Atlas Copco

Annual Report 1996

96

Atlas Copco Group operations developed favorably during 1996 despite a weak European market. Profit after financial items rose by 8 percent to SEK 3,070 m. Earnings per share increased by 6 percent to SEK 10.56, compared with SEK 9.93 in the preceding year. Earnings for 1997 are expected to increase somewhat.

Atlas Copco

CONTENTS

Atlas Copco AB
A Public Company (publ)

Invitation to participate in the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Company's Annual General Meeting will be held on Tuesday, April 22, 1997, at 5 p.m. in **Berwaldhallen,** Strandvägen 69, Stockholm.

Financial Information from Atlas Copco

Atlas Copco will publish the following financial reports in respect of 1997 operations:

President's Address to Shareholders at the AGM ..... April 22, 1997
Interim Report on first three months of operations ..... April 28, 1997
Interim Report on first six months of operations ..... August 18, 1997
Interim Report on first nine months of operations ..... October 30, 1997
1997 Preliminary Year-end Report ..... February, 1998
1997 Annual Report ..... March, 1998

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

Financial Information on Atlas Copco

Aros Fondkommission, Stockholm ..... *Mikael Sens*
Alfred Berg, Stockholm ..... *Michael Grundberg*
Barclays de Zoete Wedd, London ..... *Taina Uljas*
Banque Paribas, London ..... *Christian Diebitsch*
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Fischer Partners Fondkommission, Stockholm ..... *Henrik Moberg*
Goldman Sachs, London ..... *Klas Andersson*
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UBS, London ..... *Michael Hagmann*
Unibörs, Copenhagen ..... *Henrik Breum*
Öhman Fondkommission, Stockholm ..... *Lars Höglund*

Cover illustration

General Instrument Ireland, which manufactures electronic components, has invested in Atlas Copco's VSD compressors. The Variable Speed Drive technique electronically regulates the compressor's motor speed and has provided significant power sawings for the Irish company.

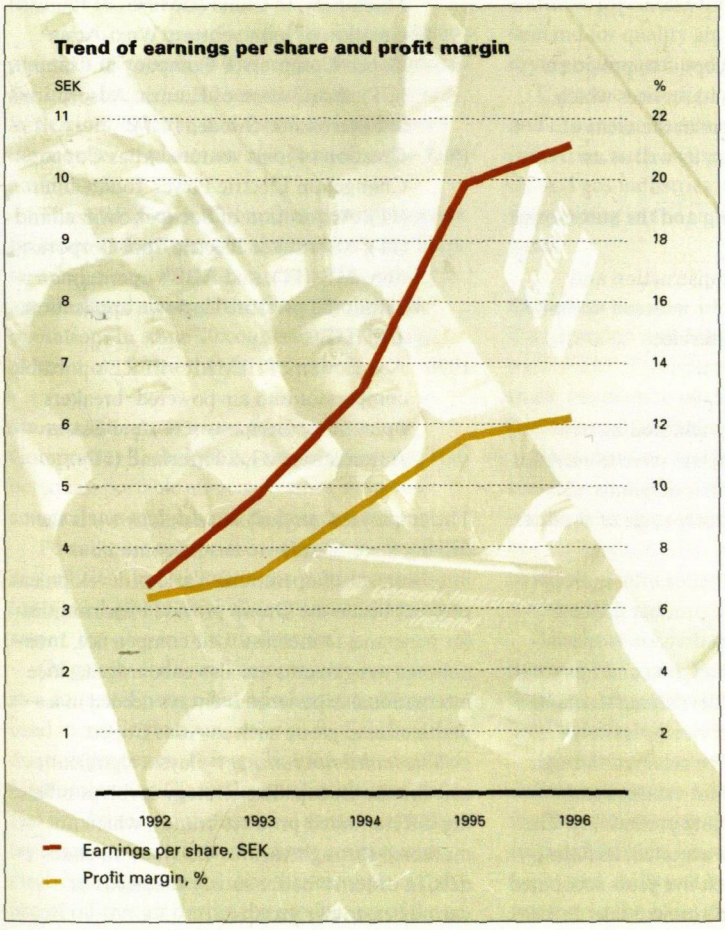
Atlas Copco 1996

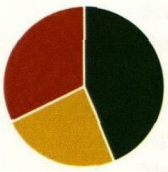
Sales The Atlas Copco Group's invoiced sales for 1996 increased by 3 percent to SEK 25,121 m., compared with SEK 24,454 m. in 1995.

Earnings The Group's operating profit after net financial items rose by 8 percent to SEK 3,070 m. (2,840), corresponding to a profit margin of 12.2 percent (11.6). Net profit after tax increased by 6 percent to SEK 1,938 m. (1,823). Earnings per share rose to SEK 10.56 (9.93).

Dividend The Board proposes a dividend of SEK 3.75 (3.00) per share.

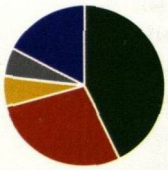
Outlook for 1997 Demand in the near future is expected to remain largely unchanged. Earnings for 1997 are expected to increase somewhat as a result of ongoing efficiency improvements.





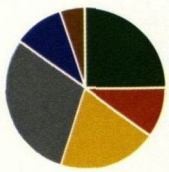
Invoiced sales by business area 1996

- Compressor Technique 44%
- Construction and Mining Technique 24%
- Industrial Technique 32%



Geographic distribution of invoiced sales

- Europe incl CIS 43%
- North America 28%
- South America 6%
- Africa/Middle East 6%
- Asia/Australia 17%



Invoiced sales by customer category

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

Atlas Copco – global leader within its areas of business

Atlas Copco's vision is to be a global leader within its areas of business. Growth shall be achieved while maintaining profitability and financial strength. The average pretax profit margin shall exceed 10 percent during a business cycle.

Atlas Copco is an international industrial group of companies, with its head office in Stockholm. Of invoiced sales amounting to more than SEK 25 billion, 96 percent is attributable to countries outside Sweden. The Group has approximately 21,000 employees, of whom 13 percent work in Sweden.

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's business concept is to provide a broad range of products and services which meet the needs of customers in the areas of:

- air and gas compression, as well as air treatment;
- industrial manufacturing and the automotive aftermarket;
- rock excavation, light construction and demolition;
- installation, repair and service.

Five key strategies

When developing products and finding new applications, *the focus is always on customers* for the purpose of satisfying their demands. Customers are involved at an early stage of product development projects.

At the same time, *the organization is product-driven* in order to give each product the best chance in the market. Each division is specialized within a specific product area and has total responsibility for product development, manufacturing, and sales and service operations.

Continuous growth shall be achieved through organic growth as well as joint ventures and acquisitions, while maintaining profitability. The businesses Atlas Copco has acquired, including joint ventures, during the last five years accounted for 17 percent of the Group's annual sales in 1996.

The abbreviations in brackets below, correspond to the business areas: Compressor Technique (CT), Construction and Mining Technique (CMT) and Industrial Technique (IT).

1992 Acquisition of Craelius, Sweden (CMT).

1993 Acquisition of Robbins, U.S. (CMT); Kango, UK (IT) and 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, China (IT). Acquisition of Socapel, Switzerland (IT); Milwaukee Electric Tool Corporation, U.S. (IT); and ABB's operations within the pressure let-down application area (CT).

1996 Acquisition of IRMER+ELZE's portable compressor and air-powered breakers operations, Germany (CT) and Elesta Automation AG, Switzerland (IT).

The employees' *professional development* is the driving force in order to ensure continuous improvement of operations. Various development projects within the Group provide opportunities for personnel to increase their competence. International assignments are also encouraged, since international experience is always needed in a multinational group such as Atlas Copco.

The *multibrand strategy* plays a significant role for the Group. The strategy involves offering differentiated product brands, which are marketed through various distribution channels, in order to better satisfy the needs of various customer groups.

Profitable growth

The financial target is to achieve an average pretax profit margin in excess of 10 percent during an economic cycle. During the last three years the Group's profit margin has averaged 11 percent per year. In 1996 the profit margin amounted to 12,2 percent.

The growth target is at least 5 percent of annual average volume growth. This target shall be achieved while maintaining profitability and financial strength. During the last five years the growth has averaged 6.5 percent per year.

The Group also has qualitative objectives for its operations. All products and services should increase the productivity of our customers. In addition, the divisions shall achieve leadership in the area of environmental protection in order to strengthen the businesses.

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 Electric Tools** **Atlas Copco Industrial Tools and Equipment** **Chicago Pneumatic** **Desoutter**
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

Decentralized organization

Operations are conducted in the business areas Compressor Technique, Construction and Mining Technique and Industrial Technique, through 16 divisions.

Atlas Copco manufactures products at 56 plants in 15 countries. The major share of manufacturing is conducted within Europe, especially in Belgium, Sweden and Germany. An increasing number of plants are also located in the U.S. and in 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 the Group's own sales operations in some 70 countries and through distributors in another 80 countries.

Many application areas for compressors

Compressor Technique covers the following product areas: portable air compressors, industrial compressors and gas and process compressors.

Portable air compressors constitute a reliable and efficient power source for machines and tools used within the building and construction sector, but also in other industries.

Originally, industrial compressors were used as a source of power, but now compressed air is used increasingly as an active part of various production processes. This application area demands high air quality. Clean, dry quality air is of crucial importance in the sensitive electronics industry since the air comes into direct contact with electronic components. Another example is the use of oil-free air during the production of flavor additives for certain foods. To meet the steady demand for quality air, Atlas Copco also offers drying equipment and filters.

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

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 construction work and quarrying. 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 for demoli-

Primary factors affecting Atlas Copco Group sales

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

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

tion. 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 areas consist primarily of industrial and professional power tools, assembly systems and sophisticated motion-control products.

Power tools powered 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 used extensively within the building and construction markets.

Assembly systems, with computerized control systems, are supplied primarily to the automotive industry and its suppliers. The equipment is used for nut tightening in fixed installations 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, due to the increasing need to automate production within industry and the need for better process control.

Balanced distribution of sales

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.

Europe has been the dominant Atlas Copco market for many years, accounting for more than 50 percent of invoicing. Due to the Milwaukee acquisition in 1995, America's share has increased to nearly 34 percent, while Europe/-Africa's share has decreased to 48 percent. Asia/Australia accounts for 18 percent. The rapid growth in Asian markets has resulted in an increased focus throughout this region.

External investments have impact

The Group is affected by the investments in capital goods made in various areas by companies and public authorities.

Sales are mainly influenced by the manufacturing industry's machinery and equipment requirements. 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 power plants, is often dependent on political decisions. In most countries, the projects are also contingent upon public financing. Infrastructure projects are important for Atlas Copco's sales of construction equipment, including drill rigs, tunnelboring machines, breakers, and portable compressors.

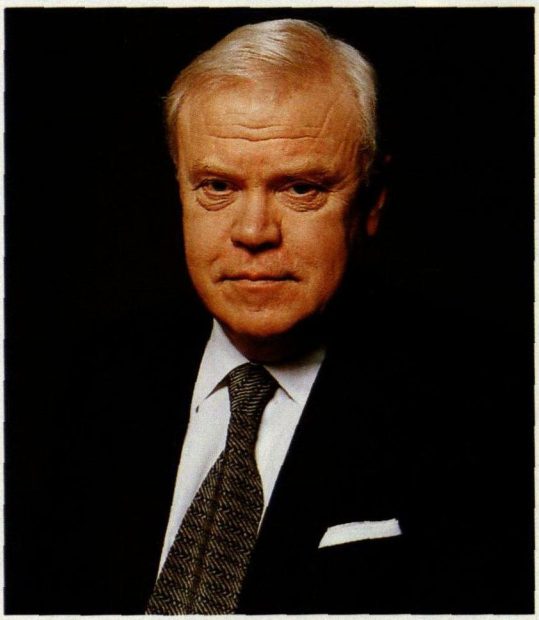
To a large extent, mining-industry demand for capital goods, such as drilling equipment and loaders, follows the price and inventory trends for metals.

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 products is more stable compared with the more cyclical capital goods. Expendables account for approximately 40 percent of Group invoicing.

The Atlas Copco Group introduces new products at increasingly shorter intervals. In 1996, Atlas Copco Wagner, in the U.S., successfully launched new loaders and a new mine truck.

Dear shareholders

Atlas Copco consolidated its leading position in the world market during 1996 through the launch of a range of new products and aggressive market investment programs. The Group continued to show favorable profitability, which was achieved through increased cost-effectiveness, among other measures.



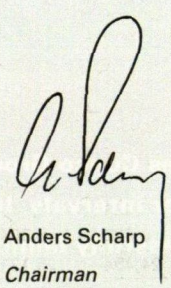
Although Europe continues to be Atlas Copco's largest market, the Group's objective is to achieve a more uniform distribution of sales throughout the world's regions. It is difficult to assess the future trend of the markets in Europe, since the EU member countries are struggling to combat the problems of high unemployment and low growth. Moreover, economic activity within the EU is being dampened as a result of members' efforts to meet the convergence criteria for European Monetary Union (EMU). This is having an adverse effect on Atlas Copco and other large international groups. However, these efforts are essential to improving the economic climate in Europe, with the aim, ultimately, of achieving low, sustainable levels of inflation and interest rates – factors that are essential to Europe's long-term growth.

As a result of efficiency improvement measures carried out over a period of several years, Atlas Copco has achieved a strong financial position. The time is now ripe to focus even more strongly on growth. This will be achieved by capturing additional market shares in Europe and North America, but mainly by investing in the growth markets of East Asia, eastern Europe and South America. To support these efforts, Atlas Copco will focus on new technologies with natural links to the Group's current operations and will allocate increased resources to the development of new products and applications.

Based on the improvement in earnings and the Company's strong cash flow, the Board is proposing that the dividend to shareholders be raised by 25 percent to SEK 3.75 per share. Combined, the increase in Atlas Copco's share price and dividend amounts to 30 percent annually during the most recent five-year period.

As shareholders, you can be very satisfied with the Company's earnings for the year, which exceeded the record profit achieved during 1995. On behalf of the Board of Directors, I would like to thank all members of management and the Company's employees for their exceptional efforts during 1996.

Since Michael Treschow is now leaving Atlas Copco to become President and CEO of Electrolux, I would like to take this opportunity to express the warm thanks of the Board to Michael and his management team for their successful restructuring of the Atlas Copco Group and for the excellent trend of earnings. I would also like to welcome Giulio Mazzalupi, currently head of the Compressor Technique business area, as the new President and Chief Executive Officer of Atlas Copco. I am convinced that with his many years of sound management experience, he will carry on the tradition of leading the Company to new successes.



Anders Scharp
Chairman

The Board of Directors' Report on 1996 operations

SEK m. unless otherwise indicated

	1996	1995
Invoicing	25,121	24,454
Change, %	+ 3	+17
Orders received	25,159	24,843
Change, %	+1	+14
Profit after financial items	3,070	2,840
Change, %	+8	+45
Net profit after taxes	1,938	1,823
Change, %	+6	+53

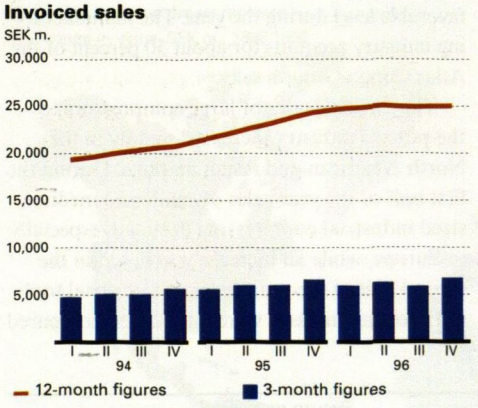
The Atlas Copco Group's invoiced sales for 1996 increased by 3 percent to SEK 25,121 m., compared with SEK 24,454 m. in 1995. Markets outside Sweden accounted for 96 percent of invoicing. Orders received amounted to SEK 25,159 m. (24,843). For comparable units, invoiced sales decreased by 4 percent and orders received by 6 percent. The strengthening of the Swedish krona had a negative translation effect of 7 percent.

Atlas Copco Group profit after financial income and expense rose by 8 percent to SEK 3,070 m. (2,840). The profit margin was 12.2 percent (11.6). Profit included a gain of SEK 342 m., related to the sale of VOAC Hydraulics, and restructuring costs of SEK 225 m. in the Industrial Technique business area. Excluding these nonrecurring items, the profit margin was 11.8 percent.

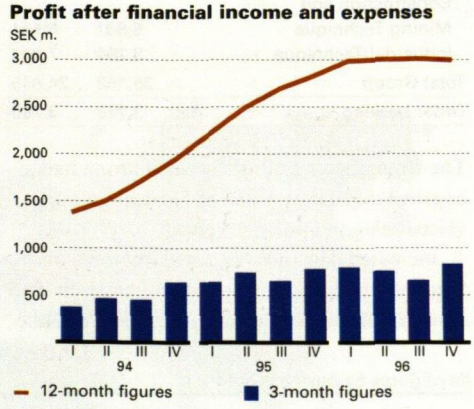
Dividend The Board of Directors proposes that a dividend of SEK 3.75 (3.00) per share be paid.

Outlook for 1997 Demand in the near furture is expected to remain largely unchanged. Earnings for 1997 are expected to increase somewhat as a result of ongoing efficiency improvements.

Invoiced sales



Profit after financial income and expenses



Invoiced sales by quarter

	1994	1995	1996
First quarter	4,829	5,628	6,034
Second quarter	5,182	6,059	6,340
Third quarter	5,167	6,084	5,943
Fourth quarter	5,736	6,683	6,804
Total	20,914	24,454	25,121

Earnings by quarter

	1994	1995	1996
First quarter	380	647	803
Second quarter	472	748	764
Third quarter	458	659	665
Fourth quarter	645	786	838
Total	1,955	2,840	3,070

Structural changes

On January 1, 1996, Atlas Copco acquired the portable compressors and pneumatic breakers operations of the German company IRMER+ ELZE. The company, with 81 employees, has annual sales of approximately SEK 100 m. IRMER+ELZE is part of Portable Air division in the Compressor Technique business area.

Effective February 29, 1996, AVC Intressenter AB, a company in which Atlas Copco and Volvo Aero each holds a 50-percent interest, 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.

The head office and operations of Chicago Pneumatic, a division within the Industrial Technique business area, will relocate from Utica, New York, to Rock Hill, South Carolina, during the first half of 1997. The relocation will affect some 430 employees.

The Rock Drilling Equipment division within the Construction and Mining Technique business area will transfer its product development and marketing operations from Stockholm to Örebro, Sweden, where the manufacturing plants for surface and underground rock drilling equipment are located. 170 employees are affected. The transfer is expected to be finalized by year-end 1997.

Effective December 31, 1996, the production of rock drilling tools at the Uniroc plant in São Paulo, Brazil, was relocated to existing units in Sweden and South Africa. Approximately 80 employees are affected.

On December 17, 1996, Atlas Copco acquired the Swiss company Elesta Automation AG, which has annual sales of about SEK 20 m. The acquisition is a step in Atlas Copco's strategy to further strengthen its position in sophisticated motion control systems for industrial machines. Elesta is part of Atlas Copco Industrial Tools and Equipment division in the Industrial Technique business area.

Market review

	1996	1995
Orders received		
Compressor Technique	11,012	11,687
Construction and Mining Technique	5,867	6,144
Industrial Technique	8,280	7,012
Total Group	25,159	24,843
Order backlog	3,728	3,795

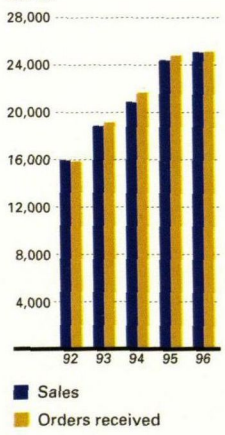
The strengthening of the Swedish krona had a negative translation effect of 7 percent on invoiced sales and orders received.

Increased demand was noted in North and South America, South East Asia, Australia and eastern Europe. As a result of slower economic growth demand declined in most of the main European countries, such as Germany, France and Great Britain.

Investments in machinery and tools within the *manufacturing industry* – the engineering, automotive and process industries – remained on a favorable level during the year. The manufacturing industry accounts for about 50 percent of the Atlas Copco Group's sales.

The Group's sales of large compressors to the process industry increased mainly in the North American and Asian markets. During the first half of the year sales of small and medium-sized industrial compressors declined, especially in Europe, while an increase was noted in the second half of the year. Sales of industrial tools in European markets were unchanged compared

Sales and orders received



Key figures by business area

	Invoiced sales		Operating profit		Return on capital employed		Investments	
	1996	1995	1996	1995	1996	1995	1996	1995
Compressor Technique	11,072	11,177	1,807	1,700	33	31	285	270
Construction and Mining Technique	5,921	6,194	396	394	14	14	211	162
Industrial Technique	8,128	7,083	836	674	12	15	309	238
Corporate items			–108	–103			17	41
Total Group	25,121	24,454	2,931	2,665	21	22	822	711

with the preceding year, while an upturn was noted in South America. During the second half of the year, sales of electric and pneumatic power tools increased gradually in the two largest markets, the U.S. and Germany. Demand for assembly systems from the automotive industry remained favorable.

Activity within the *building and construction industry* in Europe remained weak, mainly due to public deficits affecting government-financed projects. Thus, demand declined as the EU member countries had to take steps to meet the criteria for the European Monetary Union (EMU). A positive trend was noted for large drilling rigs, particularly in Italy and certain East Asian markets. With regard to surface construction projects, Atlas Copco increased its market shares, mainly as a result of improved delivery reliability and high levels of service. Demand for portable compressors was weak within this sector, with the exception of southern European markets and South America.

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

Demand within the *mining industry* remained favorable, despite declining prices for several metals. The need for increased mechanization in mines resulted in substantial orders for drilling rigs in Latin America and eastern Europe. Sales of rock drilling tools and loaders increased, primarily in North and South America and Australia. Investments in exploration equipment increased in the search for new mines.

About 10 percent of the Group's sales is related to the mining industry.

