Atlas Copco Annual Report 1998

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Atlas Copco's operating profit increased 14 percent to SEK 4,345 m. Earnings per share increased to SEK 12.44, compared to SEK 12.03 the preceding year.

Contents

Cover
Cover photo shows the cabin from the new underground drill rig launched during 1998.

Atlas Copco 1998
The 125th Year of Operation

Revenues Group revenues increased 12 percent, to SEK 33,740 m. (30,032) mainly as a result of acquisitions related to rental service. The European and North American markets were strong, while Asia-Pacific declined, as did South America towards the end of the year.

Earnings Profit after financial items rose 3 percent, to SEK 3,637 m. (3,520), corresponding to a profit margin of 10.8 (11.7) percent. Net profit after tax amounted to SEK 2,283 m. (2,208). Earnings per share increased, to SEK 12.44 (12.03).

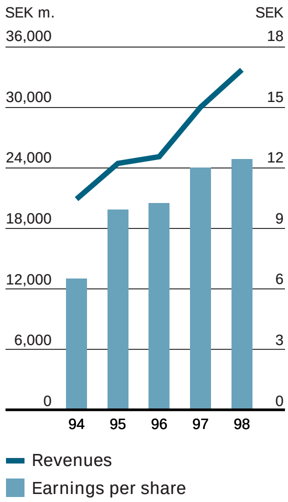
Proposed Dividend The Board of Directors proposes a dividend of SEK 4.50 (4.25) per share.

Acquisitions The Prime Service division has acquired eight rental companies in the United States and Mexico since being acquired by the Atlas Copco Group in July 1997. Prime now operates 182 yards in 23 U.S. states.

Other acquisitions included Construction and Mining Technique's takeover of JKS Boyles, a Canadian drill rig manufacturer, Compressor Technique's acquisition of the Italian company Ceccato's compressor business, and the South African compressor rental company Rand-Air.

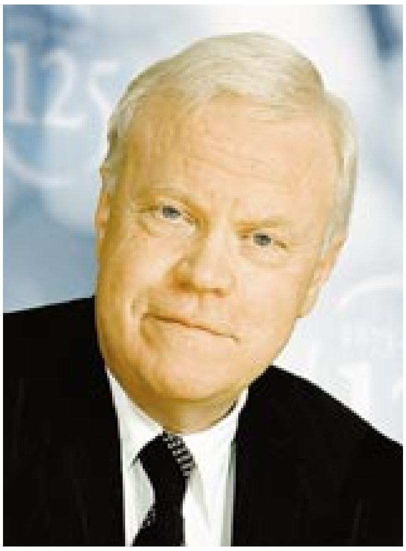
Market outlook The outlook for Europe is somewhat weaker following the economic slowdown that began towards year-end 1998. Demand in the United States is expected to remain at its present level, mainly owing to continued strong growth in the equipment rental industry. Latin American economies are foreseen to decline sharply as a result of financial instability and low metal prices. In Asian markets, demand is expected to remain low.

Revenues and
Earnings per Share



Dear Shareholders

1998 was characterized by turbulence in global financial markets, which contributed to a drop in overall demand for Atlas Copco. Despite this, and chiefly thanks to the recent move into equipment rental and after-market service, the Group achieved healthy operating profit.



Fiscal 1998 was marked by uncertainty in the world economy. The Asian crisis, which had a negligible impact on the Company's revenues for 1997, worsened in 1998, and financial uncertainty spread to other parts of the world, especially Russia and South America. The eventual effect on Atlas Copco was negative, as economic uncertainty weakened demand for the Company's products in these regions. On the plus side, Europe and North America enjoyed steady growth.

In 1998, Atlas Copco achieved balance in revenues between Europe and North America for the first time. This balance was basically a result of the thrust into equipment rental and service in the United States for the past one and a half years.

Looking back, it was in early 1997 that Atlas Copco developed its strategy and decided to grow further in the equipment rental and service segments. The new direction would enable closer relationships with customers, a prerequisite for continuously picking up on their needs and getting the information necessary to develop new products. As a result of the strategy, Prime Service Inc. was acquired in July 1997. Since joining the Group, Prime has expanded vigorously, by growing its previous operations, acquiring companies, and integrating the Atlas Copco compressor rental operations in the United States. The business has already reached its initial goals for growth and profitability, so a new business area, Rental Service, was formed in 1999.

On January 1, 1999, a common currency came into use in the majority of countries in the European Union. A direct consequence will be greater transparency of prices in different markets, which means that eventually it will be impossible to maintain large price differentials in "Euroland." Widespread use of the Internet as a source of information also simplifies price comparisons, which in turn intensifies competition. It is too early to say what commercial significance the euro will have for Atlas Copco, but we are closely following developments.

Another question is if and when the Company should begin using the euro for financial disclosure. The Board did not take a position on this issue in 1998 but intends to present a proposal in 1999.

Financial developments in Asia curbed Atlas Copco's growth in 1998. Despite that, Atlas Copco defended its positions admirably, and we shareholders can be satisfied with the performance of the Company. Atlas Copco's share price appreciation and dividend have averaged roughly 18.8 percent over the past five years. The Board of Directors proposes a dividend of SEK 4.50 per share, 6 percent higher than the preceding year's.

On behalf of the Board, allow me to extend our warmest appreciation to the Company's management and to their colleagues for their efforts during the year. Although the icier business climate has negatively affected demand for the Company's products, Atlas Copco has achieved commendable results. In 1998, the Group demonstrated spirited commitment, the capacity to handle change, and the ability to adapt to increasingly tough times.

Anders Scharp
Chairman of the Board

The Board of Directors' Report on 1998 Operations

SEK m. unless otherwise indicated

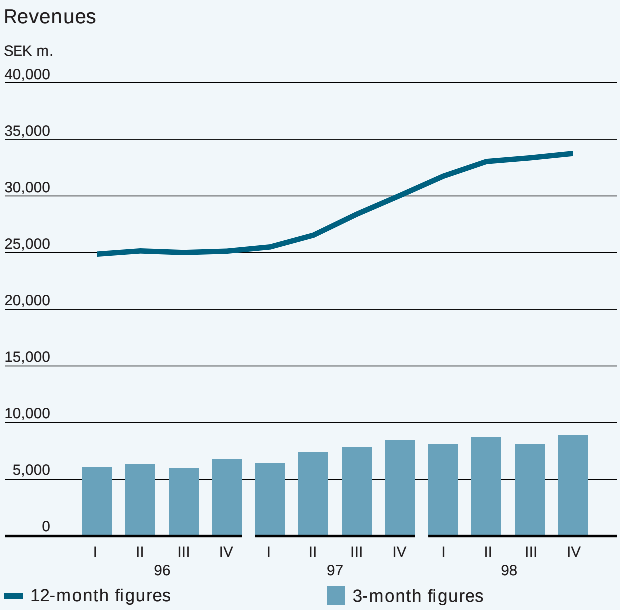
The Atlas Copco Group increased revenues for 1998, to SEK 33,740 m. (30,032), up 12 percent. Markets outside Sweden accounted for 97 percent of revenues. Orders received increased 7 percent, to SEK 32,979 m. (30,685). For comparable units revenues were up 3 percent, while orders received fell 2 percent.

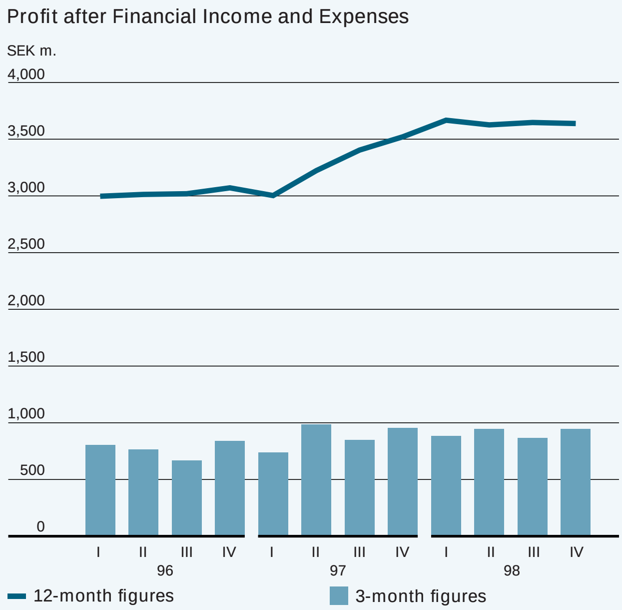
The Atlas Copco Group's profit after financial items increased to SEK 3,637 m. (3,520). The profit margin was 10.8 percent (11.7).

