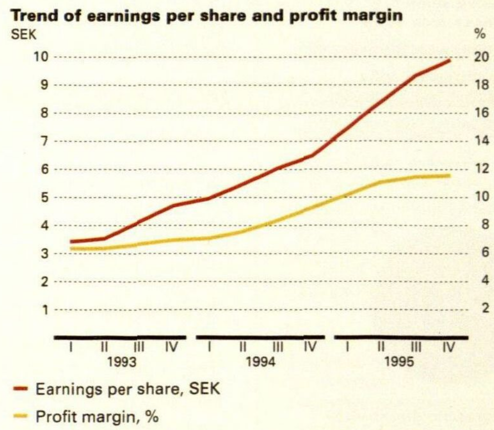
Öhman Fondkommission, Stockholm	*Lars Höglund*

Cover illustration

Each year, work is conducted on hundreds of tunnels in different infrastructure projects in Japan. In co-operation with two Japanese companies, Atlas Copco has doubled its sales of rock-drilling and rock-reinforcement equipment. The cover illustration shows construction work on a super highway tunnel in Western Japan.

Atlas Copco 1995

Sales Group invoiced sales increased by 17 percent to SEK 24,454 m. (20,914).



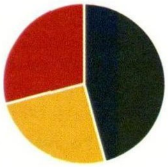
Earnings Group operating profit after net financial items increased by 45 percent to SEK 2,840 m (1,955), corresponding to a profit margin of 11.6 percent (9.3). Net profit after tax increased by 53 percent to SEK 1,823 m. (1,194). Earnings per share rose to SEK 9.93 (6.51).

Dividend The Board is proposing a dividend of SEK 3.00 (2.30) per share.

Acquisitions Atlas Copco acquired Milwaukee Electric Tool Corporation, the Group's largest acquisition to date. Milwaukee is a leading U.S. producer of electric tools for professional users. Further, the Swiss company Socapel S.A. was acquired. Socapel is a leading company in the product area of sophisticated motion control products for industrial machines.

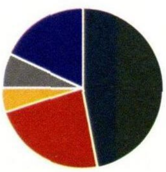
Outlook for 1996 Demand in 1996 is expected to remain unchanged, compared to the level of 1995. Market conditions, especially within the European manufacturing and construction industries are, however, uncertain. Earnings for 1996 are estimated to improve compared to 1995, providing the present level of demand remains.

Atlas Copco – world leader within its areas of business



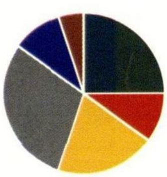
Invoiced sales by business area 1995

- Compressor Technique 46%
- Construction and Mining Technique 25%
- Industrial Technique 29%



Geographic distribution of invoiced sales

- Europe incl CIS 47%
- North America 23%
- South America 5%
- Africa/Middle East 7%
- Asia/Australia 18%



Invoiced sales by customer category

- Engineering Industry 25%
- Automotive Industry 10%
- Process Industry 20%
- Building and Construction Industry 30%
- Mining 10%
- Other 5%

The long-term goal of the Atlas Copco Group is to be the world's leading company within its specialist areas of business. 96 percent of the Group's invoiced sales of more than SEK 24 billion is attributable to countries outside Sweden. The Group's long-term aim is to achieve a more balanced distribution of sales between the markets in North/South America, Europe/Africa, and Asia/Australia.

Atlas Copco is an international industrial group of companies, with its head office in Stockholm. The company, founded in 1873, has been listed on the Stockholm Stock Exchange since 1920 and is also quoted on the London, Frankfurt, Düsseldorf and Hamburg stock exchanges.

Business concept

The Group works on a world-wide basis to provide a broad range of products and services which meet needs of customers in the areas of

- air and gas compression and expansion, as well as air treatment
- rock excavation, rock transportation, rock reinforcement and construction projects
- building and installation work
- industrial production, mechanization and the automotive aftermarket.

Within these areas, Atlas Copco markets its products under a number of brands and through various distribution channels.

To be the world's leading company

The long-term goal of the Atlas Copco Group is to be the world's leading company within its specialist areas of business. Growth shall be achieved while maintaining favorable profitability and satisfactory financial balance. The goal shall be to achieve an average pretax profit margin that exceeds 10 percent during an economic cycle.

Acquisitions a growth strategy

Growth shall be achieved through internal expansion as well as joint ventures and company acquisitions, while maintaining favorable profitability. This places major demands on the Company's financial strength. As a result of the implementation of strategic acquisitions, an increased financial strain may be accepted during certain periods.

During the past five years, the following acquisitions were effected and joint ventures established. The abbreviations in brackets correspond to the business areas: Compressor Technique (CT), Construction and Mining Technique (CMT) and Industrial Technique (IT).

1991 Acquisition of AEG's electric tool operation, Germany (IT). Creation of VOAC Hydraulic joint venture in Sweden (IT).

1992 Acquisition of Craelius, Sweden (CMT).

1993 Acquisitions of Robbins, U.S. (CMT); Kango, UK (CMT); Worthington-Creyssensac's compressor operations in Europe (CT). Creation of joint venture, Nanjing Atlas Copco Construction Machinery, in China (CMT).

1994 Creation of joint venture, Wuxi-Atlas Copco Compressor Company, in China (CT). Acquisition of Hamrin Adsorptions & Filterteknik, Sweden (CT).

1995 Creation of joint venture, Atlas Copco Changchun Electric Power Tool, in China (IT). Acquisition of Socapel, Switzerland (IT) and Milwaukee Electric Tool Corporation, U.S. (IT).

The objective of Atlas Copco's business strategy is to strengthen the Group's leading position in world markets. This is accomplished by the introduction of new high-quality products in existing fields of technology.

Decentralized organization

Operations are conducted in the business areas, Compressor Technique, Construction and Mining Technique and Industrial Technique, through 17 divisions. Each division has total business responsibility.

Atlas Copco manufactures products at 57 plants in 15 countries. The major share of manufacturing is conducted within the EU, but a large number of plants are also located in the US and Asia.

The Atlas Copco Group has a strong market presence and strives to maintain close and long-term relations with its customers. The products are marketed through own sales operations in some 70 countries and through independent distributors in another 80 countries. The Group employs more than 21,000 persons, of whom 14 percent work in Sweden.

Many application areas for compressors

Compressor Technique consists of industrial compressors, portable compressors and gas and process compressors product areas.

Industrial compressors are an important source of power in machine shops and in other industries. Portable compressors constitute a reliable and efficient power source for machines and tools used within the building and construction sector.

Customer-adapted gas/process compressors, expansion turbines and vacuum pumps are delivered to process industries, such as the chemical, petrochemical, oil and gas industries, as well as to companies focusing on the separation of air and other gases.

Normally, compressors are used as a source of power, but compressed air is also increasingly used as an active part in customer manufacturing process. Oil-free compressors supply the food, pharmaceutical, textile and electronic industries with oil-free air. Clean compressed air can be used, during the production of flavor additives for certain foods. It can also be used to replace various mechanical manufacturing operations, such as a mechanical shuttle during textile weaving operations.

Complete supplier of drilling equipment

Construction and Mining Technique offers a wide range of products and services, from pneumatic breakers to package solutions for major construction and mining projects.

Drill rigs are used in tunneling operations, mining and surface drilling operations in, for example, construction work and quarrying.

Organization

Board of Directors

President and Chief Executive Officer

Executive Group Management and Corporate Functions

Business areas **Compressor Technique**	**Construction and Mining Technique**	**Industrial Technique**
Divisions		
Airtec **Portable Air** **Industrial Air** **Oil-free Air** **Atlas Copco Applied Compressor and Expander Technique**	**Atlas Copco Rock Drilling Equipment** **Atlas Copco Robbins** **Atlas Copco Craelius** **Uniroc** **Atlas Copco Construction Tools** **Atlas Copco Wagner**	**Milwaukee Electric Tool** **Atlas Copco Industrial Tools and Equipment** **Atlas Copco Electric Tools** **Chicago Pneumatic** **Desoutter** **Georges Renault**
Product areas		
Industrial compressors Portable compressors Gas and process compressors	Drilling rigs Rock drilling tools Construction tools Loading equipment	Power tools Assembly systems Motion control products

Atlas Copco has a decentralized organization. Each division has total business responsibility.

Mechanical boring machines are used for full-face driving, in which the entire tunnel or raise is excavated without blasting.

Geotechnical drilling equipment is used mainly in water well-drilling and in construction-related drilling such as geotechnical surveys and straight long hole drilling.

In order to be able to offer a complete range of drilling equipment, Atlas Copco manufactures and markets various rock drilling tools, such as drill steel and drill bits for rock drilling operations.

Light rock drills and breakers are used by contractors in the construction sector. Loading equipment and trucks are used mainly in underground mining operations, as well as in certain construction projects.

From industrial tools to systems

Industrial Technique's product program consists primarily of portable power tools, assembly systems and sophisticated motion control products.

Power tools operated by compressed air or electricity have many applications within industry, such as drilling, grinding, riveting and the tightening of nuts and screws. Electric tools are manufactured mainly for professional users within the building and construction markets.

Assembly systems, with computerized control systems, are supplied primarily to the automotive industry and its suppliers. The equip-

Primary factors affecting Atlas Copco Group sales

	Capital Goods 60%	Expendables 40%
Industry	Industrial Machine Investment	Industrial Production
Construction	Public Investment	Construction Activity
Mining	Mining Machine Investment	Metal Ore Production

The Group is primarily affected by the investments that companies and public authorities need to make in various areas.

ment is used for nut tightening, where particularly high precision is required.

Motion control products are used for complex industrial machines and industrial vehicles. The market for such equipment is growing rapidly, mainly due to the increasing need to automate production within industry.

96 percent outside Sweden

96 percent of the Atlas Copco Group's invoiced sales of more than SEK 24 billion is attributable to countries outside Sweden.

Europe has been the dominant Atlas Copco market for many years, accounting for more than 50 percent of invoicing. However, the acquisition of Milwaukee means that Europe's sales share will decrease to 45 percent, while North America's share increases to nearly 30 percent. The Group's long-term aim is to achieve a more balanced distribution of sales between the markets in North/South America, Europe/Africa and Asia/Australia.

External investments have impact

The Group is primarily affected by the investments of capital goods that companies and public authorities need to make in various areas.

Sales are mainly influenced by the manufacturing industry's machinery and equipment requirements. Important markets include Europe, North America, Brazil, Japan and the growth countries in Asia. The largest segment within this sector is the automotive industry, which needs substantial volumes of industrial tools, assembly systems and compressors.

Investment in infrastructure projects, such as railways, highways and water supply tunnels, is often dependent on political decisions. In many countries, the projects are also contingent upon public financing. Infrastructure projects are important for Atlas Copco's sales of construction equipment, including drilling rigs and tunnel boring machines. A shift in demand has occurred within the construction sector, from Europe to Asia. Demand within South American markets has been low during recent decades. Political uncertainty has reduced the interest of international investors to place their capital in the various infrastructure projects in this region. However, during the past few years conditions have improved, particularly in Brazil, Chile and Peru.

To a large extent, mining industry demand for capital goods, such as drilling equipment and loaders, follows the price and inventory trends for metals. With the exception of the ore mines in Kiruna (Sweden) and the coal mines in eastern Europe among others, the European mining market has decreased sharply in recent years. Instead, the market is today dominated by Australia, North America and various countries in Asia, South America and Africa.

An increase in the sale of capital goods means in turn, that demand for expendables also increases. For example, customers will need certain tools, spare parts, drill bits, accessories, and service on a continuous basis. Demand for these consumable products is more stable compared with the more cyclical capital goods. Expandables have previously accounted for about 30 percent of Group invoicing. The acquisition of Milwaukee means, however, that this share has now increased to 40 percent.

Milwaukee's self-managed production groups are based on the far-reaching delegation of responsibility and authority. The result is higher productivity and improved customer service.

Dear shareholders

Atlas Copco continued to develop its global strategy during 1995 through intensified cultivation of the growth markets in East Asia and Eastern Europe. Combined with strategically important acquisitions and co-operation agreements, this contributed to the Group further strengthening its positions in principal markets throughout Europe, North America and East Asia.

A resolute program of rationalization measures designed to improve productivity and an increased focus on product development laid the foundations for long-term and sustainable profitability for Atlas Copco. Today, the Company has built a strong financial position through the development of a cost-effective structure, high productivity and sound capital utilization.

I regard Sweden's membership in the EU as decisive to the ongoing and future profitability of Swedish industry. However, unless strong measures are applied to reduce the cost situation, the country's financial problems will continue to pose a serious threat to economical development. Despite this state-of-affairs constituting a critical obstacle to continuing investment, Atlas Copco has in recent years transferred manufacturing operations that were earlier located in other countries to Sweden. It is my hope that future economic policy in Sweden will create the stability and long-term confidence necessary to support a favorable business climate that is capable of competing with the conditions offered by other countries.

Based on the sharp improvement in the Company's profit and the strong balance sheet, the Board is proposing that the dividend to shareholders be raised to SEK 3.00 per share. This corresponds to 30 percent of reported earnings per share. Accordingly dividend growth during the past five years has averaged 13 percent per year.

We shareholders have every reason to be grateful for the exceptional efforts made by the management and employees during the past year, which has led to the best earnings ever reported in Atlas Copco's long history.

Peter Wallenberg
Chairman

The Board of Directors' Report on 1995 operations

SEK m. unless otherwise indicated

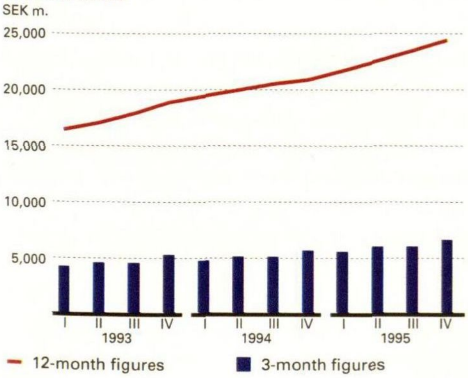
The Atlas Copco Group's invoiced sales for 1995 amounted to SEK 24,454 m. (20,914), up 17 percent. Markets outside Sweden accounted for 96 percent of invoicing. Orders received increased by 14 percent to SEK 24,843 m. (21,701). For comparable units, orders received rose by 8 percent. Atlas Copco Group profit after financial income and expense rose by 45 percent to SEK 2,840 m. (1,955). The profit margin was 11.6 percent (9.3). Earnings per share were SEK 9.93 (6.51), up 53 percent. The acquisition of Milwaukee Electric Tool Corporation had a positive impact on earnings per share.

	1995	1994
Invoicing	24,454	20,914
Change, %	+17	+11
Orders received	24,843	21,701
Change, %	+14	+13
Profit after financial items	2,840	1,955
Change, %	+45	+48
Net profit after taxes	1,823	1,194
Change, %	+53	+38

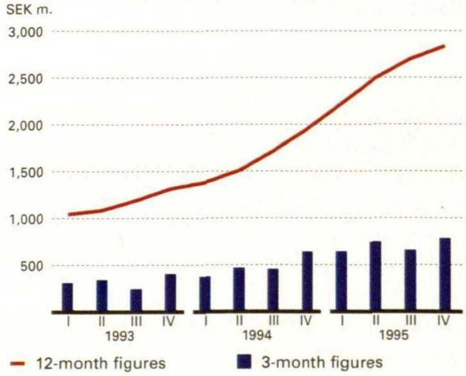
The Board of Directors is proposing that a dividend of SEK 3.00 (2.30) per share be paid for 1995.

Outlook for 1996 Demand in 1996 is expected to remain unchanged, compared to the level of 1995. Market conditions, especially within the European manufacturing and construction industries are, however, uncertain. Earnings for 1996 are estimated to improve compared to 1995, providing the present level of demand remains.

Invoiced sales
SEK m.



Profit after financial income and expenses
SEK m.



Invoiced sales by quarter

	1993	1994	1995
First quarter	4,286	4,829	5,628
Second quarter	4,644	5,182	6,059
Third quarter	4,621	5,167	6,084
Fourth quarter	5,355	5,736	6,683
Total	18,906	20,914	24,454

Earnings by quarter

	1993	1994	1995
First quarter	315	380	647
Second quarter	346	472	748
Third quarter	249	458	659
Fourth quarter	410	645	786
Total	1,320	1,955	2,840

Structural changes

On August 1, 1995, Atlas Copco acquired the American company, Milwaukee Electric Tool Corporation, a leader within the U.S. electric tool product area for professional users. This company, which had annual sales of approximately SEK 2,700 m. in 1994, with 2,200 employees, is included as a division within the Industrial Technique business area.

The Swiss company, Socapel S.A. was acquired on June 1, 1995. Socapel is a leading company in the product area of sophisticated motion control products for industrial machines. The company is included in the Atlas Copco Industrial Tools and Equipment Division, within the Industrial Technique business area. Socapel has annual sales of about SEK 100 m., with about 70 employees.

During the year a joint venture was established in China, Atlas Copco Changchun Electric Power Tool, for the local production and sales of electric tools. Manufacturing commenced in January 1996. The joint venture is included in the Atlas Copco Electric Tools Division, within the Industrial Technique business area.

On January 1, 1995, Atlas Copco acquired ABB's operations within the pressure let-down application area, which have annual sales of approximately SEK 50 m. These operations are included in the Atlas Copco Applied Compressor and Expander Technique Division, within the Compressor Technique business area.

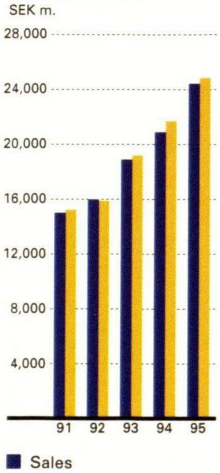
Effective January 1, 1995, Atlas Copco South Africa (Pty) Ltd, with 290 employees, was consolidated as a wholly owned Atlas Copco subsidiary.

On January 1, 1996, Atlas Copco acquired the German company IRMER+ELZE's portable compressor and compressed air-powered breakers operations. The company has annual sales of approximately SEK 100 m. The transaction has been approved by the German Competition Authority.

Following the close of fiscal 1995, AVC Intressenter AB, a holding company owned 50 percent each by Atlas Copco and Volvo Aero, has sold VOAC Hydraulics to the American company Parker Hannifin. VOAC Hydraulics was formed in 1992 through the merger of Volvo Hydraulik and the Atlas Copco subsidiary Monsun-Tison.

It has been proposed that Chicago Pneumatic's operations in Utica, New York, be relocated to either North or South Carolina. In this way, Chicago Pneumatic will be situated closer to most of its customers, who are to be found increasingly in the central and southeastern United States. It is estimated that the move will be completed within one year.

Sales and orders received
SEK m.



Sales review

Sales increased in most markets in 1995, particularly in North and South America, Southeast Asia, Japan, India and southern Africa. During the latter part of the year, demand weakened gradually, especially in Europe.

At year-end 1995, the order backlog totaled SEK 3,795 m., compared with SEK 3,834 m. at the end of 1994.

Atlas Copco's sales of small and medium-sized industrial compressors to the *manufacturing industry* increased favorably during the year. Significantly improved sales were noted, particularly in North America, Japan and certain European markets. Sales of industrial tools also rose. However, a decline was noted during the second half of the year. Sales in the U.S., Italy and India were particularly favorable. Through the acquisition of Milwaukee, sales increased sharply in North America. Orders received for large customized compressors from process industries increased sharply, particularly from companies engaged in the separation of nitrogen, oxygen and argon gases from the air.

The Group's sales to the manufacturing industry accounted for about 50 percent of total invoicing.

Demand within the *building and construction industry* remained weak, especially for mechanized drilling equipment for large infrastructure projects. A positive sales trend was noted in Japan and certain other Southeast Asian countries, however. In addition, a rising demand was noted towards the end of the year, which resulted in an increased order backlog. Orders received for portable compressors increased, particularly in South Korea, Spain, South Africa and Brazil, while demand was weak in Germany. Demand for demolition tools from rental companies increased, primarily in Germany and the United Kingdom. The acquisition of Milwaukee is resulting in increased sales of tools within this sector.

The building and construction industry accounted for about 30 percent of the Group's total invoicing.

Sales to the *mining industry* increased sharply during the year as a result of rising metal prices. High gold price levels, for example, resulted in increased sales of rigs for production drilling. Particular successes were noted for sales of drilling equipment and loaders to mining customers in Canada, Chile, Peru, Ghana, Australia and Eastern Europe

Of the Group's total invoicing, about 10 percent was accounted for by the mining industry.

Marketing organization

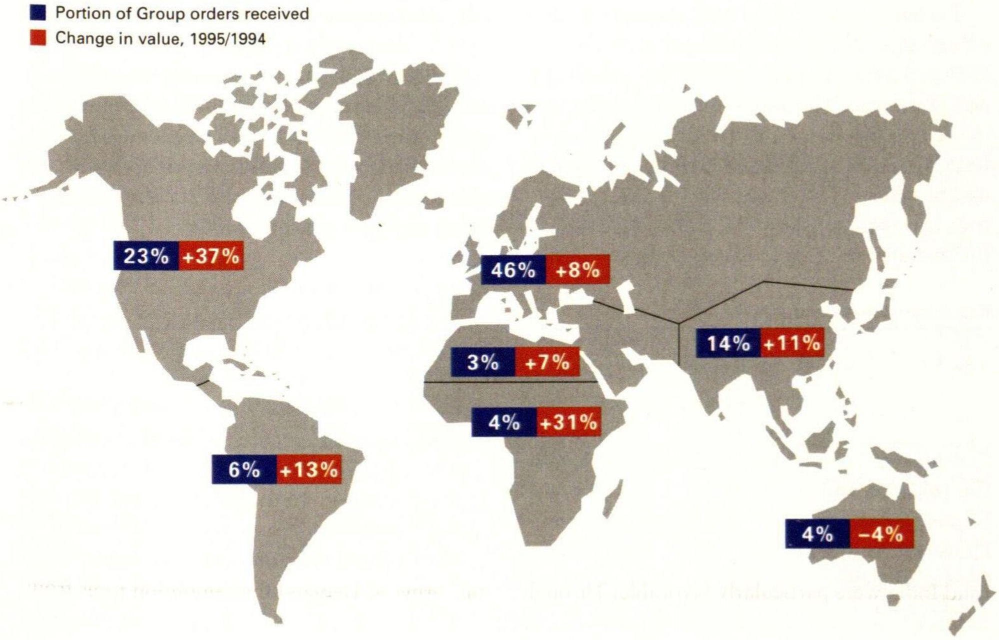
Following the lifting of Swedish sanctions against South Africa, which is an important market for Atlas Copco products, Atlas Copco acquired the shares outstanding in its formerly jointly-owned company, Atlas Copco South Africa (Pty) Ltd. This company, which sells both compressors and drilling equipment, noted a favorable trend of sales during the past year. Atlas Copco also has its own local company for the sale of rock drilling tools in the South African market. In order to maintain a high level of service in this market, the manufacture of drilling machines and rock drilling tools is conducted locally. The Desoutter and Chicago Pneumatic divisions, both of which are part of the Industrial Technique business area, also have their own local sales companies in South Africa.

The sales organization in Eastern Europe, where sales increased sharply during the year, has been additionally expanded. For example, in Poland Atlas Copco has taken over the former agent's operations within the Construction and Mining Technique business area. At the end of the year, sanctions were lifted against Serbia-Montenegro. This means that Atlas Copco has been able to resume its cultivation of this market to mainly cover an accumulated need within the area for mining equipment.

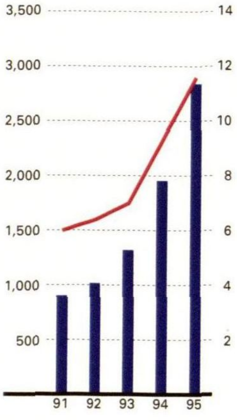
To meet an increasing demand in Southeast Asia, market cultivation activities were intensified in Thailand, Vietnam and MyanMar (formerly Burma), where a new sales office was established, among other countries.

To increase delivery reliability and to reduce the capital tied up in inventories, the concentration of distribution to the Group's various distribution centers continued during the year. The centers have also been adapted to an increasing extent to match the needs of the individual divisions.

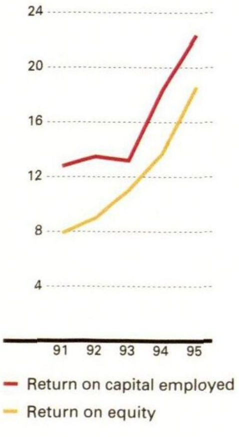
Geographic distribution of orders received, 1995



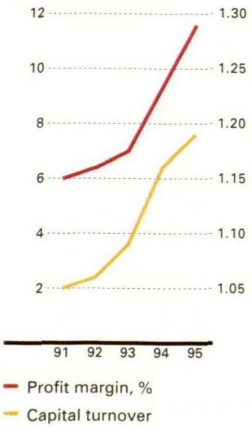
Earnings and profit margin



Return



Profit margin and capital turnover



Financial summary and analysis

Earnings

	1995	1994
Earnings per share, SEK	9.93	6.51
Return on capital employed, %	22.4	18.4
Return on equity, %	18.6	13.7
Profit margin, %	11.6	9.3

Definitions of key figures, page 21.

Atlas Copco Group profit after financial income and expense rose by 45 percent to SEK 2,840 m. (1,955).

The profit margin rose to 11.6 percent (9.3). Net profit for the year after tax was SEK 1,823 m. (1,194). Tax expenses for the year amounted to SEK 990 m. (737). Earnings per share were SEK 9.93 (6.51), up 53 percent.

The return on capital employed was 22 percent (18) and on equity 19 percent (14).

Earnings analysis

Operating profit before depreciation totaled SEK 3,377 m. (2,777), corresponding to 13.8 percent (13.3) of invoicing. Operating profit for 1994 included a capital gain of SEK 195 m. from the sale of the Atlas Copco Automation division. The improvement in margin in 1995 was mainly due to rising sales volumes and higher productivity.

Exchange-rate changes had a negative effect on earnings, mainly as a result of the weaker USD and a strong appreciation in the SEK at the end of the year. The negative effects are due to the Group showing a considerable surplus of USD expressed as the net of deposits and payments, while the reverse applies to SEK. However, earnings were affected only marginally by the so-called translation effect, meaning when the earnings of the foreign subsidiaries are translated to SEK.

Cost depreciation in 1995 amounted to SEK 712 m. (887). The figure for 1994 included a non-recurring amortization of goodwill totaling SEK 180 m.