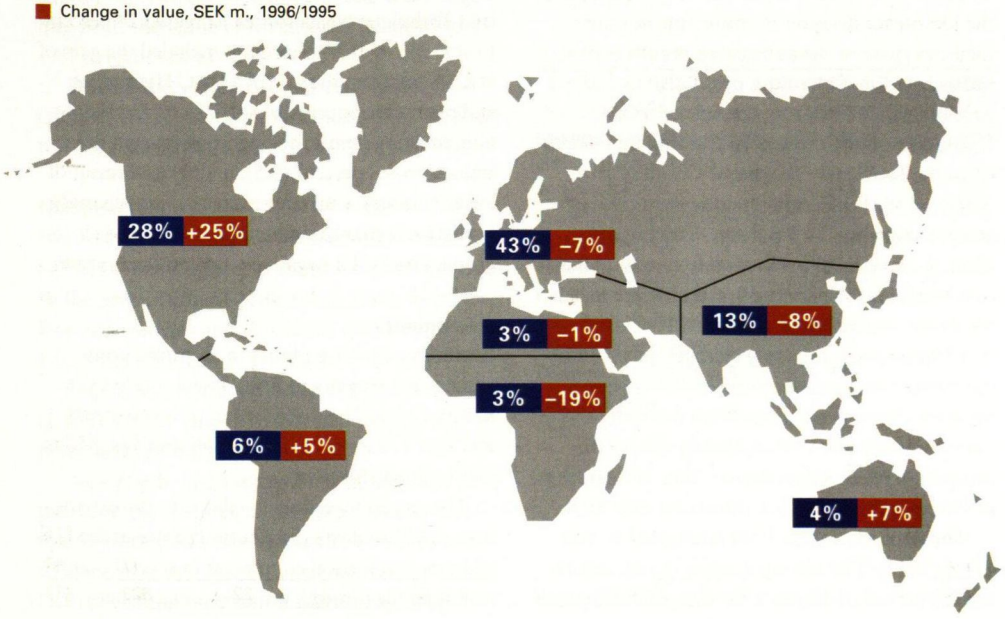
Investment in growth markets

In order to achieve a more balanced distribution of sales between the markets, Atlas Copco has gradually increased its sales in North American markets in recent years. This has been achieved through a combination of organic growth and acquisitions. Today, North America accounts for 28 percent of Group sales, compared with 15 percent five years ago. During the past year, resources have continued to be concentrated on non-European markets, especially in Asia, where economic growth is, and is expected to remain, strong. The sales organizations in these markets have been expanded and the personnel specially trained, at the same time as products have been adapted to meet local demands.

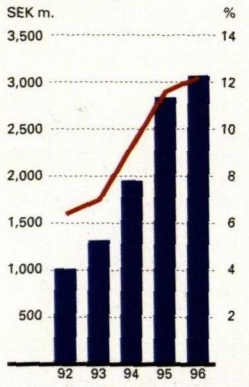
Atlas Copco is also steadily strengthening its marketing organizations in central and eastern Europe with own sales companies or representative offices.

Geografic distribution of orders received, 1996

■ Portion of Group orders received
■ Change in value, SEK m., 1996/1995

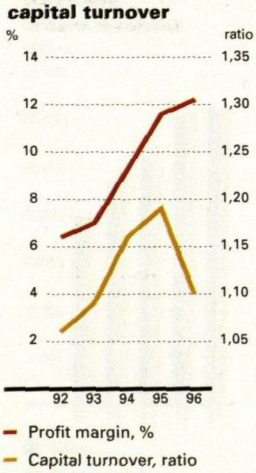


Earnings and profit margin



Return

Profit margin and capital turnover



Financial summary and analysis

Earnings

	1996	1995
Earnings per share, SEK	10.56	9.93
Return on capital employed, %	21.2	22.4
Return on equity, %	17.5	18.6
Profit margin, %	12.2	11.6

Definitions of key figures, page 21.

Atlas Copco Group profit after financial income and expense rose by 8 percent to SEK 3,070 m. (2,840).

The profit margin rose to 12.2 percent (11.6). Net profit for the year after tax was SEK 1,938 m. (1,823). Tax expenses for the year amounted to SEK 1,107 m. (990). Earnings per share were SEK 10.56 (9.93), up 6 percent.

The return on capital employed was 21 percent (22) and on shareholders' equity was 18 percent (19).

Earnings analysis

Operating profit before depreciation totaled SEK 3,702 m. (3,377), corresponding to 14.7 percent (13.8) of invoicing. Earnings were charged with restructuring costs of SEK 225 m., mainly related to the relocation of Chicago Pneumatic's operations in Utica, New York, and to rationalization measures at the Atlas Copco Electric Tools division in Germany and the relocation of the Desoutter division to more appropriate facilities close to the company's premises in north London. Operating profit also includes a gain of SEK 342 m. from the sale of VOAC Hydraulics. Both these nonrecurring items related to the Industrial Technique business area. Adjusted for these nonrecurring items, the operating margin was 14.3 percent. The improvement in margin 1996 was mainly due to reduced cost levels and the effect of rationalization measures implemented earlier.

Currency exchange-rate changes, particularly the strengthening of the Swedish krona, had a negative effect on earnings in an amount of approximately SEK 200 m, mainly due to the translation effect which occurs when the earnings of foreign subsidiaries are translated into SEK.

The depreciation in 1996 amounted to SEK 771 m. (712). The Group is applying an amortization period of 40 years for the goodwill which arose in connection with the acquisition of Milwaukee Electric Tool in 1995. This provides the most accurate picture of this strategic acquisition's impact on the Atlas Copco Group's earnings and financial position, see page 31.

Operating profit after depreciation increased by 10 percent to SEK 2,931 m. (2,665), which corresponds to 11.7 percent (10.9) of invoiced sales.

Compressor Technique

Operating profit after depreciation for the Compressor Technique business area rose 6 percent to SEK 1,807 m. (1,700). The operating margin improved as a result of increased volumes and higher productivity to 16.3 percent (15.2). Currency exchange-rate changes had a positive effect on the margin, mainly due to the strengthening of the USD against BEF and DEM.

Construction and Mining Technique

Operating profit after depreciation for the Construction and Mining Technique business area amounted to SEK 396 m. (394), corresponding to an operating margin of 6.7 percent (6.4). During 1996, earnings were charged with restructuring costs in the connection with the transfer of operations in Stockholm to Örebro and the relocation of production from Brazil to Sweden and South Africa. Currency exchange-rate changes had a significantly negative impact on the margin, due to the strengthening of the Swedish krona.

Industrial Technique

Operating profit after depreciation for the Industrial Technique business area increased 24 percent to SEK 836 m. (674). Earnings included the gain of SEK 342 m. from the sale of VOAC Hydraulics and restructuring costs of SEK 225 m. Excluding nonrecurring items, the operating margin decreased to 8.8 percent (9.5), mainly as a result of lower volumes. Currency exchange-rate changes, particularly the strengthening of the Swedish krona, also had a negative effect on the margin.

Investments

Excluding existing plants in acquired companies, investments in fixed assets totaled SEK 822 m. (711). The distribution of investments was SEK 172 m. (171) in Sweden and SEK 650 m. (540) outside Sweden.

The largest investments related to the expansion of Milwaukee's distribution center in the U.S. and new production equipment in several plants within all the Group's business areas. A new

Geographical distribution of investments

	1996	1995
Europe	472	472
North America	237	124
South America	16	22
North Africa/Middle East	6	2
Southern Africa	12	18
India/East Asia	70	59
Oceania	9	14
Total	822	711

laboratory is being established in Örebro for the Atlas Copco Rock Drilling Equipment division.

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 615 m. (597).

Financial analysis

	1996	1995
Net financial items	139	86
Debt/equity ratio, %	16	30
Equity/assets ratio, %	52	48

The Group's total assets increased during the year to SEK 23,248 m., or by 5 percent. The change in exchange rate for the SEK during the year had a negligible effect on the increase in total assets.

The capital turnover ratio was 1.10 (1.19).

Inventories and accounts receivable

During the year, the Group implemented programs to further reduce the amount of tied-up capital. In relation to invoicing, and excluding hire fleet, the value of inventories declined to 17.7 percent (18.8).

During the year, customer receivables increased, but in relation to invoicing they declined to 19.4 percent (19.6).

Net indebtedness

Net cash flow during the year was SEK 1,322 m. (–3,143). The negative amount for 1995 was due to the acquisition of Milwaukee. Cash flow before acquisitions and dividends totaled SEK 1,920 m. (1,530).

Liquid assets amounted to SEK 2,485 m. (1,886) at year-end 1996, corresponding to 10 percent (8) of invoicing.

As a result, the Group's net indebtedness, meaning the difference between interest-bearing liabilities and liquid assets, were reduced to SEK 1,899 m. (3,166), of which SEK 1,924 m. (1,910) related to pension provisions. The debt/equity ratio, meaning net indebtedness in relation to shareholders' equity, decreased to 16 percent (30).

Net financial items

Group's net financial items amounted to SEK 139 m. (86), of which net interest items accounted for SEK 127 m. (129) and financial exchange-rate differences for SEK –2 m. (–45). The impact of higher net interest-bearing debt during 1996, compared with the preceding year, was offset by an increase in the net from the currency hedging of foreign net assets, see note 4 page 22.

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. Following the sale of VOAC Hydraulics, the remaining associated companies are of insufficient size to justify being reported separately.

Shareholders' equity

As at December 31, 1996, Group shareholders' equity, including minority interests, amounted to SEK 12,005 m. (10,599). The negative translation effect from the strengthened SEK was largely offset by currency hedging measures.

Shareholders' equity per share amounted to SEK 65 (58).

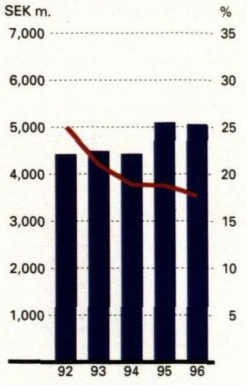
Equity/assets ratio

The equity portion of total assets was 52 percent (48).

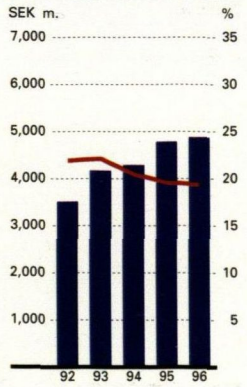
Summary of cash flow analysis

	1996	1995
Operating cash surplus	3,323	3,377
Change in working capital	136	–592
Investments in plant and equipment	–822	–711
Cash flow from operations	2,637	2,074
Financial items, including tax payments	–717	–544
Cash flow from operations after financial items	1,920	1,530
Company acquisitions	–39	–4,242
Dividend to shareholders	–559	–431
Net cash flow	1,322	–3,143

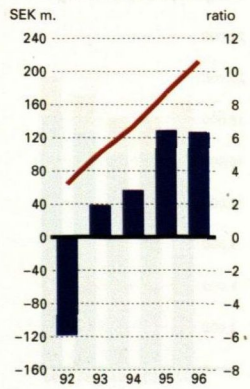
Inventories



Customer receivables



Net interest items and interest cover ratio



Personnel

	1996	1995
Average number of employees, total	21,085	19,751
Sweden	2,757	2,743
Outside Sweden	18,328	17,008
Business areas		
Compressor Technique	7,698	7,661
Construction and Mining Technique	5,143	5,349
Industrial Technique	8,119	6,631
Other	125	110

The average number of persons employed within the Atlas Copco Group increased in 1996 by 1,334 to 21,085 (19,751). The proportion of employees in Swedish units was 13 percent (14). Of the average number of employees, 81 percent (84) were men and 19 percent (16) women. In Sweden, the corresponding figures were 84 percent (84) men and 16 percent (16) women. See also page 64.

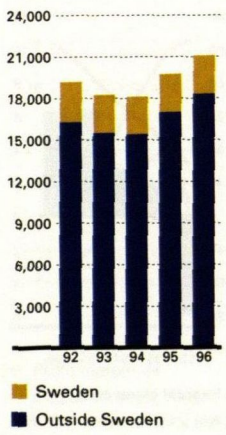
At year-end, the Group had a total of 20,841 employees (21,081).

Group payroll expenses

	1996	1995
Boards of Directors and senior executives, including bonus payment of 10 (7)	163	146
Other employees	4,784	4,815
Total	4,947	4,961

The Atlas Copco Group's total payroll expenses in 1996 amounted to SEK 6,585 m. (6,567), of which social welfare costs accounted for SEK 1,638 m. (1,606) and payroll expenses for SEK 4,947 m. (4,961).

Employees, average



Option plan

The Board of Directors has decided to introduce an option plan as from 1997, providing possibilities of annual grants of call options on Atlas Copco shares to a maximum value of approximately SEK 5 m. The company costs are not affected by the development of the stock price, as the option plan is financially hedged. The plan will initially include 25-30 executives within the Group.

The size of the grant will be linked to the Group's ability to add value to the Company and its shareholders. The options will only be granted when the Group's operating cash flow, less Atlas Copco's cost of capital, is positive.

The options will have a term of five years and give the optionholder the right to purchase existing shares. Accordingly, exercise of options will not result in any dilution of the holdings of current shareholders. See also note 28.

Product development

	1996	1995
R&D costs	779	718
% of invoicing	3.1	2.9

The introduction of new products at increasingly shorter intervals has become a vital element in work to strengthen the competitiveness of the Group's divisions. As a result, increased resources were allocated to product development within all business areas during 1996.

Within the *Compressor Technique* business area, the highlight of the year was the introduction of a new oil-free range of compressors, visualizing modern design, to assure optimal cost-effective operation. To meet increasing environmental demands, a new series of portable compressors was launched during the year, featuring a new quiet-running motor with minimal exhaust emissions. The range of generators was broadened to meet demand from equipment-leasing companies and construction contractors.

Within the *Construction and Mining Technique* business area, a new generation of surface drilling rigs was introduced. These are based on a modular design and can easily be adapted to suit specific customer needs. Designed to facilitate rational production, significant savings have been achieved in the manufacture of the rigs. For core-drilling operations, Atlas Copco introduced a new rig during the year, based on a new technology that contributes to an overall improvement in customers' drilling economy.

The entire loader and truck program is currently undergoing extensive review. Several new loaders, a completely new mine truck and systems for the monitoring and control of loading and transport operations were developed and launched in the market in 1996.

The division for rock drilling tools also expanded its product program during the year and introduced a new down-the-hole drilling tool offering a 30-percent improvement in performance. The broadened area of application offered by the new tool is opening up new markets for the division.

Within the *Industrial Technique* business area, new products from Milwaukee included a cordless reciprocating saw, with a high performance level. Atlas Copco Industrial Tools and Equipment developed a range of new pulse tools, and a new drive system for robots. Atlas Copco Electric Tools developed a range of small angle grinders and cordless drills, among other products.

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.

Earnings

Dividends from subsidiaries amounted to SEK 526 m. (335).

Profit after financial items totaled SEK 692 m. (567).

The Parent Company reported a net profit after appropriations and taxes of SEK 1,062 m. (847). As a result, unappropriated earnings amounted to SEK 2,934 m. (2,423).

Financing

The total assets of the Parent Company increased by SEK 722 m. to SEK 10,200 m.

At year-end 1996, cash, bank deposits and short-term investments amounted to SEK 1,345 m. (972).

The Parent Company's debt/equity ratio, meaning net indebtedness in relation to shareholders' equity, was 30 percent (42). The decrease was attributable primarily to a positive cash flow from operations.

The equity portion of total assets amounted to 62 percent (60).

Personnel

The average number of employees in the Parent Company during the year was 65 (64), of whom 51 percent (53) were women.

Parent Company payroll expenses

	1996	1995
Board of Directors and senior executives including bonus payment of 3 (2)	15	13
Other employees	24	23
Total	39	36

A specification of the fees and other remunerations made to the Board of Directors, the President and other members of Group management is shown in Note 26 on page 28.

Distribution of shares

Atlas Copco's share capital at year-end 1996 amounted to SEK 918 m.

Share capital	
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. For further information about the Atlas Copco share, see page 60.

Dividend

The Board of Directors proposes a dividend of SEK 3.75 (3.00) per share, corresponding to a total of SEK 688 m. (551).

Consolidated Income Statement

Amounts in SEK m.			1996	1995
Operating income	Invoiced sales	Note 1	25,121	24,454
Operating expense	Cost of goods sold, etc.	Note 2	–15,711	–15,571
	Technical development, marketing and administrative costs	Note 2	–5,708	–5,506
Operating profit before depreciation			3,702	3,377
Cost depreciation		Note 3	–771	–712
Operating profit after depreciation			2,931	2,665
Financial income and expense		Note 4	139	86
Share in associated companies		Note 11	–	89
Profit after financial income and expense			3,070	2,840
Taxes		Note 6	–1,107	–990
Minority interest		Note 7	–25	–27
Net profit			1,938	1,823
Earnings per share, SEK		Note 24	10.56	9.93

Consolidated Balance Sheet

Amounts in SEK m.			Dec. 31, 1996		Dec. 31, 1995	
ASSETS						
Current assets	Cash, bank and short-term investments	Note 8	2,485		1,886	
	Receivables	Note 9	6,031		6,021	
	Inventories	Note 10	5,061	13,577	5,100	13,007
Fixed assets	Shares and participations	Note 11	654		279	
	Goodwill	Note 12	3,758		3,746	
	Other fixed assets	Note 13	5,259	9,671	5,147	9,172
Total assets				23,248		22,179
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	**Non-interest-bearing liabilities**					
	Notes payable		93		81	
	Suppliers		1,543		1,470	
	Provision for taxes		343		465	
	Accrued expenses and prepaid income		2,130		1,877	
	Other current liabilities		1,313		1,374	
	Interest-bearing liabilities					
	Bank loans	Note 18	1,859		2,561	
	Current portion of long-term liabilities		24		20	
	Other current liabilities		6	7,311	5	7,853
Long-term liabilities	**Non-interest-bearing liabilities**					
	Other long-term liabilities		279		264	
	Deferred tax liabilities		1,158		997	
	Interest-bearing liabilities					
	Mortgage and other long-term loans	Note 19	571		556	
	Provision for pensions	Note 20	1,924	3,932	1,910	3,727
Total liabilities				11,243		11,580
Minority interest		Note 7		154		125
Shareholders' equity	Share capital	Page 60	918		918	
	Restricted reserves	Note 22	4,771		4,057	
	Retained earnings	Note 23	4,224		3,676	
	Net profit		1,938	11,851	1,823	10,474
Total liabilities and shareholders' equity				23,248		22,179
Assets pledged		Note 25		165		144
Contingent liabilities		Note 25		1,100		846

Cash Flow Analyses

Amounts in SEK m.	Group 1996	Group 1995	Atlas Copco AB 1996	Atlas Copco AB 1995
Invoiced sales	25,121	24,454		
Operating expense	–22,569	–21,789		
Reversal of depreciation	771	712		
Operating cash surplus	3,323	3,377	5	77
Change in				
Operating receivables	–136	–419	–17	–7
Inventories	60	–444	–	–
Operating liabilities	212	271	–164	–9
Change in working capital	136	–592	–181	–16
Investments in plant and equipment	–822	–711	–4	–2
Cash flow from operations before financial items	2,637	2,074	–180	59
Net financial income/expense	111	86	693	476
Dividends from associated companies	4	20	–	18
Sale of plant and equipment	159	78	0	0
Group contributions			838	686
Tax payments	–985	–852	–220	–212
Other items, net	–6	124	–299	–278
Cash flow from operations after financial items	1,920	1,530	832	749
Cash flow from acquisitions	–39	–4,242	–166	–4
Cash flow before dividend	1,881	–2,712	666	745
Dividend to shareholders	–559	–431	–551	–422
Net cash flow	1,322	–3,143	115	323

Notes to Atlas Copco Group Cash Flow Analysis

The purpose of the cash flow analysis is to provide a description of a company's capacity to generate cash during a given period. In contrast to the traditional "Statement of changes in financial position", which defines the change in the company's liquid funds, the cash flow analysis describes the change in total net indebtedness, or specifically cash, bank and short-term investments, less interest-bearing liabilities.

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 only reported in the table showing net indebtedness below.

Operating cash surplus

The operating surplus, after the reversal of depreciation and capital gains, decreased by 2 percent and amounted to 13.2 percent (13.8) of Group invoicing.

Cash flow from operations before financial items

Working capital (operating receivables and inventories less operating liabilities) decreased by 136 (1995: increase 592).

Investments in plant and equipment increased to 822 (711).

By primarily maintaining working capital at a low level, cash flow from operations before financial items rose to 2,637 (2,074).

Cash flow from operations after financial items

Higher tax payments compared with 1995 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. Cash flow from operations after financial items totaled 1,920 (1,530).

Net cash flow

After acquisitions plus the dividend to shareholders, of which 8 (9) related to dividends to minority interests in subsidiaries, net cash flow totaled 1,322 (–3,143).

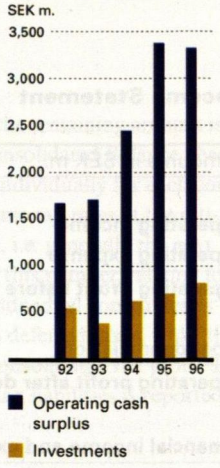
Five-year summary of cash flow analysis 1992–1996

Operating cash surplus	12,540
Change in working capital	492
Investments in plant and equipment	–3,112
Cash flow from operations before financial items	9,920
Net financial income/expense and dividends from associated companies	128
Sale of plant and equipment	646
Tax payments	–3,189
Other items, net	–326
Cash flow from operations after financial items	7,179
Cash flow from acquisitions/divestments	–5,115
Cash flow before dividend	2,064
Dividend to shareholders	–1,907
Net cash flow	157

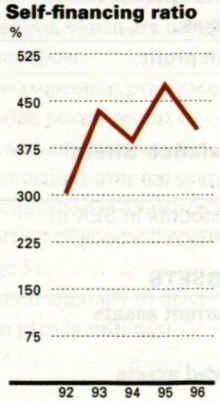
Net indebtedness

	1992	1993	1994	1995	1996
Net indebtedness, January 1	–1,811	–2,214	–1,779	–351	–3,166
Net cash flow	0	687	1,291	–3,143	1,322
Currency exchange-rate effects	–403	–252	137	328	–55
Net from operations	–403	435	1,428	–2,815	1,267
Net indebtedness, December 31	–2,214	–1,779	–351	–3,166	–1,899
Provision for pensions	1,756	1,905	1,840	1,910	1,924
Net indebtedness, excluding Provision for pensions, December 31	–458	126	1,489	–1,256	25

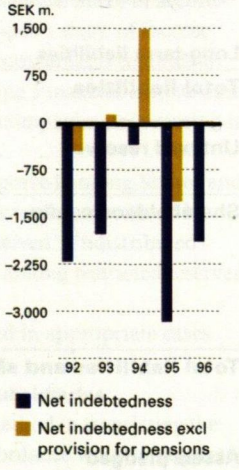
Cash flow and investments



Self-financing ratio



Net indebtedness



Income Statement and Balance Sheet

Income Statement

Amounts in SEK m.		1996	1995
Operating income		145	181
Operating expense		–139	–102
Operating profit before depreciation		6	79
Cost depreciation	Note 3	–7	–6
Operating profit after depreciation		–1	73
Financial income and expense	Note 4	693	494
Profit after financial income and expense		692	567
Appropriations	Note 5	590	492
Profit before taxes		1,282	1,059
Taxes	Note 6	–220	–212
Net profit		1,062	847

Balance Sheet

Amounts in SEK m.			Dec. 31, 1996		Dec. 31, 1995	
ASSETS						
Current assets	Cash, bank and short-term investments	Note 8	1,345		972	
	Receivables	Note 9	2,161	3,506	1,731	2,703
Fixed assets	Shares and participations	Page 30	4,194		4,024	
	Other fixed assets	Note 13	2,500	6,694	2,751	6,775
Total assets				10,200		9,478
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	Non-interest-bearing liabilities	Note 17	112		276	
	Interest-bearing liabilities	Note 17	2,371	2,483	2,305	2,581
Long-term liabilities	Interest-bearing liabilities	Note 19, 20		1,086		1,025
Total liabilities				3,569		3,606
Untaxed reserves		Note 21		1,042		794
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	1,872		1,576	
	Net profit		1,062	5,589	847	5,078
Total liabilities and shareholders' equity				10,200		9,478
Assets pledged		Note 25		–		4
Contingent liabilities		Note 25		512		307

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 33. 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, see below.