	1998	1997
Orders received	32,979	30,685
Change, %	+7	+22
Revenues	33,740	30,032
Change, %	+12	+20
Profit after financial items	3,637	3,520
Change, %	+3	+15
Net profit for the year	2,283	2,208
Change, %	+3	+14

Dividend The Board of Directors proposes a dividend of SEK 4.50 (4.25) per share.

Market outlook The outlook for Europe is somewhat weaker following the economic slowdown that began towards year-end 1998. Demand in the United States is expected to remain at its present level, mainly owing to continued strong growth in the equipment rental industry. Latin American economies are foreseen to decline sharply as a result of financial instability and low metal prices. In Asian markets, demand is expected to remain low.





Structural changes

Effective January 1, 1999, Rand-Air Ltd, South Africa, was acquired by Atlas Copco. Rand-Air is a compressed air rental company. The company has about 200 employees and annual turnover of roughly SEK 90 m.

Effective November 1998, Atlas Copco acquired JKS Boyles, Canada, a manufacturer of exploration drilling rigs. The company has 79 employees and annual sales of about SEK 115 m. JKS Boyles is part of the Atlas Copco Craelius division.

Effective January 1998, Atlas Copco acquired the industrial compressor business of Ceccato in Italy. The company, which manufactures and markets small and medium-sized industrial compressors, had annual sales of approximately SEK 200 m. in 1997 and employed 125 people. Ceccato is part of the Industrial Air division.

Atlas Copco's tunnel boring machine operations in the Construction and Mining Technique business area have been phased out and sold. Approximately 80 employees were affected. Restructuring costs of SEK 50 m. were charged to 1997 earnings.

Effective July 1, 1997, Atlas Copco acquired Prime Service, Inc., one of the largest equipment rental companies in the United States. At the acquisition date, Prime Service had 2,200 employees and operated 122 equipment rental locations in 14 states. The company reported revenues of some SEK 2,500 m. and operating earnings of SEK 510 m. in 1996. Since the acquisition, Prime Service has acquired eight equipment rental companies in the U.S. and Mexico, with aggregate annual revenues of roughly SEK 900 m.. Effective October 1, 1998, Atlas Copco combined the operations of its U.S. subsidiaries Atlas Copco Rental, Inc., and Prime Service, Inc., to better meet the needs of industrial firms for rental equipment. Prime Service constituted a separate division in the Compressor Technique business area throughout 1998.

Market review

Orders Received

	1998	1997	Change %
Compressor Technique	16,958	14,699	15
Construction and Mining Technique	6,117	6,652	– 8
Industrial Technique	9,904	9,334	6
Atlas Copco Group	32,979	30,685	7
Order backlog, Dec 31	3,854	4,587	–16

Overall, the demand for Atlas Copco's products decreased slightly in 1998, causing sales volumes to decline 2 percent from 1997 for comparable units. The volume effect was offset by an increase in revenues from acquired companies, chiefly from the rental service business in the United States.

Most European economies were healthy in 1998. With higher capacity utilization, industrial customers invested in new machinery. Demand from contractors remained flat, though. The positive trend in sales in European markets, particularly in Germany, France, Italy, and Spain, continued in 1998, with the exception of Great Britain.

The U.S. economy remained at a steady, high level throughout the year. Sales in North America increased during the period, and Atlas Copco now serves a wider range of large and medium-sized customers, including both equipment and rental customers.

A number of Asian economies went into recession, including important markets like Japan and South Korea. The economic and financial situation in Asia and Australia caused sales in the region to drop by about SEK 1,250 m.

In the second half of 1998, turbulence in international financial markets negatively affected sales in other areas, primarily in South America and Russia.

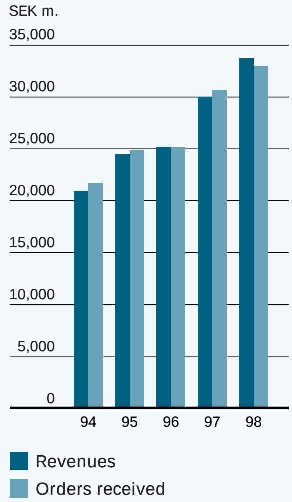
Manufacturing industry

The manufacturing industry, which includes the engineering, process, and automotive industries, accounts for about 55 percent of Atlas Copco Group revenues.

Engineering

Compressors and related products offered by the Group were in demand in many fields, including transportation equipment, machinery and electronics. Sales of small and medium-sized industrial compressors increased in Europe during the year.

Revenues and
Orders Received



Process

Process industry sectors, such as chemical, textiles and food processing, were hurt by the Asian crisis, and sales of large industrial and process compressors decreased in the region. In the latter part of the year, this negative sales trend was also noted in other markets.

Automotive

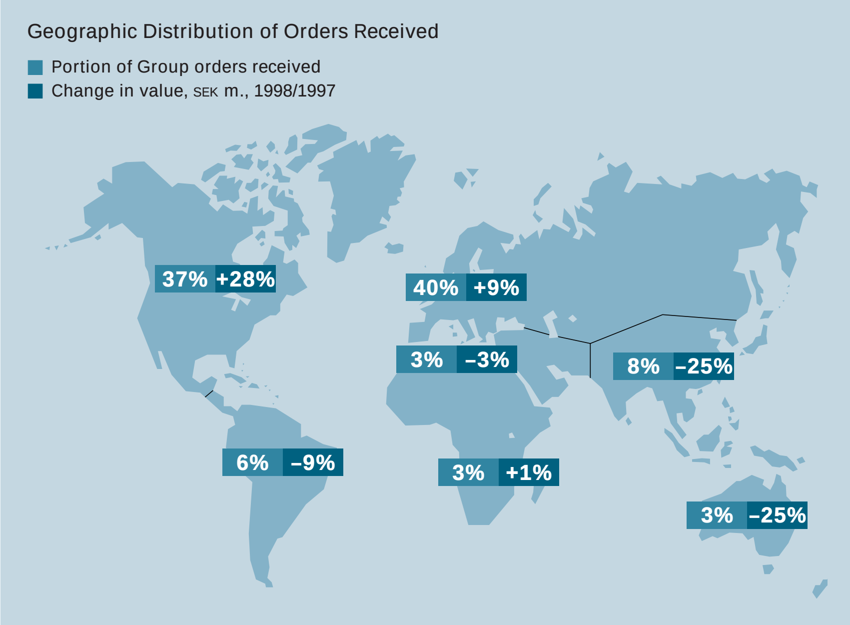
Demand from the motor vehicle industry remained strong during the year, particularly in Europe, which accounts for about one third of the world's automotive production. Sales of industrial power tools and assembly systems expanded in those markets.

Building and construction industry

The building and construction industry represents about 30 percent of Group revenues.

Construction

Activity in the construction market remained weak during the year. Many infrastructure projects, mainly in Asia and Latin America, have been postponed or canceled as a consequence of the financial crises. Europe, which for several years had suffered from decline, finally stabilized. In the U.S., construction activity remained at a healthy level, and Atlas Copco had a positive sales development for surface drill rigs. Also, sales of portable compressors and generators to the equipment rental industry increased.



Building

In the U.S., sales of electric power tools rose, as there was robust demand from professional customers. The market situation in some European countries, was characterized by increased price competition.

Mining industry

The mining industry accounts for about 10 percent of Group revenues.

World demand for nearly all metals declined during the year, and so did metal prices. The Asian crisis had a negative effect on most mining markets.

Still, many large and financially robust mining companies bought new drilling equipment to boost efficiency and cut costs, especially in the first half of the year. That was the case for South African gold and diamond mines, among others. Russia's multi-metal mines have invested in new equipment to be able to sustain exports. In some other traditional mining markets, like Canada, companies modernized their machinery, while the Australian market experienced weaker activity than in the preceding year.

Equipment rental industry

The rental service business serves the construction and the manufacturing industry.

The equipment rental industry continued to grow at a faster pace than the industry sectors that it serves. The main reason in the United States was a continuing trend toward outsourcing, which allows customers to focus on their core operations and still gain access to equipment that offers state-of-the-art performance and reliability. Rentals of light construction equipment and machinery to small and medium-sized contractors have shown relatively low sensitivity to the business cycle.