In connection with the acquisition of the American company Milwaukee Electric Tool Corporation as of August 1, 1995, a goodwill item in the amount of SEK 3,107 m. arose, representing the difference between the purchase price paid and the value of the net assets. The goodwill will be amortized over a period of 40 years, since this provides the most accurate picture of the strategic acquisition's impact on the Atlas Copco Group's earnings and financial position. See also page 32, under Goodwill.

Operating profit after depreciation increased 41 percent to SEK 2,665 m. (1,890), which corresponds to an operating margin of 10.9 percent (9.0).

Operating profit after depreciation for the Compressor Technique business area increased by 19 percent to SEK 1,700 m. (1,433). The improvement was mainly attributable to increased volumes and greater efficiency, while exchange-rate changes had an adverse effect on earnings.

Operating profit after depreciation for the Construction and Mining Technique business area increased by SEK 336 m. to SEK 394 m. (58). The improvement was due mainly to increased volumes and the effects of rationalization measures. During 1994, earnings were charged with substantial restructuring costs in connection with the closure of the plant in Bremen.

Operating profit after depreciation for the Industrial Technique business area increased 43 percent to SEK 674 m. (470). The increase was attributable to the acquisition of Milwaukee, a strong trend of sales for industrial tools and efficiency improvements.

Key figures by business area

	Invoiced sales		Operating profit		Return on capital employed %		Investments	
	1995	1994	1995	1994	1995	1994	1995	1994
Compressor Technique	11,177	9,889	1,700	1,433	31	27	270	226
Construction and Mining Technique	6,194	5,472	394	58	14	3	162	139
Industrial Technique	7,083	5,553	674	470	15	14	238	222
Corporate Items			–103	–71			41	45
Total Group	24,454	20,914	2,665	1,890	22	18	711	632

Investments

Excluding existing plants in acquired companies, investments in plant and equipment totaled SEK 711 m. (632). The distribution of investments was SEK 171 m. (132) in Sweden and SEK 540 m. (500) outside Sweden.

Geographical distribution of investments

	1995	1994
Europe	472	405
North America	124	78
South America	22	62
North Africa/Middle East	2	2
South Africa	18	26
India/East Asia	59	54
Oceania	14	5
Total	711	632

The largest investments related to the expansion of the Oil-free Air division's compressor plant in Antwerp, the expansion of the Avos Works in Örebro, Sweden, and new production equipment for several plants.

Investments during the year exceeded the total depreciation booked on machinery, equipment and buildings. In total, depreciation on these assets during the year amounted to SEK 597 m. (611).

Financial analysis

	1995	1994
Net financial items	86	–1
Debt/equity ratio, %	30	4
Rate of equity capital, %	48	51

The Group's balance sheet increased during the year to SEK 22,179 m., or by 22 percent. Acquired companies accounted for 18 percent, while the strengthening of the SEK during the year had an adverse effect of approximately 7 percent on total assets. The capital turnover ratio was 1.19 (1.16).

The notes to the cash flow analysis on page 17 describe how exchange-rate changes affected the Group's financial position during the year.

Inventories and accounts receivable

During the year, the Group implemented extensive programs to further reduce the amount of tied-up capital. The value of Group inventory increased, mainly as a result of the acquisitions made and higher sales volumes. In relation to invoicing, and excluding hire fleet, the value of inventory decreased to 18.8 percent (18.9).

During the year, receivables declined to 19.6 percent (20.5) of invoicing.

Net indebtedness

The Group's net indebtedness, meaning the difference between interest-bearing liabilities and liquid assets, amounted to SEK 3,166 m. (351), of which SEK 1,910 m. (1,840) related to pension provisions. The increase in indebtedness was due to the financing of the Milwaukee acquisition. The debt/equity ratio, meaning net indebtedness in relation to shareholders' equity, increased to 30 percent (4). Gross borrowing, excluding pensions, is to an overwhelming extent of a short-term nature, with maturity dates of less than one year.

Net cash flow during the year was SEK –3,143 m. (1,291). Cash flow before acquisitions, divestments and dividends totaled SEK 1,530 m. (1,376).

Liquid assets amounted to SEK 1,886 m. (2,964), corresponding to 8 percent (14) of invoicing.

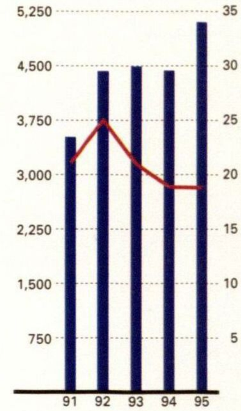
Net financial items

The net of the Group's financial income and expense rose to an income of SEK 86 m. (–1), of which net interest items accounted for SEK 129 m. (57) and financial exchange-rate differences for SEK –45 m. (–59). Despite average net borrowing being higher during the year, net interest items increased, mainly due to an improved net from the currency hedging of foreign net assets.

Summary of cash flow analysis

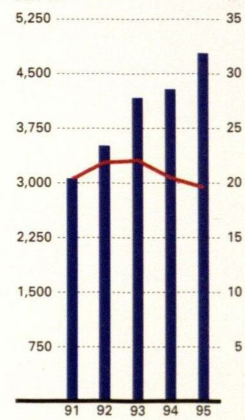
	1995	1994
Surplus liquid funds from operations	3,377	2,443
Change in working capital	–592	–63
Investments in plant and equipment	–711	–632
Cash flow from operations	2,074	1,748
Financial items, including tax payments	–544	–372
Cash flow from operations after financial items	1,530	1,376
Company acquisitions/ divestments	–4,242	257
Dividend to shareholders	–431	–342
Net cash flow	–3,143	1,291

Inventories



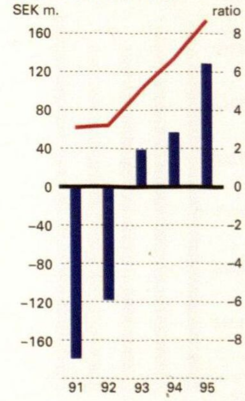
– Inventories excl hire fleet as % of sales
■ Inventories, SEK m.

Customer receivables



– Customer receivables as % of sales
■ Customer receiv. SEK m.

Net interest items and interest cover ratio



– Interest cover ratio
■ Net interest items, SEK m.

Share in associated companies

Atlas Copco applies the equity method, which means that participation in the results of associated companies is included in reported profit. For the 12-month period, such participation amounted to SEK 89 m. (66) and related primarily to the 50-percent owned hydraulics company AVC Intressenter with its subsidiary, VOAC Hydraulics.

Shareholders' equity

Group shareholders' equity, including minority interests, amounted to SEK 10,599 m. (9,303). The negative translation effect from the strengthened SEK was largely offset by the currency hedging measures undertaken. Shareholders' equity per share amounted to SEK 58 (51).

Equity/assets ratio

The equity portion of total assets was 48 percent (51).

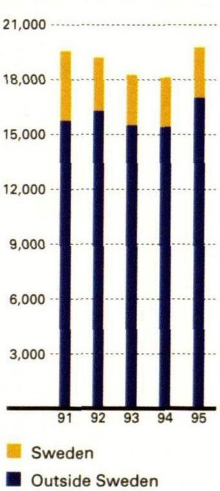
Personnel

	1995	1994
Average number of employees, total	19,751	18,104
Sweden	2,743	2,701
Outside Sweden	17,008	15,403
Business areas		
Compressor Technique	7,661	7,297
Construction and Mining Technique	5,349	5,182
Industrial Technique	6,631	5,505
Other	110	120

The average number of persons employed within the Atlas Copco Group increased in 1995 by 1,647 to 19,751 (18,104). The proportion of employees in Swedish units was 14 percent (15). Of the average number of employees, 84 percent (84) were men and 16 percent (16) women. In Sweden, the corresponding figures were 84 percent (83) men and 16 percent (17) women. See also page 64.

At year-end, total number of persons employed was 21,081 (18,030).

Employees, average



The Group's payroll expenses

	1995	1994
Boards of Directors and senior executives [including bonus payment of 7 (10)]	146	143
Other employees	4,815	4,203
Total	4,961	4,346

The Atlas Copco Group's total payroll expenses amounted to SEK 6,567 m. (5,913), of which SEK 1,606 m. (1,567) represented social welfare costs.

Product development

	1995	1994
R&D costs	718	620
Total in % of invoicing	2,9	3,0

During 1995, product development within the Group's various divisions was again allocated high priority, which resulted in the launch of a large number of new products. Total investment in research and development increased by 16 percent, and amounted to 2.9 percent of invoicing.

Within the Compressor Technique business area, a new series of oil-free compressors was introduced. A new type of centrifugal compressor was also developed and commercially launched. The generator program introduced in 1994 as a complement to portable compressors was expanded during 1995 with new models.

Within the Construction and Mining Technique business area, a new generation of crawler rigs were developed. Market launch is planned for spring 1996. An effective range of down-the-hole drills and bits offering substantially improved productivity was launched in the market. In addition, the remaining range of rock drilling tools was expanded to reach new customer groups and extend areas of application. A new series of breakers was developed for the construction market, as was a range of hydraulic breakers based on a new design. An extensive development program is in progress within the loading machines and trucks product area.

An extensive range of new products was developed within the Industrial Technique business area during the year. The introduction of new tools and accessories was extensive within Milwaukee Electric Tool. Of this division's total sales, more than 30 percent derives from products developed within the past three years. During the year, a powerful rotary hammer, a compound miter saw for woodworking applications, a grinding machine and a number of battery-powered tools were introduced. Within the motion control product area, development work was intensified as a result of the acquisition of the Swiss company, Socapel, among other factors. The various divisions have focused their development work of pneumatic tools on ergonomic improvements and measures for higher efficiency.

Parent company

Earnings from real estate management operations in the Sickla industrial estate are included in the Parent Company through Sickla Industrifastigheter KB, a limited partnership company.

In order to adjust the book value of shares in certain subsidiaries to their reported capital, write-downs have been made in a total amount of SEK 134 m. A write-up of the Dutch holding company, Atlas Copco Beheer b.v., has been made in a corresponding amount.

Earnings

Dividends from subsidiaries amounted to SEK 335 m. (274).

Profit after financial items totaled SEK 567 m. (629). The figure for the preceding year included a capital gain of SEK 217 m. from the sale of the Atlas Copco Automation division.

The Parent Company reported a net profit after appropriations and taxes of SEK 847 m. (955). As a result, unappropriated earnings amounted to SEK 2,423 m. (1,998).

Financing

The balance sheet of the Parent Company increased by SEK 2,052 m. to SEK 9,478 m.

At year-end 1995, cash, bank deposits and short-term investments amounted to SEK 972 m. (1,500).

The Parent Company's debt/equity ratio, meaning net indebtedness in relation to shareholders' equity, was 42 percent (8). The increase was attributable to the financing of the American holding company's acquisition of Milwaukee Electric Tool Corporation.

The equity portion of total assets was 60 percent (69).

Personnel

The average number of employees in the Parent Company during the year was 64 (62), of whom 53 percent (50) were women.

The Parent Company's payroll expenses

	1995	1994
Board of Directors and senior executives [including bonus payment of 2 (5)]	13	13
Other employees	23	25
Total	36	38

A specification of the fees and other remunerations made to the Directors, the President and other members of Group management is shown in note 26.

Distribution of shares

Atlas Copco's share capital at year-end amounted to SEK 918 m.

Distribution of shares

A-shares (one vote)	122,497,590
B shares (one tenth of a vote)	61,018,330
Total	183,515,920

Each share has a par value of SEK 5.

Dividend

The Board of Directors proposes a dividend of SEK 3.00 (2.30) per share, corresponding to a total of SEK 551 m. (422).

Consolidated Income Statement

Amounts in SEK m.			1995	1994
Operating income	Invoiced sales	Note 1	24,454	20,914
Operating expense	Cost of goods sold	Note 2	–15,571	–12,958
	Technical development, marketing and administrative costs, etc.	Note 2	–5,506	–5,179
Operating profit before depreciation			3,377	2,777
Cost depreciation		Note 3	–712	–887
Operating profit after depreciation			2,665	1,890
Financial income and expense		Note 4	86	–1
Share in associated companies		Note 11	89	66
Profit after financial income and expense			2,840	1,955
Taxes		Note 6	–990	–737
Minority interest		Note 7	–27	–24
Net profit			1,823	1,194
Earnings per share, SEK		Note 24	9.93	6.51

Consolidated Balance Sheet

Amounts in SEK m.			Dec. 31, 1995		Dec. 31, 1994	
ASSETS						
Current assets	Cash, bank and short-term investments	Note 8	1,886		2,964	
	Receivables	Note 9	6,021		5,103	
	Inventories	Note 10	5,100	13,007	4,434	12,501
Fixed assets	Shares and participations	Note 11	279		255	
	Goodwill	Note 12	3,746		913	
	Other fixed assets	Note 13	5,147	9,172	4,529	5,697
Total assets				22,179		18,198
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	**Non-interest-bearing liabilities**					
	Notes payable		81		86	
	Suppliers		1,470		1,343	
	Provision for taxes		465		466	
	Accrued expenses and prepaid income		1,877		1,751	
	Other current liabilities		1,374		1,193	
	Interest-bearing liabilities					
	Bank loans	Note 18	2,561		1,266	
	Current portion of long-term liabilities		20		90	
	Other current liabilities		5	7,853	29	6,224
Long-term liabilities	**Non-interest-bearing liabilities**					
	Other long-term liabilities		264		90	
	Deferred tax liabilities		997		651	
	Interest-bearing liabilities					
	Mortgage and other long-term loans	Note 19	556		90	
	Provision for pensions	Note 20	1,910	3,727	1,840	2,671
Total liabilities				11,580		8,895
Minority interest		Note 7		125		120
Shareholders' equity	Share capital		918		918	
	Restricted reserves	Note 22	4,057		4,225	
	Retained earnings	Note 23	3,676		2,846	
	Net profit		1,823	10,474	1,194	9,183
Total liabilities and shareholders' equity				22,179		18,198
Assets pledged		Note 25		144		150
Contingent liabilities		Note 25		846		595

Cash Flow Analyses

Amounts in SEK m.	Group 1995	Group 1994	Atlas Copco AB 1995	Atlas Copco AB 1994
Invoiced sales	24,454	20,914		
Operating expense	–21,789	–19,358		
Reversal of depreciation	712	887		
Surplus liquid funds from operations	3,377	2,443	77	103
Change in				
Operating receivables	–419	–335	–7	140
Inventories	–444	–164	–	–
Operating liabilities	271	436	–9	–40
Change in working capital	–592	–63	–16	100
Investments in plant and equipment	–711	–632	–2	–6
Total cash flow from operations before financial items	2,074	1,748	59	197
Net financial income/expense	86	–1	476	300
Dividends from associated companies	20	6	18	–
Sale of plant and equipment	78	126	0	0
Group contributions			686	677
Tax payments	–852	–626	–212	–201
Other items, net	124	123	–278	39
Total cash flow from operations after financial items	1,530	1,376	749	1,012
Cash flow from acquisitions/divestments	–4,242	257	–4	31
Total cash flow before dividend	–2,712	1,633	745	1,043
Dividend to shareholders	–431	–342	–422	–330
Total net cash flow	–3,143	1,291	323	713

Notes to Atlas Copco Group Cash Flow Analysis

The purpose of a cash flow analysis is to provide a description of a company's capacity to generate cash during a given period. This information is an important complement to the description of the profitability and financial position contained within the Income Statements and Balance Sheets. The analysis shown on the preceding page shows the net of the Group's flows during the year based on income statement and balance sheet entries.

The impact on the Group's assets and liabilities of exchange-rate changes, so called translation differences, is not classified as real cash flow and is therefore reported in a special table below.

Liquid operating surplus

The operating surplus, after the reversal of depreciation and capital gains, increased by 38 percent and rose to 13.8 percent (11.7) of Group invoicing.

Cash flow from operations before financial items

As a consequence of the increase in Group sales, working capital (operating receivables and inventories less operating liabilities) rose by 592 (63).

Investments in plant and equipment increased to 711 (632).

Despite an increase of funds tied up in working capital and investments during the year, cash flow from operations before financial items rose to 2,074 (1,748).

Cash flow from operations after financial items

Higher tax payments compared with 1994 were offset by an improvement in the financial net and in liquid funds resulting from the Group's currency hedging of net investments in foreign subsidiaries. This latter sub-item is reported among Other items. Cash flow from operations after financial items totaled 1,530 (1,376).

Net cash flow

After the effects of divestments and the acquisition of operations, plus the dividend to shareholders, of which 9 (12) related to dividends to minority interests in subsidiaries, net cash flow totaled –3,143 (1,291).

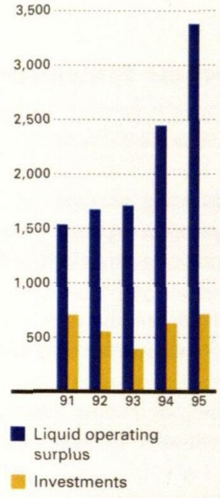
Five-year summary of cash flow analysis 1991–1995

Surplus liquid funds from operations	10,748
Change in working capital	999
Investments in plant and equipment	–2,996
Total cash flow from operations, before financial items	8,751
Net financial income/expense and dividends from associated companies	–150
Sale of plant and equipment	612
Tax payments	–2,591
Other items, net	–573
Total cash flow from operations, after financial items	6,049
Cash flow from acquisitions/divestments	–5,541
Total cash flow before dividend	508
Dividend to shareholders	–1,632
Total net cash flow	–1,124

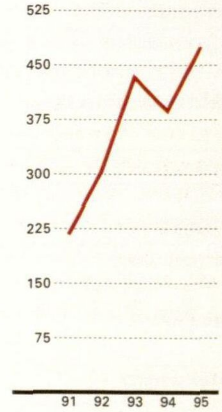
Net indebtedness

	1991	1992	1993	1994	1995
Net indebtedness, January 1	–1,852	–1,811	–2,214	–1,779	–351
Total net cash flow	41	0	687	1,291	–3,143
Exchange-rate effects	0	– 403	–252	137	328
Net from operations	41	– 403	435	1,428	–2,815
Net indebtedness, December 31	–1,811	–2,214	–1,779	–351	–3,166
Provision for pensions	1,257	1,756	1,905	1,840	1,910
Net indebtedness, excluding Provision for pensions, December 31	–554	– 458	126	1,489	–1,256

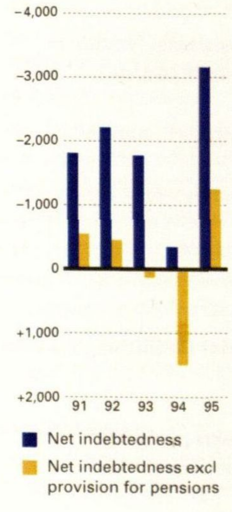
Cash flow and investments
SEK m.



Self-financing ratio
%



Net indebtedness
SEK m.



Income Statement and Balance Sheet

Income Statement

Amounts in SEK m.		1995	1994
Operating income		181	412
Operating expense		–102	–76
Operating profit before depreciation		79	336
Cost depreciation	Note 3	–6	–7
Operating profit after depreciation		73	329
Financial income and expense	Note 4	494	300
Profit after financial income and expense		567	629
Appropriations	Note 5	492	527
Profit before taxes		1,059	1,156
Taxes	Note 6	–212	–201
Net profit		847	955

Balance Sheet

Amounts in SEK m.			Dec. 31, 1995		Dec. 31, 1994	
ASSETS						
Current assets	Cash, bank and short-term investments	Note 8	972		1,500	
	Receivables	Note 9	1,731	2,703	1,533	3,033
Fixed assets	Shares and participations	Page 29	4,024		4,018	
	Other fixed assets	Note 13	2,751	6,775	375	4,393
Total assets				9,478		7,426
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	Non-interest-bearing liabilities	Note 17	276		286	
	Interest-bearing liabilities	Note 17	2,305	2,581	1,475	1,761
Long-term liabilities	Interest-bearing liabilities	Note 19, 20		1,025		412
Total liabilities				3,606		2,173
Untaxed reserves		Note 21		794		600
Shareholders' equity	Share capital (183,515,920 shares, par value SEK 5)		918		918	
	Legal reserve	Note 22	1,737		1,737	
	Retained earnings	Note 23	1,576		1,043	
	Net profit		847	5,078	955	4,653
Total liabilities and shareholders' equity				9,478		7,426
Assets pledged		Note 25		4		4
Contingent liabilities		Note 25		307		441

Notes to financial statements

SEK m. unless otherwise noted

Accounting principles

Change in accounting principles
Compared with the preceding year, no changes have been made in the Company's accounting principles.

International guidelines
In all essential respects, Atlas Copco follows the guidelines prepared by the OECD for companies with international operations.

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

The Company also views positively the guidelines with respect to multinational companies and the labor market, which have been prepared by the United Nations Organization for labor matters (ILO). In conformity with international standards, the following designations have been used in this Annual Report: Currency: SEK = Swedish kronor. Other currencies: See page 31. Suffix m. = millions.

Consolidation
With the exception of the way in which goodwill is treated, the consolidated accounts have been prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council.

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 50 percent of the voting rights, as well as those companies in which the Group in some other manner has a decisive influence and a substantial participation in the income from their operations. The consolidated accounts have been prepared in accordance with the purchase method, which means that assets and liabilities are reported at market value according to the acquisition plan. If the acquisition cost exceeds the market value of the company's net assets, calculated as above, the difference is reported as goodwill, see below.

Companies acquired during the year have been reported in the Consolidated Income Statement, with the amounts relating to the period following the date of acquisition. 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 time of the divestment.

The Consolidated Income Statement and Balance Sheet are shown without untaxed reserves and appropriations. Under Swedish law, this may only be done in consolidated statements. Untaxed reserves reported in individual Group companies have been apportioned in such a manner that deferred taxes are reported as a long-term liability, while the remaining amount is included in restricted reserves in the Consolidated Balance Sheet.

Deferred taxes are thus calculated individually for each company on the basis of current local income tax rates at the estimated date of the reversal for taxation, i.e. generally the next accounting year. The tax calculated in this manner relating to the appropriations for the year in the individual companies is included in the Group's tax expense as deferred taxes while the remaining amount is included in the consolidated net profit. If the tax rate is changed, the change in tax liabilities is reported among tax expenses for the year.

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

A company acquisition, in which the acquisition price exceeds the company's net assets, valued at market prices, results in intangible assets, which are capitalized and amortized over a certain period. Goodwill is normally amortized over ten years, while goodwill arising from strategic acquisition is amortized over a period of 20–40 years. For reporting of goodwill regarding the Milwaukee acquisition, see page 32.

The economic life of assets is appraised annually to determine whether the selected amortization plan is sufficient.

Associated companies
Companies in which the Atlas Copco Group has between 20 and 50 percent of the voting rights, and in which it has a substantial ownership involvement, are reported as associated companies. Holdings in associated companies are reported in the Consolidated Income Statement and Balance Sheet in accordance with the equity method. Atlas Copco's share of income after net financial items in associated companies is reported in the Income Statement under the heading Financial income and expense. Shares of taxes in associated companies are reported in consolidated tax expense.

The related acquisition costs are reported among Shares and participations in the Balance Sheet, increased or reduced by shares of income and less dividend received. Undistributed income in these companies is reported among restricted reserves in consolidated shareholders' equity.

Internal profits have been eliminated in appropriate cases.

Translation of accounts of foreign subsidiaries
Atlas Copco applies the current-rate method in translating the accounts of foreign subsidiaries, in accordance with the suggested

recommendations of the Swedish Institute of Authorized Public Accountants FAR. 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 to this approach are those subsidiaries which are located in high-inflationary countries. The accounts of such subsidiaries are translated according to the monetary/non-monetary method. In accordance with this suggested recommendation, such a procedure is regarded as providing a more accurate picture of the earnings and financial positions of these companies. In accordance with the current-rate method, all assets and liabilities in the balance sheets of subsidiaries are translated at year-end rates and all items in the income statements at the average exchange rate for the year. Translation differences that arise are a result of the fact that net investments are translated at year-end at a rate different from that used at the beginning of the year. This does not affect earnings, but is instead transferred directly to shareholders' equity.

For those subsidiaries treated according to the monetary/non-monetary method, all non-monetary items, real estate (land and buildings), machinery and equipment, inventories, shareholders' equity and deferred tax, are translated at the acquisition date rates. Other items, monetary items, are translated at year-end rates. The income statement items have been translated at the average rate for the year, except for the cost of goods sold, depreciation and deferred taxes, 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.

Classification of foreign subsidiaries

In a particular respect, FAR's suggested recommendations require that the user chooses translation procedures according to the specific situation. This applies to the classification of the foreign subsidiaries as either independent or integrated companies. How the company is defined leads directly to the choice of translation method. The accounts of independent companies are translated according to the current-rate method, and integrated companies according to the monetary/non-monetary method.

Based on the criteria defined for classification of companies, the great majority of Atlas Copco's subsidiaries should be regarded as independent companies. As a consequence, the accounts of all subsidiaries of the Atlas Copco Group are translated according to the current-rate method except for the companies in high-inflationary countries, primarily Latin America. The operational currency of these companies is regarded as being the USD, and is therefore translated in two stages. In the first stage, translation is made to USD in accordance with the monetary/non-monetary method, whereby translation differences arising are charged to consolidated income. In the second stage, the company's balance sheet items are translated to SEK according to the year-end rate and the income statement items according to the average rate for the year. The resulting translation differences are transferred directly to shareholders' equity.

For Group companies in Brazil, an inflation-adjusted year-end report is prepared in the local currency. This is subsequently translated to USD in accordance with the year-end rate and then to SEK, whereby translation differences arising are transferred directly to shareholders' equity.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are translated at the year-end rate. For individual Swedish companies, these receivables and liabilities are reported in accordance with Directive R7 of the Swedish Accounting Standards Board. Unrealized exchange-rate gains on long-term receivables and liabilities are allocated to a currency exchange reserve and are reported as appropriations.

In the case of currency exchange through a swap agreement, the loan is valued at 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 booked liability, the difference is included under contingent liabilities.

Exchange rates for major currencies used in the year-end accounts are shown on page 31.

Hedging of net investments

Forward contracts, currency swaps and loans in foreign currencies have been arranged in order to hedge the Group's net assets in foreign subsidiaries. Foreign exchange gains and losses on such contracts, less current and deferred tax, are not included in income for the year but are offset against translation differences arising in connection with the translation of the foreign subsidiaries' net assets. In the individual subsidiaries, such contracts are valued in accordance with the lowest-value principle for receivables and with the highest-value principle for liabilities.

The interest-rate differences between currencies are included in the net interest items and are distributed evenly over the term of each contract.