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 31.

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 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 33.

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 accord-

ance 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 1996 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.

Equity/assets ratio
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	
	1996	1995
Europe incl CIS	10,841	11,447
of which Sweden	*1,049*	*1,065*
of which EU	*9,364*	*9,998*
North America	7,117	5,543
South America	1,415	1,362
North Africa/Middle East	700	721
Southern Africa	755	942
India/East Asia	3,250	3,445
Oceania	1,043	994
	25,121	24,454

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

Capital gains/losses arising from continual scrapping and/or sales of fixed assets are included in reported operating expenses in the amount of 16 (0). Operating expenses include a gain of 342 from the sale of VOAC Hydraulics and restructuring costs of 225 in the Industrial Technique business area.

Provisions for future restructuring charges were made in the balance sheets of companies acquired during previous years in the amount of 22 (30).

The calculation of added value is shown in note 27.

	Group	
	1996	1995
Technical development costs	779	718
Marketing and administrative costs	4,929	4,788
	5,708	5,506

The above costs include taxes in Sweden amounting to 16 (14), based on pension liabilities and pension payments; profit tax and payroll tax.

3 Depreciation

	Group		Parent Company	
	1996	1995	1996	1995
Goodwill Note 12	156	115	–	–
Machinery and equipment	523	500	5	4
Buildings	92	97	2	2
	771	712	7	6

Current cost depreciation for the Group amounted to 982 (856) and thus exceeds cost depreciation by 211 (144). See also Current cost accounting, page 36.

4 Financial income and expense

	Group		Parent Company	
	1996	1995	1996	1995
Dividends received				
from subsidiaries			526	335
from others	14	2	14	19
Interest				
from subsidiaries			244	169
from others	446	454	337	345
to subsidiaries			–290	–259
to others	–319	–325	–157	–124
Foreign exchange differences	–2	–45	19	9
	139	86	693	494

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 6.0 percent (6.2). The interest portion for 1996 amounted to 97 (102), of which Swedish companies accounted for 47 (47). In the Parent Company, the corresponding amount was 25 (25).

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 231 (199) 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	
	1996	1995
Difference between book depreciation and cost depreciation Note 21	3	3
Dissolution of tax equalization reserve	57	57
Appropriation to tax allocation reserve	–260	–254
Appropriation to foreign exchange reserve	–48	–
Group contributions, net	838	686
	590	492

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	
	1996	1995	1996	1995
Taxes paid				
Swedish taxes	227	218	220	212
Foreign taxes	758	634		
Deferred taxes	115	113		
Taxes in associated companies	7	25		
	1,107	990	220	212

Atlas Copco's total tax burden is considerably affected by the tax rates in the countries in which the Group conducts production and/or sales operations. The Group's total tax expense is adversely affected as a result of it's strong position in countries with high tax rates, such as Germany, Belgium, France and the U.S.

Total tax expenses for the year, amounting to 1,107 (990), corresponded to 36.1 percent (34.9) of income after financial items.

Deferred taxes for the year were only marginally affected by changes in tax rates.

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 271 (260), of which the Parent Company accounted for 260 (254).

Capital-based tax equalization reserves (K-Surv) in the Group's Swedish companies amounted to 241 (301). 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 44 (45).

The Income Statement reports the minority shares in the Group's profit after tax of 25 (27). These minority interests relate primarily to Atlas Copco India, Atlas Copco Malaysia, subsidiaries in China as well as subsidiaries in Chicago Pneumatic.

	Group
Minority interest Dec. 31, 1995	125
Minority acquired	12
Dividends	–8
Translation differences	0
Net profit	25
Minority interest Dec. 31, 1996	154

8 Cash, bank and short-term investments

	Group		Parent Company	
	1996	1995	1996	1995
Cash, bank	1,388	851	376	82
Financial investments				
Government				
Treasury bills	76	122	–	108
Treasury notes	52	190	–	59
Commercial papers	969	693	969	693
Other investments	–	30	–	30
	2,485	1,886	1,345	972

The Parent Company's guaranteed credit at predetermined interest-rate levels amounted to 1,718. The subsidiaries' granted but unutilized overdraft facilities amounted to 1,941.

9 Receivables

	Group		Parent Company	
	1996	1995	1996	1995
Notes receivable	510	461	–	–
Receivables from subsidiaries			2,046	1,633
Trade receivables	4,371	4,324	5	7
Prepaid expenses and accrued income	623	744	93	72
Tax receivables	63	61	–	–
Other receivables	464	431	17	19
	6,031	6,021	2,161	1,731

10 Inventories

	Group	
	1996	1995
Raw materials	174	214
Work in progress	785	834
Semi-finished goods	1,337	1,367
Finished goods	2,765	2,685
	5,061	5,100

11 Shares and participations

	Number of shares	Percent held	Par value loc cur [1]	Book value 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]	2
NEAC Compressor Service USA Inc	25,000	50	1	0
Pneumatic Equipment Corp, Philippines	2,400	30	100	0
Shenzhen Nectar Engineering & Equipment Co Ltd, China	1	25	[2]	1
Toku-Hanbai KK, Japan	200,000	50	500	41
Share of equity exceeding book value				504
				631
Other companies				
Shares and participations reported by Atlas Copco AB (page 30)				19
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
				23
Total for the Group				654

[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 (SAS Sverige AB) had a book value of 12 (10) and a market value of 43 (60).

Associated companies

The Atlas Copco Group's share in the income after financial items of associated companies amounted to – (89). Effective February 29, 1996, AVC Intressenter AB, a company in which Atlas Copco and Volvo Aero each holds a 50 percent interest, sold VOAC Hydraulics to the American company Parker Hannifin. The gain from the sale amounted to 342. The interest received on the proceeds from the sale is reported under financial items. Following this sale, the remaining associated companies are of insufficient size to justify being reported separately. Dividends from associated companies amounted to 4 (20). 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 631 (259).

12 Goodwill

Goodwill amortization period of 20 years:

	Original value	Accumulated amortization	Planned residual value	Outstanding no of years
Desoutter Ltd	627	214	413	14
Atlas Copco Wagner Inc	357	187	170	13
Chicago Pneumatic Tool Company	167	104	63	11
	1,151	505	646	

Goodwill amortization period of 10 years:

	Original value	Accumulated amortization	Planned residual value	Outstanding no of years
Compresseurs Worthington-Creyssensac S.A.	82	26	56	7
Socapel S.A.	65	11	54	9
Rotoflow Corp. Inc.	63	42	21	4
Kango Ltd	19	7	12	7
Others	108	56	52	
	337	142	195	

Changes in goodwill value according to the balance sheet:

	1996	1995
Acquired goodwill, Jan. 1	4,313	1,588
Accumulated amortization, Jan. 1	–567	–675
Acquired goodwill	37	3,196
Amortization for the year	–156	–115
Translation differences	131	–248
Planned residual value, Dec. 31	3,758	3,746

Goodwill value also includes trademarks that were added in conjunction with the acquisition of Milwaukee. Goodwill and trademarks attributable to this acquisition are amortized over 40 years. The acquired goodwill amounts to 3,024 and the closing planned residual value totals 2,917.

Goodwill is normally amortized over 10 years, while goodwill arising from strategic acquisitions is amortized over 20–40 years. An annual examination of the book value is conducted to ascertain if a write-down exceeding the selected amortization period is necessary. This type of write-down has been applied previously in a number of cases.

Amortization in 1996 is distributed as follows:

	1996
40 years amortization	74
20 years amortization	45
Up to 10 years amortization	37
Total	156

Amortization in 1996 and planned residual value by Business Area:

	Amortization	Planned residual value
Compressor Technique	21	109
Construction and Mining Technique	20	190
Industrial Technique	114	3,455
Corporate items	1	4
	156	3,758

13 Other fixed assets

		Group		Parent Company	
		1996	1995	1996	1995
Long-term receivables from subsidaries				2,427	2,668
Long-term receivables		109	85	7	11
Deferred tax receivables		563	503	–	–
Construction work in progress		151	96	–	–
Machinery and equipment	Note 14	2,099	2,075	7	9
Buildings	Note 15	1,644	1,679	38	42
Land	Note 16	693	709	21	21
		5,259	5,147	2,500	2,751

14 Machinery and equipment

	Group		Parent Company	
	1996	1995	1996	1995
Cost	5,635	5,466	74	71
Accumulated cost depreciation	–3,536	–3,391	–67	–62
Planned residual value	2,099	2,075	7	9
Accumulated depreciation in excess of cost depreciation Note 21			–3	–6
Book value, net	2,099	2,075	4	3

The estimated acquisition value of rented premises, machinery and major computer and office equipment for the Group amounts to 333 (388). Leasing costs for this equipment is reported among operating expenses and amounted to 64 (71). Future costs for non-cancelable leasing contracts amounted to 174 (188).

15 Buildings

	Group		Parent Company	
	1996	1995	1996	1995
Cost	2,540	2,609	64	66
Undepreciated amount of revaluations	5	5	–	–
Accumulated cost depreciation	–901	–935	–26	–24
Planned residual value	1,644	1,679	38	42
Accumulated depreciation in excess of cost depreciation Note 21			–9	–9
Book value, net	1,644	1,679	29	33
Tax assessment value	342	370	42	45

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

16 Land

	Group		Parent Company	
	1996	1995	1996	1995
Cost	669	685	17	17
Revaluations	24	24	4	4
Book value, net	693	709	21	21
Tax assessment value	105	114	24	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 (291).

17 Current liabilities

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

	Parent Company	
	1996	1995
Suppliers	8	8
Provision for taxes	22	211
Accrued expenses and prepaid income	78	52
Other current liabilities	4	5
Total non-interest-bearing liabilities	112	276
Bank loans Note 18	985	1,643
Liabilities to subsidiaries	1,386	662
Total interest-bearing liabilities	2,371	2,305

18 Bank and promissory note loans

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

	1996	1995
Parent Company		
Available under "USD 200 m. Eurocommercial Paper Program"		
Outstanding USD 54.8 m.	377	608
DEM 7.9 m.	35	398
Available under "USD 200 m. US Commercial Paper Program"		
Outstanding USD 53.0 m.	364	329
Other short-term loans and promissory notes	209	308
The Parent Company's bank loans and promissory notes	985	1,643
Subsidiaries	874	918
Group bank loans	1,859	2,561

19 Long-term liabilities

The Parent Company's long-term liabilities in the balance sheet pertain to Long term loans whereof external, 481 (466), internal, 177 (150), and Provision for pensions, 428 (409).

Mortgage loans and promissory notes	1996	1995
Parent Company		
Promissory notes USD 70.0 m.	481	466
Subsidiaries	114	110
Less: next year's maturities	–24	–20
Group mortgage loans and promissory notes	571	556

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

Currency	Amount m.	SEK m.	1996 %	1995 %
USD	215	1,477	60	51
GBP	18	209	8	9
ITL	40,295	181	7	4
AUD	25	137	6	4
FRF	70	92	4	4
JPY	1,543	91	4	3
DEM	4	18	1	18
Others		255	10	7
		2,460	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, 1996.

	Group	Parent Company
1997	24	–
1998	34	–
1999	22	–
2000 and thereafter	515	481
	595	481

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 232 (222) 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	
	1996	1995	1996	1995
Swedish companies				
FPG/PRI-pensions	737	712	376	374
Other pensions	70	53	52	35
Companies outside Sweden	1,117	1,145		
	1,924	1,910	428	409

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	
	1996	1995
Accumulated additional depreciation		
Machinery and equipment	3	6
Buildings	9	9
Tax equalization reserve	228	285
Tax allocation reserve	754	494
Foreign exchange reserve	48	–
	1,042	794

Accumulated additional depreciation		
	Machinery and equipment	Buildings
Opening value, Jan. 1, 1996	6	9
Dissolutions	–3	0
Closing value, Dec. 31, 1996	3	9

22 Restricted reserves

	Group	Parent Company
Restricted reserves, Dec. 31, 1995	4,057	1,737
Transfers between restricted and unrestricted capital	714	
Restricted reserves, Dec. 31, 1996	4,771	1,737

The increase in restricted reserves in the Group is related primarily to capital gain in associated companies and the proportion of equity in untaxed reserves.

23 Retained earnings

	Group	Parent Company
Retained earnings, Dec. 31, 1995	3,676	1,576
1995 net profit	1,823	847
Unrestricted reserves, Dec. 31, 1995	5,499	2,423
Dividend to shareholders	–551	–551
Statute-barred dividend	0	0
Transfers between restricted and unrestricted capital	–714	
Translation differences	–10	
Retained earnings, Dec. 31, 1996	4,224	1,872

Group shareholders' equity has been affected by translation differences arising from the application of the current method of accounting in an amount of –13. By hedging the net assets of subsidiaries, translation differences have been reduced by 3.

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, 16 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

	1996	1995
Net profit	1,938	1,823
Average number of shares *after full conversion*	183,515,920	183,515,920
Earnings per share, SEK	10.56	9.93

25 Assets pledged and contingent liabilities

	Group		Parent Company	
	1996	1995	1996	1995
Real estate mortgages	25	52	–	1
Chattel mortgages	48	32	–	–
Receivables	92	60	–	3
Assets pledged	165	144	–	4
Notes discounted	58	48	–	–
Sureties and other contingent liabilities	1,042	798	512	307
Contingent liabilities	1,100	846	512	307

Of the contingent liabilities reported in the Parent Company 479 (252) 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 850,000 in fees. Other non-employed Board members each received SEK 250,000 in fees.

In addition, the Deputy Chairman received a special remuneration of SEK 74,659 and FRF 50,000 and USD 50,000 in fees from Group companies and a certain ten-year pension effective from the age of 65. Board member Paul-Emmanuel Janssen received fees from Group companies in the amount of BEF 930,000. Board member Hari Shankar Singhania received fees from Group companies in the amount of INR 12,000.

The President and Chief Executive Officer received a salary of SEK 3,568,130 plus a bonus of SEK 2,840,000 as well as fees from Group companies in the amounts of USD 66,000, FRF 50,000 and CAD 14,000. In addition, a defined contribution pension commitment exists which is expected to provide about 45 percent of the current pensionable salary upon retirement at the age of 60.

A maximum termination period of 30 months applies when members of the Group management who have served for at least 20 years are given notice of termination by the Company. 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, one pension commitment which is estimated to provide approximately 60 percent of the salary at that age currently exists in the category designated other members of Group management.

27 Value added and interested parties

Value added corresponds to the Group's total invoicing, 25,121, less costs for the purchase of raw materials, wholly and semi-finished goods as well as services, 14,834. The resulting figure is a measure of the company's productive contribution, that is, the value added through processing, etc.

In 1996, the value added amounted to 10,287 (9,944), an increase of approximately 3 percent, while value added per employee decreased by approximately 3 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

	1996		1995	
	SEK m.	%	SEK m.	%
Wages and salaries	4,947	48	4,961	51
Social costs	1,638	16	1,606	16
Depreciation	771	7	712	7
Capital costs	–139	–1	–175	–2
Corporate and municipal taxes	1,107	11	990	10
Dividends paid	559	5	431	4
Retained in business	1,404	14	1,419	14
Value added	10,287	100	9,944	100
Value added per employee, SEK thousands	488		503	

28 Atlas Copco – Stock Option Plan

Final outcome of Atlas Copco's stock option plan will be linked to the performance of the Atlas Copco class B share. The size of grants will also be linked to value added to the shareholders of Atlas Copco. Grants will be determined by the achievement of preset targets of a cash-flow oriented performance criteria reduced by Atlas Copco's cost of capital. The performance criteria is called Cash Surplus (CS).

Grants are made only if CS is positive. Full grant, approximately SEK 5 m. in total, is made if CS reaches the target set by the Board.

Definitions

Cash Surplus (CS)	Operating Cash Surplus – (Pre-tax WACC x Adjusted Capital Employed)
Operating Cash Surplus	Net invoiced sales – Operating expense + Depreciation on fixed assets.
Pre-tax WACC	WACC/(1–35%) where 35% is the estimated tax rate
Weighted Average Cost of Capital (WACC)	Weighted Average Cost of Capital = $\frac{\text{Interest-bearing debt x i + Equity at market price x r}}{\text{Interest-bearing debt + Equity at market price}}$
i:	Interest-bearing debt at the beginning of a financial year is weighted with the Swedish risk-free interest rate (Government bond, 10-year) plus an additional 0.5% to compensate for Atlas Copco's borrowing rate compared to that of the Swedish state.
r:	Equity at market price (total number of shares times share price) at the beginning of a financial year is weighted with the Swedish risk-free-interest rate plus a risk-premium (5.5%) times a risk-factor (0.86) which indicates the volatility of Atlas Copco's share price compared to the stock market index.
Adjusted Capital Employed	Calculated at the beginning of a financial year as: Total assets – Non-interest-bearing liabilities – Cash, bank and short-term investments + Accumulated depreciation on machinery and equipment and on buildings + Accumulated amortization on goodwill.

Sales and earnings by quarter

Invoiced Sales by Business Area and Quarter

	1995				1996			
	I	II	III	IV	I	II	III	IV
Compressor Technique	2,721	2,972	2,670	2,814	2,630	2,792	2,635	3,015
Construction and Mining Technique	1,394	1,581	1,532	1,687	1,448	1,535	1,346	1,592
Industrial Technique	1,513	1,506	1,882	2,182	1,956	2,013	1,962	2,197
Atlas Copco Group	5,628	6,059	6,084	6,683	6,034	6,340	5,943	6,804

Earnings by Business Area and Quarter

	1995				1996			
	I	II	III	IV	I	II	III	IV
Compressor Technique	407	460	393	440	399	462	445	501
Construction and Mining Technique	56	94	116	128	109	115	60	112
Industrial Technique	172	165	147	190	289	172	153	222
Corporate items	–23	–37	–37	–6	–28	–27	–26	–27
Operating profit after depreciation	612	682	619	752	769	722	632	808
Financial items	14	44	19	9	34	42	33	30
Share in associated companies	21	22	21	25	–	–	–	–
Profit after financial items	647	748	659	786	803	764	665	838

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.	22,909,088	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]	403
Atlas Copco North America Inc.	35,506	62[2]	[1]	796
Atlas Copco UK Holdings Ltd.	45,423,664	100	1	504
Oy Atlas Copco Ab, Finland	150	100	100,000	30
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 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
24 dormant companies				28
				4,103
Minority Companies				
Associated companies				
AVC Intressenter AB	6,750,250	50	100	72
Other companies				
SAS Sverige AB	508,000	1	10	12
Stockholms Fondbörs AB	100	0	100	0
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	0
Mechanical Technology Inc., U.S.	140,000	5	1	0
Other shares and participations				3
				91

Goodwill

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 approximately SEK 3,000 m. arose, representing the difference between the purchase price paid and the value of the net assets. This goodwill is 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 deviated from that part of the recommendations of the Swedish Financial Accounting Standards Council, which prescribed amortization of goodwill over a maximum of 20 years. This does not conflict with the legislation now in effect. Neither does this deviation represent a breach of the registration contract with the Stockholm Stock Exchange.

During 1996, the Swedish Financial Accounting Standards Council implemented a general review of its recommendation and published a new version, which became effective on January 1, 1997. However, with regard to the maximum amortization period for goodwill, the Council has elected to delay its recommendation pending the position to be adopted by the International Accounting Standards Committee (IASC). The Committee considers to omit the limitation of the amortization period to 20 years and permit an amortization period corresponding to the economic life, subject to a statement for the underlying assessment of the economic life. Atlas Copco intends to follow the final recommendation of the Council.

There are several strong reasons in this case for the choice of an amortization period longer than 20 years. One reason being that it provides the most accurate picture of the acquisition. This strategic acquisition involves a fairly large American group whose operations and sales are mainly in the United States. The company generates a large cash flow. Another important reason for applying a longer amortization period is attributable to competitive factors. Atlas Copco must be in same position as other parties in calculating the economic consequenses 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.

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 the Swedish companies can apply rules equivalent to those of foreign competitors. These rules often permit amortization of goodwill over periods of up to 40 years.

For purposes of comparison, the impact on earnings resulting from the application of goodwill amortization over periods of 20 and 40 years is shown below:

Condensed income statement 1996, SEK m.

Amortization period	20 years	40 years
Invoiced sales	25,121	25,121
Operating expense	–21,419	–21,419
Depreciation and amortization	–845	–771
Operating profit after depreciation	2,857	2,931
– as percentage of invoiced sales	11.4	11.7
Profit after financial items	2,996	3,070
– as percentage of invoiced sales	11.9	12.2
Net profit	1,864	1,938
Earnings per share, SEK	10.16	10.56

Impact on equity

The equity/assets ratio is 51.6 percent. Based on a 20-year amortization period, the comparable figure is 51.4 percent.

Financial exposure

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 earnings and financial position.

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 divisions and contribute to a stable growth in shareholders' equity and dividend.

Currency exposure

Changes in exchange rates affect Group earnings and 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 into Swedish kronor (translation risk).

In 1996, currency exchange-rate changes compared to 1995 affected the Group's earnings negatively by approximately SEK 200 m., and consisted mainly of translation effect.

Transaction risk

The Group's net payment flows in foreign currency give rise to transaction risks and corresponded to a value of about SEK 6,100 m. The largest surplus currencies, meaning those in which revenues exceed costs, and the deficit currencies, are shown in graph 1.

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.

Based on the value of payment flows in various currencies, Atlas Copco applies a weighted currency index, in which the average rate for 1996 is the base period. The index shows how earnings are affected by changes in exchange rates. With the current flows and prevailing exchange rates, each percentage point represents a gross impact – before any hedging or adjustment measures – of some SEK 70 m. on annual earnings before tax. The value of the index is shown below in the table of exchange rates on page 33.