Through rental service, the Prime Equipment business line offers contractors and industry the opportunity to rent equipment, service and maintenance, mainly for non-residential construction projects of short duration. During the year, Prime reinforced its structure with a second business line – Prime Energy – which serves the needs of industrial customers for compressors and generators.

Prime successfully increased its market coverage in the United States in 1998, for example in Northern California. Prime Energy, which is based on the merger with Atlas Copco Rental Inc., provided possibilities for further growth in the industrial market. Revenues from rental service grew strongly during the year.

Emerging markets

The financial and economic problems in Asia deepened. The Chinese economy expanded more slowly than previously. The present situation has not changed the Group's long-term ambition to have the same presence in the Asian region as it has in Europe and North America. However, short-term adjustments to the cost structure have been made to cope with the lower level of business activity.

Due to the drop in market demand, Atlas Copco's overall sales in the region decreased substantially. However, the Group continues to invest in people and presence and established its own operations in Indonesia and Thailand in 1998. To further develop competencies in Asia, new training programs were launched.

Trends in demand from Eastern European markets varied and were somewhat uncertain because of the partial default of Russia and its long-term impact on neighboring countries.

Financial summary and analysis

Earnings

	1998	1997
Operating profit	4,345	3,813
Margin, %	12.9	12.7
Profit after financial items	3,637	3,520
Margin, %	10.8	11.7
Earnings per share, SEK	12.44	12.03
Return on capital employed, %	17.2	21.1
Return on equity, %	16.1	17.6

Operating profit rose by SEK 532 m. or 14 percent to SEK 4,345 m. (3,813) and the operating profit margin improved to 12.9 percent (12.7). Earnings from the rental service operations of Prime Service, after amortization of related goodwill, accounted for more than half of the rise in operating profit (Prime included for six months in 1997). The rest of the rise in profit was owing to the net effect of higher sales volume, efficiency improvements and some negative price trends.

Depreciation and amortization according to plan in 1998 amounted to SEK 1,876 m. (1,451), of which property and machinery accounted for SEK 780 m. (775), rental equipment for SEK 668 m. (387) and intangible assets amortization for SEK 428 m. (289). The Group applies an amortization period of 40 years for goodwill arising from the acquisitions of the U.S. companies Milwaukee Electric Tool (1995) and Prime Service (1997), which provides the most accurate reflection of the impact of these strategic acquisitions on Atlas Copco Group earnings and, financial position. See also page 29.

Return on capital employed decreased to 17.2 percent (21.1), which reflects the increase in rental fleet and goodwill following the Prime acquisition.

Operating profit for the *Compressor Technique* business area advanced 12 percent to SEK 2,849 m. (2,537), corresponding to an operating margin of 16.4 percent (17.8). The improved operating profit was attributable to Prime Service. The other divisions in the business area all recorded lower margins than in the preceding year. This was primarily due to negative developments in the fourth quarter, resulting from lower absorption in the factories, an unfavorable mix and some negative currency effects. For Prime division revenues increased 29 percent compared to pro forma 1997 and amounted to SEK 4,010 m. The operating profit margin including goodwill amortization was 14.2 percent. Internal growth, excluding acquisitions, accounted for approximately half of the increase.

Operating profit for the *Construction and Mining Technique* business area increased by SEK 111 m. to SEK 498 m. (387), corresponding to a margin of 7.7 percent (6.0). The preceding year's figure included restructuring charges of SEK 50 m. related to the closure of the tunnel boring machine operations. The remaining increase resulted mainly from internal efficiency gains.

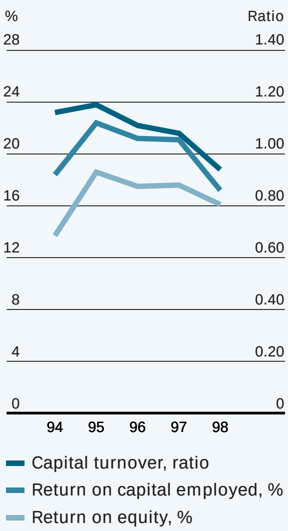
Operating profit for the *Industrial Technique* business area increased 11 percent to SEK 1,046 m. (942) thanks mainly to higher sales volumes. This corresponds to a margin of 10.5 percent (10.1).

The Group's net financial items amounted to SEK –708 m. (–293), of which net interest items accounted for SEK –680 m. (–306). Interest expense expanded mainly because of a higher average borrowing in 1998, owing to the acquisition of Prime and other equipment rental businesses. Net interest from currency hedging for foreign net assets was negative at SEK –6 m., compared to a positive SEK 140 m. in the preceding year. Net capital gains from sales of shares were SEK 4 m. (32).

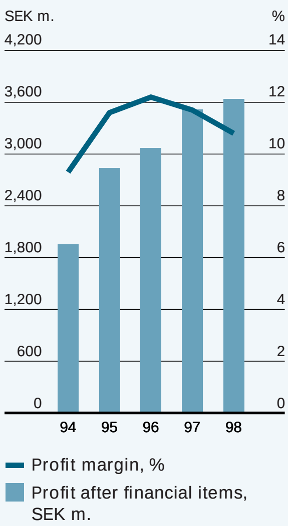
Atlas Copco Group profit after financial items increased by 3 percent to SEK 3,637 m. (3,520), the net effect of stronger operating profit and higher interest costs. The profit margin was 10.8 percent (11.7).

Taxes for the year totaled SEK 1,322 m. (1,280) corresponding to 36.3 percent (36.4) of profit after financial items.

Return and Capital Turnover



Earnings and Profit Margin



Key Figures by Business Area

	Revenues		Operating profit		Return on capital employed		Investments in fixed assets*	
	1998	1997	1998	1997	1998	1997	1998	1997
Compressor Technique	17,343	14,263	2,849	2,537	17	28	300	344
Construction and Mining Technique	6,437	6,453	498	387	15	12	202	207
Industrial Technique	9,960	9,316	1,046	942	14	13	338	279
Corporate items			–48	–53			13	10
Total Group	33,740	30,032	4,345	3,813	17	21	853	840

*excluding rental equipment and acquisitions

Net profit for the year totaled SEK 2,283 m. (2,208). Earnings per share amounted to SEK 12.44 (12.03), up 3 percent.

Balance Sheet

	1998	1997
Net indebtedness	10,052	10,214
Debt/equity ratio, %	65	75
Equity/assets ratio, %	42	39

Balance sheet analysis

The Group's total assets increased during the year to SEK 37,166 m. (34,790), or by 7 percent, of which acquired companies and currency translation accounted for 3 percentage points each. The capital turnover ratio was 0.94 (1.08). The capital turnover ratio reflects the impact of the growing rental service business, which is more capital intensive than the traditional business of the Group.

Investments

Excluding acquisitions, investments in property and machinery totaled SEK 853 m. (840). The distribution of investments was SEK 151 m. (204) in Sweden and SEK 702 m. (636) outside Sweden.

The major investments were related to a new fully automized production line for sawblades for electric tools in Milwaukee's facility in Brookfield, WI., U.S. and to new production equipment in most plants.

Investments in property and machinery during 1998 exceeded depreciation by SEK 73 m. During the year, depreciation on these assets totaled SEK 780 m. (775).

Investments in rental equipment amounted to SEK 1,594 m. (920), a substantial increase, as a result of the strategic direction to grow the rental service business. Total depreciation of rental equipment amounted to SEK 668 m. (387).

Geographic Distribution of Investments in Property and Machinery

	1998	1997
Europe	409	519
North America	337	221
South America	17	19
North Africa/Middle East	8	5
Southern Africa	22	13
India/East Asia	53	47
Oceania	7	16
Total	853	840

Inventories and accounts receivable

The value of inventories as a proportion of revenues declined, to 16.0 percent (17.4). The impact of rental service represents half of the improvement, due to Prime's low level of inventories in relation to revenues.

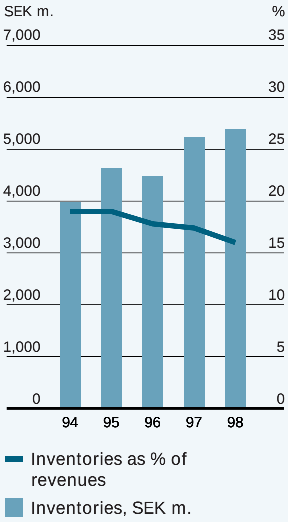
Customer receivables in relation to revenues decreased during the year to 19.8 percent (20.2).