Hedging of commercial flows

When calculating the value of the forward contracts outstanding, provision is made for unrealized losses to the extent these exceed unrealized gains. Unrealized gains which exceed unrealized losses are not recognized as revenue. When calculating unrealized exchange-rate differences, that portion of the hedged amounts is excluded for which currency flows, through currency transactions, are most likely to cover the forward contracts.

Financial investments

Financial and other investments, that are to be held to maturity, are valued at acquisition cost. Investments intended for trading are valued at market rates.

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 product companies to the sales companies. Deferred tax has been taken into account in connection with these latter transactions.Transfer pricing between the companies is based on market price setting.

Research and development costs
Atlas Copco's own research and development costs are expensed as incurred.

Product development costs and warranty costs
Product development costs are charged against operations when they are incurred.

Estimated costs of product warranties are charged against cost of sales at the time the products are sold.

Depreciation
The Atlas Copco Group uses three depreciation concepts; cost depreciation, book depreciation and current cost depreciation. *Cost depreciation* is based on original cost and is applied according to the straight-line method over the economic life of the asset. *Book depreciation* is used in each individual company in accordance with the maximum amount permitted by tax legislation in each country. The difference between book depreciation and cost depreciation is reported under Appropriations in the Income Statement. The total value is reported in the Balance Sheet among untaxed reserves under the heading Accumulated additional depreciation. In the case of the Group, untaxed reserves and appropriations are eliminated.
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:

Goodwill and other intangible assets	10–40 years
Buildings	25–50 years
Machinery and equipment	3–10 years
Vehicles	4–5 years
Computer equipment	3–4 years

Taxes
The company calculates deferred tax based on the differences between reported values in the balance sheet and residual value available for tax purposes. Those tax-loss carryforwards arising are anticipated in instances where it is more likely than not that they will result in lower tax payments in the future. When calculating deferred tax, the nominal tax rates prevailing in each country have been used individually for each company. Deferred tax relating to 1995 operations is shown under the entry Taxes in the Income Statement and is specified in note 6 and under Fixed assets and Non-interest-bearing long-term liabilities in the Balance Sheet.

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 and foreign exchange differences as a percentage of average total assets less non-interest-bearing liabilities.

In calculating capital employed in the business areas, in contrast to the calculation for the Group, deferred tax liabilities are not deducted.

Return on equity
Profit after financial income and expense less full tax and minority interest as a percentage of average shareholders' equity.

Rate of equity
Shareholders' equity and minority interest, as a percentage of total assets.

Self-financing ratio
Surplus liquid funds from operations as a percentage of investments in plant and equipment.

Capital turnover ratio
Invoiced sales divided by average total assets.

Net indebtedness
Difference between interest-bearing liabilities and liquid assets.

Debt/equity ratio
Net indebtedness in relation to shareholders' equity, including minority interest.

Interest coverage ratio
Profit after financial income and expense plus interest paid and foreign exchange differences divided by interest paid and foreign exchange differences.

Earnings per share
Profit after financial income and expense less full tax and minority interest, divided by the average number of shares outstanding.

Notes

1 Invoiced sales by market

		Group
	1995	1994
Europe incl CIS	11,447	10,591
of which Sweden	*1,065*	*926*
of which EU	*9,998*	*7,737*
North America	5,543	3,947
South America	1,362	1,168
North Africa/Middle East	721	647
Southern Africa	942	678
India/East Asia	3,445	2,980
Oceania	994	903
	24,454	20,914

Group revenues and operating income by business area are shown in the Board of Directors' Report and in the individual sections for each business area.

2 Operating expense

Provisions for future restructuring charges were made in the balance sheets of companies acquired during the year in the amount of 30.

Capital gains/losses arising from continual scrapping and/or sales of fixed assets are included in reported operating expenses in the amount of 0 (22). Operating income in the preceding year included a capital gain of 195 from the sale of the Atlas Copco Automation division.

The calculation of added value is shown in note 27.

		Group
	1995	1994
Technical development costs	718	620
Marketing and administrative costs	4,788	4,559
	5,506	5,179

The above costs include taxes in Sweden amounting to 14 (12), based on pension liabilities and pension payments; profit tax and payroll tax.

3 Depreciation

	Group		Parent Company	
	1995	1994	1995	1994
Goodwill Note 12	115	276	–	–
Machinery and equipment	500	491	4	5
Buildings	97	120	2	2
	712	887	6	7

The figure for 1994 included a non-recurring amortization of goodwill totaling 180.

Current cost depreciation for the Group amounted to 856 (977) and thus exceeds cost depreciation by 144 (110). See also Current cost accounting, page 35.

4 Financial income and expense

	Group		Parent Company	
	1995	1994	1995	1994
Dividends received				
from subsidiaries			335	274
from others	2	1	19	0
Interest				
from subsidiaries			169	76
from others	454	340	345	211
to subsidiaries			–259	–175
to others	–325	–283	–124	–81
Foreign exchange differences	–45	–59	9	–5
	86	–1	494	300

The interest portion of this year's provision for pensions is not charged against operating income but is shown as interest expense for both Swedish and foreign companies. The amount is based on the average of the opening and closing pension provisions. For Swedish companies, interest has been calculated at 6.2 percent (7.7). The interest portion for 1995 amounted to 102 (117), of which Swedish companies accounted for 47 (61). In the Parent Company, the corresponding amount was 25 (31).

The interest differential between international and Swedish interest rates on forward contracts and swap agreements used to hedge shareholders' equity in non-Swedish companies in the Group amounted to 199 (134) and is included in the item Interest from others.

5 Appropriations

Tax legislation in Sweden and in certain other countries allows companies to retain untaxed earnings through tax-deductible allocations to untaxed reserves. By utilizing these regulations, companies can appropriate and retain earnings within the business without being taxed. The untaxed reserves created in this manner cannot be distributed as dividends.

The untaxed reserves are subject to tax only when they are utilized. If the company reports a loss, certain untaxed reserves can be utilized to cover the loss without being taxed.

	Parent Company	
	1995	1994
Difference between book depreciation and cost depreciation Note 21	3	4
Dissolution of tax equalization reserve	57	86
Appropriation to tax allocation reserve	–254	–240
Group contributions, net	686	677
	492	527

Under certain circumstances, the transfer of earnings in the form of Group contributions can be made between Swedish companies within the same Group. The contribution is a tax-deductible expense for the donor and taxable income for the recipient.

The Parent Company received Group contributions from Atlas Copco Tools AB, Atlas Copco Construction and Mining Technique AB, Atlas Copco Rock Drills AB, Atlas Copco Compressor AB and others.

6 Taxes

	Group		Parent Company	
	1995	1994	1995	1994
Taxes paid				
Swedish taxes	218	203	212	201
Foreign taxes	634	487		
Deferred taxes	113	31		
Taxes in associated companies	25	16		
	990	737	212	201

Total tax expenses for the year, amounting to 990 (737), corresponded to 34.9 percent (37.7) of income after financial items.

Deferred taxes for the year were only marginally affected by changes in tax rates. The tax expense in the preceding year was adversely affected by 47. This amount included non-recurring costs of 50 as a result of the Swedish Parliament's decision to fully tax the capital-based tax equalization reserves (K-Surv) in conjunction with its dissolution. Applying unchanged tax rates, the tax expense for the year amounted to 34.8 percent (35.3).

Changes in tax legislation in Sweden mean that federal tax rate was reduced to 28 percent, effective 1994. The tax is estimated on the basis of the nominal book net profit, plus non-deductible items, and deductions for tax-free income and other deductions. For the Parent Company, this primarily involves tax-free dividends from shareholdings in subsidiaries. Effective 1994, the possibility was created to make appropriations to a tax allocation reserve. Appropriations to such reserves were made in the amount of 260 (240), of which the Parent Company accounted for 254 (240).

Capital-based tax equalization reserves (K-Surv) in the Group's Swedish companies amounted to 301 (361). Through 1993, the provision was based on a company's shareholders' equity. Changes in the tax regulations mean that existing reserves are to be reversed over seven years with effect from 1994.

7 Minority interest in subsidiaries' equity and earnings

Minority interest in income after financial income and expense amounted to 45 (37).

The Income Statement reports the minority shares in the Group's profit after tax of 27 (24). These minority interests relate primarily to Atlas Copco India, Atlas Copco Malaysia, as well as subsidiaries in Chicago Pneumatic.

	Group
Minority interest Dec. 31, 1994	120
Minority acquired	13
Dividends	–9
Translation differences	–26
Net profit	27
Minority interest Dec. 31, 1995	125

8 Cash, bank and short-term investments

	Group		Parent Company	
	1995	1994	1995	1994
Cash, bank	851	1,557	82	178
Financial investments				
Government				
Treasury bills	122	405	108	391
Treasury notes	190	122	59	51
Commercial papers	693	798	693	798
Other short-term investments	–	51	–	51
Other investments	30	31	30	31
	1,886	2,964	972	1,500

The Parent Company's guaranteed credit at predetermined interest-rate levels amounted to 1,665. The subsidiaries' granted but unutilized overdraft facilities amounted to 1,767.

9 Receivables

	Group		Parent Company	
	1995	1994	1995	1994
Notes receivable	461	445	–	–
Receivables from subsidiaries			1,633	1,441
Trade receivables	4,324	3,845	7	10
Prepaid expenses and accrued income	744	259	72	66
Tax receivables	61	56	–	–
Other receivables	431	498	19	16
	6,021	5,103	1,731	1,533

10 Inventories

	Group	
	1995	1994
Raw materials	214	194
Work in progress	834	686
Semi-finished goods	1,367	1,166
Finished goods	2,685	2,388
	5,100	4,434

11 Shares and participations

	Number of shares	Percent held	Par value loc cur[1]	Bookvalue SEK m.
Associated companies				
AVC Intressenter AB	6,750,250	50	100	72
Atlas Copco-CLLS Tools Co Ltd, HongKong	3,000,000	30	1	3
Atlas Copco-Diethelm Ltd, Thailand	49,000	49	100	1
Dalian Atlas Copco Application Co Ltd, China	1	38	[2]	0
Nanjing Huarui Construction Machinery Ltd, China	1	25	[2]	7
NEAC Compressor Service GmbH & Co KG, Germany	1	50	[2]	0
NEAC Compressor Service Verwaltungs GmbH, Germany	1	50	[2]	0
NEAC Compressor Service USA Inc	25,000	50	1	0
Pneumatic Equipment Corp, Philippines	2,400	30	100	0
Shanghai Atlas Copco Machinery Co Ltd, China	1	51	[2]	3
Shenzhen Nectar Engineering & Equipment Co Ltd, China	1	25	[2]	1
Toku-Hanbai KK, Japan	200,000	50	500	44
Share of equity exceeding bookvalue				128
				259
Other companies				
Shares and participations reported by				
Atlas Copco AB (as specified on page 29)				16
Shares and participations reported by subsidiaries				
Atlas Copco Yugoslavia Inc, Serbia	30,496	61[3]	[2]	0
Rasa Corporation, Japan	400,000	4	50	0
Misc. shares and participations				4
				20
Total for the Group				279

[1] Value per share [2] Without par value

[3] The company was not consolidated in the consolidated financial statements since the relevant information has not been received due to the conditions prevailing in Serbia.

At year-end, Parent Company holdings of listed shares (SILA) had a book value of 10 (10) and a market value of 60 (40).

Associated companies

The Atlas Copco Group's share in the income after financial items of associated companies amounted to 89 (66). Dividends from these companies amounted to 20 (6). The Group's share in shareholders' equity and untaxed reserves of associated companies, with deductions for deferred tax, amounted at the end of the fiscal year to 259 (230).

12 Goodwill

Changes in goodwill value according to the balance sheet:

	1995	1994
Acquired goodwill, Jan. 1	1,588	1,667
Accumulated amortization, Jan. 1	–675	–430
Acquired goodwill	3,196	9
Amortization for the year	–115	–276
Translation differences	–248	–57
Planned residual value, Dec. 31	3,746	913

Goodwill value includes trademarks arising from the acquisition of Milwaukee. Goodwill and trademarks are amortized over 40 years. Closing planned residual value amounted to 2,896.

Outstanding goodwill pertaining to the acquisition of Desoutter Ltd, 394, Atlas Copco Wagner Inc, 183, and Chicago Pneumatic Tool Company, 66, is amortized over 20 years. Other goodwill, totaling 207, relating to the acquisition of Socapel S.A., Compresseurs Worthington-Creyssensac S. A., Rotoflow Corporation Inc, Kango Ltd and others is amortized over a maximum of 10 years.

Amortization 1995 is distributed as follows:

	1995
40 years amortization	36
20 years amortization	50
10 years amortization	29
Total	115

13 Other fixed assets

	Group		Parent Company	
	1995	1994	1995	1994
Long-term receivables from subsidaries			2,668	293
Long-term receivables	85	63	11	6
Deferred tax receivables	503	385	–	–
Construction work in progress	96	121	–	–
Machinery and equipment Note 14	2,075	1,634	9	12
Buildings Note 15	1,679	1,629	42	43
Land Note 16	709	697	21	21
	5,147	4,529	2,751	375

14 Machinery and equipment

	Group		Parent Company	
	1995	1994	1995	1994
Cost	5,466	5,019	71	70
Accumulated cost depreciation	–3,391	–3,385	–62	–58
Planned residual value	2,075	1,634	9	12
Accumulated depreciation in excess of cost depreciation Note 21			–6	–9
Book value, net	2,075	1,634	3	3

The estimated acquisition value of rented premises, machinery and major computer and office equipment for the Group amounts to 388 (295). Leasing costs for this equipment is reported among operating expenses and amounted to 71 (61). Future costs for non-cancelable leasing contracts amounted to 188 (142).

15 Buildings

	Group		Parent Company	
	1995	1994	1995	1994
Cost	2,609	2,544	66	66
Undepreciated amount of revaluations	5	6	–	–
Accumulated cost depreciation	–935	–921	–24	–23
Planned residual value	1,679	1,629	42	43
Accumulated depreciation in excess of cost depreciation Note 21			–9	–9
Book value, net	1,679	1,629	33	34
Tax assessment value	370	390	45	45

The reported tax values for the Group pertain exclusively to buildings in Sweden. The book value of these amounted to 412 (408).

16 Land

	Group		Parent Company	
	1995	1994	1995	1994
Cost	685	673	17	17
Revaluations	24	24	4	4
Book value, net	709	697	21	21
Tax assessment value	114	132	25	25

The reported tax values for the Group pertain exclusively to land and land improvements in Sweden. The book value of these amounted to 291 (289).

17 Current liabilities

Current, non-interest-bearing and interest-bearing liabilities are reported in the Parent Company balance sheet as follows:

	Parent Company	
	1995	1994
Suppliers	8	9
Provision for taxes	211	198
Accrued expenses and prepaid income	52	77
Other current liabilities	5	2
Total non-interest-bearing liabilities	276	286
Bank loans Note 18	1,643	537
Liabilities to subsidiaries	662	901
Current portion of long-term liabilities	–	37
Total interest-bearing liabilities	2,305	1,475

18 Bank and promissory note loans

Short-term bank and promissory note loans are reported in the Group's balance sheet as follows:

	1995	1994
Parent Company		
Available under "USD 200 m. Eurocommercial Paper Program"		
Outstanding USD 91.4 m.	608	144
DEM 85.6 m.	398	–
Available under "USD 200 m. US Commercial Paper Program"		
Outstanding USD 49.4 m.	329	51
Other short-term loans and promissory notes	308	342
The Parent Company's bank loans and promissory notes	1,643	537
Subsidiaries	918	729
Group bank loans	2,561	1,266

19 Long-term liabilities

The Parent Company's long-term liabilities in the balance sheet pertain to Long term loans whereof external, 466 (0), internal, 150 (–), and Provision for pensions, 409 (412).

Mortgage loans and promissory notes	1995	1994
Parent Company		
Available under		
"USD 100 m. Medium Term Note Program"		
Outstanding USD –(5) m.	–	37
Other mortgage loans and promissory notes	466	0
Less: next year's maturities	–	–37
Parent Company's mortgage loans and promissory notes	466	0
Subsidiaries	110	143
Less: next year's maturities	–20	–53
Group mortgage loans and promissory notes	556	90

The Atlas Copco Group's short- and long-term loans are distributed among the following currencies:

Currency	Amount m.	SEK m.	1995 %	1994 %
USD	238	1,584	51	23
DEM	123	572	18	4
GBP	28	288	9	17
FRF	96	131	4	11
ITL	28,416	120	4	5
AUD	24	119	4	7
JPY	1,629	105	3	6
CAD	18	88	3	9
Others		135	4	18
		3,142	100	100

The above table also takes into account currency swap agreements at year-end. Mortgage loans and promissory notes are amortized as follows, based on the exchange rates on December 31, 1995.

	Group	Parent Company
1996	20	–
1997	37	–
1998	10	–
1999 and thereafter	509	466
	576	466

20 Provision for pensions

Pension liabilities and pension costs for the year are calculated by Atlas Copco Group companies in accordance with local rules and regulations. To the extent these allow that unassailable pension obligations are not reported as costs in pace with the accruement of pension rights, adjustments have been made in the consolidated accounts. A certain portion of the pension costs for the year is reported as an interest expense, note 4. Accordingly, the item Provision for pensions is reported among interest-bearing liabilities.

The larger portion of the Group's pension obligations is in Sweden, Germany, the United States and Belgium. In addition to the statutory pension fees paid to government authorities, there are also costs for supplementary pension benefits in accordance with individual or collective agreements between the parties in the labor market.

In Sweden, salaried employees' pension plans are administrated by the Pensions Registration Institute (FPG/PRI).

The amount for foreign companies includes 222 (171) for health-care benefits. The Atlas Copco Group applies U.S. regulations in accordance with FAS 106 (Employer's accounting for post-retirement benefits other than pensions) for medical care costs and pharmaceuticals for retired employees, which means that the present value of accrued future health care benefits is reported among provisions in the balance sheet.

	Group		Parent Company	
	1995	1994	1995	1994
Swedish companies				
FPG/PRI-pensions	712	706	374	372
Other pensions	53	56	35	40
Companies outside Sweden	1,145	1,078		
	1,910	1,840	409	412

21 Untaxed reserves

Untaxed reserves are reported in the Parent Company balance sheet as a compound item. Distribution among individual items is shown below. These are totally eliminated in the consolidated accounts. See Accounting principles, page 19.

	Parent Company	
	1995	1994
Accumulated additional depreciation		
Machinery and equipment	6	9
Buildings	9	9
Tax equalization reserve	285	342
Tax allocation reserve	494	240
	794	600

Accumulated additional depreciation	Machinery and equipment	Buildings
Opening value, Jan. 1, 1995	9	9
Dissolutions	–3	0
Closing value, Dec. 31, 1995	6	9

22 Restricted reserves

	Group	Parent Company
Restricted reserves, Dec. 31, 1994	4,225	1,737
Transfers between restricted and unrestricted capital	–168	
Restricted reserves, Dec. 31, 1995	4,057	1,737

The decrease in restricted reserves in the Group is related primarily to translation differences.

23 Retained earnings

	Group	Parent Company
Retained earnings, Dec. 31, 1994	2,846	1,043
1994 net profit	1,194	955
Unrestricted reserves, Dec. 31, 1994	4,040	1,998
Dividend to shareholders	–422	–422
Statute-barred dividend	0	0
Transfers between restricted and unrestricted capital	168	
Translation differences	–110	
Retained earnings, Dec. 31, 1995	3,676	1,576

Group shareholders' equity has been affected by translation differences arising from the application of the current method of accounting in an amount of –436. By hedging the net assets of subsidiaries, translation differences have been reduced by 326.

The Atlas Copco Group's shareholders' equity is defined as follows: Parent Company's unrestricted shareholders' equity plus the Group's share in the unrestricted shareholders' equity of each subsidiary, to the extent that it may be distributed without writing down the shares in the subsidiary.

From this amount, the Group's share in the accumulated losses and other reductions of capital in subsidiaries has been deducted to the extent that these amounts have not affected share values in the Parent Company's accounts. In the Consolidated Balance Sheet, eliminated internal profit has also been charged against the Group's unrestricted shareholders' equity.

Of the Group's retained earnings, 13 will be transferred to statutory reserves in accordance with the proposals of the Board of Directors of the respective companies.

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

24 Earnings per share

	1995	1994
Net profit	1 823	1 194
Average number of shares after full conversion	183,515,920	183,515,920
Earnings per share, SEK	9.93	6.51

25 Assets pledged and Contingent liabilities

	Group		Parent Company	
	1995	1994	1995	1994
Real estate mortgages	52	57	1	1
Chattel mortgages	32	24	–	–
Receivables	60	69	3	3
Assets pledged	144	150	4	4
Notes discounted	48	67	–	–
Sureties and other contingent liabilities	798	528	307	441
Contingent liabilities	846	595	307	441

Of the contingent liabilities reported in the Parent Company 252 (376) relates to contingent liabilities on behalf of subsidiaries.

26 Other information regarding personnel

Remuneration, etc. paid to certain members of the Board, the President and CEO and to other members of Group management.

The Chairman of the Board received SEK 4,087,500, in fees, FRF 50,000 in fees from Group companies and a certain ten-year pension effective from the age of 65.

Other non-employed Board members each received SEK 200,000 in fees.

In addition, the Deputy Chairman Tom Wachtmeister, received a special remuneration of SEK 84,030 and FRF 50,000 and USD 50,000 in fees from Group companies. In addition to a pension which is paid in the amount of 70 percent of the previous salary, there is a special ten-year pension undertaking from the age of 65. Board member Paul-Emmanuel Janssen received fees from Group companies in the amount of BEF 930,000, Board member Otto Grieg Tidemand received BEF 580,000 in fees and old-age pension.

The President and Chief Executive Officer received a salary of SEK 3,008,305 plus a bonus of SEK 1,955,000 as well as fees from Group companies in the amounts of USD 66,000, FRF 50,000 and CAD 14,000. In addition, a pension commitment exists which is expected to provide about 55 percent of the pensionable salary upon retirement at the age of 60.

Notice of termination served by the Company on the President and other members of the Group management with 20 years of service extends over a period not exceeding 30 months. Deductions will be made from salaries during notice-of-termination periods in the event of income being received from another employer or other business operations.

From the age of 60, two pension commitments which are estimated to provide approximately 60 percent of the salary at that age currently exist in the category designated Other members of Group management.

27 Value added and interested parties

Value added corresponds to the Group's total invoicing, 24,454, less costs for the purchase of raw materials, wholly and semi-finished goods as well as services, 14,150. The resulting figure is a measure of the company's productive contribution, that is, the value added through processing, etc.

In 1995, the value added amounted to 9,944 (8,690), an increase of approximately 14 percent, while value added per employee increased by approximately 15 percent.

The value added is distributed among interested parties, that is, employees, creditors, government, municipalities and shareholders. Remaining funds are retained in the company to cover costs for wear on plants and equipment (depreciation) and to provide for continued expansion of operations (retained in the business).

Distribution of value added

	1995		1994	
	SEK m.	%	SEK m.	%
Wages and salaries	4,961	51	4,346	50
Social costs	1,606	16	1,567	18
Depreciation	712	7	887	10
Capital costs	–175	–2	–65	–1
Corporate and municipal taxes	990	10	737	9
Dividends paid	431	4	342	4
Retained in business	1,419	14	876	10
Value added	9,944	100	8,690	100
Value added per employee, SEK thousands	503		480	

Sales and earnings by quarter

Invoiced Sales by Business Area and Quarter

				1994				1995
	1	2	3	4	1	2	3	4
Compressor Technique	2,258	2,454	2,508	2,669	2,721	2,972	2,670	2,814
Construction and Mining Technique	1,251	1,325	1,330	1,566	1,394	1,581	1,532	1,687
Industrial Technique	1,320	1,403	1,329	1,501	1,513	1,506	1,882	2,182
Atlas Copco Group	4,829	5,182	5,167	5,736	5,628	6,059	6,084	6,683

Earnings by Business Area and Quarter

				1994				1995
	1	2	3	4	1	2	3	4
Compressor Technique	300	346	382	405	407	460	393	440
Construction and Mining Technique	35	27	–30	26	56	94	116	128
Industrial Technique	87	116	105	162	172	165	147	190
Corporate items	–25	–17	–12	–17	–23	–37	–37	–6
Operating profit after depreciation	397	472	445	576	612	682	619	752
Financial items	–27	–15	–3	44	14	44	19	9
Share in associated companies	10	15	16	25	21	22	21	25
Profit after financial items	380	472	458	645	647	748	659	786

Shares and participations Atlas Copco AB

	Number of shares	Per cent held	Par value loc cur	Book value SEK m.
Product Companies				
Atlas Copco Berema AB	60,000	100	1,000	100
Atlas Copco Controls AB	35,600	100	100	30
Atlas Copco Craelius AB	200,000	100	100	20
Atlas Copco Rock Drills AB	1,000,000	100	100	200
Atlas Copco Tools AB	100,000	100	100	20
Robbins Europe AB	95,000	100	100	11
Uniroc AB	2,325,000	100	20	112
Sales Companies				
Atlas Copco Argentina S.A.C.I.	157	0 2)	1	0
Atlas Copco Brasil Ltda.	22,908,088	100	1	65
Atlas Copco Chilena S.A.C.	24,998	100	1,000	6
Atlas Copco Compressor AB	60,000	100	100	10
Atlas Copco Construction and Mining Export AB	500	100	100	7
Atlas Copco (Cyprus) Ltd.	99,998	100	1	0
Atlas Copco Ges.m.b.H., Austria	45,000	100	1,000	13
Atlas Copco (India) Ltd.	2 892,000	40	10	0
Atlas Copco Iran AB, Sweden	3,500	100	100	0
Atlas Copco Kenya Ltd.	14,999	100	100	0
Atlas Copco KK, Japan	375,001	100	1,000	23
Atlas Copco Kompressor-teknik A/S, Denmark	4,000	100	1,000	2
Atlas Copco Makinalari Imalat A.S., Turkey	424,670	11 3)	1,000	0
Atlas Copco (Malaysia) Sdn. Bhd.	700,000	70	1	2
Atlas Copco Maroc S.A.	3,654	91	1,500	0
Atlas Copco MCT Sverige AB	3,000	100	100	0
Atlas Copco (Philippines) Inc.	121,995	100	100	3
Atlas Copco (Schweiz) AG	7,996	100	1,000	12
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2,500,000	100	1	8
Atlas Copco Tools spol s.r.o., Czech Republique	500	100	1,000	0
Atlas Copco Venezuela S.A.	37,920	100	1,000	14
Soc. Atlas Copco de Portugal, Lda.	1	100	1)	22

1) No par value
2) Remaining holding owned by other Group companies
3) 72 percent owned by other companies within the Group

	Number of shares	Per cent held	Par value loc cur	Book value SEK m.
Holding Companies				
Atlas Copco A/S, Norway	4,498	100	10,000	32
Atlas Copco Beheer b.v. The Netherlands	15,712	100	1,000	604
Atlas Copco France Holding S.A.	329,994	100	500	192
Atlas Copco Holding GmbH, Germany	1	99 2)	1)	263
Atlas Copco North America Inc.	35,506	62 2)	1)	796
Atlas Copco UK Holdings Ltd.	45,423,664	100	1	504
Other Companies				
Atlas Copco Coordination Center n.v., Belgium	1	0 2)	10,000	0
Atlas Copco Construction and Mining Technique AB	700,500	100	100	356
Atlas Copco Fondaktiebolag	2,500	100	100	0
Atlas Copco PLC, Great Britain	1	0 2)	1	0
Atlas Copco Reinsurance S.A., Luxemburg	4,999	100	10,000	8
Industria Försäkrings AB	50,000	100	100	5
Power Tools Distribution n.v., Belgium	1	0 2)	10,000	0
Sickla Industrifastigheter KB	999	100	1,000	465
Atlas Copco Andina S.A., Bolivia, in liquidation	18,000	50 2)	1,000	0
27 dormant companies				31
				3,936
Minority Companies				
Associated companies				
AVC Intressenter AB	6,750,250	50	100	72
Other companies				
Stockholms Fondbörs AB	100	0	100	0
Svensk Interkontinental Lufttrafik AB (SILA)	508,000	1	10	10
Svenska Dagbladet Holding AB	18,000	2	10	4
ADELA Investment Co. S.A., Luxemburg, in liquidation	3,640	0	100	0
Cord Capital N.V., Curacao, The Netherlands Antilles	20	1	50	2
Mechanical Technology Inc., U.S.	140,000	5	1	0
SIFIDA Investment Co. S.A., Luxemburg	275	1	500	0
Other shares and participations				0
				88

Financial operations

Financial risk

Atlas Copco's daily operations give rise to financial exposure, primarily in the currency and interest-rate areas. Accordingly, changes in exchange rates and interest rates can impact directly on the Atlas Copco Group's financial position and earnings.