Translation risk

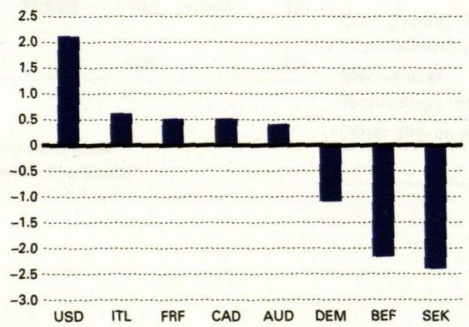
Graph 2 shows the currency translation effects on Group earnings for the year when the earnings of foreign subsidiaries are translated to SEK.

Net assets in foreign currency, that is, the value of the foreign subsidiary's equity, is about 80-percent hedged against the Swedish krona. The purpose of this hedge is to protect the Group's equity/assets ratio against the effect of sudden currency changes. Hedging is achieved by taking up loans in corresponding currencies through forward contracts or swap agreements.

Graph 1

Transaction exposure in the most important currencies

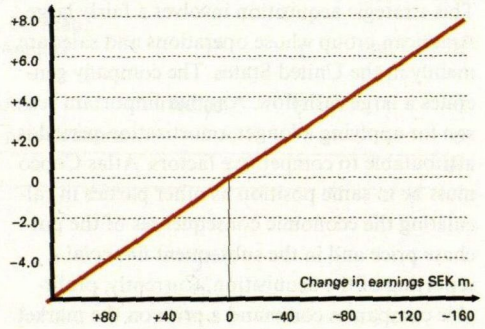
SEK billion



Graph 2

Translation effect on earnings before tax

Change in exchange rate SEK, %



Note 23 in the financial statements shows how shareholders' equity is affected by currency hedging.

The interest differential between international and Swedish interest rates on forward contracts and swap agreements used in the hedge appears in the Group's interest net and amounted in 1996 to SEK 231 m. (199). The value of the capital of foreign subsidiaries at year-end 1996 corresponded to about SEK 7,700 m. and is shown in graph 3.

Interest-rate exposure

Atlas Copco's net interest items are affected by changes in market interest rates. At year-end, the Group's net indebtedness amounted to SEK 1,899 m. (3,166). The speed with which a permanent change in the interest rate can have an impact on net interest income or expense is dependent on the duration of the fixed interest loan and investment periods.

In Atlas Copco, the average interest-rate period for loans and investments is short in duration. At year-end 1996, the period was 14 months for loans and three months for investments.

Standardized derivative instruments are used actively to control interest-rate exposure, for example, by extending or reducing 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, 1996, the value amounted to SEK 6,144 m., corresponding to 26 percent of the Group's total assets. Guaranteed but unutilized credit facilities amounted to SEK 3,659 m. On the same date, the average maturity for Group loans was 7 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 580 m., corresponding to SEK 3,985 m. These programs have a K 1 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 1996.

Financial derivative instruments

Atlas Copco uses standardized financial derivatives such as forward 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 work to effectively control the Group's cash balance and borrowing. The liquidity of these instruments is also normally higher than in the underlying assets. The difference between market value and book value of all the Group's derivative instruments at year-end 1996 was insignificant.

Exchange rates

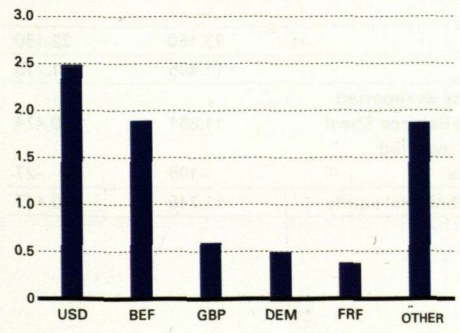
	Currency		Year-end rate		Average rate	
Country	Value	code	1996	1995	1996	1995
Australia	1	AUD	5.48	4.96	5.24	5.28
Austria	100	ATS	62.80	66.10	63.50	70.70
Belgium	100	BEF	21.50	22.60	21.70	24.20
Canada	1	CAD	5.02	4.88	4.92	5.18
France	100	FRF	131.00	136.10	131.50	143.00
Germany	100	DEM	442.10	464.80	446.80	497.50
Great Britain	1	GBP	11.61	10.30	10.52	11.24
India	100	INR	19.10	18.90	19.00	22.00
Italy	100	ITL	0.450	0.421	0.435	0.437
Japan	100	JPY	5.93	6.47	6.18	7.60
Luxemburg	100	LUF	21.50	22.60	21.70	24.20
The Netherlands	100	NLG	393.90	415.30	398.70	444.10
Norway	100	NOK	106.60	105.40	104.10	112.50
Singapore	1	SGD	4.91	4.71	4.76	5.03
South Korea	100	KRW	0.814	0.858	0.834	0.924
Spain	100	ESP	5.25	5.49	5.30	5.72
Switzerland	100	CHF	508.40	578.80	544.10	603.30
U.S.	1	USD	6.87	6.66	6.71	7.11
Atlas Copco's currency index for transaction exposure			101.8	98.6	100.0	100.1

A lower index indicates a negative effect on Group earnings.

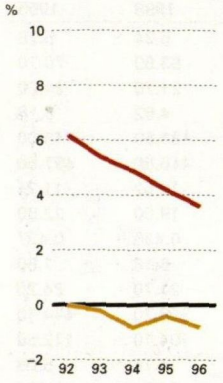
Graph 3

Net assets in foreign currency

SEK billion



Difference US GAAP/ Swedish accounting



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

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,

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

	1996	1995
Income as reported in the Consolidated Income Statement	1,938	1,823
Items increasing/decreasing reported net income:		
Depreciation of revaluations	1	1
Capitalization of interest expenses	–7	–1
Amortization of goodwill	–12	–12
Divestment/closure of subsidiaries	–	3
Deferred taxes	3	1
Calculated net profit	1,923	1,815
Calculated earnings per share, SEK	10.48	9.89
Total assets	23,725	22,674
Total liabilities	11,450	11,762
Shareholders' equity as reported in the Consolidated Balance Sheet	11,851	10,474
Net adjustments in reported shareholders' equity	424	438
Approximate shareholders' equity	12,275	10,912

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

	1996	1995
Income as reported in the Consolidated Income Statement	1,938	1,823
Items increasing/decreasing reported net income:		
Amortization of goodwill	–74	–31
Calculated net profit	1,864	1,792
Calculated earnings per share, SEK	10.16	9.76
Total assets	23,150	22,160
Total liabilities	11,405	11,713
Shareholders' equity as reported in the Consolidated Balance Sheet	11,851	10,474
Net adjustments in reported shareholders' equity	–106	–27
Approximate shareholders' equity	11,745	10,447

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 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.

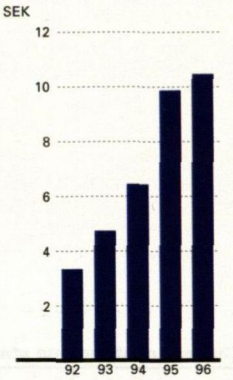
Translation of foreign subsidiaries

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.

Earnings per share according to US GAAP



Current cost accounting

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.

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.

This income figure is SEK 280 m. (193) 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 69 m. (49) more to purchase than they did on the purchase date. Profit has also been charged with current cost depreciation that is SEK 211 m. (144) 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.

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.

Current cost income statement

	1996	1995
Invoiced sales	25,121	24,454
Current cost of goods sold	–21,488	–21,126
Current cost depreciation	–982	–856
Operating profit after depreciation	2,651	2,472
Price changes, inventory	74	65
Price changes, fixed assets	–35	110
Operating profit before financial items	2,690	2,647
Financial items	139	175
Purchasing power adjustment, equity	0	–221
Real profit after financial items	2,829	2,601
Taxes	–1,107	–990
Minority interest	–25	–27
Net profit	1,697	1,584

Current cost balance sheet

Assets	1996	1995
Cash, bank and short-term investments	2,485	1,886
Receivables	6,031	6,021
Inventories	5,102	5,136
Fixed assets	10,474	10,221
Total assets	24,092	23,264
Liabilities and shareholders' equity		
Current liabilities	7,311	7,853
Long-term liabilities	4,086	3,852
Unrealized price changes	844	1,085
Shareholders' equity	11,851	10,474
Total liabilities and shareholders' equity	24,092	23,264

Reconciliation between traditional and current cost accounting

Profit after net financial items according to traditional accounting			3,070
Change, unrealized price changes:			
Price change, goods sold	–69		
Price change, depreciation	–211	–280	
Price change for the year:			
Inventory	74		
Fixed assets	–35	39	–241
Adjustment for inflation			0
Real profit after financial items			2,829

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. The annual average price increase in 1996 has been estimated at 0 percent (2) corresponding to Swedish inflation. Atlas Copco's real profit after financial items is thus SEK 2,829 m. (2,601). This income figure is SEK 241 m. (239) lower than the traditional income and corresponds to a real profit margin of 11.3 percent (10.6).

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 844 m. (1,085) since hidden reserves in inventories and assets are shown openly.

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	1,872,831,466
Net profit for the year	SEK	1,061,903,140
	SEK	2,934,734,606

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

To the shareholders, a dividend of SEK 3.75 per share	SEK	688,184,700
To be retained in the business	SEK	2,246,549,906
	SEK	2,934,734,606

Nacka, February 21, 1997

Anders Scharp
Chairman

Tom Wachtmeister — Curt G Olsson

Gösta Bystedt — Erik Belfrage — Paul-Emmanuel Janssen

Göran K Lindahl — Hari Shankar Singhania — 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 1996. 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, February 28, 1997

Stefan Holmström
Authorized Public Accountant

Robert Barnden
Authorized Public Accountant

Five years in summary

Atlas Copco Group

SEK m. unless otherwise noted.*	1992**	1993**	1994	1995	1996
Operating profit after depreciation	1,172	1,225	1,890	2,665	2,931
Operating profit margin, %	7.3	6.5	9.0	10.9	11.7
Profit after financial income and expense	1,017	1,320	1,955	2,840	3,070
Profit margin, %	6.4	7.0	9.3	11.6	12.2
Net profit after tax	598	867	1,194	1,823	1,938
Return on capital employed, %	13.5	13.2	18.4	22.4	21.2
Return on equity, %	9.0	11.0	13.7	18.6	17.5
Equity/assets ratio, %	45.6	47.8	51.1	47.8	51.6
Earnings per share, SEK	3.35	4.74	6.51	9.93	10.56
Dividend per share, SEK	1.60	1.80	2.30	3.00	3.75***
Orders received	15,883	19,194	21,701	24,843	25,159
Invoiced sales	16,007	18,906	20,914	24,454	25,121
Change in current prices, %	+7	+18	+11	+17	+3
Sales outside Sweden, %	95	95	95	96	96
Net interest expense	–166	39	57	129	127
As percent of invoiced sales	–1.0	0.2	0.3	0.5	0.5
Interest coverage ratio	3.2	5.1	6.7	8.7	10.6
Cash flow from operations after financial items	1,047	1,306	1,376	1,530	1,920
Total assets	16,219	17,822	18,198	22,179	23,248
Assets/liabilities ratio	1.8	1.9	2.0	1.9	2.1
Current assets/current liabilities ratio	1.8	1.8	2.0	1.7	1.9
Debt/equity ratio, %	29.4	20.9	3.8	29.9	15.8
Capital turnover ratio	1.06	1.09	1.16	1.19	1.10
Investments in plant and equipment	553	394	632	711	822
As percent of invoiced sales	3.5	2.1	3.0	2.9	3.3
Average number of employees	19,195	18,247	18,104	19,751	21,085
Invoiced sales per employee, SEK thousands	834	1,036	1,155	1,238	1,191
Value added per employee, SEK thousands	336	408	480	503	488

* For definitions, see page 21.

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

*** According to the Board of Directors' proposal.

The different product brands within the Atlas Copco Group meet the needs of many customers throughout the world. Desoutter for example, supplies Electrolux with Auto Feed Drills.

Improved earnings despite a weak European market

Atlas Copco's operations developed favorably during 1996. The year was characterized by a major uncertainty in a number of important markets, particularly in Europe. Despite this, we improved our sales and earnings compared with 1995.

We achieved substantial sales gains in North and South America, South East Asia, Australia and eastern Europe, while demand for our products decreased in Germany, the United Kingdom and France, among other countries. The strong Swedish krona had a negative translation effect of 7 percent on our sales. Profit after net financial items in 1996 amounted to SEK 3,070 m., an increase of 8 percent. Excluding non-recurring items in a net amount of SEK 117 m., the improvement in earnings was 4 percent. The increase in earnings was primarily due to the effects of investments and efficiency improvements implemented within all business areas.

During 1996, operations generated a strong cash flow, which was utilized to reduce the Group's loans and to strengthen liquidity. During the year, we reduced our net indebtedness from about SEK 3,166 m. to SEK 1,899 m.

In 1996, Atlas Copco again achieved a pre-tax profit margin in excess of 10 percent, which is the Group's objective during a complete business cycle. Some of the divisions presented margins that were substantially higher, but others still have to improve their profitability. Each division has full responsibility for a complete income statement and balance sheet. In accordance with the decentralized structure of the Group, the divisions pay market rates for borrowed capital and a 15 percent dividend on equity. Based on these financial targets and capital cost requirements, we strive to achieve a good cash flow and a high return on the Group's assets and thereby increase the value for our shareholders.

Compressor Technique improves profitability

Compressor Technique is a stable business area and improved its already high level of profitability by achieving an operating margin of 16.3 percent. Orders received for large compressors, mainly from customers in the process industry, continued to be strong. The smaller and medium-sized industrial compressors and the smaller portable compressors had to contend with more difficult market conditions.

During the year, the divisions within Compressor Technique implemented a number of efficiency improvement programs – for example within product development, which resulted in lower product costs. Several of the compressor divisions also appointed special flow managers with responsibility for the complete supply chain in order to improve efficiency.

Good sales to the mining sector

The Construction and Mining Technique business area noted favorable sales of drilling equipment and loaders – due principally to continued good demand from the mining sector. Low demand in the building and construction markets in Europe had an adverse effect on operations.

Construction and Mining Technique is still not sufficiently stable and profitable. Profitability has improved since the recession of the early 1990s, but there is still some way to go before it reaches the average for the Group. Further restructuring measures were implemented during the year within the Rock Drilling Equipment and Uniroc divisions, among others.

Greater efficiency

Industrial Technique is still not sufficiently profitable, despite the operating margin being improved at the end of the year as a result of improved productivity. Milwaukee Electric Tool continued to show a favorable level of sales and earnings. The Atlas Copco Electric Tools division carried out further rationalization measures,

which began to generate results during the latter half of the year. The cooperation between Milwaukee and Atlas Copco Electric Tools is developing well. Synergies are realized according to our expectations, mainly in the areas of sales, distribution, purchasing and product development. In addition, the Chicago Pneumatic and Desoutter divisions decided to move major parts of their operations to more appropriate locations.

Innovative products

In 1996, we increased our spending on research and development, which now accounts for more than 3 percent of invoiced sales. We introduced new innovative products like a range of oil-injected industrial compressors with integrated dryers, oil-free compressors for low-pressure-air applications, and new portable compressors. In addition, we presented new surface and underground drill rigs, new models for underground loading and a new hydraulic breaker. Within the tools range, we presented many new products, including a cordless version of Milwaukee's reciprocating saw Sawzall, new angle-grinders and cordless tools for industrial applications.

Leadership and professional development

Leadership and professional development are key issues within Atlas Copco. Group management provides regular seminars on leadership for the management of the 16 divisions and our general managers. In addition, we have started a project called "Atlas Copco Circles", the intention of which is to provide all employees within the Group with the opportunity to extend their knowledge about Atlas Copco.

We encourage our managers to gain practical experience from different functions and geographic markets. Since our internal job market was introduced about five years ago, 80 percent of the Group's 300 most senior managers have changed positions and most of them have also moved to new countries. We are present with our own organization in more than 70 countries, and our senior managers represent many different nationalities and cultures. However, we need to recruit more women as managers to enhance our diversity.

Increased focus on Asia

Atlas Copco's vision is to be the leading global company within its market segments. To our customers we want to be "first in mind and first choice". This can be created through our high-quality products, strong service and our close interaction with the customers in order to constantly develop improved solutions.

To realize our vision, our operations must achieve a geographical balance. This in turn means that we mainly need to strengthen our presence in Asia. Accordingly, we are currently reviewing our organization and our resources in this part of the world, with the focus on India, China, Indochina and Indonesia.

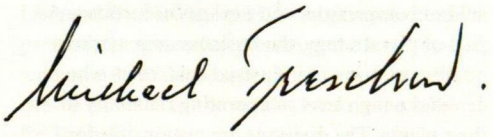
After five years of building a strong profitable platform for the Group, we can now focus more on growth. Besides expanding through establishment in new markets and the development of new products, we need to focus on recruitment and training of personnel, more efficient use of information technology, increased environmental concern and activities to strengthen our brands.

Opportunities for favorable development

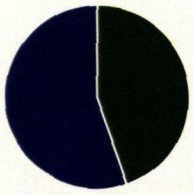
What are the prospects for 1997? In my opinion, activity in the European building and construction markets will remain at a low level. Demand from the manufacturing industries in Europe could be slightly more positive. It appears as if the U.S. market will remain at a relatively high level and the positive trend in the South American market is expected to continue. Asia will almost certainly continue to develop favorably, although not at the high rate of growth to which we have become accustomed in recent years.

Our ongoing efficiency improvements should provide Atlas Copco with the opportunity to develop favourably during 1997 and even to achieve a somewhat better level of earnings than in the preceding year.

As I now leave the Group after 22 highly stimulating and rewarding years, I would like to thank our employees for their strong support and fine achievements. I would also like to extend my best wishes for all future success to my successor, Giulio Mazzalupi.



Michael Treschow



Compressor Technique
■ Share of Group sales 44%

Higher productivity led to further increase in earnings

Demand for compressors remained substantially unchanged during the year. However, by the introduction of new products and a more efficient production flow it was possible to achieve a further increase in earnings from an already high level. Operating profit after depreciation increased 6 percent to SEK 1,807 m. (1,700).

	1996	1995
Invoiced sales, SEK m.	11,072	11,177
Profit after depreciation, SEK m.	1,807	1,700
Return on capital employed, %	33	31
Investments, SEK m.	285	270
Number of employees	7,698	7,661

The Compressor Technique business area developes, 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 in Los Angeles and Albany in the U.S. Manufacturing is also conducted at plants in six other countries.

The business area contains the following divisions:

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

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.

Henri Ysewijn
Hans W Brodbeck
Luc Hendrickx
Arthur Droege
James Tapkas

Structural changes

On January 1, 1996, Atlas Copco acquired the portable compressors and pneumatic breakers operations of the German company, IRMER+ ELZE. The company, which is now part of the Portable Air division, has annual sales of approximately SEK 100 m. and 81 employees.

Sales

Invoiced sales in 1996 totaled SEK 11,072 m. (11,177) and orders received SEK 11,012 m. (11,687). The strengthening of the Swedish krona had a negative translation effect of about 8 percent on the invoiced sales as well as orders received.

Earnings

Operating profit after depreciation increased 6 percent to SEK 1,807 m. (1,700). Earnings correspond to 16 percent (15) of invoiced sales. The improvement was attributable to higher productivity. Currency exchange-rate changes had a positive effect on earnings. The return on capital employed was 33 percent (31).

Investments

Total business area investments in plants and equipment amounted to SEK 285 m. (270). The investments related primarily to new equipment for production plants.

Business development

The business area reported an unchanged level of demand, compared with the preceding year.

The Airtec division, which manufactures compressor elements, continued to invest in new production technology. This is resulting in reduced lead times and significantly improved precision.

The Portable Air division noted an unchanged level of orders received. Sales increases were

Customers in i.e. the process industry need to rent oil-free compressors for short periods. Demand for this service is increasing in order to cope with unexpected events.

reported mainly in southern Europe and South America. Rental operations continued to develop favorably.

The Industrial Air division increased its sales of small and medium-sized compressors in Europe during the second half of the year, while a slight downturn was noted during the first six months. A favorable level of orders was received in the North and South American markets.

The Oil-free Air division noted favorable growth in North and South America and eastern Europe. The volume of orders received in its main markets in Europe declined during the early part of the year and increased during the last quarter. The volume growth in the different Asian markets was mixed.

The ACT division increased its exports of large customized compressors, primarily to countries in South East Asia and North and South America.

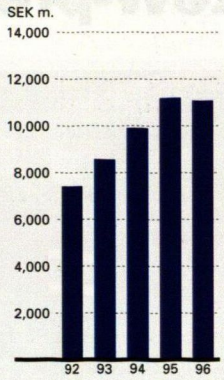
Competitive situation

The competitive situation deteriorated as a result of the very low level of demand in certain large European markets. Excange-rate movements also contributed to the changed situation. The overall picture with regard to competitors shows a few large international companies and many regional and national manufacturers, primarily in the U.S., Europe and Japan. However, the compressor industry is currently being restructured, due to the larger players acquiring their smaller competitors.

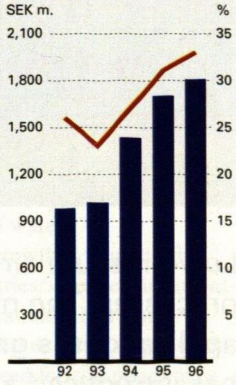
Outlook for 1997

Demand for both industrial and portable compressors is expected to remain at the level prevailing in 1996, although a slight improvement can be detected in the market trend, especially for Europe.

Sales



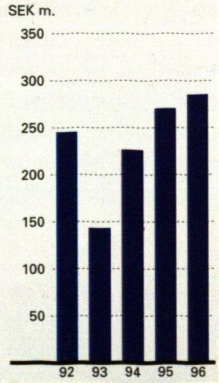
Earnings and return



— Return on capital employed, %

■ Operating profit after depreciation, SEK m.

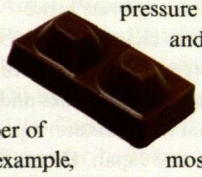
Investments



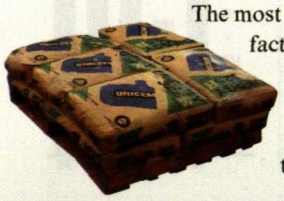
Low-pressure air is a growing market

Low-pressure air is increasingly becoming an active component in a number of different processes. The most common application is the transport of materials, but the range of applications is growing as the technology is developed further. The Oil-free Air division has introduced a new series of low-pressure compressors that have proved extremely successful, especially in Italy.

In developing the low-pressure compressor, the division drew on the technical advances upon which the latest series of oil-free compressors are based. The number of components has been reduced, for example, creating a compressor that is more integrated and more compact than previous designs. The low-pressure compressor is available in some 30 models, with varying pressures and capacities, all equipped with the Elektronikon monitoring system.



The use of low-pressure air is increasing. The most important factor in many different application areas is not the actual air pressure but ensuring that the air is dry and oil-free. Using a lower air pressure also helps to reduce companies' energy costs.