Cash flow and net indebtedness

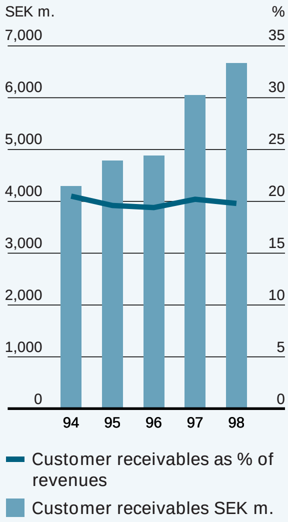
Liquid assets amounted to SEK 2,118 m. (1,613) at year-end 1998, corresponding to 6 percent (5) of revenues.

The operating cash surplus (defined as revenues less non-financial operating expense after the reversal of non-cash items, such as depreciation and amortization) reached SEK 6,510 m. (5,437), corresponding to 19 percent (18) of Group revenues.

Inventories



Customer Receivables



Working capital increased SEK 513 m. (1997: decrease of 267) during the year. Investment in tangible fixed assets jumped, to SEK 2,447 m. (1,760), as a result of greater investment in rental equipment.

Cash flow from operations after financial items totaled SEK 2,149 m. (3,878). The figure for 1997 included large inflows (approximately SEK 800 m.) from divestments of real estate and repatriation of equity in associated companies. Net cash flow for the year, including payments of SEK 873 m. (10,639) for acquisitions and SEK 787 m. (698) for the dividend, equaled SEK 489 m. (–7,459).

The Group's net indebtedness, defined as the difference between interest-bearing liabilities and liquid assets, amounted to SEK 10,052 m. (10,214), of which SEK 1,940 m. (2,016) was related to pension provisions. The debt/equity ratio, defined as net indebtedness divided by shareholders' equity, was 65 percent (75).

Summary Cash Flow Analysis

	1998	1997
Operating cash surplus	6,510	5,437
Change in working capital	–513	267
Investment in tangible fixed assets	–2,447	–1,760
Cash flow from operations before financial items	3,550	3,944
Financial items, including tax payments	–1,401	–66
Cash flow from operations after financial items	2,149	3,878
Company acquisitions/divestments	–873	–10,639
Dividend to shareholders	–787	–698
Net cash flow	489	–7,459

Shareholders' equity

At December 31, 1998, Group shareholders' equity, including minority interests, amounted to SEK 15,465 m. (13,635). Shareholders' equity per share amounted to SEK 84 (74). The equity portion of total assets was 42 percent (39).

Personnel

	1998	1997
Average number of employees, total	23,857	22,296
Sweden	2,633	2,706
Outside Sweden	21,224	19,590
Business areas		
Compressor Technique	11,338	9,235
Construction and Mining Technique	4,572	5,058
Industrial Technique	7,831	7,898
Other	116	105

The average number of employees in the Atlas Copco Group increased in 1998, by 1,561 to 23,857 (22,296). For comparable units the number of employees decreased by 1,100. The proportion of employees in Swedish units was 11 percent (12). See also Note 2. At year-end, the Group had a total of 23,393 employees (23,923).

Option plan

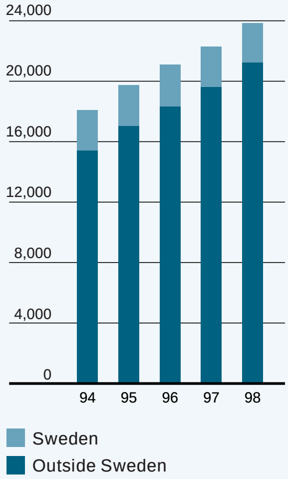
A yearly revolving option plan, including 25–30 executives within the Group, was introduced in 1997, providing the possibility of annual grants of call options on Atlas Copco shares. The options have a term of five years and give the option holder the right to purchase existing shares. Accordingly, the exercise of the options will not result in any dilution of the holdings of current shareholders.

The size of the grant is linked to the Group's ability to add value to the Company for its shareholders. The value of options granted depends on the Group's operating cash flow, less Atlas Copco's cost of capital in relation to a predetermined performance target. See also Note 26.

Based on the Group's performance in 1998, the Board of Directors decided to grant options corresponding to a total amount of SEK 4.8 m. (4.4), excluding social fees.

The Company's cost is not affected by changes in the stock price, as the option plan is financially hedged.

Employees, average



Product development

	1998	1997
R&D costs	945	808
Total in % of revenues	2.8	2.7

More than ever before, the introduction of new products at increasingly shorter intervals represents a critical factor for success in enhancing the competitiveness of the Group's divisions. In 1998, all business areas increased their resources allocated to product development.

During 1998, all Compressor Technique divisions launched improved and new products focusing on adapting to new or changed customer needs and improving efficiency. Important steps were taken both to standardize elements, components and production, and to customize end products to customer needs. For further information, see pages 44–51.

Within Construction and Mining Technique, the most important step forward was the introduction of four new rig types and new rock drills from Atlas Copco Rock Drilling Equipment. Other efforts included Uniroc's launch of a complementary range of high-performance drill bits and Atlas Copco Craelius's new range of in-the hole drilling equipment. For further information, see pages 52–57.

Industrial Technique also further accelerated its research and development activities. Major innovative steps were taken, again with a main focus on customer productivity. For example, Milwaukee and Industrial Tools and Equipment launched new products that largely outperform earlier benchmarks for leading products. For further information, see pages 58–63.

Year 2000 readiness

In March 1996, Atlas Copco initiated a Group-wide survey of computer systems in use. Every site reported on the present status of its systems and its action plans to handle the Year 2000 issue for those systems that were not judged Year 2000 compliant. Year 2000 follow-up is on the agenda of the Business Board at each division and site, and status reports are mandatory items at Board Meetings. All costs for modifications to comply with Year 2000 are taken as operational costs.

Group Management believes that, based on the group-wide survey and the actions taken and in progress, the remaining costs to the Group to become Year 2000 compliant will not have a material effect on the Group's financial position or the results of operations. Management further believes that, with modifications to existing software and conversions to new systems, the Year 2000 issue will not pose significant problems for the Group's computer systems. However, the operations of Atlas Copco's computer systems are vulnerable to third parties', principally suppliers', possible failure to remedy their own Year 2000 issues. To the extent that the systems provided by third parties and relied on by Atlas Copco's systems may not be converted in time, there can be no assurance that such third party's non-compliance would not have a material effect upon the Group's systems. For further information, see page 67.

Parent Company

Earnings

Earnings from participations in subsidiaries amounted to SEK 1,275 m. (1,084), and from associated companies to SEK 81 m. (445). Profit after financial items totaled SEK 1,428 m. (1,630).

The Parent Company reported a net profit after appropriations and taxes of SEK 1,045 m. (1,296). Hence, undistributed earnings totaled SEK 3,807 m. (3,542).

Balance sheet

The total assets of the Parent Company increased SEK 888 m., to SEK 19,570 m. At year-end 1998, cash, bank deposits, and short-term investments amounted to SEK 525 m. (107).

The Parent Company's debt/equity ratio, defined as net indebtedness in relation to shareholders' equity, was 53 percent (63). The equity portion of total assets amounted to 38 percent (38).

Personnel

The average number of employees in the Parent Company was 64 (61).

The fees and other remuneration paid to the Board of Directors, the President, and other members of Group management are specified in Note 2.

Distribution of shares

Atlas Copco's share capital at year-end 1998 amounted to SEK 918 m.

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

Each share has a par value of SEK 5. For further information, see page 68.

Dividend

The Atlas Copco Group's non-restricted shareholders' equity amounts to SEK 9,154 m. Of the retained earnings, SEK 29 m. will be transferred to restricted reserves.

The Board of Directors proposes a dividend of SEK 4.50 (4.25) per share, corresponding to a total of SEK 826 m. (780), as set forth on page 36.