The objective of Atlas Copco's financial policy is to minimize the financial risks to which the Group is exposed. It is designed to create stable conditions for the business operations of the 17 divisions and contribute to a stable growth in shareholders' equity and dividend.

Currency exposure

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

- Group earnings – when revenues from sales and costs for production are in different currencies (transaction risk).
- Group earnings – when earnings of foreign subsidiaries are translated into Swedish kronor (translation risk).
- Group shareholders' equity – when the net assets of foreign subsidiaries are translated to Swedish kronor (translation risk).

The Group's net payment flows in foreign currency give rise to transaction risks and correspond to a value of SEK 5,500 m. annually. The largest surplus currencies, meaning those in which revenues exceed costs, and the deficit currencies, are shown in graph 1.

Based on the value of payment flows in various currencies, Atlas Copco developed a weighted currency index to show how earnings are affected by changes in exchange rates. With the current flows and prevailing exchange rates, each percentage point represents a gross impact – that is, before any adjustment measures – of some SEK 70 m. for annual earnings before tax. The value of the index is at the bottom of the table of exchange rates on page 31.

Foreign currency flows must be hedged but only for the period it is estimated it takes to adjust prices and/or costs to the new exchange rates. These periods vary among the divisions and amount on average to 3–4 months for the Group.

Consequently, changes in exchange rates have a relatively rapid impact on Group earnings.

The hedging of currencies is aimed at securing calculated gross margins, and not maximizing them through speculation.

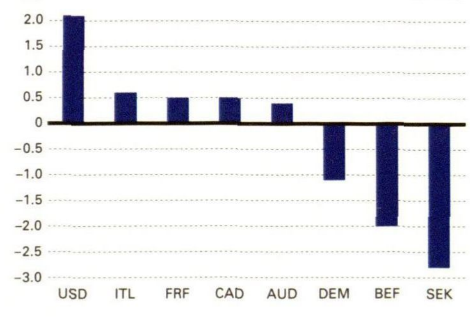
Graph 2 shows how the Group's net profit for the year is affected by the change in the value of the Swedish krona when the earnings of foreign subsidiaries are translated to SEK.

Net assets in foreign currency, that is, the value of the foreign subsidiary's equity, is about 80-percent hedged against the Swedish krona. Hedging is achieved by taking up loans in corresponding currencies through forward contracts or swap agreements. The value of the capital of foreign subsidiaries at year-end 1995 corresponded to about SEK 7,100 m. and is shown in graph 3. Notes 4 and 23 in the financial statements show how interest income and shareholders' equity are affected by currency hedging.

Graph 1

Transaction exposure in the most important currencies

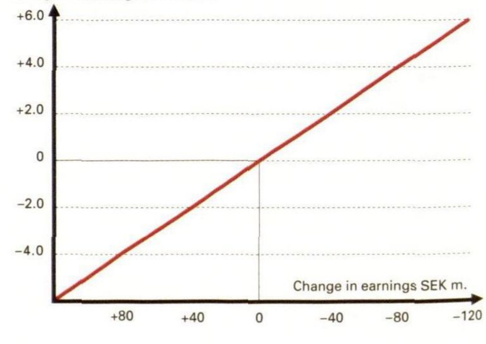
SEK billion



Graph 2

Translation effect on earnings before tax

Change in exchange rate SEK, %



Interest-rate exposure

The average interest-rate period for loans and investments should be short in duration. At year-end 1995, the period was 18 months for loans and four months for investments. The relatively long interest-rate period arose in connection with the acquisition of Milwaukee.

Standardized derivative instruments are used actively to control interest-rate exposure, for example, by extending or shortening the average interest-rate period without replacing the underlying loan or deposit.

Financing and liquidity

Atlas Copco's financial policy states there should always be sufficient funds to cover expected requirements for the next 12 months. This is fulfilled through a combination of liquid funds and guaranteed credit facilities. At December 31, 1995, the value amounted to SEK 5,318 m., corresponding to 24 percent of the Group's total assets. Guaranteed but unutilized credit facilities amounted to SEK 3,432 m. On the same date, the average maturity for Group loans was 10 months.

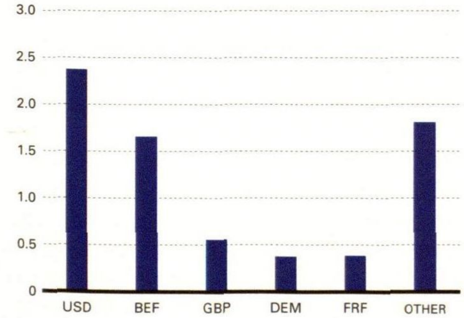
Atlas Copco AB has commercial paper programs for short-term borrowing in the U.S., Europe and Sweden, with a combined volume of about USD 600 m., corresponding to SEK 4,000 m. These programs have a K1 rating in Sweden and an A1/P1 rating internationally.

Investments in the money and bond markets are conducted by Group Treasury Center in Sweden. These operations are governed by a restrictive policy with regard to credit risk, with only a very limited group of accepted borrowers. No credit losses arose in 1995.

Graph 3

Net assets in foreign currency

SEK billion



Exchange rates

Country	Value	Currency code	Year-end rate 1995	Year-end rate 1994	Average rate 1995	Average rate 1994
Australia	1	AUD	4.96	5.81	5.28	5.66
Austria	100	ATS	66.10	68.50	70.70	68.00
Belgium	100	BEF	22.60	23.50	24.20	23.00
Canada	1	CAD	4.88	5.29	5.18	5.65
France	100	FRF	136.10	139.00	143.00	139.50
Germany	100	DEM	464.80	481.00	497.50	476.50
Great Britain	1	GBP	10.30	11.63	11.24	11.81
India	100	INR	18.90	24.00	22.00	24.50
Italy	100	ITL	0.421	0.456	0.437	0.476
Japan	100	JPY	6.47	7.47	7.60	7.57
Luxemburg	100	LUF	22.60	23.50	24.20	23.00
The Netherlands	100	NLG	415.30	429.00	444.10	424.50
Norway	100	NOK	105.40	110.00	112.50	109.50
Singapore	1	SGD	4.71	5.12	5.03	5.06
South Korea	100	KRW	0.858	0.939	0.924	0.962
Spain	100	ESP	5.49	5.64	5.72	5.77
Switzerland	100	CHF	578.80	568.00	603.30	564.50
U.S.	1	USD	6.66	7.44	7.11	7.72
Atlas Copcos' currency index for transaction exposure			98.1	103.4	100.0	106.1

The average rate for 1995 is the base period for the weighted currency index. A lower index has a negative effect on the Group's earnings. Based on current flows and 1995 exchange rates, each percentage point represents about SEK 70 m. on 12-month earnings before tax.

Financial derivative instruments

Atlas Copco uses standardized financial derivatives such as future transactions, options and swaps, primarily with a view to reducing currency and interest-rate risks.

These financial derivatives are also highly valuable complements to loans and investments in the effort to effectively control Group cash balance and borrowing. The liquidity of these instruments is also normally higher than in the underlying securities. The difference between market value and book value of all the Group's derivative instruments at year-end 1995 was insignificant.

Goodwill

In connection with the acquisition of Milwaukee Electric Tool Corporation, a U.S. corporation, as of August 1, 1995, there arose a goodwill item of SEK 3,107 m., representing the difference between the purchase price paid and the value of the net assets. This goodwill should be amortized over a period of 40 years, since this provides the most accurate picture of the strategic acquisition's impact on the Atlas Copco Group's earnings and financial position over at least 40 years.

In taking this position, Atlas Copco is deviating from that part of the recommendations of the Swedish Financial Accounting Standards Council, which prescribes amortization of goodwill over a maximum of 20 years. This does not conflict with the legislation now in effect, nor with the new Act on Accounting in Annual Reports to be effective as from January 1, 1997. Neither does this deviation represent a breach of the registration contract with the Stockholm Stock Exchange.

In accordance with this contract, significant deviations from the Council's recommendations must be noted and justified in the company's annual report. Although the deviation is not significant for Atlas Copco, the company is providing the requisite information. In order to provide the most complete picture possible, Atlas Copco is reporting the effect a 20-year amortization period would have had on its earnings and financial position.

There are several strong reasons in this case for the choice of an amortization period longer than that recommended by the Council. One reason being that it provides the most accurate picture of this acquisition. This strategic acquisition involves a fairly large American group whose operations and sales are mainly in the United States, where it is a market leader. The company is highly profitable and generates a large cash flow. Another important reason for applying a longer amortization period is attributable to competitive factors. Atlas Copco must be in the same position as other parties in calculating the economic consequences of the purchase price and in the subsequent financial reporting of the acquisition. Currently, profitable companies command a price on the market which to a very large extent exceeds visible shareholders' equity. Consequently, the handling of goodwill becomes significant.

Internationally comparable

Since Atlas Copco is an international group with 96 percent of its sales outside Sweden – a country where there are no comparable competitors – it is of major importance that the Annual Report is internationally comparable. It is therefore necessary that Swedish companies can apply rules equivalent to those of the foreign competitors. These rules often permit amortization of goodwill over periods of up to 40 years.

The issue of goodwill is one of the most difficult concepts to deal with within the framework of the conventional accounting model, and international practice is evolving continuously. Matters pertaining to consolidated goodwill accounting have been discussed for a number of years in both the United States and Great Britain.

In Great Britain, the equivalent to the Swedish Financial Accounting Standards Council has published a paper for discussion in which a 20-year amortization period can be exceeded if the economic life of the goodwill is longer. A formal test shall be made each year to determine if there is a need for a write-down. The paper also states that a goodwill value may be perpetual. Accordingly, if it can be demonstrated that the economic life is not limited, goodwill does not have to be amortized, under the condition that a test is conducted each year to determine if the value of goodwill has decreased and if, as a consequence, there is a need for a write-down. A proposed recommendation is expected to be published in early 1996.

In accordance with the European Community's fourth directive, upon which the Swedish Act on Annual Reports is based, extension of the amortization period is permitted to match the economic life if the latter is proven to be longer than five years. No limitation of the amortization period is specified. The longest recommended amortization period is limited to 20 years only in a few countries. For Swedish companies active internationally it is exceedingly important that local Swedish rules are formulated so that the international expansion of these companies is not hindered or made more difficult by such rules.

Review by the Council

Atlas Copco will continue its efforts to maintain a high standard in its external accounting. Atlas Copco views the Council's recommendations as a valuable guide for achieving a uniform and accurate information for the market.

The Council has announced that a general review of its recommendation is warranted and has been started. Atlas Copco intends to follow the Council's recommendation with respect to consolidated accounting, including the section on amortization of goodwill, after the review has been completed.

Impact on earnings per share, 12 months
For purposes of comparison, the impact on earnings from the application of five months of amortization of goodwill related to Milwaukee, based on periods of 20 and 40 years, is shown above.

The difference in earnings per share of SEK 0.17 corresponds, on a 12-month basis, to SEK 0.40. The equity portion of total assets amounts to 47.8 percent. With an amortization period of 20 years, the comparable figure is 47.7 percent.

Condensed income statement 1995

Amortization, goodwill	20 years	40 years
Invoiced sales	24,454	24,454
Operating expense	–21,077	–21,077
Depreciation	–743	–712
Operating profit after depreciation	2,634	2,665
– as percentage of invoiced sales	10.8	10.9
Profit after financial items	2,809	2,840
– as percentage of invoiced sales	11.5	11.6
Net profit	1,792	1,823
Earnings per share, SEK	9.76	9.93

International accounting principles

The consolidated accounts for the Atlas Copco Group follow Swedish accounting practices. Swedish accounting practices, however, diverge from international practices on certain points. A calculation of the income for the year and financial position, taking into account the major differences between Swedish accounting practice and the U.S. GAAP and IAS standards is provided below.

U.S. accounting principles, U.S. GAAP

Revaluation of assets
Certain properties have been written up to amounts which exceed the acquisition cost. In specific situations, such revaluations are permitted by Swedish accounting practice. According to U.S. GAAP, revaluations of assets are not reported in the Balance Sheet.

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

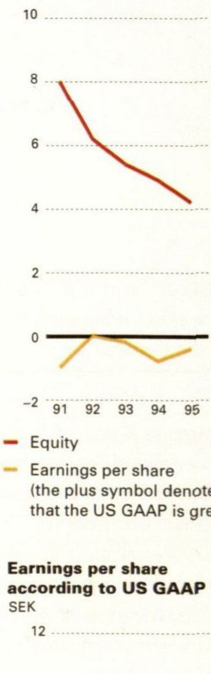
Forward contracts
Hedging transactions via forward contracts are reported in the Swedish accounts on the basis of budgeted volume. For a contract to be treated as a hedge in accordance with U.S. GAAP, there must be a firm commitment. The effect of the difference in accounting princples is not substantial and is not included in the accompanying reconciliation.

Pension provisions
In the U.S. other rules govern 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 the selection of the discount rate and in that the calculation of equity value is based on the salary or wage at the date of retirement. Possible differences have not been quantified and are not included in the following U.S. GAAP account presentation.

Company acquisitions
In accordance with Swedish accounting practices, the Secoroc Group has been included in the consolidated accounts for 1988 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 the criteria then applicable, according to Swedish practices. 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.

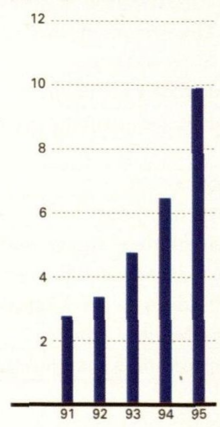
Deferred taxes
Effective in 1993, Atlas Copco applies FAS

Difference US GAAP/ Swedish accounting
%



– Equity
– Earnings per share (the plus symbol denotes that the US GAAP is greater)

Earnings per share according to US GAAP
SEK



109, which 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 (temporary differences). Tax-loss carryforwards are anticipated in those cases in which it is more likely than not that these will be utilized. No adjustment has been made for deferred taxes on the translation differences arising from the use of the monetary/non-monetary method, since such differences are regarded as marginal.

Translation differences in shareholders' equity

According to 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 arising from the translation of the financial statements of foreign companies are distributed among restricted and unrestricted equity in the Consolidated Balance Sheet. According to U.S. GAAP, this currency component is shown as a separate item in the Balance Sheet. In the sale/discontinuation of foreign subsidiaries, the result from the discontinuation shall also include accumulated translation differences.

International Accounting Standards, IAS

With the exception of only a few points, Atlas Copco's accounting principles are in accordance with IAS.

Revaluation of assets

As in the case of U.S. GAAP, it is not permitted to report revaluations of assets.

Translation of foreign subsidiaries

In a couple of instances, the monetary/non-monetary method has been applied in the translation of foreign subsidiaries in countries with high inflation. According to the IAS recommendations, such translations are based on the application of an inflation index. In terms of the effect on earnings, the difference is considered marginal.

Amortization of goodwill

The goodwill arising from the acquisition of Milwaukee is being amortized over a period of 40 years. According to IAS, goodwill may be amortized over a period not exceeding 20 years.

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

	1995	1994
Income as reported in the Consolidated Income Statement	1,823	1,194
Items increasing/decreasing reported net income:		
Depreciation of revaluations	1	1
Capitalization of interest expenses	–1	3
Amortization of goodwill	–12	–12
Divestment/closure of subsidiaries	3	0
Deferred taxes	1	–1
Calculated net profit	1,815	1,185
Calculated earnings per share, SEK	9.89	6.46
Total assets	22,674	18,705
Total liabilities	11,762	9,073
Shareholders' equity as reported in the Consolidated Balance Sheet	10,474	9,183
Net adjustments in reported shareholders' equity	438	449
Approximate shareholders' equity	10,912	9,632

Application of IAS would have the following approximate effect on consolidated net income and shareholders' equity for the Group:

	1995	1994
Income as reported in the Consolidated Income Statement	1,823	1,194
Items increasing/decreasing reported net income:		
Amortization of goodwill	–31	–
Depreciation of revaluations	1	1
Calculated net profit	1,793	1,195
Calculated earnings per share, SEK	9.77	6.51
Total assets	22,131	18,177
Total liabilities	11,713	9,023
Shareholders' equity as reported in the Consolidated Balance Sheet	10,474	9,183
Net adjustments in reported shareholders' equity	–56	–29
Approximate shareholders' equity	10,418	9,154

Current cost accounting

One result of the highly variable rate of inflation 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 the 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 precision as conventional accounting.

In the 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 profit to report this effect:

- Current cost-based operating profit after depreciation.
- Current cost-based profit before financial items.
- Real profit after financial items.

Current cost-based operating profit after depreciation

Current cost-based operating profit 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 profit of the Atlas Copco Group in 1995 amounted to SEK 2,472 m. (1,742).

This income figure is SEK 193 m. (148) lower than the traditional operating profit. This is due to 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 49 m. more (38) to purchase than they did on the purchase date. Profit has also been charged with current cost depreciation that is SEK 144 m. (110) 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 profit before financial items

Price increases result in an increase in the value of the company's assets. Inventories and fixed assets are subject to price gains. 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 profit before financial items was SEK 2,647 m. (1,915). Price gains of SEK 65 m. (35) occurred on inventories and the Company's fixed assets increased in value by SEK 110 m. (138).

Real profit after financial items

If a real profit is to be regarded as having 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 enable the purchasing power of equity to be maintained it should have increased by the average annual price increase, or by SEK 221 m. (300) during the year. The annual average price increase in 1995 has been estimated at 2 percent (3) corresponding to Swedish inflation. Atlas Copco's real profit after financial items is thus SEK 2,601 m. (1,680). This income figure is SEK 239 m. (275) lower than the traditional income and corresponds to a real profit margin of 10.6 percent (8.0).

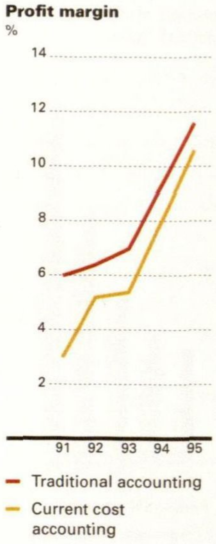
The real net profit for the year is SEK 239 m. lower than the traditional profit and amounted to SEK 1,584 m. (919).

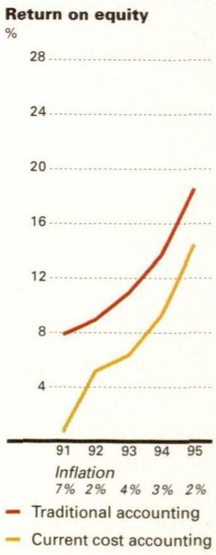
Adjustment of the Balance Sheet

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 1,085 m. (1,103) since hidden reserves in inventories and assets are shown openly. The main effects are shown below:

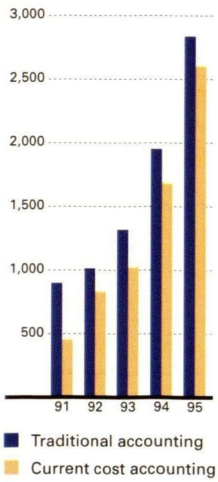
- Machinery, buildings and land are stated at a value that is SEK 999 m. (1,053) higher.
- Inventory is shown at a value SEK 36 m. (20) higher.
- Shareholdings are shown at a value SEK 50 m. (30) higher.

Equity capital and unrealized price changes are reported at a value of SEK 1,085 m. higher, which means that the rate of equity including minority interest thereby amounts to 50 per-





Earnings after financial items
SEK m.



cent, as against 48 percent in accordance with traditional accounting.

Return on shareholders' equity amounts to 14.5 percent (9.3), compared with 18.6 percent (13.7) according to the traditional method.

The reduction in return is attributable to lower actual earnings and to the fact that equity is SEK 1,085 m. higher as a result of current cost accounting.

Current cost income statement

	1995	1994
Invoiced sales	24,454	20,914
Current cost of goods sold	–21,126	–18,175
Current cost depreciation	–856	–997
Operating profit after depreciation	2,472	1,742
Price changes, inventory	65	35
Price changes, fixed assets	110	138
Operating profit before financial items	2,647	1,915
Financial items	175	65
Purchasing power adjustment, equity	–221	–300
Real profit after financial items	2,601	1,680
Taxes	–990	–737
Minority interest	–27	–24
Net profit	1,584	919

Current cost balance sheet

Assets	1995	1994
Cash, bank and short-term investments	1,886	2,964
Receivables	6,021	5,103
Inventories	5,136	4,454
Fixed assets	10,221	6,780
Total assets	23,264	19,301
Liabilities and shareholders' equity		
Current liabilities	7,853	6,224
Long-term liabilities	3,852	2,791
Unrealized price changes	1,085	1,103
Shareholders' equity	10,474	9,183
Total liabilities and shareholders' equity	23,264	19,301

Reconciliation between traditional and current cost accounting

Profit after net financial items according to traditional accounting			2,840
Change, unrealized price changes:			
Price change, goods sold	–49		
Price change, depreciation	–144	–193	
Price change for the year:			
Inventory	65		
Fixed assets	110	175	–18
Adjustment for inflation			–221
Real profit after financial items			2,601

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	1,576,329,161
Net profit for the year	SEK	846,970,224
	SEK	2,423,299,385

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

To the shareholders, a dividend of SEK 3.00 per share	SEK	550,547,760
To be retained in the business	SEK	1,872,751,625
	SEK	2,423,299,385

Nacka, March 1, 1996

Peter Wallenberg
Chairman

Tom Wachtmeister
Anders Scharp

Curt G Olsson
Otto Grieg Tidemand
Gösta Bystedt

Erik Belfrage
Paul-Emmanuel Janssen
Keith O Butler-Wheelhouse

Göran Lindahl
Michael Treschow
President

Tore Hedberg
Lars-Erik Soting
Bengt Lindgren

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 1995. Our examination was carried out in accordance with generally accepted auditing standards.

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 8, 1996

Stefan Holmström
Authorized Public Accountant

Robert Barnden
Authorized Public Accountant

Five years in summary

Atlas Copco Group

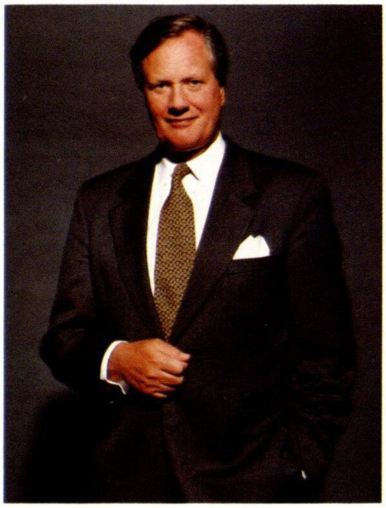
SEK m. unless otherwise noted. For definitions, see page 21.	1991	1992*	1993*	1994	1995
Operating profit after depreciation	1,055	1,172	1,225	1,890	2,665
Operating profit margin, %	7.0	7.3	6.5	9.0	10.9
Profit after financial income and expense	902	1,017	1,320	1,955	2,840
Profit margin, %	6.0	6.4	7.0	9.3	11.6
Net profit after tax	495	598	867	1,194	1,823
Return on capital employed, %	12.8	13.5	13.2	18.4	22.4
Return on equity, %	7.9	9.0	11.0	13.7	18.6
Rate of equity, %	45.6	45.6	47.8	51.1	47.8
Earnings per share, SEK	2.78	3.35	4.74	6.51	9.93
Dividend per share, SEK	1.60	1.60	1.80	2.30	3.00**
Orders received	15,220	15,883	19,194	21,701	24,843
Invoiced sales	15,030	16,007	18,906	20,914	24,454
Change in current prices, %	–6	+7	+18	+11	+17
Sales outside Sweden, %	94	95	95	95	96
Net interest expense	–179	–166	39	57	129
As percent of invoiced sales	–1.2	–1.0	0.2	0.3	0.5
Interest coverage ratio	3.1	3.2	5.1	6.7	8.7
Cash flow from operations after financial items	790	1,047	1,306	1,376	1,530
Total assets	14,071	16,219	17,822	18,198	22,179
Ratio of assets to liabilities	1.8	1.8	1.9	2.0	1.9
Ratio of current assets to current liabilities	1.8	1.8	1.8	2.0	1.7
Debt/equity ratio	27.5	29.4	20.9	3.8	29.9
Capital turnover ratio	1.05	1.06	1.09	1.16	1.19
Investments in plant and equipment	706	553	394	632	711
As percent of invoiced sales	4.7	3.5	2.1	3.0	2.9
Average number of employees	19,544	19,195	18,247	18,104	19,751
Invoiced sales per employee, SEK thousands	769	834	1,036	1,155	1,238
Value added per employee, SEK thousands	311	336	408	480	503

*Values and key ratios have been recalculated in accordance with the change in accounting principles.
**According to the Board of Directors' proposal.