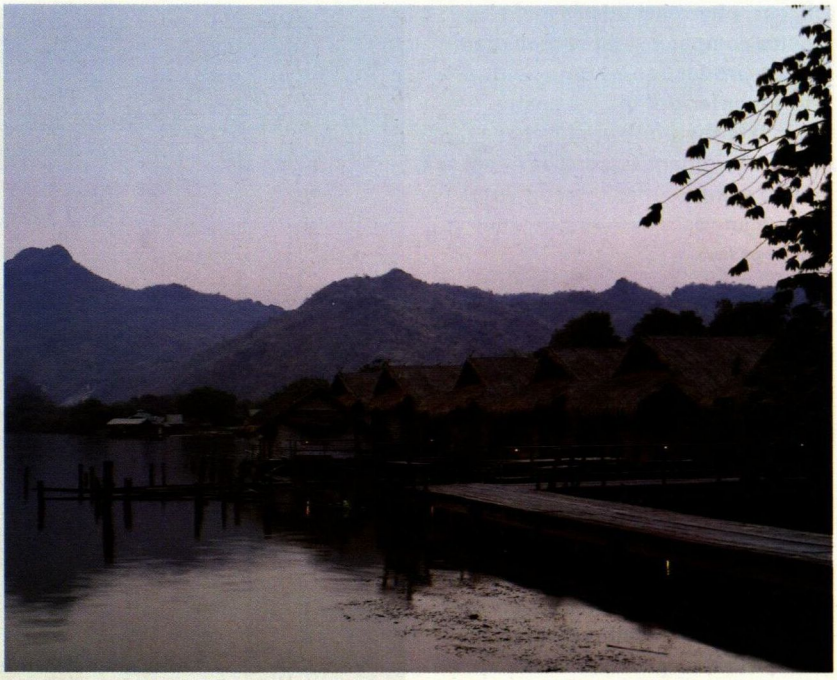
In Italy, low-pressure air is most commonly used to transport cement, lime, fertilizer or various types of food, such as sugar and chocolate powder. The compressed air is also used to pulverize the material prior to transportation. Pulverization is achieved by blowing in particles under pressure so that they collide with each other.

Other application areas are the pharmaceutical and textile industries. Oil-free, low-pressure air is used to activate biological fermentation processes, for example in the preparation of antibiotics and proteins.

Compressed air also plays an important part in the production of nonwoven materials of polyester, polypropylene and nylon. Car seat covers, protective masks and plastic bags are among the products produced from this material. After the plastic is melted down, it is transported, using compressed air, to a machine that spins thin threads. The threads are drawn into a funnel and stretched until they attain the desired thickness. The properties of the material can be altered by varying the air pressure. The threads are then pressed together to form a fabric and cut into suitable lengths.

Cleaner environment with the help of compressed air

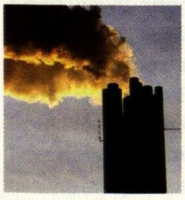
Acute shortages of drinking water and acidified lakes and waterways are two of the many global environment problems we face today. To safeguard the natural resources more effectively, there are increasing demands for the use of environmentally compatible technologies. Water can be purified and sulphur extracted from flue gases with the help of compressed air. Demand for such technology is particularly high in the Far East.



Water-treatment plants and equipment to extract sulphur from flue gases often require substantial flows of oil-free air, at a low pressure of about 2.5 bar. Centrifugal compressors from the ACT division are mainly used in these environmental niche segments. For smaller plants, screw compressors can be used.

During the water-treatment process, the compressed air supplies the micro-organisms present with oxygen, which accelerates the chemical and biological breakdown.

Power plants fired by coal with a high sulphur content must extract the sulphur in the flue gases created by the combustion process. Separation of the sulphur reduces the risk of the acid fumes polluting lakes and waterways. The extracted sulphur can then be converted into gypsum for more useful applications, by mixing it with lime and adding oxygen.



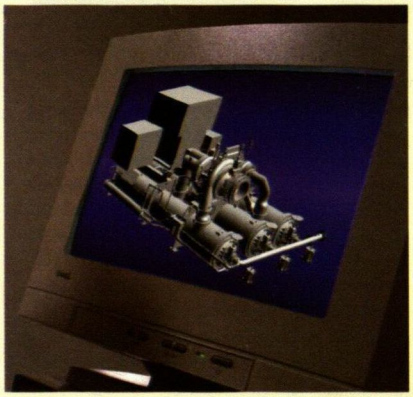
Examples of other areas where compressed air plays an important environmental role include waterway restoration projects and oilspill clean-ups. Polluted lakes, for example, are supplied with air via pipes laid on their bottoms, which increases the supply of oxygen.

Compressed air can also be used to create foam barriers to contain oil and other emissions in harbors and other sensitive areas of water.

The greatest growth is found in the developing countries, where environmental awareness is gradually increasing. In the Far East, in Korea for example, there is a substantial need for completely new treatment plants. In Western Europe, Japan and North America, growth has stagnated, since a large number of plants have already been installed.

Computers shorten lead times and improve customer service

By using a three-dimensional design program, Atlas Copco Comptec has reduced costs and shortened lead times in production. Based on the form of each component, the designer creates a computerized production program. The program is then transferred directly via a data link to the CNC machine that will produce the part. Previously, the designer had to make separate drawings of the components, based on which the machining tool was programmed. The whole process could take several days for each component. The company has also implemented a project to improve the efficiency of communications with customers through the use of state-of-the-art information technology. Since Atlas Copco Comptec produces gas and process compressors based on the specific requirements of each customer, it is vital to maintain constant contact with customers. Using Lotus Notes, the company can rapidly send drawings or cost calculations directly to the customer.



An insurance against unexpected events

Oil, gas, pharmaceuticals and electronics companies depend on maintaining production 24 hours a day, and any interruption is a costly affair. It is therefore vital to have rental equipment to cope with unexpected events. Atlas Copco Rental Europe specializes in renting oil-free compressors.

During summer 1996, Air Liquide experienced problems at its plant in Le Havre, France. A serious malfunction had occurred in the turbocompressor used for nitrogen and oxygen gas separation, which produces 90,000 cubic meters per hour. Since Air Liquide supplies numerous companies with industrial gases, it was important to rectify the problem without delay. Five days later, Atlas Copco had installed 45 compressors on a rental basis. Service technicians remained at the plant throughout the month when the compressors were in use.

Air Liquide is one of many companies in the process and automotive industries that need to rent compressors for short periods. For these companies, it is vital to have rental equipment to cope with unexpected events, to permit servicing of stationary compressors, or to handle short-term peaks in the level of demand. In such cases, it is a more economical proposition to rent equipment instead of investing in a new compressor. This niche market has existed for a number of years in the U.S., but now demand for this service is also beginning to increase among European companies.

Atlas Copco Rental Europe, within Portable Air division, offers its customers a complete, portable compressed air system adapted to customers' varying requirements for quality air. In addition to the compressor itself, the package includes air dryers, after-coolers, extra fuel tanks and service. There are plans to establish local depots that can provide service within two hours to major industrial centers in Europe.

Integrated solution yields unique competitive advantage

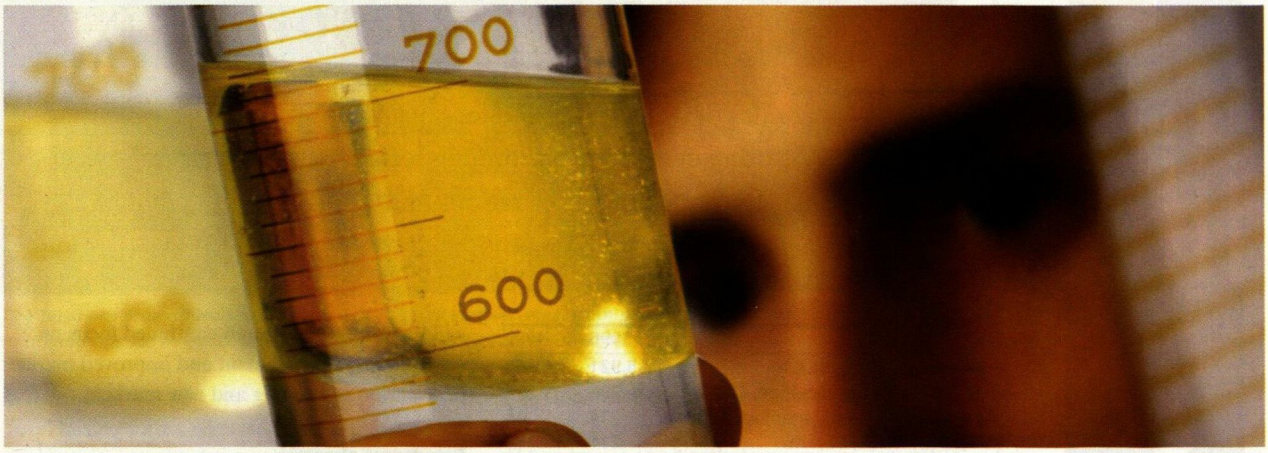
The demand from industry for compressed air that can be adjusted to different quality levels is increasing. Clean, dry compressed air is essential to meet stringent standards of production reliability and product quality. During 1996, the latest model in the GA series of oilinjected compressors with integral drying equipment was launched. The concept is unique in the market.

Condensation can cause problems for pneumatic systems and result in high maintenance costs. Moist air can cause corrosion in pipelines, increasing wear and tear on air valves and line systems. Moisture in the air can impair the effectiveness of the oil used to lubricate pneumatic tools, or even wash it away completely, causing tools to wear out prematurely. The presence of moisture can also cause operational stoppages in many production processes.

By integrating a cooler/dryer unit in the compressor, Industrial Air has succeeded in developing a compact unit able to supply clean, dry air to customers. The compressor's special design also means that it occupies less space, runs more quietly and has lower installation costs, since only a single connection is required for air and electrical power.

The compressors also feature the Elektronikon monitoring system, which optimizes operation to match specific requirements, thus enabling customers to achieve substantial energy savings while also reducing wear on the compressor.

Focus on environmental technology



Environmental technology plays an important role in the development of compressors. During 1996, Atlas Copco has introduced stationary compressors with control systems that reduce energy consumption and environmentally compatible drying equipment. In addition a new range of portable compressors with diesel-powered motors designed to minimize exhaust emissions has been introduced.

From an environmental viewpoint, it is important that the compressors produce the exact amount of compressed air needed for a specific application, thereby minimizing energy consumption. Accordingly, the new oil-free and oil-injected compressors have been equipped with the Elektronikon monitoring system as a standard feature. For the past few years, Atlas Copco has also applied a special energy-saving drive technology, VSD (Variable Speed Drive), which electronically regulates the compressor's motor speed. This enables compressor capacity to be adjusted to exactly match the work load requirement.

Consideration for the environment must also be taken into account when selecting the drying equipment. Air dryers are used in order to avoid problems caused by condensation in compressed-air systems. For its new refrigerant dryers, Atlas Copco uses a drying medium that is non-harmful to the ozone layer. These dryers are integrated in the compressor package up to 75 kW. For its adsorption dryers, which are mainly used in oil-free compressors, Atlas Copco uses a drying agent, which can be disposed of safely as normal waste.

During operation, oil-injected compressors always mix a small amount of lubricant with air. Atlas Copco's oil/water separators, remove the oil from the condensate by combining small oil droplets in a filter to form larger ones. These light oil droplets then float to the surface where they form a coating. The oil is then removed through a broad-gauge drainage outlet into a collection tank. The oil/-water separators purifie the concentrate to a quality that is well below the minimum values specified by most countries.

Concerning portable compressors, the drive motor on a portable compressor has a particularly important environmental impact. Accordingly, the newly developed Series 6 portable compressors are equipped with a new quiet-running and environmentally compatible diesel motor, which minimizes exhaust emissions.

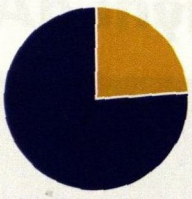
Airtec continues to automate production

To retain its position as market leader, Atlas Copco invests on a continuous basis in product development and new production technology. During 1996, the Airtec division invested in advanced measurement equipment and welding robots.

In recent years, Airtec, which develops and manufactures screw compressors, has invested a total of SEK 600 m. to modernize its production. The investments have made an important contribution to the quality and the manufacturing throughput time of the new generation of compressor elements.

The investments have also led to increased opportunities for personnel to assume responsibility for the production process. The most recent example is a three-dimensional measurement machine for screw rotor profiles. Instead of having a separate quality-control function, the operators carry out this function themselves and get much faster feedback on the accuracy of the complex rotor geometry.

Airtec has also invested in robots for the welding of tubular heat exchangers for the latest generation of cooling systems featured in the new oil-free compressors. The robots have an integrated vision system capable of detecting the tube pattern and of selecting an appropriate welding program. The stainless steel tubes are then automatically fixed firmly in place in order to optimize seam-welding precision.



Construction and Mining Technique
Share of Group sales 24%

Strong demand in the mining sector

The favorable sales of drilling rigs and loading equipment during 1996 were mainly due to strong demand in the mining sector. However, earnings were affected by the concentrating of operations and by changes in exchange rates. Operating profit after depreciation amounted to SEK 396 m. (394).

	1996	1995
Invoiced sales, SEK m.	5,921	6,194
Profit after depreciation, SEK m.	396	394
Return on capital employed, %	14	14
Investments, SEK m.	211	162
Number of employees	5,143	5,349

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 business area has manufacturing plants in Sweden, the U.S., China and South Africa, among other countries.

The business area contains the following divisions:

- Atlas Copco Rock Drilling Equipment, President *Kjell Carlsson*
- Atlas Copco Robbins, President *Lars de Verdier*
- Atlas Copco Craelius, President *Claes Ahrengart*
- Uniroc, President *Lars Renström* (effective May 1, 1997)
- 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 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 of existing and new markets.

Structural changes

The Rock Drilling Equipment division will transfer its product development and marketing operations from Stockholm to Örebro, Sweden, where the manufacturing plants for surface and underground rock drilling equipment are located. About 170 employees are affected. The investment in new premises and engineering plants will total an estimated SEK 120 m. Substantial synergies will be achieved as a result of concentrating all operations to Örebro. The transfer is expected to be finalized by year-end 1997.

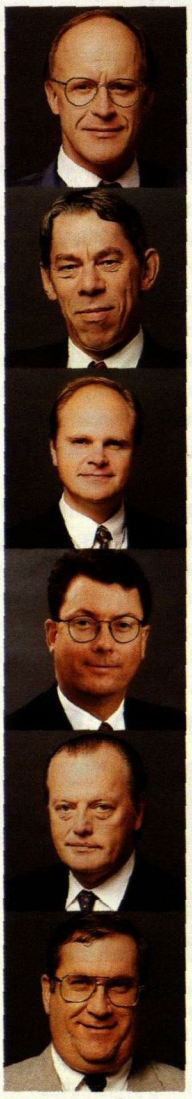
Effective December 31, 1996, the production of rock drilling tools at the Uniroc plant in São Paulo, Brazil, was relocated to existing units in Sweden and South Africa. Approximately 80 employees were affected.

Sales

Invoiced sales declined 4 percent to SEK 5,921 m. (6,194). Orders received decreased 4 percent to SEK 5,867 (6,144). Currency exchange-rate changes, particularly the strong SEK, had a negative impact of 6 percent on both orders received and invoiced sales.

Earnings

Operating profit after depreciation amounted to SEK 396 m. (394). Earnings were charged with nonrecurring costs for the transfer of the Rock Drilling Equipment division's operations in Stockholm to Örebro and for the closure of Uniroc's rock drilling tools production plant in Brazil. Currency exchange-rate changes had a significantly negative impact on the margins, due to the strengthening of the Swedish krona. The return on capital employed was 14 percent (14).



Kjell Carlsson
Lars de Verdier
Claes Ahrengart
Lars Renström
Lars Larson
James Henderson

The business area offers a wide range of products and services, from pneumatic breakers to drilling rigs for major construction and mining projects.

Investments

Total business area investments in plants and equipment amounted to SEK 211 m. (162) and related primarily to production equipment for the plants in Örebro and Kalmar, in Sweden, and the Portland plant in the U.S.

Business development

During the first half of 1996, the business area developed favorably, with good sales of drilling rigs and loading equipment, especially within the mining sector.

The Rock Drilling Equipment division increased its sales of rigs, primarily in new markets, such as Indochina and Macedonia. Drilling equipment orders were obtained for a number of major construction projects, particularly from customers in Europe and Latin America. A new generation of surface rigs, mainly intended for quarries and surface mines, were successfully launched during the year.

The Robbins division's sales of its main product, tunnel-boring machines (TBMs), were mainly concentrated to North America and East Asia. Raise-boring machines were delivered to mines in southern Africa, Southeast Asia, North America and Chile, among other areas.

The Craelius division noted successful sales of well-drilling rigs in East Asia. Sales of rigs for core drilling operations focused mainly on the most important mining markets, where they are used for localizing new ore bodies.

During the year, the Uniroc division concentrated its production of rock drilling tools to fewer plants with the aim of improving capacity utilization and delivery reliability. As a result of effective marketing, successful sales of down-the-hole bits were achieved in the Canadian and Australian mining sector.

The Construction Tools division noted a particular increase in sales of its pneumatically powered breakers in the North American market, while orders received in Europe remained weak. Substantial investments were made in the Kalmar plant during the year, to reduce lead times and increase delivery reliability.

The Wagner division's sales of loaders and trucks increased during the year. An important contributing factor was the successful introduction of new products in the North American and Australian markets. In order to achieve an improved level of delivery service, investments were made in high-tech production equipment and in a new central warehouse in Chicago to serve the world market.

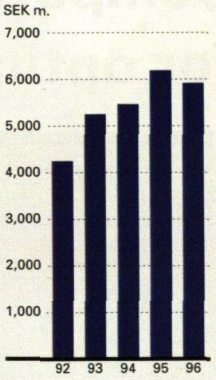
Competitive situation

The business area, which is one of the market leaders within its product areas, is encountering severe competition in the world market. Changes in exchange rates had an adverse effect on products manufactured in Sweden, but the business area was able to maintain its profit margin and market shares as a result of efficiency-enhancement measures. Through market investments in North America and Asia, the business area has the potential to strenghten its global market share in the years ahead.

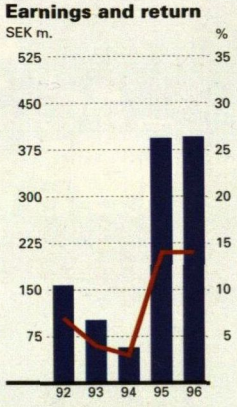
Outlook for 1997

Demand for drilling and loading equipment in both the mining and construction sectors during 1997 is expected to continue at about the same level as in 1996. It should be possible maintain the improvement in earnings as a result of the restructuring measures implemented within the production units.

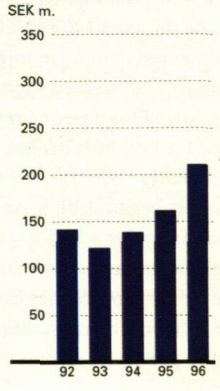
Sales



Earnings and return



Investments

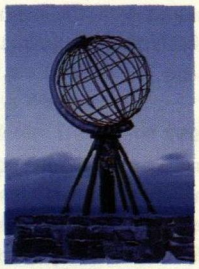


Computerized drill rigs for optimal tunnel excavation

During the year, Atlas Copco Rock Drilling Equipment introduced a new series of drill rigs to meet more exacting demands from civil engineering contractors with regard to performance, overall cost-effectiveness and environmental aspects. The new series is equipped with a powerful computer system and is designed for full- and semi-automatic operation.

The series is designed primarily for tunneling projects, but can also be used for production drilling in mines, where requirements focus on high precision and capacity. This series of rigs can also be used for bolt hole drilling.

In early 1996, two Norwegian contractors began drilling and blasting operations for a 24.5 km tunnel on the highway between Oslo and Bergen with the aid of two Boomer rigs. Comprehensive rock bolting is simultaneously carried out to prevent rock bursts and fissuring.

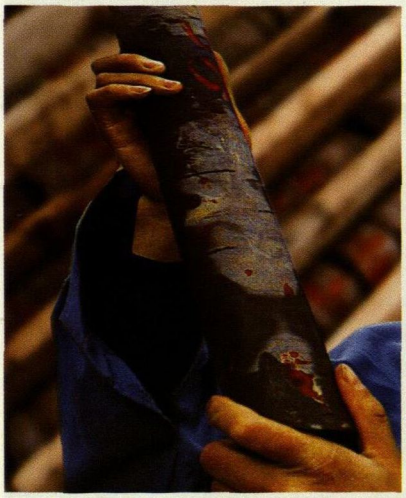


In northern Norway, four Boomer rigs are presently being used in the drilling and blasting of tunnels that will link the North Cape with Mageröya island. The tunnels will have a combined length of 11 km, of which the greater part will be beneath the ocean bed. Despite the very difficult rock conditions, 65 to 70 meters are being completed each week thanks to the high productivity achieved.

During the autumn 1996, an Italian consortium ordered three Boomer rigs, for semi-automatic operation. The consortium will drill and blast 54 km of tunnels for a high-speed train line between Bologna and Florence. The first rig was delivered in February 1997. In addition to the rigs, the order includes rock drilling tools, compressors, contracting equipment and service contracts.

Economical core drilling for geological exploration

Atlas Copco Craelius introduced a new hydraulic core-drilling rig during the autumn of 1996. The main application area is found in mines, where exploration drilling is conducted to locate new ore bodies. During the year, the new drilling rig was delivered to mines in North and South America, Europe and Australia.



The drilling rig is used for exploration drilling when locating new ore bodies. A core is extracted in order to establish ore content and to assess the profitability of future mining. In addition, exploration drilling is required prior to tunnel construction, to establish the geological conditions and thus determine where and how the tunnel is to be excavated.

The rig eases the work of drill operators and increases the contractor's financial return from the equipment. It is equipped with a computerized control panel, which monitors and adjusts drill parameters to the prevailing rock conditions.

With the help of automatic monitoring and adjustment of feed power, drill speed, and water flow, the speed and accuracy of drilling operations is significantly increased. This also increases the number of drill meters per drill bit, while reducing equipment wear. Due to the benefits provided by the new technology, sales are expected to increase in this product area.

Flow-controlled production improve delivery reliability

Atlas Copco Construction Tools has initiated a comprehensive restructuring program at its plant in Kalmar, Sweden. The division has invested SEK 25 m. in new machinery in order to shorten production lead-times and to improve the reliability of deliveries to the market.

The restructuring program means that three different production lines are created for the product groups pneumatic breakers, hydraulic breakers and fuel-powered drilling machines.

Uniform production lines for fuel-powered drilling machines and pneumatic breakers was put into operation at the end of 1996. A major innovation in the design of these products is that several functions have now been integrated into a single feature. This feature is now manufactured in a highly efficient manner based on a single operation in a machining center.