Consolidated Income Statement

Amounts in SEK m.		1998	1997
Revenues	Note 1	33,740	30,032
Cost of goods sold		–22,045	–19,624
Gross profit		11,695	10,408
Cost of marketing, administration, research and development	Note 3	–7,250	–6,510
Goodwill amortization	Note 4	–415	–279
Other income and expenses from operations	Note 5	315	194
Operating profit		4,345	3,813
Financial income and expenses	Note 6	–708	–293
Profit after financial items		3,637	3,520
Taxes	Note 8	–1,322	–1,280
Minority interest	Note 9	–32	–32
Profit for the year		2,283	2,208
Earnings per share, SEK	Note 10	12.44	12.03

Consolidated Balance Sheet

Amounts in SEK m.			Dec. 31, 1998		Dec. 31, 1997	
Assets						
Fixed assets	Intangible assets	Note 11	11,311		11,051	
	Tangible assets	Note 12	9,739		8,811	
	Financial assets	Note 13	958	22,008	983	20,845
Current assets	Inventories	Note 15	5,383		5,231	
	Current receivables	Note 16	7,657		7,101	
	Investments	Note 17	401		223	
	Cash and bank	Note 17	1,717	15,158	1,390	13,945
Total assets				37,166		34,790
Shareholders' equity and liabilities						
Shareholders' equity	**Restricted equity**	Note 18				
	Share capital		918		918	
	Restricted reserves		5,195		4,854	
	Non-restricted equity	Note 18				
	Retained earnings		6,871		5,473	
	Profit for the year		2,283	15,267	2,208	13,453
Minority interest		Note 9		198		182
Provisions	**Interest-bearing provisions**					
	Pensions and similar commitments	Note 20	1,940		2,016	
	Non-interest-bearing provisions					
	Deferred taxes		2,083		1,637	
	Other provision	Note 21	739	4,762	699	4,352
Long-term liabilities	**Interest-bearing liabilities**					
	Liabilities to credit institutions	Note 22	5,308		2,201	
	Non-interest-bearing liabilities					
	Other liabilities		289	5,597	326	2,527
Current liabilities	**Interest-bearing liabilities**					
	Liabilities to credit institutions	Note 23	4,922		7,610	
	Non-interest-bearing liabilities					
	Operating liabilities	Note 24	6,420	11,342	6,666	14,276
Total shareholders' equity and liabilities				37,166		34,790
Assets pledged		Note 25		236		202
Contingent liabilities		Note 25		1,511		1,374

Cash Flow Analysis

Amounts in SEK m.	Group 1998	Group 1997	Atlas Copco AB 1998	Atlas Copco AB 1997
Revenues	33,740	30,032		
Operating expense	–29,106	–26,046	–91	–37
Reversal of depreciation and amortization	1,876	1,451	4	7
Operating cash surplus	6,510	5,437	–87	–30
Change in				
Inventories	73	–225	–	–
Operating receivables	–173	–531	–38	12
Operating liabilities	–413	1,023	–183	625
Change in working capital	–513	267	–221	637
Investments in				
Property and machinery	–853	–840	–8	–6
Rental equipment	–1,594	–920	–	–
Cash flow from operations before financial items	3,550	3,944	–316	601
Net financial income/expense	–718	–318	1,423	1,304
Dividends from associated companies	83	510	81	506
Sale of property and machinery	399	600	–	97
Tax payments	–965	–1,041	–199	–162
Other items, net	–200	183	145	102
Cash flow from operations after financial items	2,149	3,878	1,134	2,448
Company acquisitions/divestments	–873	–10,639	227	345
Cash flow before dividend	1,276	–6,761	1,361	2,793
Dividend to shareholders	–787	–698	–780	–688
Net cash flow	489	–7,459	581	2,105

Notes to Atlas Copco Group Cash Flow Analysis

SEK m. unless otherwise noted

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 cash surplus (defined as revenues less non-financial operating expense after the reversal of non-cash items, such as depreciation and amortization) increased 20 percent from 5,437 to 6,510, corresponding to 19 percent (18) of Group revenues.

The improvement is primarily due to increased operating profit and to the acquisition of Prime Service with amortization as a major cost item, which is reversed for cash flow purposes.

Cash flow from operations before financial items

Working capital (operating receivables and inventories less operating liabilities) increased by 513 (1997: decrease of 267).

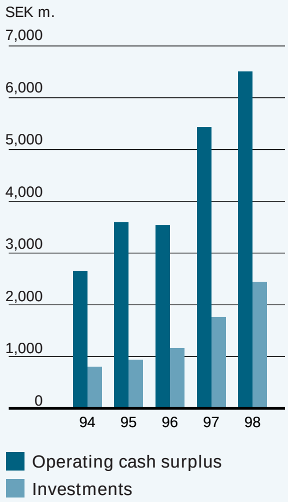
Investments in rental equipment increased to 1,594 (920) as a result of greater investments in the Prime Service division. Investments in property and machinery rose slightly, from 840 to 853.

Owing to substantial capital expenditure in rental equipment, cash flow from operations before financial items decreased 10 percent to 3,550 (3,944).

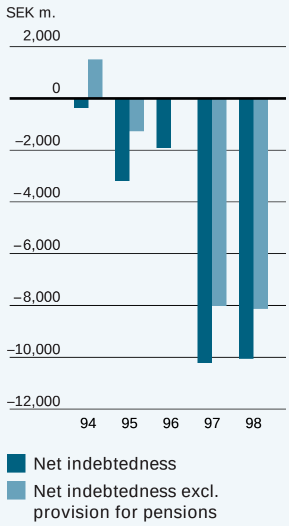
Cash flow from operations after financial items

Weaker financial net, chiefly a consequence of the Prime Service acquisition (Prime Service included for six months for 1997) and less inflows from divestments of real estate and repatriation of equity in associated companies resulted in a net cash flow from operations after financial items of 2,149 (3,878).

Cash Flow and Investments



Net Indebtedness



Net cash flow

After acquisitions of 873 (preceding year 10,639 of which Prime Service accounted for approximately 9,000) and the dividend to shareholders, net cash flow totaled 489 (–7,459).

Net Indebtedness

	1994	1995	1996	1997	1998
Net indebtedness, Jan. 1	–1,779	–351	–3,166	–1,899	–10,214
Net cash flow	1,291	–3,143	1,322	–7,459	489
Currency exchange-rate effects	137	328	–55	–856	–327
Net from operations	1,428	–2,815	1,267	–8,315	162
Net indebtedness, Dec. 31	–351	–3,166	–1,899	–10,214	–10,052
Provision for pensions	1,840	1,910	1,924	2,016	1,940
Net indebtedness, excluding Provision for pensions, Dec. 31	1,489	–1,256	25	–8,198	–8,112

Five-Year Summary of Cash Flow Analysis 1994–1998

Operating cash surplus	21,734
Change in working capital	–676
Investments in tangible fixed assets	–7,105
Cash flow from operations before financial items	13,953
Net financial income/expense	–840
Dividends from associated companies	623
Sale of property and machinery	1,362
Tax payments	–4,469
Other items, net	224
Cash flow from operations after financial items	10,853
Company acquisitions/divestments	–15,536
Cash flow before dividend	–4,683
Dividend to shareholders	–2,817
Net cash flow	–7,500

Income Statement and Balance Sheet

Income statement

Amounts in SEK m.		1998	1997
Administrative costs		–163	–129
Other income and expenses from operations	Note 5	72	141
Operating profit		–91	12
Financial income and expenses	Note 6	1,519	1,618
Profit after financial items		1,428	1,630
Appropriations	Note 7	–184	–172
Profit before taxes		1,244	1,458
Taxes	Note 8	–199	–162
Profit for the year		1,045	1,296

Balance sheet

Amounts in SEK m.			Dec. 31, 1998		Dec. 31, 1997	
Assets						
Fixed assets	Tangible assets	Note 12	21		17	
	Financial assets	Note 13	9,956	9,977	9,366	9,383
Current assets	Current receivables	Note 16	9,068		9,192	
	Investments	Note 17	162		30	
	Cash and bank	Note 17	363	9,593	77	9,299
Total assets				19,570		18,682
Shareholders' equity and liabilities						
Restricted equity	Share capital	Note 18	918		918	
	Restricted reserves		1,737		1,737	
Non-restricted equity	Retained earnings	Note 18	2,762		2,246	
	Profit for the year		1,045	6,462	1,296	6,197
Untaxed reserves		Note 19		1,398		1,214
Provisions	Pensions and similar commitments	Note 20	270		423	
	Other provisions	Note 21	2	272	8	431
Long-term liabilities	Interest-bearing liabilities	Note 22		5,364		2,272
Current liabilities	Interest-bearing liabilities	Note 23	5,521		7,838	
	Operating liabilities	Note 24	553	6,074	730	8,568
Total shareholders' equity and liabilities				19,570		18,682
Assets pledged				–		–
Contingent liabilities		Note 25		579		529

Notes to the Financial Statements

SEK m. unless otherwise noted

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 for multinational companies and labor issues, which have been prepared by the United Nations' International Labor Organization (ILO). In conformity with international standards, certain designations have been used in this Annual Report. For example, SEK designates Swedish kronor. For other currency designations, see page 33. The suffix m. denotes millions.