Atlas Copco's compressors supply customers with quality air in order to meet the high requirements of the manufacturing process in the modern printing industry and other high tech industries such as pharmaceuticals and electronics.

Nineteen ninety-five was our best year so far

Nineteen ninety-five was the best year so far in Atlas Copco Group's history, with Group profit after net financial items of SEK 2,840 m. During the past two years, earnings per share have more than doubled, from 4.74 to 9.93 SEK. The improvement in earnings was attributable to increased volumes, new investments and the effects of the rationalization measures implemented within all business areas.



In 1995, demand within the manufacturing industry increased in most of the Group's markets. Automotive production remained at a high level and strong demand was shown in the process industries, for example, within the oil and gas sectors, and within the food, pharmaceuticals and electronics industries.

The trend in the building and construction sector was relatively weak. This applied particularly to Europe, where large infrastructure projects have had to be postponed due to public financing problems. In the U.S., the trend was more positive, despite growth weakening during the year. In Asia, we saw the favorable trend of growth continuing in such regions as India, Japan and countries in Southeast Asia.

The mining industry, particularly in North and South America, but also in Asia, Australia and southern Africa, developed strongly as a result of high metal prices.

Milwaukee – our largest acquisition to date

One of the highlights during 1995 was Atlas Copco's acquisition of the American company Milwaukee, a leading U.S. producer of electric tools for professional users. Milwaukee is a good complement to Atlas Copco's other electric tools operations. The acquisition provides us with a solid foothold in North America, and gives Atlas Copco a strong position in the growing world market for electric tools.

Through Milwaukee's strong brand name and distribution network, electric tools from other Atlas Copco units can be sold in the American market. In the same way, Milwaukee is now provided with the opportunity to expand outside the North American market through Atlas Copco's international sales organization. We were already able to see at the end of 1995 how coordination gains were beginning to be realized within such areas as product development, purchasing, distribution and sales.

Another investment in the electric tools sector was reflected by the formation of Atlas Copco Changchun Electric Power Tool, a joint venture in China for the local manufacture and sales of electric tools. The Chinese market for electric power tools is growing rapidly. The tools are used mainly for applications within the building and construction sector and within the manufacturing industry.

During the year, Atlas Copco also acquired the Swiss company, Socapel S.A., active within the area of electronic motion control products for industrial machines. Socapel is one of the leading companies in its business. Atlas Copco already conducts operations within this expanding market segment. Socapel has been successfully integrated with the Atlas Copco organization.

In addition to acquisitions, it is intended that Atlas Copco also grow organically. This is being achieved by maintaining a consistent focus on new products, new applications and new markets. During the year, Atlas Copco started operations in MyanMar (former Burma), which is the 72nd market in which we have our own operations, and launched new oil-free compressors and centrifugal compressors, drilling rigs, demolition tools and industrial tools.

Profitability can be further improved

Atlas Copco's objective is to be able to expand, while maintaining its good profitability. The

Atlas Copco Group's pretax profit-margin goal during an economic cycle is to exceed 10 percent. In 1995, the profit margin was 11.6 percent. Certain divisions have yet to achieve sufficient profitability and are thus working to improve the efficiency of their manufacturing and sales. This applies, for example, to the electric tools operations in Europe, especially in Germany. The cost situation and low demand lead to strong competition, which is depressing profitability. Other examples include tunnel boring machines and geotechnical drilling equipment.

During recent years, the Group has focused additional attention on materials flow. A factor decisive to achieving a faster flow of materials and products is the ability to adopt an overall perspective of the supply chain, from purchasing operations at our suppliers to delivery of the final products to our customers. The creation of an efficient flow of materials provides customers with faster and more reliable deliveries. It also provides the Group with good opportunities to achieve major savings by decreasing the capital tied up in inventories.

A weakening demand

How will the recent economic trends affect Atlas Copco's operations in 1996? First and foremost, it is unclear if the more pessimistic tones should be regarded as a pause in the economy, or as the beginning of a new recession. During the second quarter, we detected the first signals of a weakening demand for standard machines and consumable goods. These signals became stronger during the final few months of 1995. Whichever is the case, the prevailing business climate is considerably more austere, compared with middle of 1995. The softer demand has also impacted on parts of our capital goods, such as certain compressors and drilling rigs.

Measures to counter the weakening demand were implemented as early as autumn 1995. Among other measures, we have initiated a number of efficiency-enhancing projects in order to further reduce product costs and inventory levels.

In a situation with small volume increases, our efforts are devoted to finding and maintaining a balance between increased efficiency and an upgraded organization. This means that Atlas Copco must have a well adjusted specialized and knowledgeable organization capable of meeting customer demands. This is being effected through the far-reaching delegation of decision-making, so that our personnel can apply greater initiative and assume increased responsibility. The further education and training of our employees is also becoming increasingly important.

Increase the productivity of our customers

By making our operations more efficient, we release resources for new efforts. We intend to utilize the Company's strong market positions for increased efforts in Southeast Asia and Eastern Europe. Our aim is to increase our market presence in these markets, which are becoming increasingly exposed to competition.

Investments to develop new products and applications continue. Customer demands for improved performance are growing and our driving force is to develop new solutions that will increase the productivity of our customers. Accordingly, our goal is that 50 percent of the products should be five years old, or younger. A number of our product areas, for example compressors and tools, have already achieved this goal.

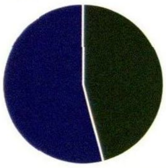
Corporate vision is to be the leading company

Our vision is based on Atlas Copco being the leading company within its different sectors. By generating favorable profitability, we can invest in new products and markets to strengthen our market shares. Long-term, Atlas Copco needs to attain a more balanced geographic distribution of sales which reflects our business potential. The goal is to have North/South America, Europe/Africa and Asia/Australia each accounting for one third of Group sales. An increased focus must be made on Asia in particular to achieve this goal.

1996 seems to be a year characterized by more uncertainty in our various markets. However, I am convinced that we have the opportunity to achieve improved earnings through our advanced market positions, wellestablished brand names, active sales efforts and a decentralized operating structure that works in close proximity to our customers.

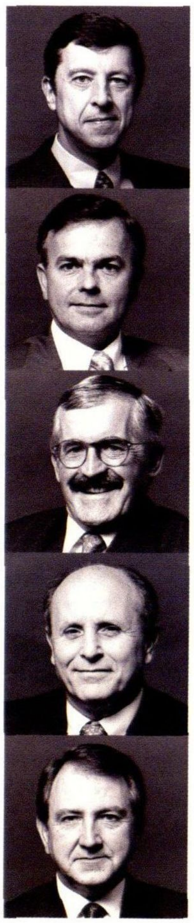
Michael Treschow

Michael Treschow



Compressor Technique

■ Share of Group sales 46%



Luc Hendrickx
Arthur Droege
Hans W Brodbeck
Giulio Mazzalupi
Henri Ysewijn

Continued strong trend of earnings

The Compressor Technique business area's invoiced sales increased from SEK 9,889 m. to SEK 11,177 m. Orders received increased by 16 percent to SEK 11,687 m. Operating profit after depreciation increased by 19 percent to SEK 1,700 m. The improvement was mainly due to increased volumes and higher efficiency.

	1995	1994
Invoiced sales, SEK m.	11,177	9,889
Operating profit after depreciation SEK m.	1,700	1,433
Return on capital employed, %	31	27
Number of employees	7,661	7,297

The Compressor Technique business area develops, manufactures and markets industrial, oil-free and portable compressors, generators, air dryers, after coolers, energy recovery systems, control systems, filters and specially built gas and process compressors, expansion turbines and cryogenic pumps.

The business area is headquartered in Antwerp, Belgium, with plants in Antwerp, Cologne in Germany, Méru and Belfort in France and Los Angeles and Albany in the U.S. Assembly is also conducted at plants in seven other countries.

The Compressor Technique business area contains the following divisions:

- Industrial Air, President *Luc Hendrickx*
- Oil-free Air, President *Arthur Droege*
- Portable Air, President *Hans W Brodbeck*
- Atlas Copco ACT (Applied Compressor and Expander Technique), Acting President *Giulio Mazzalupi,* effective May 1996 *James Tapkas*
- Airtec, President *Henri Ysewijn*

Strategy

The role of the business area 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 to industrial customers who demand a high level of operating reliability in their plants. The divisions are responsible for product development, manufacturing and marketing of their respective products.

Structural changes

On January 1, 1995, Atlas Copco acquired ABB's operations in the gas expander product area, with annual sales of approximately SEK 50 m. This operation is included in the Atlas Copco ACT division.

Sales

Invoiced sales in 1995 increased by 13 percent to SEK 11,177 m. (9,889) and orders received by 16 percent to SEK 11,687 m. (10,117).

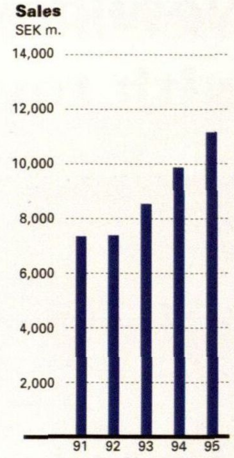
Earnings

Operating profit after depreciation increased 19 percent to SEK 1,700 m. (1,433). Earnings correspond to 15 percent (14) of invoiced sales. The improvement was attributable to increased volumes and improved productivity. Currency changes had an adverse impact on earnings.

The return on capital employed was 31 percent (27).

Investments

Total business area investments in plant and equipment amounted to SEK 270 m. (226). The investments related chiefly to the expansion of the Oil-free Air Division's plant in Antwerp and new production equipment.



Business development

The business area developed favorably during the year, with sharply increased volumes during the first half. During the latter part of the year, a slower pace in orders received was noted.

The Oil-free Air Division reported favorable levels of orders received in its main markets of Europe, North America and East Asia. This division, which expanded the capacity of its production plant in Antwerp during 1995, launched a new series of compressors based on a newly developed design towards the end of the year.

The Industrial Air Division increased its sales during the year, primarily in Europe, South America and East Asia. During the second half of the year, a decline was noted in the level of orders received for smaller, standard machines.

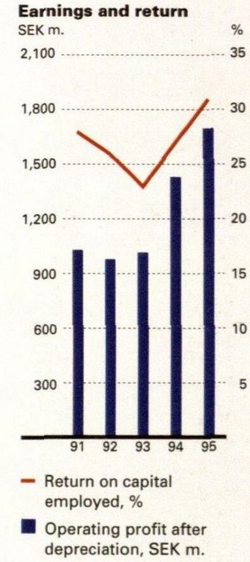
The Portable Air Division noted increased sales, mainly in East Asia, India and Eastern Europe. A considerable proportion of sales related to large portable compressors and portable high-pressure compressors. Production of portable compressors was commenced during the year in Wuxi, China. The generator series launched in 1994 was complemented with new models. The market introduction was received very favorably.

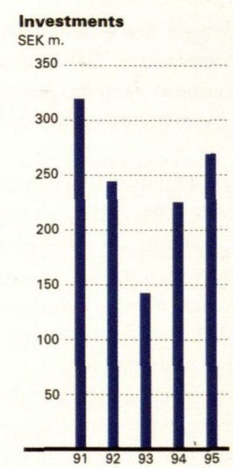
The ACT Division noted sharply increased sales, particularly to the pharmaceuticals industry and to industries with air-separation operations. Significantly increased exports were noted to countries in East Asia. During the year, ABB's expander operations were acquired, which are a good supplement to the division's products within the gas expander area.

The Airtec Division, which manufactures compressor elements, invested in new production technology. This is resulting in improved precision in the manufacturing process and reduced lead times.

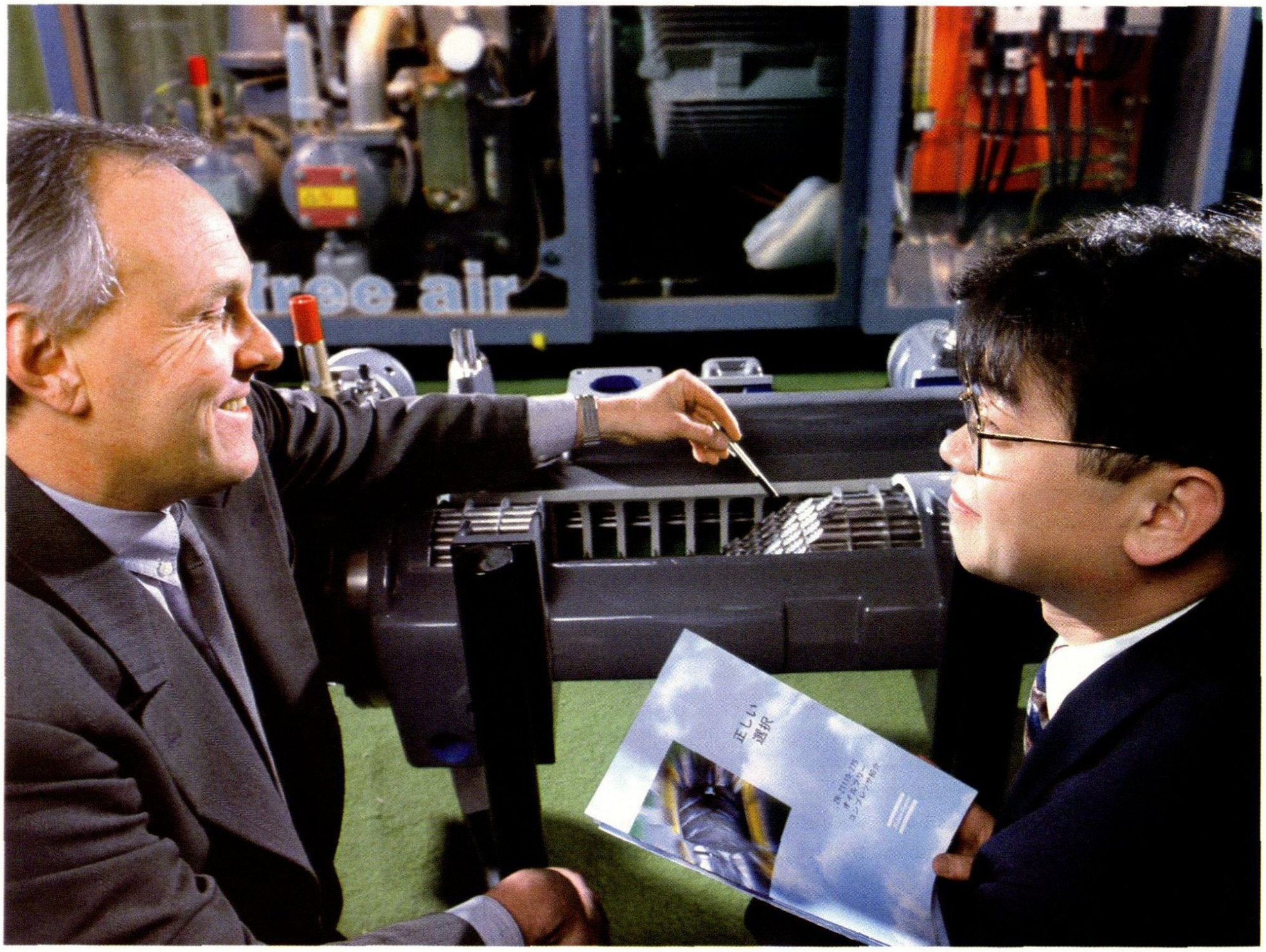
Outlook for 1996

Demand in total for industrial compressors and portable compressors is expected to remain at the level prevailing at the end of 1995, although some uncertainty is noted in the trend in some markets, primarily in Europe.





New compressor series with revolutionary design



Towards the end of 1995, the Oil-free Air Division introduced new series of compressors. The new compressors, which are available in either water- or air-cooled versions, have only half the usual number of components, and feature an ingenious casting technique with extensive integration of the components.

In November 1995, new series of oil-free rotary screw compressors and centrifugal compressors were presented.

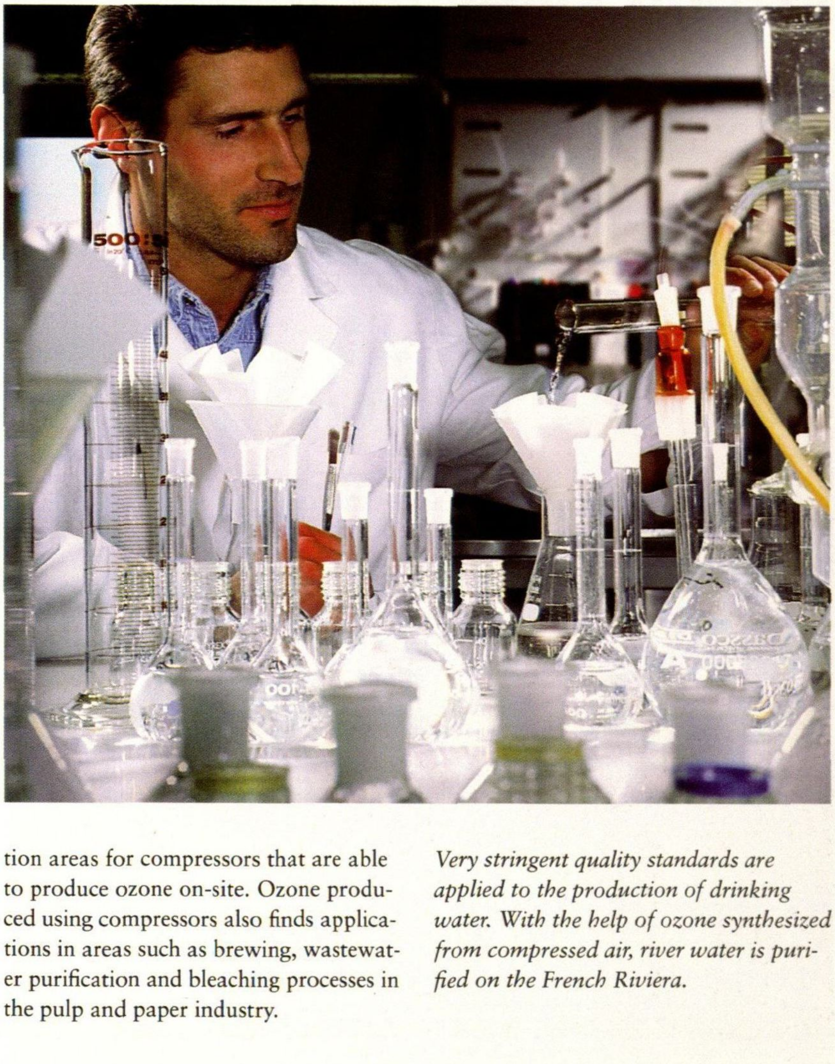
The integration of a number of functions greatly reduces the risk of leakages of oil, water or air, all of which are now transported within the compressor unit. The new design substantially reduces the costs for energy consumption, maintenance and servicing.

In order to keep pace with market growth, while also accommodating production of the new compressors, the division has invested approximately SEK 100 m. in expansion of the existing production facility. Production of the new compressor series is now in progress at the Antwerp plant, which has more than doubled the floor area of its production facilities. At the same time, the plant has introduced a rational component delivery system which ensures that deliveries of parts and components are customer initiated. Delivery time has been reduced substantially.

The new plant will also be producing a new series of centrifugal compressors, developed jointly with the ACT division, which will produce the core unit.

Water shortage remedied on French Riviera

The Industrial Air Division has participated in the development of a method to produce drinking water using ozone, synthesized from compressed air.



Many communities on the French Riviera experience a five-fold seasonal increase in demand during the summer, at the same time as the region is exposed to near-drought conditions.

Therefore, a number of municipalities in the St Tropez region decided to construct a reservoir with a capacity of 8 million cubic meters of drinking water. Atlas Copco compressors were selected to extract water from the nearby river and to purify it using a method that is 50 percent more effective than chlorine, but does not effect the taste of the water or harm the environment in any way. Four compressors supplying compressed air at a pressure of 7.5 bar were installed to produce the ozone upon which the water purification process depends. The ozone is synthesized from compressed air through electrical arcing. The water is purified in tanks, into the bottom of which the ozone is injected under pressure to eliminate iron, manganese and other inorganic particles through oxidation. The ozone also destroys any bacteria or viruses that are present in the river water.

This opens up entirely new application areas for compressors that are able to produce ozone on-site. Ozone produced using compressors also finds applications in areas such as brewing, wastewater purification and bleaching processes in the pulp and paper industry.

Very stringent quality standards are applied to the production of drinking water. With the help of ozone synthesized from compressed air, river water is purified on the French Riviera.

Major demand for high-pressure compressors

During 1995, the Portable Air Division experienced a substantial increase in sales of its portable high-pressure units, particularly in South Korea, Spain, South Africa and Brazil.

This type of compressor is used for down-the-hole drilling for concrete foundations and pneumatic piling in the construction industry and for water well drilling.

Particularly in the southern parts of South Korea, shortages of drinking water have resulted in the rationing of supplies to households, agriculture and industry. As a result, an extensive project was launched in the summer of 1994 to solve this problem. A rational way of drilling deep wells is to use compressed air at 20–25 bar. This technology is up to 50-percent cheaper, and more efficient compared with conventional technology.

The advantage of high-pressure units is that larger diameter holes can be drilled three times faster than if conventional technology is employed. This means a reduction in energy consumption and higher profitability.

During the past two years, the South Korean sales company has sold 200 high-pressure units, thus gaining a leading position in its market.

Atlas Copco Comptec reports strong sales increase

Atlas Copco Comptec, part of the ACT Division, and specialized in gas and process compressors, reported a strong sales increase in 1995, compared with 1994.

An important contributing factor to the unit's sales success was the level of orders received from industrial customers for equipment to separate air. Increasing demand for nitrogen from the electronics industry and for oxygen from the steel-working sector lay behind the substantial increase in sales of process compressors.

Atlas Copco Comptec, in the U.S., previously delivered its equipment mainly to the American market. During recent years, a significant change has occured. Approximately half of the orders received during the year were delivered to countries outside the U.S. This derived from very successful sales to the East Asian pharmaceuticals industry, for the production of penicillin among other preparations, which requires particularly large compressors. Major sales successes were also noted in Brazil, particularly within the automotive sector and air-separation industries. To strengthen its position in these markets, specialists have been appointed in South Korea, China and Brazil.

Atlas Copco's unique integral gear design increases applicational flexibility. As this design gains increasing acceptance, the market is broadened. For customers, this design means lower operating costs and for Atlas Copco reduced production costs.

Sales to the pharmaceutical industry in East Asia were highly successful in 1995.

Environmentally friendly power generation

ABB's operations in the natural gas expander product area were acquired in 1995. These operations complement the ACT Division's technology in the expansion turbine sector.

Natural gas supplies are the most rapidly expanding source of energy, and the global market is expected to double over the next 25 years. Although natural gas is supplied to users at virtually atmospheric pressure, it is transported by pipeline at a pressure of more than 50 bar, to reduce transmission losses.

Using turbines, the pressure drop can be used to generate electricity close to the consumers. In order to avoid leakage, this variable-speed turbine is combined with a high-frequency generator and hermetically encapsulated.

This design meets all possible demands for safe and reliable operation, and it is ideal for the generation of environmentally friendly, low-cost electricity. So far, Atlas Copco Energas, which is now responsible for this product, has received orders for 11 units.The total world market for turbo-expanders for this type of application is estimated to be DEM 50 m. Most of the installations which have been completed so far have been made in environmentally friendly countries such as Germany, the Netherlands and Italy, which also have a high consumption of natural gas. Other markets with an appreciable potential include Spain, Great Britain, Eastern Europe and East Asia.

Shorter lead times through new production technology

In 1995, the Airtec Division, which develops and manufactures screw compressor elements, installed state-of-the-art production technology in screw rotor manufacturing operations. The investment of approximately SEK 120 m. will be completed by the end of 1996.

This investment includes two production lines featuring six automatic grinding machines. One line is designed for large rotors, while the other will feature a fully automated material flow system and will concentrate on mid-sized rotors for oil-injected industrial compressors.

This grinding technology results in considerably improved operating precision. Combined with a completely new casting technique, manufacturing lead times will be reduced to one third, compared with conventional processes.

This new technology means that new techniques can also be used in product development work. As a result, a new generation of very compact and powerful compressor elements is being created, characterized by high performance in terms of their operating speed and pressure range.

Airtec has invested in six new automatic grinding machines.

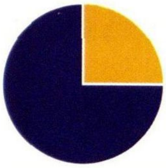
Monitoring system ensures efficient operation of industrial compressors

There is an increasing need, in a number of industrial sectors, for dry quality air, which eliminates the problem of rust in compressed air lines and protects products that are in contact with the air during the production process.

In 1995, the Industrial Air Division developed the "Full Feature" concept, incorporating a dryer and the Elektronikon control and monitoring system, in a compact package.

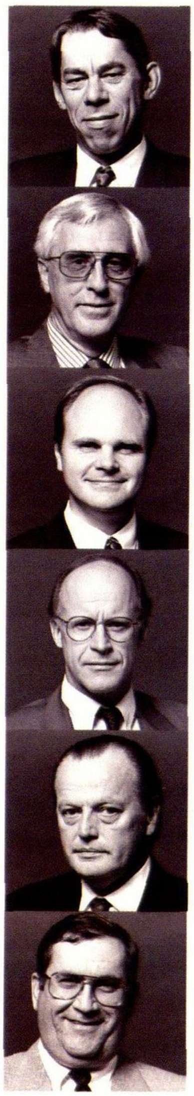
The compressor packages are manufactured in accordance with strict ISO 9001 standards and fully conform with CE directives on quality and safety. They include a refrigerant dryer, based on an environmentally friendly cooling medium, to deliver dry quality compressed air. They can also be fitted with a separator to remove the oil from the condensate created by the compressed air.

The Elektronikon system enables the compressor to be controlled so that it is only in operation when needed, resulting in substantial savings. A built-in micro-compressor reads sensors located at key points in the compressor, so that compressor functions such as temperature, humidity and pressure can be controlled, ensuring that the compressor operates in the most efficient and economical manner. The system's built-in warning and shut-off functions also provide protection for the compressor, avoiding the risk of overloading or excessively high operating temperatures. The monitoring system also facilitates maintenance by warning in good time of the need for servicing, thus minimizing maintenance costs and eliminating unscheduled shutdowns.