These changes have reduced the lead times for pneumatic products from 70 days to 5 days. Another action is that vital parts are heat treated in a newly installed vacuum furnace in order to ensure high quality and low wear.

The production line for hydraulic machines, which conducts such operations as component processing, heat treatment, assembly, final testing and product control, are currently being built up, with completion scheduled for the first half of 1997.

The investments made in rational new equipment and the changed plant flows will increase delivery reliability of the distribution center in Rotterdam, the Netherlands. They will also result in considerably improved cost effectiveness since intermediary inventories can be phased out and inventories reduced by 40 to 50 percent in terms of value. Moreover, 25 to 30 percent of plant floor space can be made available for other uses.

Uniroc focuses on growth in Asia

Uniroc has initiated a determined venture in growth markets in Asia. Following an expansion of the range of rock drilling tools and a concentration of production to strategically located plants, intensive efforts to penetrate East Asian markets have commenced.

Further development of Atlas Copco's state-of-the-art Coprod drilling system is a major factor in the division's efforts to increase its market shares. This system combines the largescale capacity of top-hammer technology with the high quality of down-the-hole technology. As a result, straighter holes can be drilled more rapidly and at a significantly lower cost, even in difficult geological conditions.

To help customers capitalize on all the benefits provided by the Coprod system, extensive training programs have been initiated for Atlas Copco sales people, local dealers and contractors. Training is conducted in Malaysia, Thailand, Laos, Cambodia, Vietnam, MyanMar (Burma), Singapore and China.

At the world's largest power plant project, The Three Gorges in China, Atlas Copco has delivered about 50 drilling rigs, several of which incorporate the Coprod system.

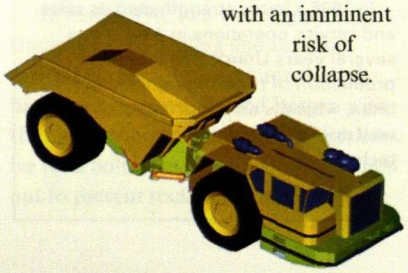
In a thermal water project in South Korea, one of the most advanced down-the-hole-hammers is being used and has currently reached a depth of approximately 1,000 meters.

In 1996, Uniroc strengthened its sales and service operations in Asia. Since several years Uniroc has also local production of rock drilling tools in India, which is an important market for well drilling based on down-the-hole technology.

Massive product development efforts

In order to strengthen its leading position, Atlas Copco Wagner initiated a long-term product development program. Several new loaders and a completely new mine truck have already been introduced. During a five-year period, the product range will be reviewed and supplemented.

Development of a new radio remote control and a new electric monitor, both using the latest electronic technology, was done concurrent with the development of the new loader line. The new units can be adapted for unmanned operation to meet the demands for safer and more efficient mining of ore in locations with an imminent risk of collapse.



Development is continuing on the radio remote control system. By using TV monitors and automatic guidance systems, a single surface-level operator will be able to monitor and control several loaders. Several mines in Canada and Australia have already started to apply fully automated loading and transport technology.

The division launched all new products in September 1996 at the international MINExpo show in Las Vegas, Nevada, USA, where significant orders were signed.

A further development of the division's series of surface transport trucks took place during the year. These trucks are suitable for both surface and underground applications, e.g. quarries and construction work, where large volumes of material are transported. In 1996, a major order for large capacity trucks was received for a waste handling operation for the city of New York.

This truck constitutes an excellent product complement for the division, since it reduces its dependence on the rapidly changing conditions in the mining industry and facilitates more uniform plant utilization.

Many major projects in progress using tunnel-boring machines

During 1996, projects in several countries were conducted based on the intensive use of tunnel-boring machines (TBM) from Atlas Copco Robbins. TBMs were used in many important construction projects in e.g. the U.S., Switzerland and Japan. Using the machines, an entire tunnel area can be bored highly effectively through solid rock.

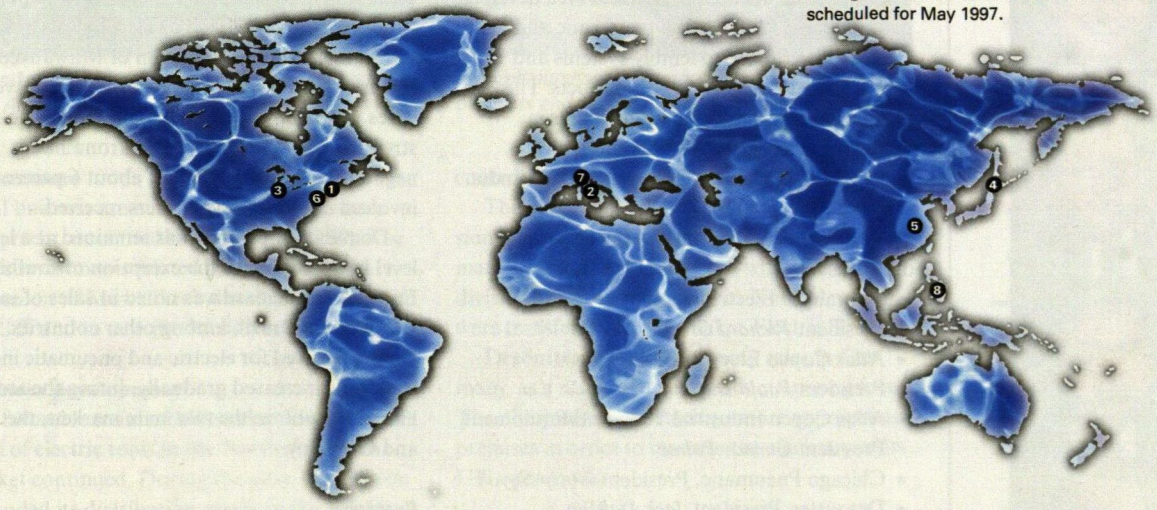
❶ To resolve pollution problems in Boston Harbor, two sewage tunnels with a total length of 23 kilometers, including 13 kilometers under the ocean bed, were completed during the year. Another project will provide Boston with 1.9 million m^3 of fresh water per day. Two TBMs were ordered for this project, for the boring of a 19-kilometer tunnel with a five meter diameter. Delivery is scheduled for spring 1997.

❷ A Norwegian consortium has ordered a TBM for the boring of a seven-kilometer tunnel for a hydro-power project in northwest Italy. The boring commenced at year-end 1996.

❸ A TBM was also delivered to a Japanese contractor currently engaged in the boring of a 5.8-kilometer sewage tunnel in Chicago. The purposes of the tunnel includes diverting rainwater and preventing floods.

❹ A TBM with a diameter of 8.3 meters was delivered to a Japanese contractor in February 1996. It is being used to bore tunnels for a hydro-power project on the island of Hokaido.

❺ In a major hydro-power project on the Yellow River in China, a TBM was used for the boring of the first tunnel (12.2 kilometers long), which was completed in January 1996. The second tunnel, which is 2.7 kilometers long, was completed in September and breakthrough for the third, 6.3 kilometer tunnel, is scheduled for May 1997.



❻ In New York a large water tunnel project is in progress to supply New York's Queens district with 5.7 million m^3 of fresh water per day. During the autumn, boring of an eight-kilometer tunnel, with a diameter of 7.1 meters, through solid rock commenced in New York.

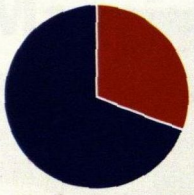
❼ In the Swiss Alps, boring of tunnels for two different hydro-power projects was completed. The tunnels each have a diameter of approximately 5 meters and are 15.8 and 7.2 kilometers long.

❽ The first tunnel boring machine in the Philippines was delivered in January 1997 by Atlas Copco Robbins' plant in Seattle. This TBM will be used for the boring of a 12.1-kilometer tunnel with a 5-meter diameter. The tunnel will supply Manila with fresh water.

Ingenious design used in new drilling rigs

Atlas Copco Rock Drilling Equipment's new hydraulic rock drill has made a strong contribution to increased drilling capacity. At the same time, the operational lifetime of the drill string and the rock drill's components have improved. This has resulted in greater operating reliability and increased productivity for customers.

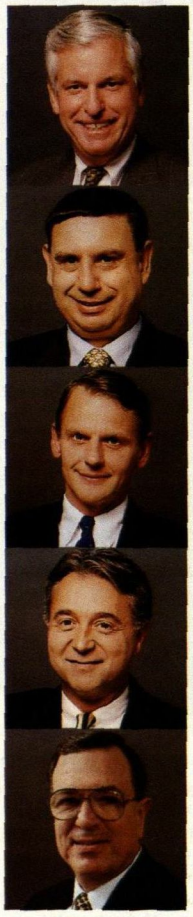
The new hydraulic rock drill is used on many drilling rigs for both mining and construction project applications. It is included as standard equipment in a new generation of surface rigs introduced during 1996. These rigs, intended for use in quarries and on construction sites, have major sales potential and are expected to contribute towards consolidating Atlas Copco's leading position in the world market.



Industrial Technique
Share of Group sales 32%

Restructuring measures to increase profitability

Sales of industrial tools increased in the main U.S. and German markets. Operations were relocated and rationalized in order to further improve profitability. The Milwaukee and Atlas Copco Electric Tools coordination projects began to produce results. Operating profit after depreciation amounted to SEK 836 m. (674).



Richard Grove
Paolo Duca
Gunnar Palme
Necip Soyak
Jack DeMao

	1996	1995
Invoiced sales, SEK m.	8,128	7,083
Profit after depreciation, SEK m.	836	674
Return on capital employed, %	12	15
Investments, SEK m.	309	238
Number of employees	8,119	6,631

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

The business area comprises the following divisions:

- Milwaukee Electric Tool, President *Richard Grove*
- Atlas Copco Electric Tools, President *Paolo Duca*
- Atlas Copco Industrial Tools and Equipment, President *Gunnar Palme*
- Chicago Pneumatic, President *Necip Soyak*
- Desoutter, President *Jack DeMao*

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 stable growth and profitability.

Structural changes

On December 17, 1996, Atlas Copco acquired the Swiss company Elesta Automation AG, which has sales of about SEK 20 m. Elesta Automation specializes in PC-based machine control systems and is part of the Atlas Copco Industrial Tools and Equipment division.

During the first half of 1997, the head office and operations of the Chicago Pneumatic division will relocate from Utica, New York, to Rock Hill, South Carolina. The relocation affects some 430 employees.

Sales

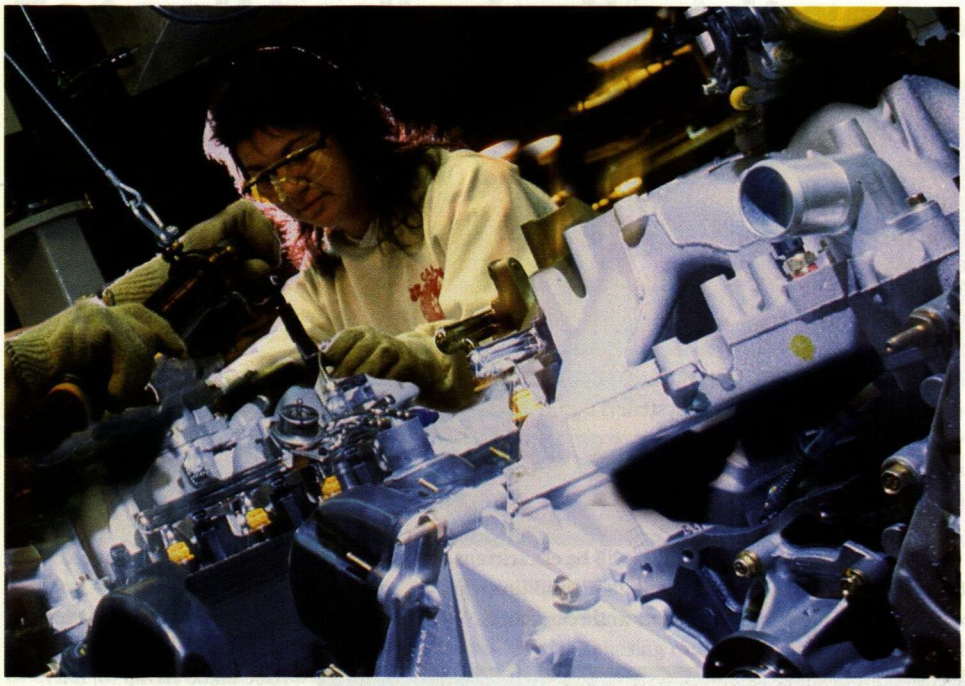
Invoiced sales increased by 15 percent to SEK 8,128 m. (7,083). Orders received rose 18 percent to SEK 8,280 m. (7,012). The increase was mainly attributable to the acquisition of Milwaukee Electric Tool. Based on comparable units, volumes were slightly lower than in 1995. The strengthening of the Swedish krona had a negative translation effect of about 6 percent on invoiced sales as well as orders received.

Demand for power tools remained at a low level in Europe, with the exception of southern Europe. An increase was noted in sales of industrial tools in Brazil, among other countries. Orders received for electric and pneumatic industrial tools increased gradually during the second half of the year in the two main markets, the U.S. and Germany.

Earnings

Operating profit after depreciation rose by 24 percent to SEK 836 m. (674). Earnings included a capital gain of SEK 342 m. from the sale of VOAC Hydraulics and restructuring costs of SEK 225 m. This latter item relates to the relocation of Chicago Pneumatic's operations in the U.S., personnel reductions within the Atlas Copco Electric Tools division in Germany and the relocation of the Desoutter division to more appropriate facilities close to the company's premises in north London. Excluding nonrecurring items, the operating margin decreased to 8.8 percent (9.5), as a result of lower volumes. Currency exchange-rate changes had a negative effect on the margin.

The return on capital employed was 12 percent (15).



A trend within the automotive industry is towards the centralized purchase of components and tools. Therefore, Atlas Copco has developed a concept of supplying products and services for global manufacturers.

Investments

Total business area investments in plant and equipment amounted to SEK 309 m. (238). The year's investments related primarily to the expansion of Milwaukee's distribution center in the U.S. and to new production equipment.

Business development

The favorable trend of Milwaukee Electric Tool's sales of electric tools in the North American market continued. During the year, the division expanded its distribution center in the U.S. in order to further improve the delivery service level to customers. Milwaukee also started to take over the physical distribution of all Chicago Pneumatic's products in the U.S.

During the year, the Atlas Copco Electric Tools division gradually improved its sales of electric power tools, in Germany among other countries.

The Atlas Copco Industrial Tools and Equipment division recorded a favorable trend of industrial tools sales, particularly in North and South America and southern Europe. A decline was noted in the volume of orders received for assembly systems in Europe. The Swiss company Elesta Automation was acquired to strengthen the division's market position within the motion control and drive systems product area.

The operations of the Georges Renault division were incorporated into the Chicago Pneumatic division during the year, while the latter division's electric tools sales in North America were transferred to Milwaukee Electric Tool.

Desoutter reported declining sales in Germany, as a result of a new product offering focus. The division has relocated to more appropriate premises in order to increase the efficiency of its UK operations.

Competitive situation

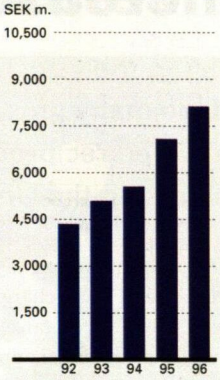
The business area is the global market leader in pneumatic industrial tools. Main competitors are certain companies in the U.S., Japan, and Germany. Through its acquisitions, the Atlas Copco Group has also become a leading supplier of electric power tools for industrial and professional use, with such brands as Milwaukee, Atlas Copco and AEG. Principal competitors are found in Germany, the U.S., and Japan.

Outlook for 1997

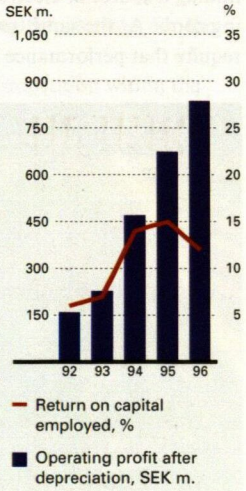
Demand for power tools is expected to remain at an unchanged level.

Earnings from operations are expected to develop favorably during 1997.

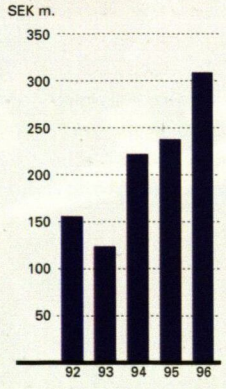
Sales



Earnings and return



Investments



Increased growth with cordless Sawzall

During the year, Milwaukee continued to focus on the development of new products. One of the many products launched during the year was a cordless Sawzall. It is the first battery powered reciprocating saw in the world for professional users and has aroused major interest in the United States. The product will be introduced in Europe in early 1997.

More efficient motors, high-performance batteries and faster charging times are increasing the acceptance of cordless tools for professional applications. A significant part of Milwaukee's product development focuses on this growth area.

Cordless tools offer convenience to users. They are free to move around their workplace without having to worry about finding a source of electricity or of trailing cords. At the same time, professionals require that performance must be on a par with corded tools. Accordingly, the Sawzall has been designed with a completely new high-performance 18 volt long-life battery and motor system.

The battery system is designed to provide sufficient power to carry out many typical work tasks, such as sawing holes for the installation of heating ducts or electrical system in building construction. The main users will be electricians, plumbers, heating and air conditioning contractors, builders and remodelers.

Milwaukee constantly strives to reduce lead times in its product development work. By basing the cordless version of the Sawzall on an existing corded model, it took just four months to develop the battery-powered model. In addition, a slide-on battery approach similar to one developed by Atlas Copco Electric Tools was used, which enabled styling similar to corded Sawzalls and a well balanced comfortable design.

The new cordless Sawzall also features a fast-locking, wrench-free blade clamp for easy blade changes. In addition, trigger speed control allows the operator to vary speed from 0 to 2,000 strokes per minute.

Accessories include an efficient charger that recharges the battery in only 40 minutes.

The tool is produced in Milwaukee's Jackson, Mississippi, tool plant, and the charger in its Pewaukee, Wisconsin, electronics plant.

Automotive industry tries new routes

A trend within the automotive industry is towards the centralized purchase of components and tools. In order to achieve the required economies of scale, a reduced number of specially selected companies will act as suppliers in future. Ford is one of the most advanced automakers in this area and is planning to significantly reduce the number of suppliers. Atlas Copco is one of the few suppliers of power tools and assembly systems selected.

Ford and other globally active manufacturers today insist on suppliers providing coordinated purchasing routines, comprehensive product ranges and extensive geographical coverage.

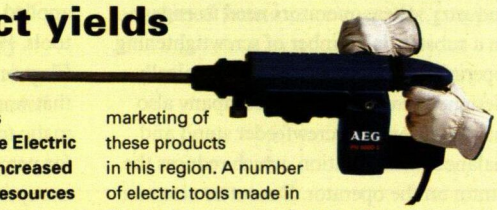
Atlas Copco Industrial Tools and Equipment has developed a concept of supplying products and services which has been specially adapted for Ford's plants. Based on a system of uniform prices, payment in few currencies, common payment and delivery routines and a global service network, Atlas Copco's focus is on making things easier for the customer.

The intense competition within the automotive industry means that the vehicles themselves must be constantly improved and made more fuel-efficient, while model designs are changed at an ever-increasing rate. This results in high focus on costs. One way of reducing costs is to develop a basic design principle, for example a chassis or suspension system, which can be used for different car models throughout the world. An increasing number of automakers is focusing on such "platforms" and outsourcing the production of standard components to selected suppliers.

Ford, which is well advanced in such areas, is also attempting to centralize purchasing operations. Parallel to this, the focus is on penetrating new markets. The major automakers are establishing local plants in fast-growth economies, such as China, India, South America and the Pacific Rim.

Atlas Copco is well equipped to meet all these requirements. The company's comprehensive sales and service organization means that Ford is provided with a global service, wherever its plants are located. The distribution center in Belgium makes daily deliveries directly to customers. In addition, a new business service-center has been established, which supports a smooth administation flow.

Synergy project yields fast results



Coordinated actions between Atlas Copco Electric Tools and Milwaukee Electric Tool have already yielded results. Increased sales for both companies, greater resources in the product development area, lower costs in purchased material and access to Milwaukee's extensive range of accessories – these are just a few of the synergy effects achieved during one year.

During 1996, the companies implemented a total of eight specific co-operation projects. The work was focused on utilizing the coordination gains that exist in the areas of marketing and sales, purchasing, product development and manufacturing.

To increase sales of selected parts of the Atlas Copco Electric Tools range in North America, Milwaukee took over responsibility for the marketing of these products in this region. A number of electric tools made in Germany are now marketed under the strong Milwaukee brand name. In turn, Atlas Copco strengthened its professional product line for European and word-wide distribution by adding some Milwaukee tools and accessories.

Within the product development area, the divisions defined the core skills needed and agreed to areas of responsibility to avoid future duplication of efforts.

Atlas Copco Electric Tools now has access to Milwaukee's broad range of accessories, which includes some 3,500 items. In addition, the divisions have coordinated the purchasing of a number of commodities resulting in significantly reduced purchasing costs.

Ergonomics – a profitable investment

Repetitive motion injuries and difficulty concentrating remain among the most common industrial injuries. In addition to the discomfort felt by the employee, such problems also lead to increased costs for the employer. Many companies have recognized the importance of ergonomics as one of several measures to ensure high quality standards and reduced risk of accidents in the production process. Hand-held tools are particularly important, since they form a direct link between the operators and the production flow.

Atlas Copco Tools, which produces pneumatic tools, is a pioneer in the ergonomics field. The turbo-grinding machine is one of the latest products to arouse attention because of its vibration-absorption qualities. Instead of insulating the handle leading from the motor housing, efforts have focused on ensuring the grinding wheel is correctly balanced, which is the major source of the vibration problem. During 1996, Atlas Copco Tools produced a special book about hand-held tools, which describes a method of evaluating the ergonomic content of a tool, based on a number of different factors.

Chicago Pneumatic has developed a new series of impact wrenches with a handle that is capable of twisting through 360 degrees. This means that the user can maintain a straight handle position, even in working positions with a difficult angle. Moreover, vibration and noise levels have been substantially reduced.

Desoutter has developed complete workplace solutions for the white goods industry, where operators need to engage in a substantial number of screwtightening operations. In addition to ergonomically designed screwdrivers, the company also has an automatic screwfeeder stand and balancer configuration, which reduces the strain on the operator. Desoutter also conducts seminars for increasing the awareness of ergonomics.