Consolidation

The Consolidated Income Statement and Balance Sheet of the Atlas Copco Group include 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.

The consolidated accounts have been prepared in accordance with the purchase method, which means that assets and liabilities are reported at market value including deferred taxes 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 provision, 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. 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 as tax expenses/income 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 10 years, while goodwill arising from strategic acquisitions is amortized over a period of 20–40 years. For disclosure of goodwill regarding the acquisitions of Milwaukee Electric Tool Corporation and Prime Service, see page 29.

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

Associated companies

Companies in which the Atlas Copco Group controls 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 Other operating income. Atlas Copco's portion of taxes in associated companies is reported in the consolidated tax expense.

The related acquisition costs are reported under Financial assets in the Balance Sheet, increased or reduced by shares of income, 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 standards 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 and those referred to as integrated companies. The accounts of such subsidiaries are translated according to the monetary/non-monetary method. In accordance with this standard, 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 transferred directly to shareholders' equity.

For those subsidiaries consolidated based on 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 from 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 one respect, FAR's standards require that the user choose translation procedures based on each 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 companies in high-inflation countries, primarily Latin America. The operational currency of these companies is 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 using the year-end rate and the income statement items are translated at the average rate for the year. The resulting translation differences are transferred directly to shareholders' equity.

Inventories

Inventories are valued at the lower of cost or market, in accordance with the FIFO 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. Transfer pricing between the companies is based on market prices.

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. If the swapped loan, translated at the year-end rate for the original currency, exceeds the booked liability, the difference is included in contingent liabilities.

Exchange rates for major currencies used in the year-end accounts are shown on page 33.

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 the lower of cost or market.

Hedging of net investments

Forward contracts, currency swaps, and loans in foreign currencies have been entered into 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 lower of cost or market for receivables. Premium and discounts are amortized straight-line over the life of the contracts and reported in the interest income and expense.

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 that exceed unrealized losses are not recognized as revenue. Calculations of unrealized exchange-rate differences exclude that portion of the hedged amounts for which operational transactions in foreign currencies, are most likely to cover the forward contracts.

Research and development costs

Research and development costs are expensed as incurred.

Product development costs and warranty costs

Product development costs are charged against operating income 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 applied in each individual company in 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. Untaxed reserves and appropriations are eliminated on consolidation.

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:

	Years
Goodwill and other intangible assets	5–40
Buildings	25–50
Machinery, technical plant and equipment	3–10
Vehicles	4–5
Computer equipment	3–4
Rental equipment	3–10

Leasing

Leases are classified in the consolidated financial statement as either finance leases or operating leases. A finance lease entails the transfer to the lessee, to a material extent, of the economic risks and benefits connected to ownership. If this is not the case, the lease is an operating lease. Finance leasing implies that the fixed asset in question is reported as an asset in the balance sheet and that a corresponding liability is entered on the liabilities side. In the income statement, the costs of finance leases are divided into depreciation and interest expense. An operating lease implies that there are no asset or liability entries to report in the Balance Sheet. In the Income Statement, the costs of operating leases are distributed over a number of years based on use, which can differ from the actual amount of leasing fees paid in any particular year.

The Parent Company reports all leases based on the principles for operating leases.

Taxes

The Atlas Copco Group 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 1998 operations is shown under the entry Taxes in the Income Statement and is specified in Note 8 and under Financial assets, Note 13, and Non-interest-bearing provisions in the Balance Sheet.

Notes

1 Revenues by business area and market

Revenues by business area

	Group 1998	Group 1997
Compressor Technique	17,343	14,263
Construction and Mining Technique	6,437	6,453
Industrial Technique	9,960	9,316
	33,740	30,032

Revenues by market

	Group 1998	Group 1997
Europe incl CIS	13,525	11,799
of which Sweden	*1,061*	*1,015*
of which EU	*11,340*	*10,084*
North America	12,376	9,787
South America	1,919	1,964
North Africa/Middle East	912	900
Southern Africa	952	933
India/East Asia	2,910	3,410
Oceania	1,146	1,239
	33,740	30,032

Group operating profit by business area is reported in the Board of Directors' Report and in the sections for each business area. Revenues and operating profit per quarter are shown on page 72.

2 Employees and personnel expenses

Average number of employees

	Women	Men	1998 Total	1997 Total
Parent Company				
Sweden	33	31	64	61
Subsidiaries				
Europe incl CIS	1,783	9,167	10,950	10,496
of which Sweden	*352*	*2,217*	*2,569*	*2,645*
of which EU	*1,675*	*8,682*	*10,357*	*9,956*
North America	1,530	5,703	7,233	5,811
South America	127	798	925	944
North Africa/Middle East	59	155	214	205
Southern Africa	108	600	708	775
India/East Asia	373	2,861	3,234	3,423
Oceania	96	433	529	581
Total in subsidiaries	4,076	19,717	23,793	22,235
Grand total	4,109	19,748	23,857	22,296

Salaries and other remuneration

	1998 Board & President	1998 Other employees	1997 Board & President	1997 Other employees
Parent Company				
Sweden	15	29	17	25
(of which bonuses)	(3)		(4)	
Subsidiaries				
Europe incl CIS	103	3,322	87	3,072
of which Sweden	*9*	*722*	*9*	*692*
of which EU	*85*	*3,148*	*72*	*2,919*
North America	30	2,377	32	1,808
South America	14	196	13	187
North Africa/Middle East	3	36	3	29
Southern Africa	3	77	4	81
India/East Asia	10	230	9	497
Oceania	3	145	3	164
Total in subsidiaries	166	6,383	151	5,838
(of which bonuses)	(19)		(17)	
Grand total	181	6,412	168	5,863

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Salaries and other remuneration	6,593	6,031	44	42
Contractual pension benefits for Board members and Presidents	15	16	1	1
Contractual pension benefits for other employees	392	365	7	12
Other social costs	1,563	1,391	15	15
Total	8,563	7,803	67	70
Capitalized pension obligations to Board members and Presidents	50	60	24	29

Remuneration and other fees for certain members of the Board, the President and CEO, other members of the Group management, and Auditors

In 1998, the Chairman of the Board received SEK 1,000,000, the Vice Chairman SEK 312,500, and other Board members not employed by the Company each received SEK 256,250 in board fees.

In addition, the Vice Chairman received a 10-year pension effective from the age of 65. Board member Paul-Emmanuel Janssen received fees from Group companies of BEF 930,000. Board member Hari Shankar Singhania received fees from Group companies in the amount of INR 379,992.

The President and Chief Executive Officer, Giulio Mazzalupi, received a salary of SEK 4,567,480 plus a bonus of SEK 1,510,133. In addition, he has a pension commitment from the Company calculated to equal the difference between the pension rights he has earned during his long-term service abroad and 47 percent of his base salary, if he continues in his present position until the age of 65.

Pension commitments for two of the Business Area Executives are primarily “defined contribution” in nature. Contributions are age-related, the highest level currently being 22 percent of pensionable salary. The commitment for the other Business Area Executive is calculated to provide a total pension from all sources amounting to 70 percent of pensionable salary after 40 years of employment.

Regarding termination of the President and Chief Executive Officer and the Business Area Executives, severance is not paid if notice is given by the employee. If the Company terminates the employment prior to retirement, the maximum Company commitment is to pay two years’ final base salary.

Compensation for the fiscal 1998 audit as required by law is estimated at SEK 15,3 m. for the Atlas Copco Group and SEK 1,4 m. for the Parent Company.

Activities of the Board of Directors of Atlas Copco AB during the year 1998

The Board of Directors of the Company had 10 members, one of which is the President and Chief Executive Officer, elected by the Annual General Meeting and three members, with three personal deputies, appointed by the unions.