Construction and Mining Technique

■ Share of Group sales 25%



Lars de Verdier
Romano Girardi
Claes Ahrengart
Kjell Carlsson
Lars Larson
James Henderson

Increased volumes and rationalizations improved earnings

The Construction and Mining Technique business area's invoiced sales increased from 5,472 m. to SEK 6,194 m. Orders received rose by 6 percent to SEK 6,144 m. The increase was mainly due to favorable sales of drilling and loading equipment in the mining sector. Operating profit after depreciation increased by SEK 336 m. to SEK 394 m.

	1995	1994
Invoiced sales, SEK m.	6,194	5,472
Operating profit after depreciation SEK m.	394	58
Return on capital employed, %	14	3
Number of employees	5,349	5,182

The Construction and Mining Technique business area develops, manufactures and markets rock drilling tools, tunneling and mining equipment, surface drilling equipment, construction tools, loading equipment and geotechnical drilling equipment. The products are sold to building and construction companies, quarries and mining companies throughout the world.

The Construction and Mining Technique business area contains the following divisions:

- Atlas Copco Rock Drilling Equipment, President *Lars de Verdier*
- Atlas Copco Robbins, Acting President *Romano Girardi*
- Atlas Copco Craelius, President *Claes Ahrengart*
- Uniroc, President *Kjell Carlsson*
- Atlas Copco Construction Tools, President *Lars Larson*
- Atlas Copco Wagner, President *James Henderson*

Strategy

The business area's strategy is to provide, from a market leadership position, a complete range of products and after-market services designed to optimize customer productivity. Markets are served via own sales organizations and through external distributors. Growth will be generated through continued focus on research and development and improved market penetration in existing and newly developed markets.

Structural changes

Crawler rig production in Bremen, Germany, was discontinued and transferred to the Avos plant in Örebro, Sweden.

A joint venture was established with a local partner in Shanghai, China, for the production of rock drilling tools.

The decision was taken to terminate operations at the plant in Sunne, Sweden, and relocate the production of down-the-hole drilling equipment to Fagersta, Sweden.

Sales

Invoiced sales rose 13 percent to SEK 6,194 m. (5,472). Orders received increased 6 percent to SEK 6,144 m. (5,789). The increase was due primarily to favorable sales of drilling and loading equipment in the mining sector. Substantial sales increases were noted, particularly in North and South America, Japan, South Korea and Ghana, while orders received from the construction markets in Europe remained weak. During the second half of the year, a declining level of orders received was noted.

Earnings

Operating profit after depreciation increased by SEK 336 m. to SEK 394 m. (58). The improvement was mainly due to increased volumes and the effects of rationalization measures. Earnings for 1994 were charged with substantial restructuring costs incurred in connection with the closure of the Bremen plant.

The return on capital employed was 14 percent (3).

Investments

Total business area investments in plant and equipment amounted to SEK 162 m. (139) and related primarily to expansion of the Örebro production unit in Sweden and new production equipment in other plants.

Business development

The business area reported favorable sales of drilling rigs for underground applications, chiefly within the mining sector.

The Rock Drilling Equipment Division increased its sales of underground rigs and rock-support equipment, primarily in Japan and North America. In order to realize synergistic gains, the division transferred the production of its crawler rigs from Bremen, Germany, to the production unit in Örebro, Sweden, where production started during the spring 1995.

The Robbins Division noted a sharp increase in orders received for its raise-boring machines for mining customers.

The Craelius Division experienced a weak trend of sales during most of the year. To strengthen its position, the division is currently concentrating its product range and ranking the priority of its geographical markets.

The Uniroc Division, which focuses on rock drilling tools, developed favorably, particularly in Australia, Asia and Africa. Production was specialized and concentrated to fewer plants with the aim of increasing efficiency.

The Construction Tools Division noted particular success for its sales of pneumatically powered breakers to equipment rental customers. In order to attain synergistic advantages, production responsibility of Kango's products was transferred to the Electric Tools Division while sales of the products continue to be the responsibility of the Construction Tools Division.

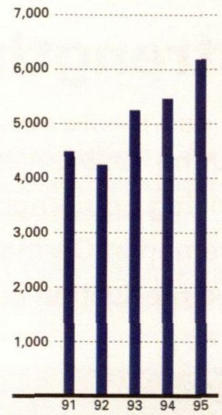
The Wagner Division showed a favorable increase in sales of its loading equipment for underground mines. The greatest increases related to markets in Europe, Africa and South America.

Outlook for 1996

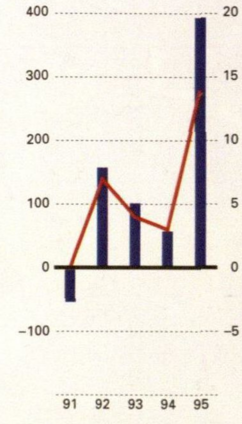
Demand for drilling and loading equipment in the construction sector during 1996 is expected to continue at the same level as in 1995, while a weaker sales trend is predicted for the mining sector.

It should be possible to additionally improve earnings as a result of the structural measures implemented earlier, assuming that the market does not deteriorate further during the year.

Sales
SEK m.



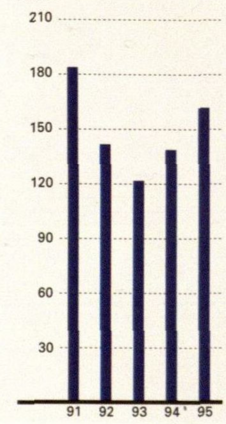
Earnings and return
SEK m. %



— Return on capital employed, %

■ Operating profit after depreciation, SEK m.

Investments
SEK m.



Coordinated drilling-rig production strengthens competitiveness

During 1995, an extensive program to restructure drilling-rig production within the Rock Drilling Equipment Division was completed with the relocation of surface rigs from Bremen in Germany to Örebro in Sweden. This means that during the past four years, five production units have been concentrated to one rational facility.

The intention of the concentration process has been to reduce costs in order to remain competitive and secure a strong market position. With the production of drilling rigs for surface and underground operations now conducted in one plant, important synergistic benefits are attained. Product development can be conducted jointly, which means that many details and components can be designed to fit both product lines. Another important advantage is that increased volumes result in lower purchasing costs.

A factor contributing to the reduction of production costs is that the plant can focus on the manufacture of components with a substantial technology content, as in the case of drilling machines and final assembly of the rigs. The production of other details and components will be conducted to an increasing extent by a small group of specially selected subcontractors.

In order to further improve productivity, substantial investments have been made in high-tech production equipment, which has resulted in higher quality in the form of more uniform production and shorter lead times. Furthermore, a joint center for the the direct daily distribution of spare parts for the world market has been established in Örebro.

Production of the recently launched new generation of surface drilling rigs was commenced in March 1996. This modular-based rig is intended for use by construction contractors and quarries.

Concentration of the production has resulted in important synergistic benefits.

Sales doubled in Japan

During 1995, Atlas Copco significantly strengthened its position in the Japanese market for rock drilling equipment. This improvement is due to a strengthened organization and the very close co-operation initiated by the Group with two Japanese companies during recent years.

In any given year in Japan, construction work is in progress on the blasting of as many as 400–500 tunnels for infrastructural projects, such as railways, major highways and hydro power projects. During 1995, tunneling work for such projects began at more than 100 different sites.

Under the terms of the agreement with TCM, one of the Japanese companies, Atlas Copco's rock drilling rigs are assembled locally in Japan by mounting components supplied from Sweden on Japanese-produced subframes. Local production along these lines increases flexibility, resulting in greater scope for customizing products, while also shortening delivery times.

In addition, the agreement with TCM enables Atlas Copco's rock drilling rigs to be distributed through some 150 different distributors in Japan. During 1995, as a result of the co-operation with TCM, Atlas Copco became the leading supplier of rock drilling rigs for tunnel-boring in the Japanese market. Atlas Copco's sales of rock drilling equipment during 1995 doubled compared with 1994. The other co-operation agreement is with KFC, one of Japan's largest rock-reinforcement companies. The co-operation resulted in a doubling of Atlas Copco's sales of rock-reinforcement equipment during 1995 and the sharply increasing trend is expected to continue during 1996.

Another consequence of Atlas Copco's increased presence in the Japanese market is that the Group has been able to substantially expand its service capacity in Japan.

Dam reinforcement in China

During the past year, Atlas Copco's Craelius division has supplied several drilling rigs to the Chinese Xioalangdi water conservation and hydro power project on the Yellow River. The rigs will be used for injection drilling designed to reinforce the bedrock and make it impervious to water in order to prevent leakage of the dam. The drilling rigs will also be used to bore drainage tunnels.

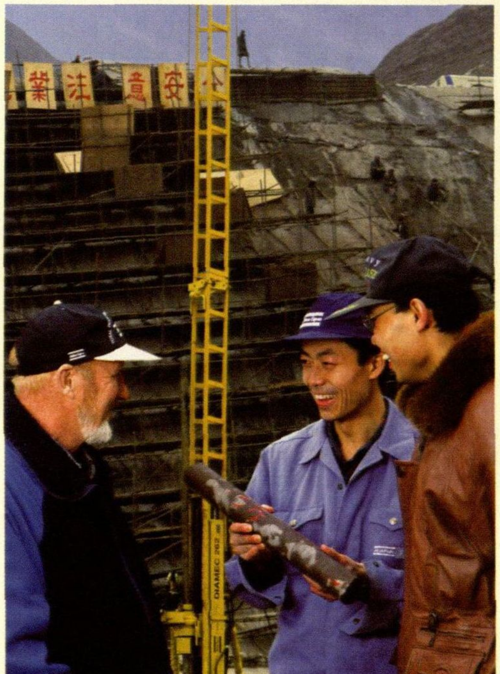
The aims of the project are to prevent flooding, improve control of sedimentation in the Yellow River, provide irrigation water and generate hydro power. The power plant will have an installed capacity of 1,800 MW.

The project encompasses the actual dam, which will be 154 meters high and 1,300 meters long, three diversion tunnels, nine overflow tunnels, six intake tunnels for the underground generation plant, three outflow tunnels and a substantial number of tunnels and galleries for injection and draining of the dam. The total amount invested in the project is estimated at USD 1,500 m.

Atlas Copco has also supplied a considerable number of surface and underground drilling rigs for use in the extensive rock excavation work to accommodate the turbine hall and related installations.

Drilling for purposes of cement injection into the dam, will involve drilling for a total distance of about 700,000 meters over a period of six years.

The rock drilling equipment to perform these injection drilling and core drilling projects consists of high-speed hydraulic drilling machines incorporating a mechanized drilling-rod handling system. Drilling for construction purposes, mining industry exploration and cement injection are today principal applications for the equipment supplied by Craelius.



Reinforcement drilling of dams for power plants is in progress at many locations.

Successful sales of raise-boring machines

During 1995, Atlas Copco Robbins secured orders for 10 raise-boring machines from mines in North America, Africa and Russia.

All of the machines will be used for the boring of ventilation shafts and ore passes between different excavation levels.

As part of an ongoing mechanization program, Ghana's largest gold mine, Ashanti, which already owns six Robbins raise-boring machines, ordered two additional machines to bore an 884 -meter-long shaft in two sections. The world's largest nickel mine – Norilsk in Russia – also ordered two machines for delivery in 1996 to supplement their fleet of seven Robbins raise-boring machines.

Magma Copper Company in the U.S., which has used Robbins tunnel-boring equipment for drifting operations for a number of years, has placed an order for two raise-boring machines. These will be used to bore inclined ore passes in a specially designed pattern with the aim of achieving substantial time and cost savings.

Atlas Copco Robbins has sold one of the most powerful raise-boring machines ever built to the large mining company, Gold Fields of South Africa Ltd. Gold Fields also placed an order for a smaller machine.

Raise-boring is steadily replacing drilling and blasting methods for the construction of shafts, leading to a significant improvement in mine workers' safety.

Effective breakers facilitate rescue work

In 1995 the Tokyo Metropolitan Fire Board placed an order for 450 drilling machines and breakers for rescue work, with delivery to Japan beginning in January 1996.

The rescue work is made easier with the light PICO breakers, which weigh just 15 kg.

The extensive damage caused by the major earthquake in Kobe, Japan, in January 1995, when roads and bridges were destroyed and 10,000 buildings either collapsed or were severely damaged, showed that there was a major need for lightweight, fuel-powered drilling machines and breakers. These could have been used effectively in the search for and rescue of people instead of the excessively heavy and unmaneuverable machines that were available.

In order to be fully prepared for future disasters, Atlas Copco's agent in Japan, RASA Corporation, contacted the Tokyo Metropolitan Fire Board. The agent demonstrated the effectiveness of Berema's fuel-powered Pico drilling machine and breaker in such conditions. This type of rescue work must be carried out under very difficult conditions, with a major risk of collapsing buildings. In the search for survivors, 25–30 cm-diameter holes can be drilled through cement, for example, at a rate of 20 cm per minute. This creates opportunities for microphones to be lowered to listen for sounds of life, or to provide sustenance to trapped survivors while rescue work continues.

Specialized production of rock-drilling tools

Uniroc has introduced a strategy whereby plant structure is improved and production is adapted to meet local market needs to a large extent.

Uniroc has started production of drill bits in Shanghai.

The strategy has led to fewer and more specialized plants which, as a result, have substantially increased their output volumes. As an example, the Östersund plant in Sweden, which produces drill bits, has doubled its capacity.

The Division's main plant in Fagersta, Sweden, manufactures a large range, primarily for distribution to markets in Europe, Africa and Australia. As a result of changed production flows, the lead times in this plant have been significantly reduced.

In far-off main markets, manufacturing is conducted locally. The increased demand for rock-drilling tools in the Chinese market led to Uniroc commencing production of drill bits jointly with a local partner in Shanghai at the end of 1995. These products are intended for mining and construction projects in China. The plant is expected to reach full operating capacity during summer 1996.

The rapid growth in the important South African market has led to increased demand for rock-drilling tools. To meet this demand with short delivery times, the Division's plant in South Africa has invested in machinery that will contribute to achieving reduced lead times and rapid flows.

The plant in Chile focuses primarily on the production of small drill bits for the mining sector in Chile, Peru and Bolivia. Other rock-drilling tools are distributed on a weekly basis from the Swedish distribution center.

Down-the-hole bits and large bits are produced mainly for the North American market at the plant in Fort Loudon, Pennsylvania in the U.S.

Production of rock-drilling tools is also conducted in Brazil and India for the local markets.

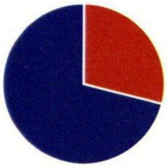
Breakthrough for loaders in Europe

Atlas Copco Wagner recorded a multiple increase in sales of its loaders and mine trucks for underground mines in Europe during 1995, compared with recent years. In particular, the Division noted major successes in completely new European markets, such as Poland and Rumania.

During the year, Wagner secured an order from the large mining complex in Lubin, southwestern Poland, for several large loaders. The sales successes are due to Atlas Copco having taken over the operations of its former agent enabling the market to be developed more actively. The Lubin mines annually extract 30 million tons of copper ore from the 22 x 3.5 km seam and account for 5 percent of world copper production. The Wagner loaders will be used at the 1,000-meter level, where 40,000 tons of ore are mined each day. The new equipment, which will replace front-end loaders and mine trucks, will improve operating efficiency by more than 80 percent.

In Rumania, Wagner has obtained an order for loaders from a customer mining lead, zinc and copper ores.

Wagner's new mine truck has been ordered by the Llobregat potash mine in Spain and by a mine in Turkey, where the trucks will be used for the transport of lead and zinc ores. The trucks ordered by the potash mine will be equipped with a a teletram dump box to enable loading operations with a continuous miner and unloading in low drifts, where conventional tipping of standard dump boxes is not possible.



Industrial Technique
Share of Group sales 29%

Gunnar Palme
Paolo Duca
Necip Soyak
Jack DeMao
Jacques Manceron
Richard Grove

Acquisition strengthens position in electric tools market

The Industrial Technique business area's invoiced sales increased from SEK 5,553 m. to SEK 7,083 m. Orders received increased by 21 percent to SEK 7,012 m. Operating profit after depreciation increased by 43 percent to SEK 674 m. The increase was due to the acquisition of Milwaukee, a strong sales trend and improved efficiency.

	1995	1994
Invoiced sales, SEK m.	7,083	5,553
Operating profit after depreciation SEK m.	674	470
Return on capital employed, %	15	14
Number of employees	6,631	5,505

The Industrial Technique business area develops, manufactures and markets pneumatic and electrically powered tools, assembly systems and sophisticated motion control products. The business area has manufacturing plants in Sweden, France, Great Britain, Germany, the United States, China and India.

The Industrial Technique business area comprises the following divisions:

- Atlas Copco Industrial Tools and Equipment, President *Gunnar Palme*
- Atlas Copco Electric Tools, President *Paolo Duca*
- Chicago Pneumatic, President *Necip Soyak*
- Desoutter, President *Jack DeMao*, effective April 1996.
- Georges Renault, President *Jacques Manceron*
- Milwaukee Electric Tool, President *Richard Grove*

Strategy

The goal of the business area is to be a leading supplier of production tools and equipment to the world's manufacturing and building industries.

Operations shall focus on achieving steady growth and profitability.

Structural changes

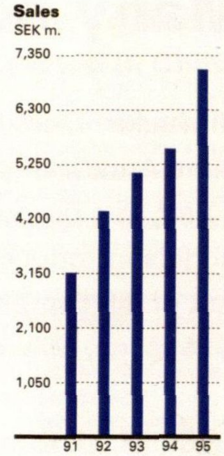
On August 1, 1995, Atlas Copco acquired the American company Milwaukee Electric Tool Corporation, a leader within the U.S. market for heavy-duty electric power tools. This company had annual sales of approximately SEK 2,700 m. in 1994, with 2,200 employees.

The Swiss company Socapel S.A. was acquired on June 1, 1995. Socapel is a leading company in the area of sophisticated motion control products for industrial machines. Socapel has annual sales of approximately SEK 100 m., with about 70 employees.

During the year a joint venture was established in China, Atlas Copco Changchun Electric Power Tool, for the production and sales of electric tools, primarily for the Chinese market.

Sales

Invoiced sales increased by 28 percent to SEK 7,083 m. (5,553). Orders received rose 21 percent to SEK 7,012 m. (5,795). Excluding acquisitions and divestments, the increase was 2 percent. The strong trend of sales during the second half of 1994 continued up to mid-year 1995, at which time a weakening in demand began to be noticed. This trend continued through the remainder of the year and was particularly evident in Germany.



Earnings

Operating profit after depreciation rose by 43 percent to SEK 674 m. (470). The increase was due to the acquisition of Milwaukee, a strong sales trend for industrial tools and improved efficiency.

The return on capital employed was 15 percent (14).

Investments

Total business area investments in plant and equipment amounted to SEK 238 m. (222). The year's investments related mainly to production equipment.

Business development

The acquisition of Milwaukee substantially strengthened the overall position and strength in the product area electric power tool.

The Atlas Copco Industrial Tools and Equipment Division noted a favorable increase in sales of industrial tools in most markets. Through the acquisition of the Swiss company, Socapel, the division strengthened its market position in Europe within the advanced motion control and drive systems product area.

The Atlas Copco Electric Tools Division experienced a weak sales trend during the year, chiefly as a result of declining demand in Germany. As an important step in entering the Chinese market, a joint venture was formed with a local partner for the manufacture and sales of electric tools. Atlas Copco holds a 70-percent share in the joint venture. Tools production commenced in China in January 1996.

The Chicago Pneumatic Division noted favorable sales during the first half of the year, while demand became weaker during the second six months, especially in North America. Good sales were noted in India and South Africa within all of the division's product areas. Desoutter developed well in most markets. Towards the end of the year, market conditions in Germany became increasingly difficult. Plans are being finalized for relocating the head office and manufacturing operations within the Greater London area.

Georges Renault noted a favorable sales trend in France and continued to increase its sales in other markets.

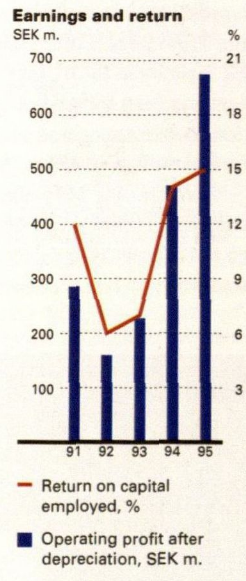
The newly acquired U.S. company, Milwaukee Electric Tool Corporation, constitutes a new division. Over 90 percent of the division's sales are in North American markets. In order to achieve coordination benefits, co-operation has been started with other divisions in the business area, primarily the Atlas Copco Electric Tools Division, within product development, production and marketing. The division continued to show favorable growth and profitability during 1995. At the end of the year, Milwaukee took over the electric tool sales operations of Chicago Pneumatic in North America.

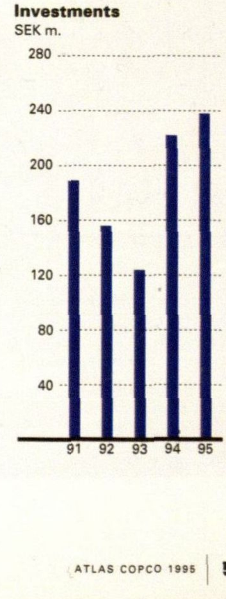
At the beginning of 1996, a proposal was made to relocate Chicago Pneumatic's operations in Utica, to either North or South Carolina. In this way, Chicago Pneumatic will be situated more closely to many of its customers, who are increasingly found in central and southeastern areas of the United States. The proposed relocation is expected to be completed within one year.

Outlook for 1996

Demand for industrial tools is expected to remain at the same level as at the end of 1995, although some uncertainty exists with regard to market trends in Europe.

Earnings are expected to continue to develop favorably during 1996, provided that demand continues at the present level.





Many new products from Milwaukee

Milwaukee Electric Tool Corporation's leadership position in the American professional electric tool market is due, in part, to a purposeful product development strategy. New models introduced since 1992 accounted for over 30 percent of the company's annual tool sales in 1995. During 1995 alone, Milwaukee launched about 50 new products.

One example of a new product is the Thunderbolt TM rotary hammer. Designed to drill or break up concrete and handle other heavy-duty applications, the Thunderbolt offers the largest core bit capacity in the industry. Special attention has been focused on reducing vibration to increase operator control and comfort, as well as to extend product life.

Another new Milwaukee tool is the compound miter saw, which will strengthen the company's product line in woodworking markets. Production began in late December at the Blytheville plant, Arkansas, in the U.S.

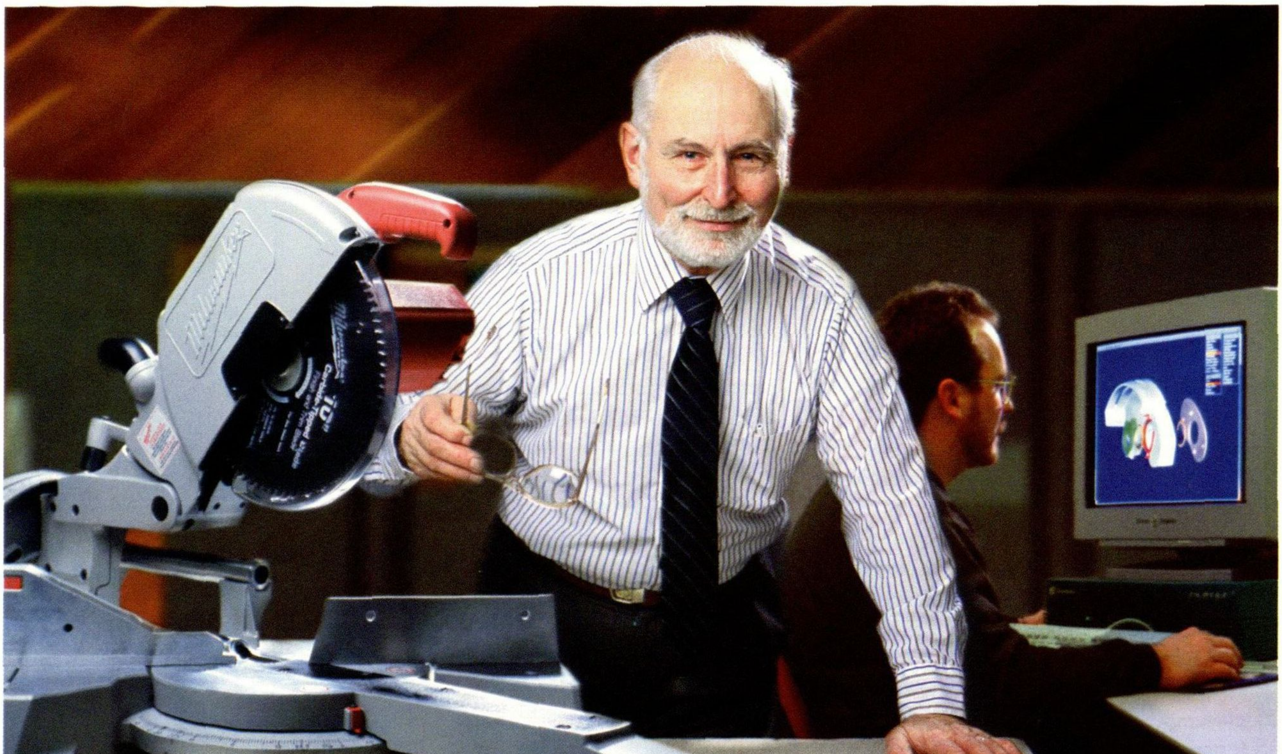
Milwaukee has also introduced the first in a new series of high-performance sanders/grinders. The series is expected to significantly increase the company's market share, in both the metalworking and construction industries.

Integrated electronic components developed by Milwaukee's Electronic Division, play an ever-increasing role in the evolution of new product features. This high-tech research unit has been responsible for introducing several product innovations, including high-current switches and microprocessor control units.

New product development is supported by extensive testing and quality commitment programs. While some other tools manufacturers offer only a one-year warranty, Milwaukee provides a lifetime warranty against defects in material and workmanship on all of its products.

Milwaukee has a policy in the U.S. that simply states: "If you are not satisfied with any Milwaukee product within 30 days of purchase, return it for replacement or full refund. No questions asked". In addition, Milwaukee extends one year of free service for many of its new products.

During the year, Milwaukee broadened its product range with a compound miter saw, among other products.



Self-managed groups offer better productivity and quality

Innovative manufacturing methods at all five of Milwaukee Electric Tool's U.S. plants have led to as much as a 65-percent increase in productivity. The change has also resulted in improved product quality and customer service.