Ergonomics know-how within the pneumatics field has also been successfully applied in the development of electric tools. For several years now, Atlas Copco Electric Tools has been using a pistol grip that was originally designed for a pneumatic tool. A further major achievement for percussion drills and rotary hammers is a special anti vibration system reducing up to 50 percent of the tool vibrations. Another ergonomic component used in electric tools is the "keyless" Fixtec system, designed to ease drill, grinding-wheel, or saw blade changing procedures.

Milwaukee also works continuously to develop ergonomically designed products, which are optimally balanced and vibration absorbing. The super Sawzall has set a new standard in low-vibration for reciprocating saws.

Sales success for colorful high-torque ratchets

A new series of air-powered ratchets from Chicago Pneumatic has been a sales success in the U.S. market. For the first time, the customer can choose between different colors of the tool. The ratchets function as an extension of the automotive mechanic's arm and is especially suitable for work in constricted places. In addition to speed and long durability, special attention has been focused on developing a product which offers high user comfort. A special grip ensures the operator is provided with an unmatched textured, non-slip feel.

Strategic location in the U.S. distribution capital

Chicago Pneumatic is offering a first-class service to its customers as well as lowering its cost, by using Milwaukee Electric Tool's distribution center in the southeastern United States. Among the advantages to be gained are reduced delivery times and coordinated domestic and international shipments. This consolidation of distribution is part of the company's relocation, from the northeastern to the southern USA.

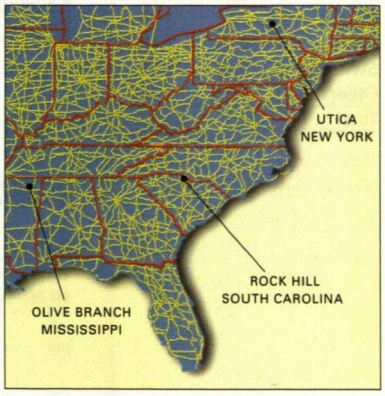
Milwaukee's distribution center in Olive Branch, Mississippi, is only a one-day drive from Rock Hill, South Carolina, which is Chicago Pneumatic's new plant location.

The distribution center is located in the Memphis, Tennessee, area, which is usually called the distribution capital of the U.S. There are excellent communication links with all U.S. cities, frequent international air connections and a wide range of freight forwarding firms.

To date, Milwaukee has maintained about 27,000 items in stock. With the addition of the Chicago Pneumatic products, this will be boosted by a further 10,000 items. To meet the increased capacity requirement, the size of its warehousing facilities has been substantially extended.

Employees work in three shifts at the distribution center, with daily deliveries made to distributors domestically and internationally.

To further improve customer service, work is organized in self-managed groups, with each group assuming responsibility for selected functions or customer groups.



Improved flow in new plant

Desoutter moved to a new modern plant outside London. Production is organized in self-managed groups, which has significantly increased production flow efficiency. In addition, the division has invested in modern turning centers to increase flexibility.

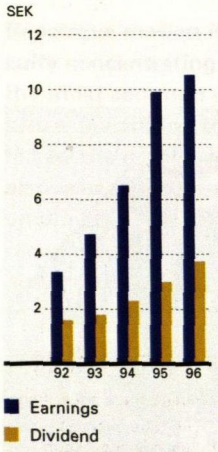
In recent years, Desoutter has continually enhanced the efficiency of its production and reduced its lead times. However, the plant in London was old, with high maintenance costs, and lacked the scope for further improvements to be made. The decision was taken to relocate operations to a more modern facility in Hemel Hempstead, just outside London, in 1996.

The product range is based on a modular system of components, which can be combined in accordance with individual customer requirements. To attain a more flexible and efficient production structure, the company introduced a total of six self-managed groups, of which five focus on components and one on assembly work.

The new manufacturing process enables production to rapidly be adapted to changes in demand. The new structure also makes it possible to cut lead times, which will further improve the delivery service to customers.

The Atlas Copco share

Earnings and dividend per share



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 31,398 shareholders. The portion of shares held by institutional investors amounts to 87 percent.

The ten largest shareholders account for 46 percent of the voting rights and 40 percent of the number of shares. The number of foreign-owned shares amounted to 37 percent (35) and represented 34 percent (34) of the voting rights. The proportion of shares in each country is shown in a separate table on page 60.

Foreign owned shares by country

	% of votes	% of number
Great Britain	14.01	13.77
USA	10.59	12.83
Belgium	2.97	3.73
France	2.02	1.48
Switzerland	1.06	1.15
Others	3.50	4.16
Total	34.15	37.12

Distribution of shares

Class of share	Shares outstanding	% of no 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

Ownership structure 1996

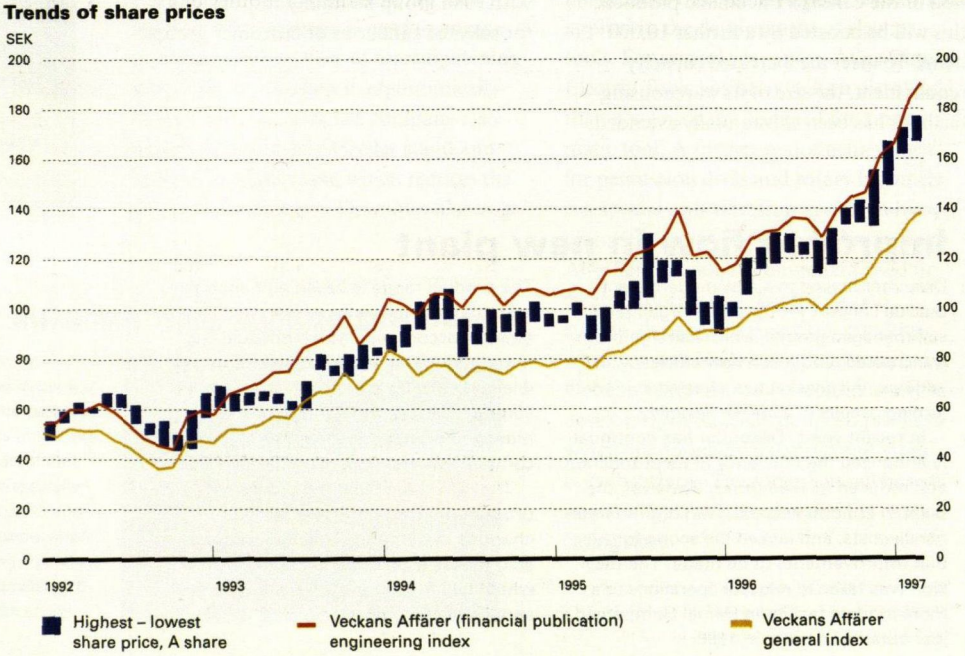
	Number of shares	% of shareholders	% of total no of shares
1–	500	72.4	2.1
501–	2,000	21.7	3.6
2,001–	10,000	4.8	3.3
10,001–	50,000	0.7	2.8
50,001–	100,000	0.1	1.4
>	100,000	0.3	86.8
	Total	100.0	100.0

Largest shareholders, February 1997

	Number of shares	% of votes	% of number
Investor Group	25,938,000	20.2	14.1
Sparbankernas Aktie- och Allemansfonder	22,745,100	11.5	12.4
Allm Pensionsfonden, Fjärde Fondstyrelsen	4,268,950	3.3	2.3
SPP Group	4,792,520	2.1	2.6
Trygg Hansa Group	3,275,813	2.1	1.8
Folksam Group	4,847,410	1.9	2.6
Skandia Group	2,805,578	1.6	1.5
Allm Pensionsfonden, Femte Fondstyrelsen	1,605,700	1.2	0.9
SE-Bankens fonder	2,448,100	0.9	1.3
Föreningsbankens fonder	1,052,800	0.8	0.6
	73,779,971	45.6	40.1
Others	109,735,949	54.4	59.9
Total	183,515,920	100.0	100.0

The table above shows the largest shareholders that are directly registered with VPC.

Trends of share prices



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 3.75 per share is approved, the average dividend growth for the five-year period 1992 to 1996 will amount to 19 percent. During the same period, the average dividend has been 35.5 percent of earnings per share. Expressed as a percentage of shareholders' equity, the proposed dividend is 5.8 percent (5.2).

Trading

The Atlas Copco share was the eighteenth (sixteenth) most traded share on the Stockholm Stock Exchange during 1996. Including subsequent registration, a total of 106,264,443 shares were traded (of which 62,928,927 class A and 43,335,516 class B), corresponding to a value of SEK 13,509 m. (10,764). An average of 423,364 shares (421,419) were traded per market day. The turnover rate (degree of liquidity) in 1996 was 52 percent (58), compared with the stock market average of 65 percent (55).

A significant portion of trading in the Atlas Copco share continued to occur outside Sweden. Foreign trading in the Atlas Copco share showed a net export of SEK 664 m. (1995: net import 92).

Share price trend

As of December 31, 1996, the price of the Atlas Copco share was SEK 165. For 1996 as a whole, the price of the A share rose 62 percent. The general index increased 38 percent and the engineering companies' index increased 45 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 31 percent. The corresponding return for the Stockholm Stock Exchange as a whole was 24 percent. During the past ten year-period, the annual average total yield was 24 percent for the Atlas Copco share compared to 15 percent for the Stockholm Stock Exchange.

Market value

The market value on December 31 was SEK 30,341 m. (18,597), which corresponds to 1.9 percent (1.6) of the total market value of the Stockholm Stock Exchange.

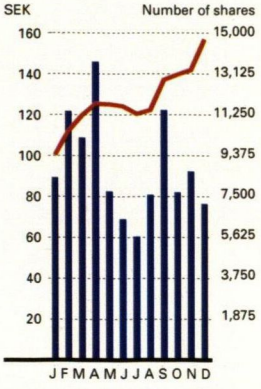
Foreign Stock Exchanges

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

Trends of share prices/ traded shares 1996



— Average share price, A share

■ Traded shares (A+B), thousands, Stockholm Stock Exchange

Per share data

SEK	1992	1993	1994	1995	1996	Av. growth/year 92–96, %
Earnings [1]	3.35	4.74	6.51	9.93	10.56	31
Dividend	1.60	1.80	2.30	3.00	3.75[2]	19
Dividend as percent of earnings [3]	47.8	38.0	35.4	30.2	35.5	
Price quotation, Dec. 31, A	67	83	95	102	165	28
Price quotation, Dec. 31, B	66	82	95	100	166	
Highest price quoted, A	67	86	108	125	167	
Lowest price quoted, A	44	60	81	87	97	
Average price quoted, A	57	70	94	103	127	
Equity [4]	42	46	51	58	65	13
Direct yield, percent [5]	2.8	2.6	2.4	2.9	3.0	
Price/Earnings [6]	16.9	14.9	14.5	10.4	12.0	
Price/Sales [7]	0.64	0.68	0.83	0.77	0.93	

[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.

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 NA. At year-end 1996, there were 1,412,313 depositary receipts outstanding, of which 709,497 were class A and 702,816 class B.

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 0.88 (0.84). This means that the share moved 12 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 0.38 (0.46), which means that 62 percent (54) 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 1996, approximately 4.4 million shares (7.3) were covered by option contracts, which constitute about 2 percent (4) of the total number of Atlas Copco shares. Each day an average of 17,512 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.

Share issues 1973–1996

			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	2,765,000 shares		
	(non-preferential)	at SEK 135	69.1	373.3
1989	Bonus issue	1 B share: 3 A shares	195.5	
1990	New issue	4,000,000 B shares		
	(non-preferential)	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.

Holistic approach to environmental issues

During recent years, Atlas Copco has implemented a number of individual measures within the environmental area. In 1996, the Group adopted a holistic approach to the question of the environment and initiated a Group-wide project that embraces all units. Four units have been selected as pilot projects. The goal is to have most of the units environmentally certified in accordance with ISO 14001 prior to the year 2000.

A new version of the Environment Policy was published during autumn 1996, based on the latest demands to be addressed by corporate environmental-management systems. The Policy emphasizes that increased focus should be placed on environmental issues. The objectives of the project are that the divisions become leaders in the environment area, within their special fields of operation, which will ultimately strengthen their market competitiveness.

Introduction of local environmental systems

Atlas Copco has developed an internal environmental standard, with guidelines outlining how the Group companies should plan and implement their own environmental audits. This is based on the ISO 14001 standard, which is expected to become the leading international standard for environmental-management systems. The work in the environmental area also affects the suppliers, who must also meet special environmental demands.

A contact person, with responsibility for environmental matters, has been appointed within each division. In co-operation with divisional management, this person will lead the work of introducing the environmental-management system at local level. A central coordination function has been established to support the work of the divisions in this area, comprising a project manager and representatives from each business area.

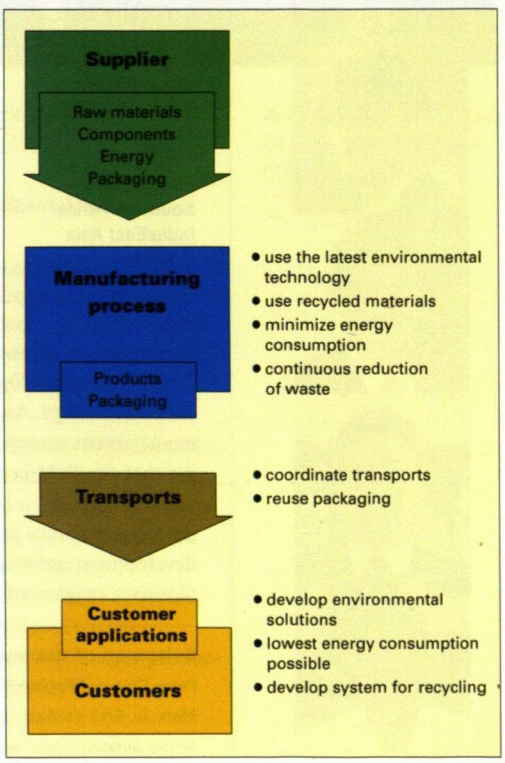
Four pilot projects

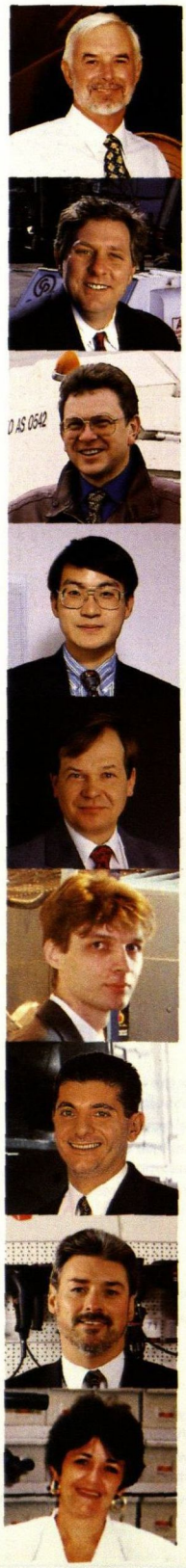
Four separate units have been selected as pilot projects. In Sweden, they consist of the Atlas Copco Tools production plant in Tierp and the electronics company, Atlas Copco Controls, outside Stockholm. The compressor production plant in Antwerp has been selected in Belgium, while Desoutter's tools production plant outside London, in the U K, completes the selection. The experience gained from these projects will form a documented base for the introduction of the environmental-management system at other units.

Charting the entire flow

The initial environmental audits will chart each stage of the production process and the impact the operations have on the environment. The inflow of raw materials, components, chemicals, energy sources and other supplies will be studied, as will the outflow of products, impurities, energy consumption and transports. The audits will constitute the basis for a concrete plan of action, containing prioritized environmental measures.

Environmental work already starts in the product development phase. For many years, work in this area has focused on ergonomic design, low energy consumption and high efficiency. The next step will be to develop products that can be easily recovered and recycled.





Assuring a continuous improvement

The professional development of its employees is one of the Atlas Copco Group's most important strategies. It is the driving force behind the continuous development of the Group's operations. Different projects strengthen personnel competence. Local market know-how is also important. Accordingly, the Group's managers are encouraged to acquire international experience.

Atlas Copco has its own sales and service organizations in about 70 countries. Few other Swedish companies have such an international spread, with employees located throughout the world. The largest concentrations of personnel resources are in Europe and North America. Asia is an increasingly important market and is a region where Atlas Copco is currently reviewing its operations in order to strengthen its local market presence.

Geographic distribution of the average number of employees

	Total number	Distribution Women	as % Men
Europe	10,560	18	82
of which Sweden	*2,757*	*16*	*84*
of which EU	*10,055*	*18*	*82*
North America	4,772	25	75
South America	964	14	86
North Africa/ Middle East	193	28	72
Southern Africa	692	17	83
India/East Asia	3,316	14	86
Oceania	588	20	80
	21,085	19	81

Management resourcing

The Atlas Copco Group is an organization in constant change. Accordingly, the work in the management resourcing area focuses on assuring that the right person is always on the right job. The strategy is to maintain an open internal job market and to arrange regular management-development seminars led by representatives of Group management.

Salesmen of the year

Peter Coxon, Michael P Fischer, Louis Van Hemelrijck, Mark Ju, Erkii Kankaanranta, Peter Müller, Mike Mustapha, Alfred Schwarzhaupt and Lidia Terezinha Z Valverde.

The goal is that 90 percent of all management vacancies be filled via internal recruitment. Since 1991, approximately 80 percent of the Group's 300 most senior managers have changed jobs. Most of them also changed country.

In addition Atlas Copco has introduced an international development program with the aim of grooming future new leaders and specialists within the Group.

Increased knowledge about the Group

Involvement is a key concept within the Atlas Copco Group. Access to information and opportunities for discussing various issues are important for motivating personnel and increasing their ability to resolve problems and develop the company as a whole.

As part of this concept, a knowledge project designated "Atlas Copco Circles" was introduced in 1996. The intention is that all employees throughout the world be given the opportunity to expand their knowledge about the Group.

The establishment of study circles provides employees with an opportunity to learn more about Atlas Copco generally and to discuss the roles they, and their companies or units, play in the Group as a whole.

The objective is that all personnel will have participated in a study circle prior to summer 1997.

Salesmen of the year

Each year, the Atlas Copco Group selects a number of sales personnel as the Group's "Salesmen of the year." During 1996, many noteworthy local contributions were made within the sales companies. The following people were selected:

Peter Coxon, loaders and underground trucks salesman in Australia, secured orders with a

total value of more than SEK 40 m. during the year. He was also successful in obtaining a major new customer in this important mining market.

Michael P Fischer, Chicago Pneumatic construction-equipment salesman in the U.S., worked very successfully with distributors. By efficiently differentiating them, based on their application focus, he was able to generate strong sales during the year.

Louis Van Hemelrijck, is a portable-compressor salesman in the Benelux countries. By being receptive to customer needs and following up his assignments, he has shown a very successful trend of sales during recent years.

Mark Ju, industrial tools salesman in China, was successful in selling quality tools in a market where locally manufactured products are sold at a fraction of the price of imported tools.

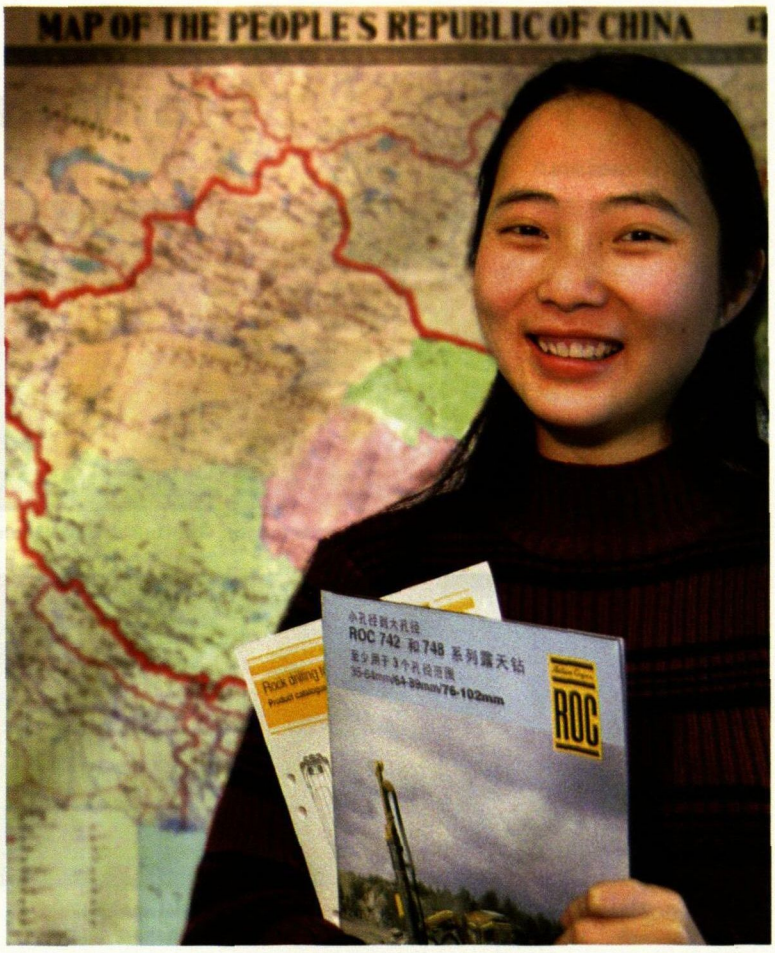
Erkii Kankaanranta, geotechnical drilling tools salesman in Finland, has sold drilling equipment to customers in the Finnish market for a number of years with great success.

Peter Müller, responsible for sales and marketing of compressors in Hungary, has shown excellent sales results. For example, despite tough competition, he succeeded in selling the first Atlas Copco turbo compressor in Hungary.

Mike Mustapha, responsible for Applied Compressor and Expander Technique's sales team in the U.K. Within a few years, he has doubled sales.

Alfred Schwarzhaupt, electric tools salesman in Germany, has achieved excellent sales results through the systematic cultivation of customer relations.

Lidia Terezinha Z Valverde, saleswoman, specializing in spare parts and accessories for light construction equipment in Brazil. Her highly successful and exemplary work within this area has been a source of inspiration for other sales personnel.



Atlas Copco will strenghten its local market presence in Asia.

Innovations and efficient work flows rewarded

Atlas Copco annually presents the John Munck Award to product development engineers for outstanding achievements. The award was established in 1988 to honour the inventor John Munck, who was the company's Technical Director for many years. John Munck Award shall recognize important new technological advances within the company. Among other criteria, solutions to problems must be innovative and commercially successful. During the past two years, the following projects have been awarded:

- solutions for increasing the capacity and operational life time of the COP 1838 drilling machine;
- a new electric motor for industrial tools.

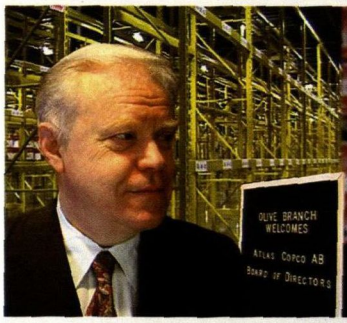
In 1996, the Board established yet another prize – The Peter Wallenberg Marketing and Sales Award. The aim is to reward extraordinary sales efforts and the introduction of new marketing and sales methods. This award will be presented for the first time at the 1997 Annual General Meeting.