During 1998, there were eight meetings, of which two were held outside Sweden and one was a per capsulam meeting. Each meeting was governed by an approved agenda that reflected a procedure intended to ensure that all matters raised are supported by such sufficient and relevant information as is required to form a basis for a decision. The agenda also covered the follow-up on major investments made. To ensure an efficient process at each meeting, the Board members received a package of written documentation prior to the meeting covering the issues that would be brought up. Members of the Group management were regularly present at the Board meetings. In between Board meetings, there were regular contacts between the Chairman and the President. Each Board member received a written update from the President on major events in those months when there was no Board meeting.

To ensure that decisions on major matters are never unduly delayed, the Board appointed smaller committees among its members that were given well-defined authority to take decisions on behalf of the Board regarding each such matter. Each decision taken by such a committee was reported back to the Board and recorded in the minutes of the meeting. A corresponding procedure was employed by the Board also for properly following up on other issues during the year.

During the year, the Company’s external auditors reported in person their observations from the annual audit and presented their views on the internal control in the Group. Independent experts on the equipment rental industry in the U.S. made a presentation to the Board at its visit to Prime Service Inc., Houston, Texas. In October 1998, the Board adopted the Rules of Procedure and Written Instructions, reflecting changes in the Swedish Companies Act, that will apply from January 1, 1999.

3 Cost of marketing, administration, research, and development

	Group	
	1998	1997
Marketing costs	3,865	3,563
Administrative costs	2,440	2,139
Research and development expenditure	945	808
	7,250	6,510

The above costs include taxes in Sweden amounting to 20 (20), based on pension liabilities and pension payments in the form of taxes on pension savings and payroll tax, respectively.

4 Depreciation according to plan

	Group		Parent Company	
	1998	1997	1998	1997
Goodwill	415	279	–	–
Patents etc.	13	10	–	–
Buildings and land	109	179	1	2
Machinery and other technical plant	453	418	–	–
Equipment etc.	218	178	3	5
Rental equipment	668	387	–	–
	1,876	1,451	4	7

5 Other income and expenses from operations

	Group		Parent Company	
	1998	1997	1998	1997
Non-recurring items	–	–50	–	–
Other operating income	367	272	73	142
Other operating expenses	–52	–28	–1	–1
	315	194	72	141

Non-recurring items in 1997 refer to the costs of winding down Atlas Copco's tunnel boring machine (TBM) business, conducted in the Atlas Copco Robbins division, which resulted in a charge of 50 to operating profit.

Other operating income includes commissions received of 39 (55), capital gains of 190 (28) on the sale of fixed assets, rental income of 6 (41), surplus due to repatriation of pension debt 18 (–), and profits from insurance activities. Previous year's figure includes exchange-rate gains attributable to operations. Other operating income for the Parent Company includes commissions received totaling 61 (90), capital gains of – (49) on the divestment of real estate and surplus due to repatriation of pension debt 10 (–).

Other operating expenses refer to operating exchange-rate losses attributable to operations for 1998 and other costs such as those attributable to the rental of real estate.

6 Financial income and expense

	Group		Parent Company	
	1998	1997	1998	1997
Profit from shares in Group companies				
Dividends received			455	425
Group contributions			809	821
Capital gain/loss on divestment of shares			11	–162
			1,275	1,084
Profit from shares and participations in associated companies				
Dividends			81	506
Write-downs			–	–61
			81	445
Profit from financial fixed assets				
Dividends received	1	2	–	1
Interest income				
Group companies			237	226
Others	5	7	–	1
Capital gains	7	32	7	32
Write-downs	–3	–	–3	–
	10	41	241	260
Other interest income				
Interest income				
Group companies			651	300
Others	210	310	81	169
	210	310	732	469
Interest expenses and similar expenses				
Interest expense				
Group companies			–94	–193
Others	–895	–623	–715	–431
Foreign exchange differences	–33	–21	–1	–16
	–928	–644	–810	–640
Financial income and expenses	–708	–293	1,519	1,618

The interest portion of 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 4.9 percent (3.7). The interest portion for 1998 amounted to 99 (92), of which Swedish companies accounted for 39 (31). In the Parent Company, the corresponding amount was 20 (16).

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 was negative, at –6 compared to a positive 140 in the preceding year.

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.

7 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	
	1998	1997
Difference between book depreciation and depreciation according to plan		
Buildings and land	–	7
Equipment etc.	–	3
Appropriation to tax allocation reserve	–177	–144
Appropriation to foreign exchange reserve	–64	–95
Dissolution of tax equalization reserve	57	57
	–184	–172

8 Taxes

	Group		Parent Company	
	1998	1997	1998	1997
Taxes paid				
Swedish taxes	213	167	196	161
Foreign taxes	752	874	3	1
Deferred taxes	356	235		
Taxes in associated companies	1	4		
	1,322	1,280	199	162

The tax expense for the year totaled 1,322 (1,280), equal to 36.3 percent (36.4) of profit after financial items. Changes in tax rates used to calculate deferred tax had a positive impact of 5 (5) on tax expense for the year.

The Group's total tax expense is affected compared to Swedish corporate tax rate by its strong position in countries with higher tax rates, including Belgium, France, and the U.S.

Non-deductible goodwill also has an adverse effect on the tax ratio. Adjusted for such goodwill, the Group's tax rate was 32.6 percent (33.7).

The Swedish corporate tax rate is 28 percent. The tax is estimated on the basis of the nominal net profit reported, plus non-deductible expenses and less tax-free income and other deductions. For the Parent Company, this primarily involves tax-free dividends from shareholdings in subsidiaries and associated companies.

In Sweden, companies can make provisions to a tax allocation reserve. Appropriations to such reserves were 189 (149), of which the Parent Company was 177 (144). If the Parent Company reported deferred tax on untaxed reserves and other appropriations, as the Group does, deferred tax would have amounted to 52 (48) for the year.

Capital-based tax equalization reserves (K-Surv) in the Group's Swedish companies amounted to 120 (181). Existing reserves must be reversed by the end of the year 2000.

9 Minority interest in subsidiaries' equity and earnings

Minority interest in profit after financial items amounted to 45 (47).

The income statement reports minority shares in the Group's profit after tax of 32 (32). These minority interests relate primarily to Atlas Copco India, Atlas Copco Malaysia, subsidiaries in China, and subsidiaries of Chicago Pneumatic.

	Group
Minority interest, Jan. 1	182
Minority sold	–2
Dividends	–7
Translation differences	–7
Profit for the year	32
Minority interest, Dec. 31	198

10 Earnings per share

	1998	1997
Profit for the year	2,283	2,208
Average number of shares	183,515,920	183,515,920
Earnings per share, SEK	12.44	12.03

11 Intangible assets

	Goodwill	Patents etc.	Total
Accumulated cost			
Opening balance, Jan. 1	12,105	96	12,201
Investments	401	13	414
Acquisition of subsidiaries		2	2
Divestment and retirement	–40	–3	–43
Translation differences for the year	304	7	311
Closing balance, Dec. 31	12,770	115	12,885
Accumulated amortization			
Opening balance, Jan. 1	1,088	62	1,150
Amortization for the year	415	13	428
Divestment and retirement	–40	–2	–42
Translation differences for the year	34	4	38
Closing balance, Dec. 31	1,497	77	1,574
Planned residual value, Dec. 31	11,273	38	11,311
Planned residual value, Jan. 1	11,017	34	11,051

Goodwill is normally amortized over 10 years, while goodwill arising from strategic acquisitions is amortized over 20–40 years. Book values are examined each year to determine whether a write-down exceeding the planned amortization is necessary. The Company has performed such write-downs in several cases.