Beginning 1990, Milwaukee Electric Tool's renewed commitment to meeting customer needs resulted in a conversion to self-managed groups. Using this process, individual products are produced in dedicated cells. The change has led to as much as a 65-percent increase in productivity, reduced inventory levels, and over 90 percent reduction in manufacturing cycle time for some products. As a consequence, the company has been able to respond quickly to market changes, in addition to improving customer satisfaction and profitability.

Employee teams design and lay out the cells and are responsible for the whole manufacturing process. They schedule production based on customer needs, maintain appropriate levels of inventories by placing orders with suppliers and perform quality-control tests. Warranty activity in some product groups has been reduced by nearly 50 percent, wich has resulted in improved customer satisfaction.

The self-managed group is responsible for production, testing and quality control.

Tools production started in China

In March 1995, Atlas Copco signed a co-operation agreement with Changchun Electric Power Tools Factory in China to strengthen its position in the expanding Chinese electric tools market. The agreement relates to both the production and sales of electric tools. Atlas Copco holds a 70-percent ownership interest in the joint venture.

Atlas Copco Changchun Electric Power Tool markets the electric tools in the Chinese market under the AEG brand name. The goal is to be one of the leading electric tools manufacturers in the Chinese market.

The 340 employees are already experienced in the manufacture and sale of electric tools, since the Chinese company previously manufactured electric tools under license. Production in the new company commenced in January 1996, following the modification of premises for rational production methods.

Chicago Pneumatic expands in India

During recent years, Chicago Pneumatic has substantially increased its sales of industrial compressors, drilling equipment and power tools in India through its two Indian companies, Chicago Pneumatic India and Revathi-CP Equipment. In total, the two companies have 1,200 employees, four manufacturing plants, a foundry and sales of more than SEK 300 m.

When foreign majority ownership was permitted in 1993, Chicago Pneumatic increased its holding in Chicago Pneumatic India to 51 percent. Subsequently, substantial investments have been made in the production units. Ownership in Revathi-CP continues to be 40 percent.

Slightly more than one third of Chicago Pneumatic's sales in India relate to compressors for industrial and construction market applications. Production of large reciprocating compressors is conducted in the Nasik plant, while screw compressors, mainly portable, are manufactured in the Halol plant. Combined, CP India and Atlas Copco India hold the market leadership position for compressors in India.

Since 1993, substantial investments have been made in machinery and equipment for tools production in the Nasik and Halol plants. Tools for the construction market, such as breakers, chisel hammers and small hand-held rock drills are produced in Nasik and in the Mulund plant outside Bombay and are sold worldwide through the Chicago Pneumatic sales channels.

CP India also operates a wholly owned foundry, Bhagwati Foundries, in Ahmedabad. Here components for the company's own tools and compressors are specially cast. However, most of the production focuses on meeting orders from external customers.

Revathi-CP, located in Coimbatore, engages in the manufacture and marketing of surface drilling equipment for open-cast mines, where the company is the market leader in India, and truck-mounted well drills and accessories.

Both Chicago Pneumatic companies in India are listed on the Bombay Stock Exchange.

Fast-growing expertise within industrial automation

The level of expertise within motion control systems for industrial automation has increased sharply within the Atlas Copco Industrial Tools and Equipment Division. This has been achieved through internal development programs and via the acquisition of the Swiss company, Socapel, which has broadened overall technology and applications know-how within the division. Socapel has been integrated in Atlas Copco Controls.

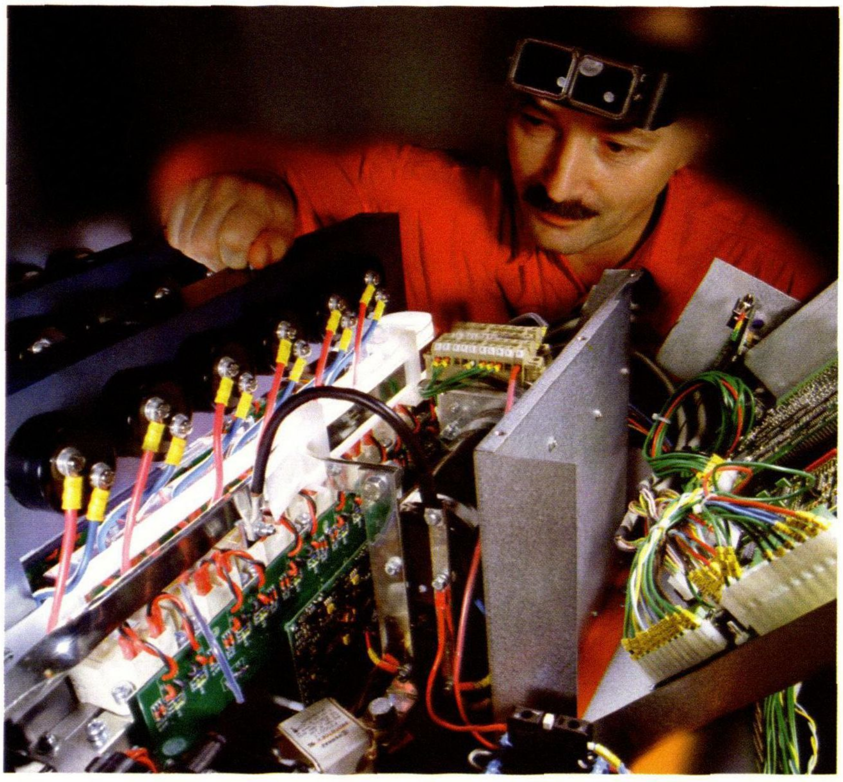
The technology is used to create controlled movements in machines with the help of electronics. Atlas Copco Controls has developed complete systems solutions consisting of electric motors, motor controls and operator terminals. An important part of this know-how is offered to customers in the form of customized development of products and applications. To optimize customer utilization of the new technology, extensive training operations are also conducted.

The market for electronically based motion control systems is expanding sharply, since such systems often replace mechanical, pneumatic and hydraulic systems within a wide field of industrial applications. Through the new technology, with programmable digital control systems, it is possible to quickly develop a machine for new applications.

There are many areas of application within industry for motion control systems, such as robotics, packaging machines and industrial trucks. Within Atlas Copco, the technology is also being used to improve the performance of power tools for tightening operations and assembly systems where there are major demands for accuracy and reliability.

The acquisition of Socapel has meant that Atlas Copco´s technological know-how has been complemented by advanced techniques, which satisfy the extremely high demands for the synchronization of many servo motors in advanced machines for printing, packaging etc.

Approximately 100 skilled technicians within the motion control systems product area focus on the development of this technology, which is currently only in the earliest stages of its development and for which new areas of application are continuously being found within a rapidly growing market.



In addition to advanced motion control systems for industrial automation applications, Atlas Copco Controls develops systems for so-called hybrid buses. Such vehicles are powered by both electric and combustion engines.

Georges Renault increases its share of exports

During the past two years, Georges Renault, which previously concentrated sales of tools and assembly systems to its home French market, has now increased its exports significantly.

To a large extent, this was achieved via European distributors. During the past year the company established its own sales offices in Spain, Great Britain and Germany for the sale of assembly systems and electronic equipment.

The white goods industry – a major user of tools and motion control systems

The white goods industry is an important customer segment for the business area. Manufacturers of washing machines, refrigerators, dishwashers and ovens constitute an important customer category for the Desoutter and the Atlas Copco Industrial Tools and Equipment divisions. These divisions are leading suppliers of power tools and other production equipment to the European white goods industry and are also successful in the important U.S. market.

Electrolux Wascator is a large user of pneumatic hand tools and special motion control systems for industrial washing machines.

During the year, sales of tools to the washing machine segment were particularly good. Customers included Electrolux Wascator, Siemens, Candy and Merloni in Europe and Whirlpool in the U.S.

These two divisions have a very efficient range of screwdrivers, which are characterized by their high productivity, precision and good ergonomics. There are increasing demands from customers in this segment for tools that are capable of tightening a joint to a very precise degree in order to attain the desired quality.

As in the automotive industry, an extensive amount of screw-tightening is required in the white goods sector. This places high demands on the tool in terms of durability and ergonomic design. In this latter area, the main requirements are a good grip, low weight and torque and minimal noise and vibration levels.

Atlas Copco Industrial Tools and Equipment has delivered a new generation of electrically powered tools, the Tensor range, to the white goods industry. These tools, which are used for advanced tightening operations, met with a highly positive reception in this market, due to their high performance and low weight.

Atlas Copco supplies Electrolux Wascator's industrial washing machines with intelligent motion control systems, which automatically adjust the machine's wash-drum rotation speed to the laundry program. The control system also optimizes the amount of water and detergent to be used and controls the speed of the machine for an optimal washing effect that is also gentle to clothing.

Desoutter also provides special units connected to the screwdrivers for automatic delivery of screws. The white goods industry is a major customer for this type of product, which enables a high level of production automation to be achieved.

Desoutter introduces new screwdriver

During 1995, Desoutter developed a new series of pneumatically powered screwdrivers based on a modular design. As a result, the product is able to meet widely varying requirements with relatively few modules. The first screwdriver in the series was commercially launched in February 1996.

Desoutter has been a leading supplier of high-productivity screwdrivers to the white goods industry for many years. The development of the new series has mainly been prompted by the special demands of this customer segment for highly efficient screwdrivers.

Desoutter has also developed a new screwfeeder unit, which automatically delivers 60 screws per minute. The delivery of the screwfeeder in combination with the screwdriver means that Desoutter efficiently ensures that each customer receives the correct product for a particular application.

Atlas Copco share

Foreign owned shares by country

	% of votes	% of number
USA	16.10	15.47
Great Britain	10.82	11.87
France	2.00	1.53
The United Arab Emirates	0.64	0.45
Luxemburg	0.62	1.00
Belgium	0.60	1.01
Others	3.49	4.07
Total	34.27	35.40

Distribution of shares

Class of share	Shares outstanding	% of number of shares	% of votes
A shares	122,497,590	66.8	95.3
B shares	61,018,330	33.2	4.7
Total	183,515,920	100.0	100.0

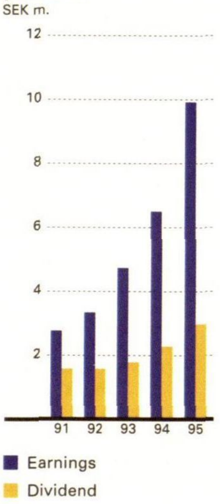
Share capital

Atlas Copco's share capital at year-end amounted to SEK 917,579,600 distributed among 183,515,920 shares, each with a par value of SEK 5. Class A shares entitle the holder to one voting right, and class B shares entitle the holder to one-tenth of a voting right. Each round lot consists of 200 shares. Atlas Copco has 33,457 shareholders. The portion of shares held by institutional investors amounts to 84 percent. The ten largest shareholders account for 46 percent of the voting rights and 42 percent of the number of shares. The number of foreign-owned shares amounted to 35 percent (36)

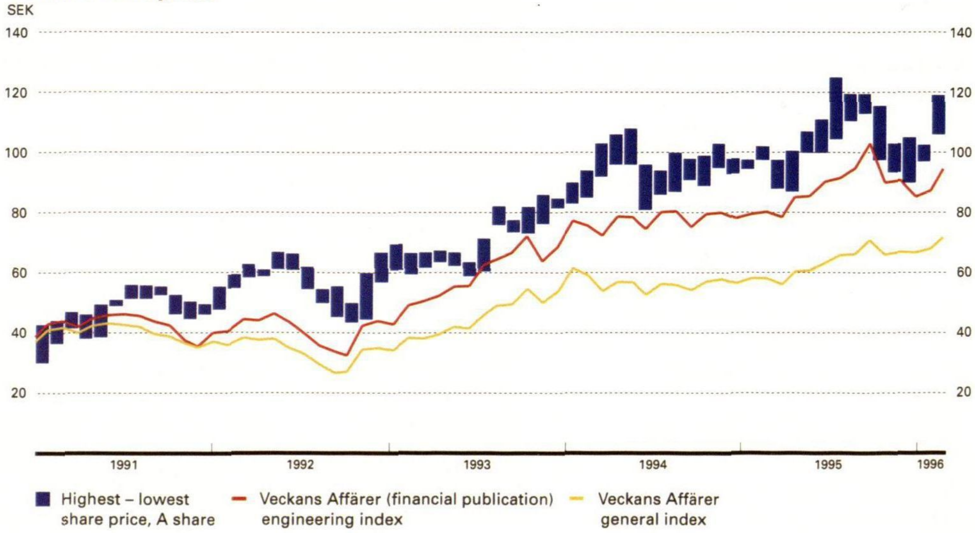
Largest shareholders, February 1996

	Number of shares	% of votes	% of number
Investor Group	25,869,316	20.1	14.1
Sparbankernas Aktie- och Allemansfonder	21,360,434	11.1	11.5
Allmänna Pensionsfonden, Fjärde Fondstyrelsen	4,268,950	3.3	2.3
SPP Group	5,016,720	2.2	2.8
Folksam Group	4,755,000	2.1	2.6
SE-Bankens Aktie- och Allemansfonder	5,279,160	1.9	2.8
Trygg Hansa Group	3,306,573	1.9	1.7
Skandia Group	3,012,413	1.5	1.6
Allmänna Pensionsfonden, Femte Fondstyrelsen	1,595,700	1.2	0.9
Nordbanken	3,570,750	1.1	1.8
	78,035,016	46.4	42.1
Others	105,480,904	53.6	57.9
Total	183,515,920	100.0	100.0

Earnings and dividend per share
SEK m.



Trends of share prices
SEK



Share issues 1973–1995

				Increase of share capital SEK m.	Amount paid-in SEK m.
1973	Bonus issue	1:2		69.2	
1974	New issue	1:4	SEK 25	51.7	51.7
1976	New issue	1:5	SEK 50	51.7	103.5
1979	Bonus issue	1:6		51.7	
	New issue	1:6	SEK 60	51.7	124.1
1982	Bonus issue	1:4		103.5	
	New issue (non-preferential)	2,765,000 shares at SEK 135		69.1	373.3
1989	Bonus issue	1 B share: 3 A shares		195.5	
1990	New issue (non-preferential)	4,000,000 B shares at SEK 320.13		100.0	1,280.5
	Conversion*	7,930 shares		0.2	1.2
1991	Conversion*	42,281 shares		1.1	6.3
1992	Conversion*	74,311 shares		1.9	11.1
1993	Non-cash issue**	383,500 shares at SEK 317		9.5	121.6
	Conversion*	914,496 shares		22.9	137.2
1994	Split	5:1 par value SEK 5			

*Pertains to 1987/1993 convertible debenture loan. ** Implemented in connection with the acquisition of The Robbins Company.

and represented 34 (33) percent of the voting rights. The proportion of shares in each country is shown in a separate table.

Ownership structure 1995

Number of shares	Percent of shareholders	Percent of total number of shares
1– 500	69.4	2.3
501– 2,000	23.1	4.2
2,001– 10,000	5.7	4.3
10,001– 50,000	1.1	4.6
50,001–100,000	0.2	2.9
>100,000	0.5	81.7
Totalt	100.0	100.0

Dividend policy

The Board's objective is that dividends to shareholders should amount to 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 dividend payments with dividend income from foreign subsidiaries.

If the Board of Directors' proposal of SEK 3.00 per share is approved, the average dividend growth for the five-year period 1991 to 1995 will amount to 13 percent. During the same period, the average dividend has been 37.7 percent of earnings per share. Expressed as a percentage of shareholders' equity, the proposed dividend is 5.2 percent (4.5).

Foreign Stock Exchanges

The Atlas Copco share has been listed on the London, Frankfurt, Düsseldorf and Hamburg stock exchanges for a number of years.

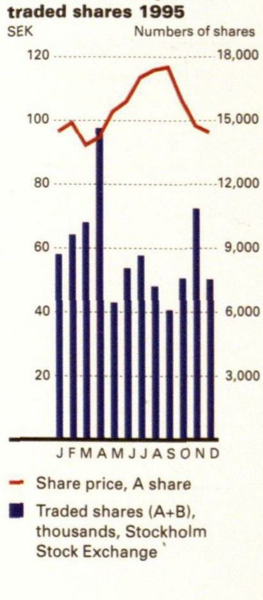
ADR-program in the U.S.

To increase the availability of the Atlas Copco share for U.S. investors, an ADR (American Depositary Receipt) program has been established in the U.S. since 1990. This means that both A- and B-shares are available as depositary receipts in the U.S. without formal stock exchange registration. An ADR corresponds to a share. The depositary bank is Citibank N.A. At year-end 1995, there were 2,574,162 depositary receipts outstanding, of which 1,547,554 were class A and 1,026,608 class B.

Share price trend

As of December 31, 1995, the price of the Atlas Copco share was SEK 102. For 1995 as a whole, the price of the A share rose 7 percent. The general index increased 18 percent and the engineering companies' index increased 9 percent. During the past five year-period, the annual average total yield, meaning the sum of the growth in share price and the dividend, was 29 percent.

Trends of share prices/ traded shares 1995



The corresponding return for the Stockholm Stock Exchange as a whole was 17 percent.

Market value

The market value on December 31 was SEK 18,597 m. (17,434), which corresponds to 1.6 percent (2.0) of the total market value of the Stockholm Stock Exchange.

Trading

The Atlas Copco share was the sixteenth (seventeenth) most traded share on the Stockholm Stock Exchange during 1995. Including subsequent registration, a total of 105,776,113 shares were traded (of which 62,095,605 class A and 43,680,508 class B), corresponding to a value of SEK 10,764 m. (12,773). An average of 421,419 (535,230) shares were traded per market day. The turnover rate (degree of liquidity) in 1995 was 58 percent (73), compared with the stock market average of 55 (69) percent. A significant portion of trading in the Atlas Copco share continued to occur outside Sweden. Although the level decreased compared with 1994. In London, 86.0 million (117.8) Atlas Copco shares were traded. During 1995, 105 percent (138) of all shares were traded on the stock exchanges in Stockholm and London. Foreign trading in the Atlas Copco share showed a net import of SEK 92 m. (1994: net export 1,322).

Share risk

The Atlas Copco share's beta value provides an assessment of its risk. The beta value is a relative measure of the risk attached to the share, measured as its tracking of the stock exchange index during the past 48 months. The beta value of the Atlas Copco share was 0.84 (0.89). This means that the share moved 16 percent less than the index. Another statistical measure of risk is the characteristic line, which indicates how large a proportion of the share's percentage return is attributable to the average return on the stock exchange. In the case of Atlas Copco, the characteristic value is 0.46 (0.43), which means that 54 percent (57) of the share's trend is company specific.

Atlas Copco Options

The Atlas Copco options listed on the Stockholm Option Market (OM) consist of call options and put options, each relating to 100 shares. During 1995, approximately 7.3 million (7.7) shares were covered by option contracts, which constitute about 4 percent (4) of the total number of Atlas Copco shares. Each day an average of 28,902 Atlas Copco shares are affected by trading in options. Since the options only provide the holder with the right to buy and sell shares which already exist, the options do not result in any dilution effect.

Per share data

SEK	1991	1992	1993	1994	1995	Av. growth/year 91–95, %
Earnings [1]	2.78	3.35	4.74	6.51	9.93	20
Dividend	1.60	1.60	1.80	2.30	3.00[2]	13
Dividend as percent of earnings [3]	57.6	47.8	38.0	35.4	30.2	
Price quotation, Dec. 31, A	48	67	83	95	102	26
Price quotation, Dec. 31, B	48	66	82	95	100	
Highest price quoted, A	56	67	86	108	125	
Lowest price quoted, A	30	44	60	81	87	
Average price quoted, A	47	57	70	94	103	
Equity [4]	36	42	46	51	58	10
Direct yield, percent [5]	3.4	2.8	2.6	2.4	2.9	
Price/Earnings [6]	16.9	16.9	14.9	14.5	10.4	
Price/Sales [7]	0.57	0.64	0.68	0.83	0.77	

1) Profit after financial income and expense, less full tax and minority interests, divided by the average number of shares outstanding.
2) Proposed by the Board of Directors.
3) Dividend as a percentage of earnings per share.
4) Equity and minority interest divided by the number of shares.
5) Dividend as a percentage of the average quoted price during the year.
6) Price/Earnings. The 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.

Environmental work assigned increased priority

The aim of the Atlas Copco Group is to become the engineering sector's leading company in the environmental area. By the year 2000, it is intended that most of the units will have introduced environmental management systems. Gradually, a product recycling system will also be built up.

The basic principles for environmental work mean that the Atlas Copco Group will strive to implement the same environmental standards in its units throughout the world. The Group will always follow local regulations. Furthermore, the Group's products will be highly adapted to meet environmental requirements.

Profitable environmental work

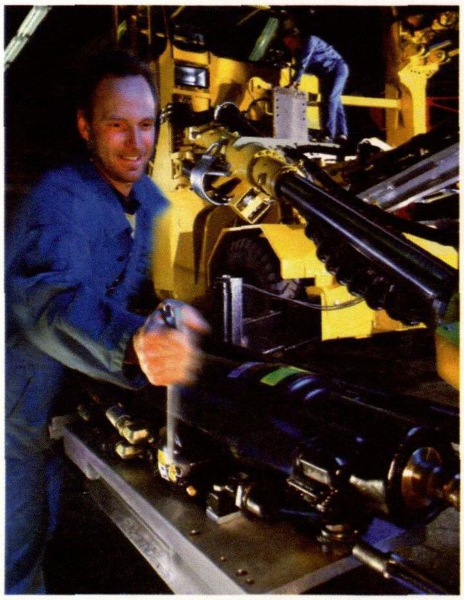
In environmental terms, by using the best possible technological solutions, it is possible to minimize manufacturing waste, while simultaneously optimizing the efficiency of nature's resources.

Atlas Copco Electric Tools in Germany has been working on a special program to reduce waste and emissions for a number of years. Waste has been decreased to such an extent that handling costs have been halved during recent years. A number of chemical substances have been completely eliminated and 70 percent of the paper, wood, glass, oil and metals used is now recycled. Energy costs have been cut by 22 percent during the same period.

In accordance with the Group's Environment Policy, all goods transportation, regardless of whether the shipments are from subsuppliers or Atlas Copco's own plants, must be organized to minimize their impact on the environment. Through a distribution network with strategically located distribution centers, a number of divisions were able to improve the efficiency of their deliveries to customers during 1995. This resulted in lower costs and a reduced impact on the environment.

Environmentally adapted technology

Work to find new environmentally adapted solutions is a natural part of new product development work. In cooperation with the Japanese customer Kajima, Atlas Copco Energas in Germany has developed an environmentally friendly, efficient cooling system. Instead of using chlorine gas, CFCs or ammonia, all of which have an adverse effect on the ozone layer, air is used as the cooling agent. Atlas Copco Energas has developed an expander compressor which is a highly important component in the cooling process. During 1996, the first installation will be made in a cold store in Japan. Other areas of application include air-conditioning plants and ice-skating arenas.



The Atlas Copco Group intends to implement environmental management systems in all of its large units.

For the Atlas Copco Group, the working milieu is also an important environmental issue. For many years, Atlas Copco has occupied a leading position in the area of ergonomics. For example, Atlas Industrial Tools and Equipment is investing substantial resources in measures to further reduce noise levels of its products.

Environmental certification

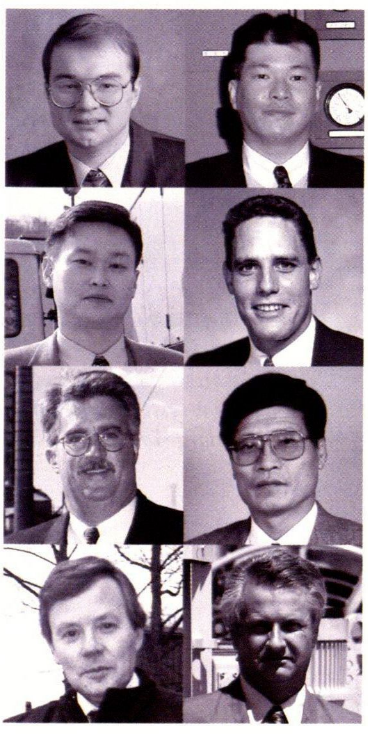
During late 1995, the Atlas Copco Group formulated a new environment policy based on the International Chamber of Commerce's Business Charter for Sustainable Development and on the basic guidelines contained in the Agenda 21 program from the UN Conference on the Environment and Development in 1992.

When the international standards for environmental management systems have been fully developed, the Atlas Copco Group intends to implement them in all of its large units. The goal is for most of the Group's units to be environmentally certified by the year 2000.

Diversity is important

Few Swedish companies have Atlas Copco's international spread, with personnel located throughout the world. Diversity has key significance for the development of the Atlas Copco Group. A successful company needs people with different outlooks to propel development.

To capitalize on the multi-faceted expertise, a special management-development program was introduced in 1991. Through a flow of internal recruitment advertisements, employees are kept informed about the management positions to be filled. An automatic telephone service is also available to provide information about manager vacancies. This change has stimulated personnel mobility internally. Since 1991, more than 70 percent of the Group's senior managers have changed jobs. More than 50 percent have changed country.



Mark Ayres Nobuyuki Nishiguchi
Sae Hwan Ahn Jon Pesce
Chuck Breuer Katsumi Sasai
Bill Mitchell Jaime Valencia

Salesmen of the year

For a number of years, Atlas Copco has selected a "Salesman of the Year." During 1995, there were many noteworthy contributions within the sales companies. The most outstanding were the following:

Mark Ayres, Assembly Systems Manager in Great Britain, registered major successes in the home market and internationally. He was particularly effective in demonstrating that Atlas Copco can provide worldwide service for customers with international operations.

Sae Hwan Ahn, has successfully sold a large number of high-pressure compressors for foundation work and water-drilling in South Korea.

Chuck Breuer, process-compressor and expansion turbine salesman in the Northeast U.S., focused on the industrial gases market in 1995. The result of his efforts was a 200 percent increase in sales of all ACT products to our key industrial gases customers.

Bill Mitchell, construction-equipment salesman in Great Britain, through his results-oriented efforts, increased shares in the pneumatic and hydraulic breakers market. He has also established Atlas Copco as a leading company in the U.K. equipment rental market.

Nobuyuki Nishiguchi, compressor salesman in Japan, attained a sales volume that exceeded SEK 17 m. during 1995. During the year, he also succeeded in securing six important new customers.

Jon Pesce, Milwaukee, strongly increased sales of professional electric tools and accessories in Las Vegas and Los Angeles. His recipe for success was to work closely with the most important distributors and stay in close contact with end-users.