To stimulate continuous efficiency improvements, annual rewards – Employee Recognitions – are given to personnel who successfully contribute to improving the work flow. Examples of improvements that were rewarded during the year include:

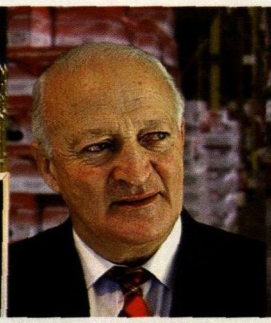
- new order-handling routines and the coordination of transports for different divisions;
- introduction of flow-teams which reduce production lead times and inventory levels.

Board of Directors and auditors

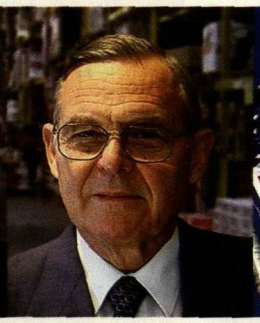
Board of Directors



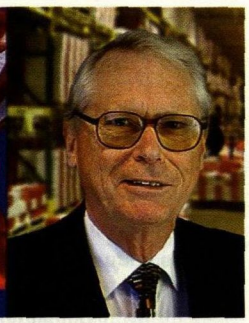
Anders Scharp



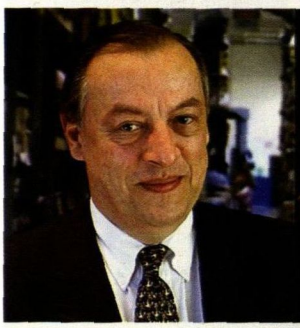
Tom Wachtmeister



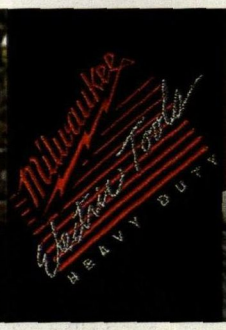
Curt G Olsson



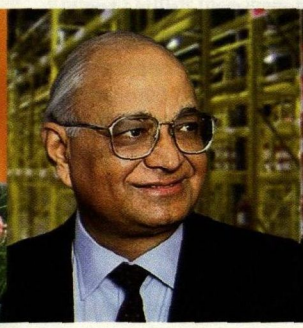
Gösta Bystedt



Erik Belfrage



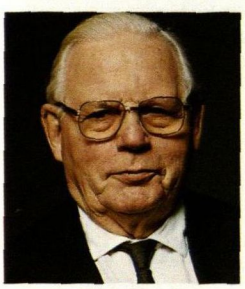
Paul-Emmanuel Janssen



Hari Shankar Singhania

Göran K Lindahl

Honorary Chairman



Peter Wallenberg
Dr Econ. h.c. Employed in various positions within Atlas Copco, 1953–1974. Chairman of the Board 1974–1996.

Photos taken at the Board of Directors' meeting at Milwaukee Electric Tool in the U.S.

Board of Directors

Anders Scharp Chairman (1992). Born 1934. Chairman of the Boards of Electrolux, SKF, Saab, Scania, Incentive and Swedish Employers' Confederation. Vice Chairman of the Board of Investor. Board member of Email (Australia) and Federation of Swedish Industries. Stockholdings: 0.

Tom Wachtmeister Vice Chairman (1975). Born 1931. Employed by Atlas Copco 1959–1991. President and CEO 1975–1991. Member of the Boards of SAS Sweden, Investor, Norsk Hydro (Norway), Scania, STORA and The Svenska Dagbladet Foundation. Chairman of Swedish Taxpayers' Association. Vice Chairman of the General Export Association. Stockholdings: 100,970 A.

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 and SAS. Stockholdings: 0.

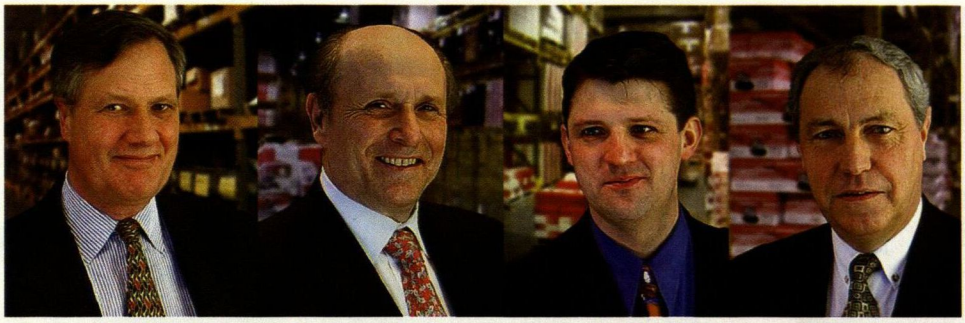
Gösta Bystedt (1987). Born 1929. Chairman of the Board of Kalmar Industries. Vice Chairman of the Boards of Electrolux and Axel Johnson. Member of the Boards of SKF and Federation of Swedish Industries. Stockholdings: 8,330 A; 1,665 B.

Paul-Emmanuel Janssen (1994). Born 1931. Chairman of Générale de Banque, Brussels, Belgium. Director and Member of the Executive Committee of the Federation of Belgian Industry. Director of Union Financière Boël, Usines Gustave Boël, Solvac (Solvay group) and Lhoist. Chairman of the Board of Directors of Atlas Copco Airpower, Belgium. Stockholdings: 1,125 B.

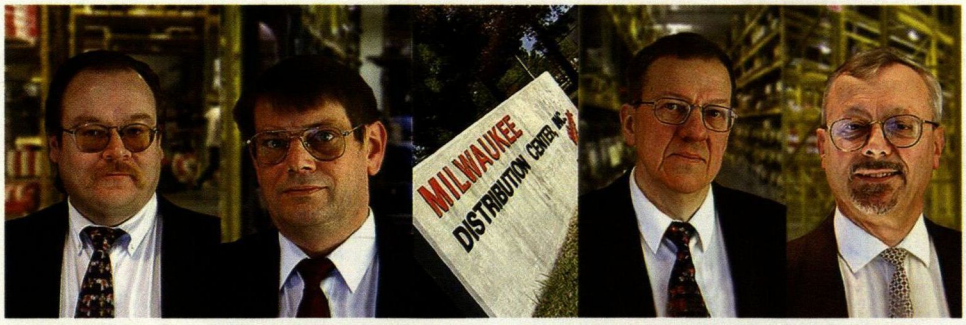
Göran K Lindahl (1994). Born 1945. President and CEO of ABB Asea Brown Boveri, Zürich, Switzerland. Member of the Board of Saab. Stockholdings: 0.

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

Hari Shankar Singhania (1996). Born 1932. President of J.K. Organization (India). Chairman of i.e. Atlas Copco (India), J.K. Corp, J.K. Industries,



Michael Treschow | Giulio Mazzalupi | Lars-Erik Soting | Håkan Hagerius



Bengt Lindgren | Sune Kjetselberg | Tore Hedberg | Per-Olov Olsson

Central Pulp Mills and J.K. Udaipur Udyog. Former President of the International Chamber of Commerce. Stockholdings: 0.

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, SKF and Parker Hannifin Corp. Chairman of Swedish Trade Council. 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. Member of the Board of Electrolux-Zanussi. Stockholdings: 0.

Employee representations

Tore Hedberg (1990). Born 1937. Chairman, Atlas Copco local of the Swedish Union of Clerical and Technical Employees in Industry (SIF), Stockholm. Stockholdings: 0.

Lars-Erik Soting (1993). Born 1965. Chairman, Atlas Copco local of the Metal Workers' Union at Atlas Copco Rock Drills (Avos), Örebro. Stockholdings: 0.

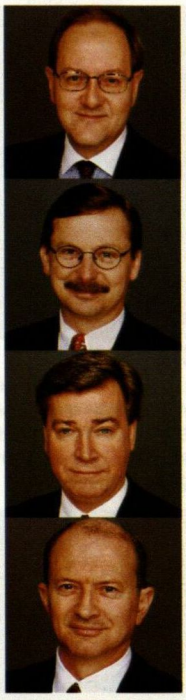
Bengt Lindgren (1990). Born 1957. Chairman, Uniroc local of the Metal Workers' Union, Fagersta. Stockholdings: 0.

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. Stockholdings: 0.

Sune Kjetselberg Deputy Member (1992). Born 1951. Chairman, Atlas Copco Tools local of the Metall Workers' Union, Tierp. Stockholdings: 0.

Auditors



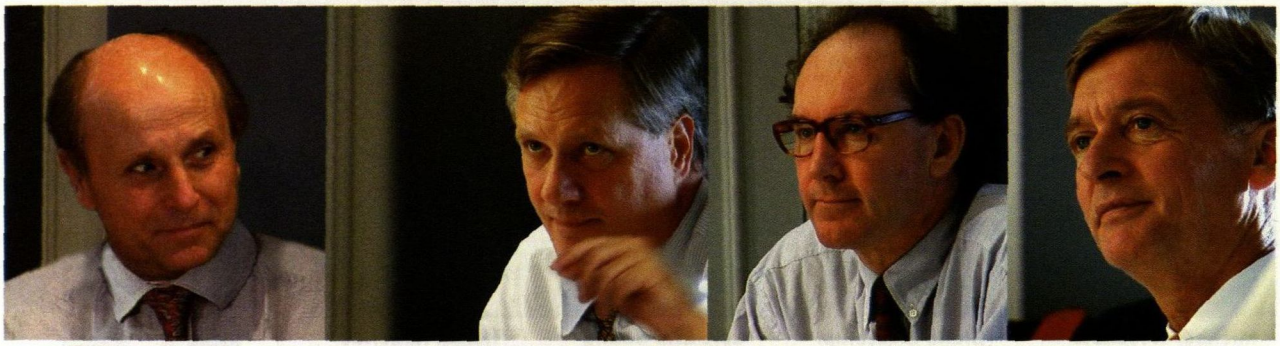
Stefan Holmström (1987) Born 1949. Authorized Public Accountant, KPMG Bohlins AB.

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



Giulio Mazzalupi
Senior Executive Vice President Compressor Technique (President and Chief Executive Officer, effective April 22, 1997). Employed since 1971. Born 1940. Stockholdings: 0.

Michael Treschow
President and Chief Executive Officer (leaves the company on April 22, 1997). Employed since 1975. Born 1943. Stockholdings: 27,810 A; 1,735 B.

Bengt Kvarnbäck
Senior Executive Vice President Industrial Technique. Employed since 1992. Born 1945. Stockholdings: 7,650 A; 50 B.

Freek Nijdam
Senior Executive Vice President Construction and Mining Technique. Employed since 1970. Born 1940. Stockholdings: 0.

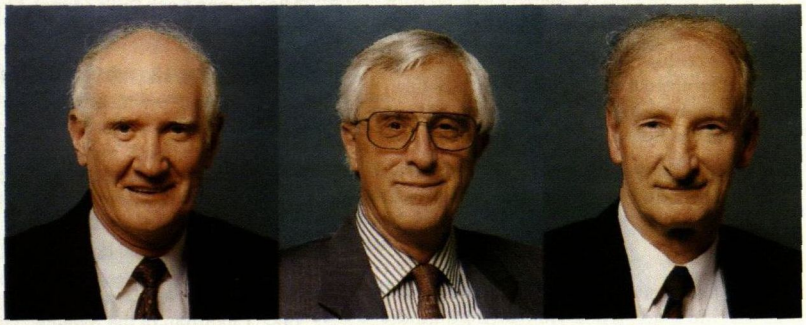
Hans Ola Meyer
Finance. Employed since 1991. Born 1955. Stockholdings: 500 B.

Lennart Johansson
Controlling, accounting and auditing. Employed since 1987. Born 1955. Stockholdings: 0.

Marianne Hamilton
Organization development and management resources. Employed since 1990. Born 1947. Stockholdings: 250 B.

Hans Sandberg
Legal. Employed since 1975. Born 1946. Stockholdings: 0.

Carl-Johan Wachtmeister
Information. Employed since 1995. Born 1955. Stockholdings: 400 B.



Jack Mackenzie
Regional Executive Far East. (retired on April 1, 1997) Employed since 1958. Born 1933. Stockholdings: 5,825 A; 955 B.

Romano Girardi
Regional Executive Latin America. Employed since 1962. Born 1930. Stockholdings: 0.

André Richard
Regional Executive Middle East and northern Africa. Employed since 1967. Born 1931. Stockholdings: 0.

Directions

Atlas Copco AB
S-105 23 Stockholm
Sweden
Phone: +46-8-743 8000
Fax: +46-8-644 9045
Internet:
www.atlascopco.se

Atlas Copco AB
A Public Company (publ)

Compressor Technique, Divisions

Airtec
P O Box 101
B-2610 Wilrijk, Belgium
Phone: +32-3-870 2111
Fax: +32-3-870 2443

Portable Air
P O Box 102
B-2610 Wilrijk, Belgium
Phone: +32-3-450 6011
Fax: +32-3-450 6211

Industrial Air
P O Box 103
B-2610 Wilrijk, Belgium
Phone: +32-3-870 2111
Fax: +32-3-870 2576

Oil-free Air
P O Box 104
B-2610 Wilrijk, Belgium
Phone: +32-3-870 2111
Fax: +32-3-870 2443

Atlas Copco Applied Compressor and Expander Technique
P O Box 100
B-2610 Wilrijk, Belgium
Phone: +32-3-870 2111
Fax: +32-3-870 2815

Construction and Mining Technique, Divisions

Atlas Copco Rock Drilling Equipment
Box 1442, 701 14 Örebro,
Sweden
Phone: +46-19-670 7000
Fax: +46-19-670 7070

Atlas Copco Robbins
P O Box 97027, Kent,
WA 98064-9727,
USA
Phone: +1-206-872 0500
Fax: +1-206-872 0199

Atlas Copco Craelius
S-195 82 Märsta, Sweden
Phone: +46-8-591 785 00
Fax: +46-8-591 187 82

Uniroc
Box 521
S-737 25 Fagersta,
Sweden
Phone: +46-223-461 00
Fax: +46-223-461 01

Atlas Copco Construction Tools
Box 767, S-131 24 Nacka,
Sweden
Phone: +46-8-743 9600
Fax: +46-8-743 9650

Atlas Copco Wagner
P O Box 20307
Portland, OR
97220-0307, USA
Phone: +1-503-255 2863
Fax: +1-503-255 7175

Industrial Technique, Divisions

Milwaukee Electric Tool
13135 West Lisbon Road
Brookfield,
WI 53005-2550, USA
Phone: +1-414-781 3600
Fax: +1-414-781 3611

Atlas Copco Electric Tools
Postfach 320
D-71361 Winnenden,
Germany
Phone: +49-7195-120
Fax: +49-7195-12666

Atlas Copco Industrial Tools and Equipment
S-105 23 Stockholm,
Sweden
Phone: +46-8-743 9500
Fax: +46-8-640 0546

Chicago Pneumatic
1800 Overview Drive
Rock Hill, SC 29730, USA
Phone: +1-803-817 7000
Fax: +1-803-817 7237

Desoutter
Eaton Road
Hemel Hempstead
Hertfordshire HP2 7DR
Great Britain
Phone: +44-1442 344 300
Fax: +44-1442 344 612

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STOCKHOLM
2004

Atlas Copco supports the Stockholm candidature to arrange the Olympic Games 2004.

Atlas Copco

Atlas Copco AB, S-105 23 Stockholm, Sweden

Atlas Copco

Annual Report

96

Extract in US dollars

All figures have been converted at the exchange rate of Dec. 31, 1996: USD 1.00 = SEK 6.872.
An English version of the complete Annual Report is available.

Atlas Copco

Five years in summary

Atlas Copco Group

USD millions unless otherwise noted	1992[12]	1993[12]	1994	1995	1996
Operating profit after depreciation	171	178	275	388	427
Operating profit margin, %[1]	7.3	6.5	9.0	10.9	11.7
Profit after financial income and expense	147	192	284	413	447
Profit margin, %[2]	6.4	7.0	9.3	11.6	12.2
Net profit after tax	87	126	174	265	282
Return on capital employed, before tax, %[3]	13.5	13.2	18.4	22.4	21.2
Return on equity, after tax, %[4]	9.0	11.0	13.7	18.6	17.5
Equity/Asets ratio, %[5]	45.6	47.8	51.1	47.8	51.6
Orders received	2,311	2,793	3,158	3,615	3,661
Invoiced sales	2,329	2,751	3,043	3,558	3,656
Percent change, current prices	+7	+18	+11	+17	+3
Sales outside Sweden, %	95	95	95	96	96
Net interest expense	–24	6	8	19	18
As percent of invoiced sales	–1.0	0.2	0.3	0.5	0.5
Interest coverage ratio[6]	3.2	5.1	6.7	8.7	10.6
Cash flow from operations after financial items	152	190	200	223	279
Total assets	2,360	2,593	2,648	3,227	3,383
Ratio of assets to liabilities	1.8	1.9	2.0	1.9	2.1
Ratio of current assets to current liabilities	1.8	1.8	2.0	1.7	1.9
Debt/equity ratio[7]	29.4	20.9	3.8	29.9	15.8
Capital turnover ratio[8]	1.06	1.09	1.16	1.19	1.10
Investments in machinery and buildings	80	57	92	103	120
As percent of invoiced sales	3.5	2.1	3.0	2.9	3.3
Average number of employees	19,195	18,247	18,104	19,751	21,085
Invoiced sales per employee, USD thousands	121	151	168	180	173

Per Share Data, USD unless otherwise noted	1992[12]	1993[12]	1994	1995	1996
Earnings[9]	0.49	0.69	0.95	1.44	1.54
Divided	0.23	0.26	0.33	0.44	0.55[13]
Price quotation, Dec. 31, A share	9.74	12.08	13.82	14.84	24.01
Price quotation, Dec. 31, B share	9.60	11.93	13.82	14.55	24.16
Highest price quoted, A share	9.74	12.51	15.72	18.19	24.30
Lowest price quoted, A share	6.40	8.73	11.79	12.66	14.11
Average price quoted, A share	8.29	10.19	13.68	14.99	18.48
Direct yield, percent[10]	2.8	2.6	2.4	2.9	3.0
Price/Earnings[11]	16.9	14.9	14.5	10.4	12.0

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 1996 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	1996	1995
Income as reported in the Consolidated Income Statement	282	265
Items increasing/decreasing reported net income:		
Depreciation of revaluations	0	0
Capitalization of interest expenses	–1	0
Amortization of goodwill	–2	–2
Divestement/closure of subsidiaries	–	0
Deferred taxes	0	0
Calculated net profit	279	263
Calculated earnings per share, USD	1.53	1.44
Total assets	3,452	3,299
Total liabilities	1,665	1,711
Shareholders' equity as reported in the Consolidated Balance Sheet	1,725	1,524
Net adjustments in reported shareholders' equity	62	64
Approximate shareholders' equity	1,787	1,588

Consolidated income statement

Amounts in USD m.		1996	1995
Operating income	Invoiced sales	3,656	3,558
Operating expense	Cost of goods sold	–2,286	–2,266
	Technical development, marketing and administrative costs, etc.	–831	–801
Operating profit before depreciation		539	491
Cost depreciation		–112	–105
Operating profit after depreciation		427	388
Financial income and expense		20	13
Share in associated companies		–	12
Profit after financial income and expense		447	413
Taxes		–161	–144
Minority interest		–4	–4
Net profit		282	265
Earnings per share, USD		1.54	1.44

Consolidated balance sheet

Amounts in USD m.		Dec. 31, 1996		Dec. 31, 1995	
ASSETS					
Current assets	Cash, bank and short-term investments	362		274	
	Receivables	878		876	
	Inventories	736	1,976	742	1,892
Fixed assets	Shares and participations	95		41	
	Goodwill	547		545	
	Other fixed assets	765	1,407	749	1,335
Total assets			3,383		3,227
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	**Non-interest-bearing liabilities**				
	Notes payable	14		12	
	Suppliers	224		214	
	Provision for taxes	50		68	
	Accrued expenses and prepaid income	310		273	
	Other current liabilities	191		200	
	Interest-bearing liabilities				
	Bank loans	271		373	
	Current portion of long-term liabilities	3		2	
	Other current liabilities	1	1,064	1	1,143
Long-term liabilities	**Non-interest-bearing liabilities**				
	Other long-term liabilities	41		38	
	Deferred tax liabilities	169		145	
	Interest-bearing liabilities				
	Mortgage and other long-term loans	83		81	
	Provision for pensions	279	572	278	542
Total liabilities			1,636		1,685
Minority interest			22		18
Shareholders' equity	Share capital	133		133	
	Restricted reserves	695		591	
	Retained earnings	615		535	
	Net profit	282	1,725	265	1,524
Total liabilities and shareholders' equity			3,383		3,227
Assets pledged			24		21
Contingent liabilities			160		123

ATLAS COPCO GROUP

	1996	1995
Invoiced sales, USD m.	3,656	3,558
Operating profit after depreciation, USD m.	427	388
Profit after financial items, USD m.	447	413
Return on capital employed, %	21	22
Investments, USD m.	120	103
Number of employees	21,085	19,751

Atlas Copco is an international industrial group of companies, with its head office in Stockholm, Sweden. Operations are conducted in three business areas – Compressor Technique, Construction and Mining Technique and Industrial Technique – through 16 divisions. Each division is specialized within a specific area and has total responsibility for product development, manufacturing, and sales and service operations. 96 percent of the Group's invoiced sales is attributable to countries outside Sweden. Products are manufactured at 56 plants in 15 countries.

COMPRESSOR TECHNIQUE

	1996	1995
Invoiced sales, USD m.	1,611	1,626
Operating profit after depreciation, USD m.	262	247
Return on capital employed, %	33	31
Investments, USD m.	41	39
Number of employees	7,698	7,661

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 Applied Compressor and Expander Technique (ACT).

CONSTRUCTION AND MINING TECHNIQUE

	1996	1995
Invoiced sales, USD m.	862	901
Operating profit after depreciation, USD m.	58	57
Return on capital employed, %	14	14
Investments, USD m.	31	24
Number of employees	5,143	5,349

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

	1996	1995
Invoiced sales, USD m.	1,183	1,031
Operating profit after depreciation, USD m.	122	98
Return on capital employed, %	12	15
Investments, USD m.	45	35
Number of employees	8,119	6,631

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 Electric Tools, Atlas Copco Industrial Tools and Equipment, Chicago Pneumatic and Desoutter.

Atlas Copco

Atlas Copco AB, S-105 23 Stockholm, Sweden

Ljunglöfs Offset AB, Stockholm 1997