Katsumi Sasai, has, jointly with the customer and the product company, developed a new concept for drilling in soft rock types. In addition, he has contributed strongly to the increase in equipment sales for rock reinforcement in Japan.

Jaime Valencia, secured many important orders which included drilling equipment and loaders for the Chilean mining industry during 1995. For many years, he has been known for his dedicated customer involvement.

Geographic distribution of the average number of employees and distribution of women and men

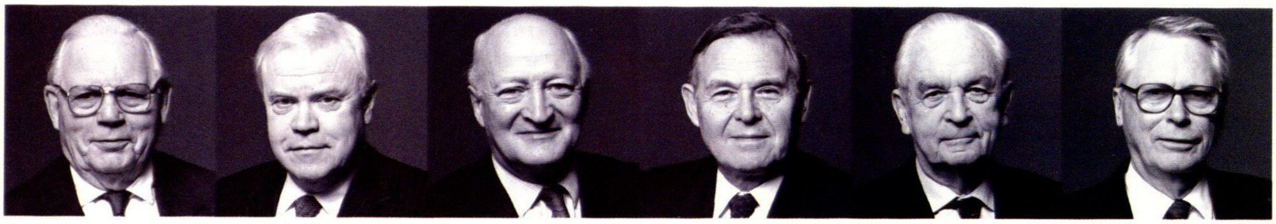
	Total number	Distribution as % Women	Men
Europe	10,826	18	82
of wich Sweden	*2,743*	*16*	*84*
of wich EU	*10,382*	*18*	*82*
North America	3,523	19	81
South America	1,020	13	87
North Africa/ Middle East	210	28	72
South Africa	732	16	84
India/East Asia	2,876	8	92
Oceania	564	21	79
	19,751	16	84


ELECTRIC TOOLS

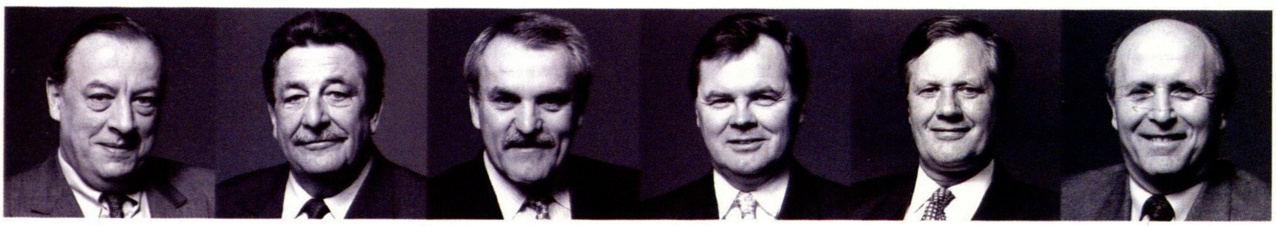

Atlas Copco
Copco (China)

Board of Directors and auditors

Board of Directors



Peter Wallenberg | Anders Scharp | Tom Wachtmeister | Curt G Olsson | Otto Grieg Tidemand | Gösta Bystedt



Erik Belfrage | Paul-Emmanuel Janssen | Keith O Butler-Wheelhouse | Göran K Lindahl | Michael Treschow | Giulio Mazzalupi

Elected by the Annual General Meeting

Peter Wallenberg Chairman (1970). Dr Econ. h.c. Born 1926. First Vice Chairman of the Board of Skandinaviska Enskilda Banken. Employed in various positions within Atlas Copco, 1953-1974. Chairman of the Boards of ASEA and Investor. Co-chairman of the Board of ABB Asea Brown Boveri. Vice Chairman of the Board of LM Ericsson. Former President of the International Chamber of Commerce (ICC), Paris. Member of the Boards of i.a. the Nobel Foundation. Stockholdings: 50,000 A.

Anders Scharp Vice Chairman (1992). Born 1934. Chairman of the Boards of Electrolux, SKF, Saab, Scania and Incentive. Vice Chairman of the Board of Investor. Board member of Email Ltd (Australia), Federation of Swedish Industries and Swedish Employers' Confederation.

Tom Wachtmeister Vice Chairman (1975). Born 1931. Employed by Atlas Copco 1959-1991. President and CEO 1975-1991. Member of the Boards of i.a. ABA/SILA, Investor, Norsk Hydro (Norway), Scania, STORA and Svenska Dagbladet. Chairman of i.a. Swedish Trade Council and Swedish Taxpayers' Association. Vice Chairman of the General Export Association. Stockholdings: 116,230 A; 4,740 B.

Curt G Olsson (1976). Born 1927. Chairman of the Board of S-E-Banken. Member of the Board of Hufvudstaden. Stockholdings: 4,000 A.

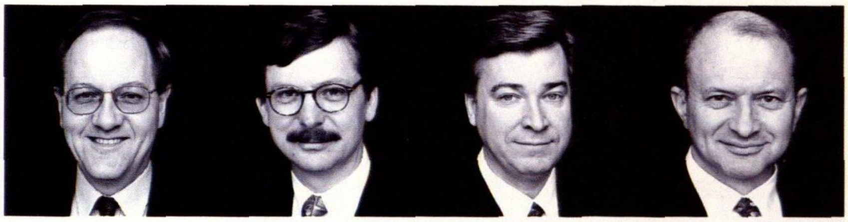
Otto Grieg Tidemand (1982). Born 1921. Skipowner of Belships Co Ltd Skibs A/S, Oslo. Chairman of the Board of Atlas Copco A/S (Norway). Chairman and Board member of various shipping and oil companies in Norway and other countries. Stockholdings: 20,000 A.

Gösta Bystedt (1987). Born 1929. Chairman of the Board of Kalmar Industries. Vice Chairman of the Boards of Electrolux and Axel Johnson. Member of the Boards of SKF and Federation of Swedish Industries. Stockholdings: 8,330 A; 1,665 B.

Erik Belfrage (1991). Born 1946. Senior Vice President of S-E-Banken. Various positions in the Swedish Foreign Office from 1970 to 1987. Chairman of the Boards of TV4, the Swedish Institute of Management, Centre for European Policy Studies and the Sigtuna School Foundation. Member of the Boards of Investor, Saab, ABA/SILA and SAS.

Tore Hedberg Lars-Erik Soting Bengt Lindgren Per-Olov Olsson Håkan Hagerius Sune Kjetselberg

Auditors



Stefan Holmström Robert Barnden Thomas Thiel Sigvard Heurlin

Baron Paul-Emmanuel Janssen (1994). Born 1931. Chairman of Générale de Banque, Brussels and President of Société Immobilière du Brabant "Imbra". Chairman of the Board of Atlas Copco Airpower and member of the boards of Union Financière Boël, Usines Gustave Boël, Solvac and Lhoist. Director and member of the Executive Committee of Federation des Enterprises de Belgique. Stockholdings: 1,125 B.

Keith O Butler-Wheelhouse (1994). Born 1946. President of Saab Automobile. Board member of Delta Motor Corporation.

Göran K Lindahl (1994). Born 1945. Executive Vice President of ABB Asea Brown Boveri Ltd, Zürich. Chairman and member of the boards of several ABB companies. Member of the Board of Saab.

Michael Treschow (1991). Born 1943. President of Atlas Copco and Chief Executive Officer. Employed in the Company since 1975. Member of the Boards of Saab Automobile and SKF. Stockholdings: 27,810 A; 1,735 B.

Giulio Mazzalupi Deputy Member (1990). Born 1940. Senior Executive Vice President of Atlas Copco. Employed by Atlas Copco since 1971.

Employee representations

Tore Hedberg (1990). Born 1937. Chairman, Atlas Copco local of the Swedish Union of Clerical and Technical Employees in Industry (SIF), Stockholm.

Lars-Erik Soting (1993). Born 1965. Chairman, Atlas Copco local of the Metal Workers' Union at Atlas Copco Rock Drills (Avos), Örebro.

Bengt Lindgren (1990). Born 1957. Chairman, Uniroc local of the Metal Workers' Union, Fagersta.

Per-Olov Olsson Deputy Member (1993). Born 1937. Chairman, Atlas Copco local Association of the Swedish Graduate Engineers, Nacka. Stockholdings: 1,000 B.

Håkan Hagerius Deputy Member (1994). Born 1942. Chairman of the Swedish Union of Clerical and Technical Employees in Industry (SIF) at Atlas Copco Rock Drills (Avos), Örebro.

Sune Kjetselberg Deputy Member (1992). Born 1951. Chairman, Atlas Copco Tools local of the Metall Workers' Union, Tierp.

Auditors

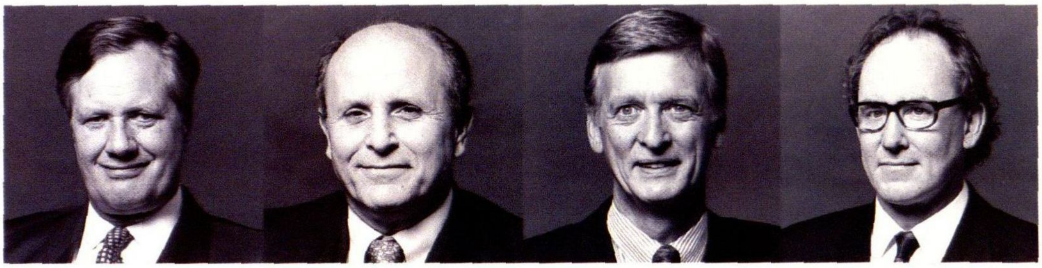
Stefan Holmström (1987) Born 1947. Authorized Public Accountant, KPMG Bohlins AB.

Robert Barnden (1995) Born 1946. Authorized Public Accountant, Öhrlings Coopers & Lybrand AB.

Thomas Thiel (1993) Born 1947. Authorized Public Accountant, Deputy, KPMG Bohlins AB.

Sigvard Heurlin (1995) Born 1940. Authorized Public Accountant, Deputy, Öhrlings Coopers & Lybrand AB.

Group management and Group staffs



Michael Treschow
President and Chief Executive Officer

Giulio Mazzalupi
Senior Executive Vice President, Compressor Technique Business Area

Freek Nijdam
Senior Executive Vice President (effective December 1, 1995), Construction and Mining Technique Business Area

Bengt Kvarnbäck
Senior Executive Vice President, Industrial Technique Business Area

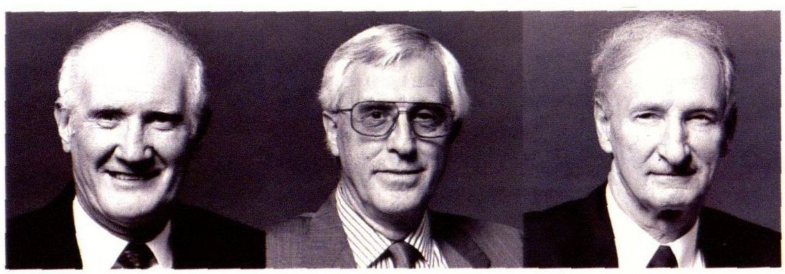
Hans Ola Meyer
Finance

Lennart Johansson
Controlling, accounting and auditing

Marianne Hamilton
Organization development and management resources

Hans Sandberg
Legal

Carl-Johan Wachtmeister
Information



Jack Mackenzie
Regional Executive Far East

Romano Girardi
Regional Executive Latin America

André Richard
Regional Executive Middle East and northern Africa

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A Public Company (publ)

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Atlas Copco AB, S-105 23 Stockholm, Sweden

9850 8381 01

Atlas Copco

Annual Report

95

Extract in US dollars

All figures have been converted at the exchange rate of Dec. 31, 1995: USD 1.00 = SEK 6.66.
An English version of the complete Annual Report is available.

Atlas Copco

Five years in summary

Atlas Copco group

USD millions unless otherwise noted	1991	1992[12]	1993[12]	1994	1995
Operating profit after depreciation	158	176	184	284	400
Operating profit margin, %[1]	7.0	7.3	6.5	9.0	10.9
Profit after financial income and expense	135	153	198	294	426
Profit margin, %[2]	6.0	6.4	7.0	9.3	11.6
Net profit after tax	74	90	130	179	274
Return on capital employed, before tax, %[3]	12.8	13.5	13.2	18.4	22.4
Return on equity, after tax, %[4]	7.9	9.0	11.0	13.7	18.6
Rate of equity, %[5]	45.6	45.6	47.8	51.1	47.8
Orders received	2,285	2,385	2,882	3,258	3,730
Invoiced sales	2,257	2,403	2,839	3,140	3,672
Percent change, current prices	-6	+7	+18	+11	+17
Sales outside Sweden, %	94	95	95	95	96
Net interest expense	–27	–25	6	9	19
As percent of invoiced sales	–1.2	–1.0	0.2	0.3	0.5
Interest coverage ratio[6]	3.1	3.2	5.1	6.7	8.7
Cash flow from operations after financial items	119	157	196	207	230
Total assets	2,113	2,435	2,676	2,732	3,330
Ratio of assets to liabilities	1.8	1.8	1.9	2.0	1.9
Ratio of current assets to current liabilities	1.8	1.8	1.8	2.0	1.7
Debt/equity ratio[7]	27.5	29.4	20.9	3.8	29.9
Capital turnover ratio[8]	1.05	1.06	1.09	1.16	1.19
Investments in machinery and buildings	106	83	59	95	107
As percent of invoiced sales	4.7	3.5	2.1	3.0	2.9
Average number of employees	19,544	19,195	18,247	18,104	19,751
Invoiced sales per employee, USD thousands	115	125	156	173	186

Per Share Data, USD unless otherwise noted	1991	1992[12]	1993[12]	1994	1995
Earnings[9]	0.42	0.50	0.71	0.98	1.49
Divided	0.24	0.24	0.27	0.35	0.45[13]
Price quotation, Dec. 31, A – share	7.21	10.06	12.46	14.26	15.32
Price quotation, Dec. 31, B – share	7.21	9.91	12.31	14.26	15.02
Highest price quoted, A – share	8.41	10.06	12.91	16.22	18.77
Lowest price quoted, A – share	4.50	6.61	9.01	12.16	13.06
Average price quoted, A – share	7.06	8.56	10.51	14.11	15.47
Direct yield, percent[10]	3.4	2.8	2.6	2.4	2.9
Price/Earnings[11]	16.9	16.9	14.9	14.5	10.4

Guidelines for foreign readers of Atlas Copco's financial statement

Accounting principles

General background

Development over the last decade in legislation affecting Swedish companies (a new Companies Act and a modernised Accounting Law came into effect in 1977), increased activity in the field of accounting recommendations by FAR (the Swedish Institute of Authorized Public Accountants), and a remarkably widespread movement towards a high degree of informative disclosure have all contributed to revolutionising the form and contents of Swedish annual reports and the financial information they contain.

The underlying principles on which Swedish financial statements are based are the universally accepted ones of historical cost, accrual accounting – i.e. matching income and expense on a correct inter-period allocation basis – and conversatism – recognising a loss risk as soon as it is measurable but not taking credit for income items until actually earned. Certain exceptions from the consistent application of these principles are described below.

Consolidation

The consolidated accounts have been prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council.

The Consolidated Balance Sheet and Income Statement of the Atlas Copco Group cover all companies in which the Parent Company, directly or indirectly, holds more than 50 percent of the 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 income from their operations.

The consolidated accounts have been prepared in accordance with the purchase method, which means that assets and liabilities are reported at market value according to the acquisition plan. If the acquisition cost exceeds the market value of the company's net assets, calculated as above, the difference is reported as goodwill, see below.

Companies acquired during the year have been reported in the Consolidated Income Statement, with the amounts relating to the period following the date of acquisition.

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 time of the divestment.

Goodwill

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

A company acquisition, in which the acquisition price exceeds the company's net assets, valued at market prices, results in intangible assets, which are capitalized and amortized over a certain period.

Goodwill is normally amortized over ten years, while goodwill arising from strategic acquisition is amortized over a period of 20-40 years.

The economic life of assets is appraised annually to determine whether the selected amortization plan is sufficient.

Notes

1 Operating profit after depreciation (EBIT) as a percentage of invoiced sales.

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

3 Profit after financial income and expense plus interest paid and foreign exchange differences as a percentage of average total assets less non-interest-bearing liabilities.

4 Profit after financial income and expense less tax and minority interest, as a percentage of average shareholders' equity.

5 Shareholders' equity and minority interest as a percentage of total capital.

6 Profit after financial income and expense plus interest paid and foreign exchange differences divided by interest paid and foreign exchange differences.

7 Difference between interest-bearing liabilities and liquid assets in relation to shareholders' equity including minority interest.

8 Invoiced sales divided by average total assets.

9 Profit after financial items less tax and minority interest, divided by the number of shares outstanding.

10 Dividend as percent of average quoted price during the year.

11 Average quoted price during the year in relation to earnings per share as defined in note 9.

12 Values and key ratios have been recalculated in accordance with change in accounting principles.

13 According to the Board of Directors' proposal.

Associated companies

Companies in which the Atlas Copco Group has between 20 and 50 percent of the voting rights, and in which it has a substantial ownership involvement, are reported as associated companies.

Holdings in associated companies are reported in the Consolidated Income Statement and Balance Sheet in accordance with the equity method.

Atlas Copco's share of income before appropriations in associated companies is reported in the Income Statement under the heading Financial income and expense.

Shares of taxes in associated companies are reported in consolidated tax expense.

The acquisition cost of shares is reported among Shares and participations in the Balance Sheet, increased or reduced by the shares in income and less dividend received. Undistributed income in these companies is reported among restricted reserves in consolidated shareholders' equity.

Internal profits have been eliminated in appropriate cases.

Translation of accounts of foreign subsidiaries

Atlas Copco applies the current-rate method in translating the accounts of foreign subsidiaries, in accordance with the suggested recommendations of the Swedish Institute of Authorized Public Accountants FAR. 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 to this approach are those subsidiaries which are located in high-inflation countries. The accounts of such subsidiaries are translated according to the monetary/non-monetary method. In accordance with FAR's suggested recommendations, such a procedure is regarded as providing a more accurate picture of the earnings and financial positions of these companies.

In accordance with the current-rate method, all assets and liabilities in the balance sheets of subsidiaries are translated at year-end rates, and all items in the income statements are translated at the average exchange rate for the year. Translation differences that arise are a result of the fact that 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 instead transferred directly to shareholders' equity.

For those subsidiaries treated according to the monetary/non-monetary method, all non-monetary items, real estate (land and buildings), machinery and equipment, inventories, shareholders' equity and deferred tax, are translated at the acquisition date rates. Other items, monetary items, are translated at year-end rates. The income statement items have been translated at the average rate for the year, except for the cost of goods sold, depreciation and deferred taxes, 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 accounts of all subsidiaries of the Atlas Copco Group are translated according to the current-rate method except for the companies in high-inflation countries, primarily Latin America. The operational currency of these companies is regarded as being the USD, and is therefore translated in two stages.

In the first stage, translation is made to USD in accordance with the monetary/non-monetary method, whereby translation differences arising are charged to consolidated income.

In the second stage, the company's balance sheet items are translated to SEK according to the year-end rate and the income statement items according to the average rate for the year. The resulting translation differences are transferred directly to shareholders' equity.

For Group companies in Brazil, an inflation-adjusted year-end report is prepared in the local currency. This is subsequently translated to USD in accordance with the year-end rate and then to SEK, whereby translation differences arising are transferred directly to shareholders' equity.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are translated at the year-end rate.

Hedging of net investments

Forward contracts, currency swaps and loans in foreign currencies have been arranged in order to hedge the Group's net assets in foreign subsidiaries. Foreign exchange gains and losses on such contracts, less current and deferred tax, are not included in income for the year but are offset against translation differences arising in connection with the translation of the foreign subsidiaries' net assets.

Interest-rate differences arising between currencies are included in the net interest items and distributed evenly over the term of each contract.

Hedging of commercial flows

When calculating the value of the forward contracts outstanding, provision is made for unrealized losses to the extent these exceed unrealized gains. Unrealized gains which exceed unrealized losses are not recognized as revenue. When calculating unrealized exchange-rate differences, that portion of the hedged amounts is excluded for which currency flows, through currency transactions, are most likely to cover the forward contracts.

Financial investments

Financial and other investments, that are to be held to maturity are valued at acquisition cost.

Investments intended for trading are valued at market rates.

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 product companies to the sales companies. Deferred tax has been taken into account in connection with these transactions.

Transfer pricing between companies is based on market price setting.

Depreciation

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

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

Machinery and equipment	3 to 10 years
Vehicles	4 to 5 years
Buildings	25 to 50 years
Goodwill	10 to 40 years

Research and development costs

Atlas Copco's own research and development costs are expensed as incurred.

Product development costs and warranty costs

Product development costs are charged against operations when they are incurred.

Estimated costs of product warranties are charged against cost of sales at the time the products are sold.

Taxes

The company calculates deferred tax based on the differences between reported values in the balance sheet and residual value available for tax purposes. Those tax-loss carryforwards arising are anticipated in instances where it is more likely than not that they will result in lower tax payments in the future. When calculating deferred tax, the nominal tax rates prevailing in each country have been used individually for each company. Deferred tax relating to 1995 operations is shown under the entry Taxes in the Income Statement and is specified in Note 6 and under Fixed assets and Non-interest-bearing long-term liabilities in the Balance Sheet.

International accounting principles

The consolidated accounts for the Atlas Copco Group follow Swedish accounting practices. Swedish accounting practices, however, diverge from international practices on certain points. A calculation of the income for the year and financial position, taking into account the major differences between Swedish accounting practice and the U.S. GAAP.

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

U.S. GAAP	1995	1994
Income as reported in the Consolidated Income Statement	274	179
Items increasing/decreasing reported net income:		
Depreciation of revaluations	0	0
Capitalization of interest expenses	0	0
Amortization of goodwill	–1	–1
Divestement/closure of subsidiaries	0	–
Deferred taxes	0	0
Calculated net profit	273	178
Calculated earnings per share, USD	1.48	0.79
Total assets	3,404	2,808
Total liabilities	1,766	1,362
Shareholders' equity as reported in the Consolidated Balance Sheet	1,573	1,378
Net adjustments in reported shareholders' equity	65	68
Approximate shareholders' equity	1,638	1,446

Consolidated income statement

Amounts in USD m.		1995	1994
Operating income	Invoiced sales	3,672	3,140
Operating expense	Cost of goods sold	–2,338	–1,946
	Technical development, marketing and administrative costs, etc.	–827	–777
Operating profit before depreciation		507	417
Cost depreciation		–107	–133
Operating profit after depreciation		400	284
Financial income and expense		13	0
Share in associated companies		13	10
Profit after financial income and expense		426	294
Taxes		–148	–111
Minority interest		–4	–4
Net profit		274	179
Earnings per share, USD		1.49	0.98

Consolidated balance sheet

Amounts in USD m.		Dec. 31, 1995		Dec. 31, 1994	
ASSETS					
Current assets	Cash, bank and short-term investments	283		445	
	Receivables	904		766	
	Inventories	766	1,953	666	1,877
Fixed assets	Shares and participations	42		38	
	Goodwill	562		137	
	Other fixed assets	773	1,377	680	855
Total assets			3,330		2,732
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	**Non-interest-bearing liabilities**				
	Notes payable	12		13	
	Suppliers	221		202	
	Provision for taxes	70		70	
	Accrued expenses and prepaid income	281		263	
	Other current liabilities	206		179	
	Interest-bearing liabilities				
	Bank loans	385		190	
	Current portion of long-term liabilities	3		14	
	Other current liabilities	1	1,179	4	935
Long-term liabilities	**Non-interest-bearing liabilities**				
	Other long-term liabilities	40		14	
	Deferred tax liabilities	150		97	
	Interest-bearing liabilities				
	Mortgage and other long-term loans	83		14	
	Provision for pensions	287	560	276	401
Total liabilities			1,739		1,336
Minority interest			18		18
Shareholders' equity	Share capital	138		138	
	Restricted reserves	609		634	
	Retained earnings	552		427	
	Net profit	274	1,573	179	1,378
Total liabilities and shareholders' equity			3,330		2,732
Assets pledged			21		23
Contingent liabilities			127		89

ATLAS COPCO GROUP

	1995	1994
Invoiced sales, USD m.	3,672	3,140
Operating profit after depreciation USD m.	400	284
Profit after financial items USD m.	426	294
Return on capital employed, %	22	18
Investments USD m.	107	95
Number of employees	19,751	18,104

Atlas Copco is an international company, with its head office in Stockholm, Sweden. Operations are conducted in three business areas – Compressor Technique, Construction and Mining Technique and Industrial Technique – through 17 divisions, each of which is responsible for its own product development, construction, production, sales and profitability. 96 percent of the Group's invoiced sales is attributable to countries outside Sweden. Products are manufactured at 57 plants in 15 countries.

COMPRESSOR TECHNIQUE

	1995	1994
Invoiced sales, USD m.	1,678	1,485
Operating profit after depreciation USD m.	255	215
Investments USD m.	41	34
Return on capital employed, %	31	27
Number of employees	7,661	7,297

The business area Compressor Technique is a leading manufacturer of industrial, oil-free and portable compressors, air dryers, after coolers, energy recovery systems, control systems, filters and specially built gas and process compressors, expansion turbines and cryogenic pumps.

The products are developed, manufactured and marketed by the following divisions: Airtec, Portable Air, Industrial Air, Oil-free Air and Atlas Copco ACT (Applied Compressor and Expander Technique).

CONSTRUCTION AND MINING TECHNIQUE

	1995	1994
Invoiced sales, USD m.	930	822
Operating profit after depreciation USD m.	59	9
Return on capital employed, %	14	3
Investments USD m.	24	21
Number of employees	5,349	5,182

The business area Construction and Mining Technique is a leading manufacturer of rock drilling tools, tunnelling and mining equipment, surface drilling equipment, construction tools, loading equipment and geotechnical drilling equipment.

The products are developed, manufactured and marketed by the following divisions: Atlas Copco Rock Drilling Equipment, Atlas Copco Robbins, Atlas Copco Craelius, Uniroc, Atlas Copco Construction Tools and Atlas Copco Wagner.

INDUSTRIAL TECHNIQUE

	1995	1994
Invoiced sales, USD m.	1,064	833
Operating profit after depreciation USD m.	101	71
Return on capital employed, %	15	14
Investments USD m.	36	33
Number of employees	6,631	5,505

The business area Industrial Technique is one of the world's largest manufacturers of power tools. The product range also covers assembly systems and motion control products.

The products are developed, manufactured and marketed by the following divisions: Milwaukee Electric Tool, Atlas Copco Industrial Tools and Equipment, Atlas Copco Electric Tools, Chicago Pneumatic, Desoutter and Georges Renault.

Atlas Copco

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