Amortization in 1998 was distributed as follows:

	1998
Goodwill amortization over 40 years	261
Goodwill amortization over 20 years	93
Goodwill amortization within 10 years	61
	415

Amortization in 1998 and planned residual value by business area:

	Amortization	Planned residual value
Compressor Technique	231	7,380
Construction and Mining Technique	14	155
Industrial Technique	169	3,736
Corporate items	1	2
	415	11,273

Note 11 continued	Accumulated cost	Accumulated amortization	Planned residual value	No of years remaining
Goodwill amortized over 40 years:				
Milwaukee Electric Tool Corp.	3,556	304	3,252	37
Prime Service, Inc.	7,314	261	7,053	39
	10,870	565	10,305	
Goodwill amortized over 20 years:				
Desoutter Ltd	730	353	377	12
Atlas Copco Wagner Inc.	357	214	143	11
Chicago Pneumatic Tool Company	197	137	60	9
Atlas Copco Crépelle S.A.	141	12	129	19
	1,425	716	709	
Goodwill amortized within 10 years:				
Compresseurs Worthington-Creyssensac S.A.	91	47	44	5
Atlas Copco Socapel S.A.	75	28	47	7
Atlas Copco Rotoflow Inc.	73	63	10	2
Ceccato Aria Compressa S.p.A.	76	7	69	9
Others	160	71	89	
	475	216	259	
Total	12,770	1,497	11,273	

12 Tangible assets

Group	Buildings and land	Machinery and equipment	Rental equipment	New construction and advances	Total
Accumulated cost					
Opening balance, Jan. 1	2,866	6,311	5,165	231	14,573
Investments	184	667	1,594	2	2,447
Acquisition of subsidiaries	45	27	260		332
Sale of subsidiaries	–5	–13	–15		–33
Divestment and retirement	–263	–316	–652		–1,231
Reclassified items	–4	6	–11		–9
Translation differences for the year	160	279	137	3	579
Closing balance, Dec. 31	2,983	6,961	6,478	236	16,658
Accumulated depreciation according to plan					
Opening balance, Jan. 1	922	3,911	929		5,762
Depreciation for the year	109	671	668		1,448
Sale of subsidiaries	–2	–11			–13
Divestment and retirement	–103	–267	–171		–541
Reclassified items	–5	2	–6		–9
Translation differences for the year	55	197	20		272
Closing balance, Dec. 31	976	4,503	1,440		6,919
Planned residual value, Dec. 31	2,007	2,458	5,038	236	9,739
Planned residual value, Jan. 1	1,944	2,400	4,236	231	8,811
Assets owned under finance leases					
Purchase cost		19			19
Accumulated depreciation		11			11
Planned residual value, Dec. 31	–	8	–		8
Planned residual value, Jan. 1	3	10	18		31

Note 12 continued	Group		Parent Company	
	1998	1997	1998	1997
Buildings and land	2,007	1,944	15	12
Machinery and other technical plant	1,908	1,857	–	–
Equipment etc.	550	543	6	5
Rental equipment	5,038	4,236	–	–
Construction in progress and advances	236	231	–	–
	9,739	8,811	21	17
Tax assessment value, buildings and land	191	170	14	13

The tax assessment values reported for the Group pertain exclusively to buildings and land in Sweden. The book value of these is 212 (153).

Current and long-term liabilities include future payments for finance leases, Note 22.

The estimated cost of assets owned through operating leases, such as rented premises, machinery, and major computer and office equipment, is 1,743 (1,407) for the Group. The leasing costs for this equipment are reported among operating expenses and amounted to 186 (74). Future payments for non-cancelable leasing contracts amounted to 892 (701). Future payments for non-cancelable leasing contracts come due as follows:

1999	174
2000–2003	455
2004 or later	263
Total	892

Parent Company	Buildings and land	Equip-ment etc.	Total
Accumulated cost			
Opening balance, Jan. 1	15	20	35
Investments	4	4	8
Closing balance, Dec. 31	19	24	43
Accumulated depreciation according to plan			
Opening balance, Jan. 1	3	15	18
Depreciation for the year	1	3	4
Closing balance, Dec. 31	4	18	22
Planned residual value, Dec. 31	15	6	21
Planned residual value, Jan. 1	12	5	17

13 Financial assets

		Group		Parent Company	
		1998	1997	1998	1997
Shares in Group companies	Page 30			3,431	3,640
Receivables from Group companies				6,414	5,662
Shares and partici-pations in associ-ated companies	Note 14	99	177	11	11
Other long-term securities		11	13	4	7
Deferred tax receivables		658	644		
Other long-term receivables		190	149	96	46
		958	983	9,956	9,366

Shares in Group companies

	Parent Company
Accumulated cost	
Opening balance, Jan. 1	3,452
Capital redemption	–209
Closing balance, Dec. 31	3,243
Accumulated write-ups	
Opening and closing balances	764
Accumulated write-downs	
Opening and closing balances	–576
Book value, Dec. 31	3,431

14 Shares and participations in associated companies

	Number of shares	Percentage of capital	Adjusted equity	Book value
Direct owned				
AVC Intressenter AB, 55 65 06-8789, Gothenburg, Sweden	6,750,250	50	29	11
Indirect owned				
Atlas Copco-CLLS Tools Co Ltd, Hong Kong, China		30	4	
Atlas Copco-Diethelm Ltd, Bangkok, Thailand		49	23	
Dalian Atlas Copco Application Co Ltd, Dalian, China		38	0	
NEAC Compressor Service USA Inc., Franklin		50	0	
Pneumatic Equipment Corp, Makati City, Philippines		30	0	
Shenzhen Nectar Engineering & Equipment Co Ltd, Shenzhen, China		25	0	
Toku-Hanbai KK, Fukuoka, Japan		50	43	
			99	

	Group	Parent Company
Accumulated capital participations/ purchase cost		
Opening balance, Jan. 1	177	72
Sales	–3	
Dividends	–83	
Profit for the year	7	
Translation differences for the year	1	
Closing balance, Dec. 31	99	72
Accumulated write-downs		
Opening and closing balances		–61
Book value, Dec. 31	99	11

Income from associated companies are of insufficient size to justify being reported separately. Dividends from associated companies totaled 83 (510). The Group's share in the shareholders' equity and untaxed reserves of associated companies, less deferred tax, equaled 99 (177) at fiscal year-end. The Parent Company's write-down on shares in associated companies refers to AVC Intressenter AB.

15 Inventories

	Group 1998	1997
Raw materials	186	175
Work in progress	822	956
Semi-finished goods	1,429	1,356
Finished goods	2,930	2,723
Advances to suppliers	16	21
	5,383	5,231

16 Current receivables

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Trade receivables	6,665	6,053	4	1
Receivable from Group companies			8,978	9,089
Tax receivables	141	257	39	51
Other receivables	472	454	20	24
Prepaid expenses and accrued income	379	337	27	27
	7,657	7,101	9,068	9,192

Prepaid expenses and accrued income contain the conventional items, such as rent, insurance premiums, and commissions.

17 Short-term investments, cash, and bank accounts

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Short-term investments				
Treasury bills	84	27	84	–
Government bonds	239	166	–	–
Commercial papers	78	30	78	30
	401	223	162	30
Cash and bank accounts	1,717	1,390	363	77
Total	2,118	1,613	525	107

The Parent Company's guaranteed, but unutilized, credit lines equaled 12,122. Subsidiaries had been granted but had not utilized overdraft facilities equaling 4,800.

18 Shareholders' equity

Group	Share capital	Restricted reserves	Retained earnings
Opening balance, Jan. 1	918	4,854	7,681
Dividend to shareholders			–780
Statute-barred dividend			0
Transfers between restricted equity and retained earnings		341	–341
Equity hedging			76
Translation differences for the year			235
Profit for the year			2,283
Closing balance, Dec. 31	918	5,195	9,154

Parent Company	Share capital	Legal reserve	Retained earnings
Opening balance, Jan. 1	918	1,737	3,542
Dividend to shareholders			–780
Statute-barred dividend			0
Profit for the year			1,045
Closing balance, Dec. 31	918	1,737	3,807

Group shareholders' equity has been affected by translation differences arising from the application of the current method. By hedging the net assets of certain subsidiaries, negative translation differences have been reduced by 76.

The Atlas Copco Group's retained earnings are defined as follows: Parent Company's retained earnings plus the Group's share in each subsidiary's retained earnings, to the extent that they can be distributed without writing down the shares in the subsidiary.

This amount has been reduced by deducting the Group's share in the accumulated losses and other reductions of capital in subsidiaries to the extent that these amounts have not affected share values in the Parent Company's accounts. Internal profit eliminated in the consolidated balance sheet has also been charged against the Group's retained earnings.

Of the Group's retained earnings, 29 will be transferred to restricted reserves based on the proposals of the board of directors in each company.

Any evaluation of the Atlas Copco Group's retained earnings and net profit for the year should take into account that a substantial portion is earned by companies outside Sweden and that in certain cases profits transferred to the Parent Company are subject to taxation or restrictions.

19 Untaxed reserves

Untaxed reserves are reported in the Parent Company balance sheet as a compound item; the breakdown into individual items is shown below. These are totally eliminated in the consolidated accounts, as described in Accounting principles, page 15. Of the Parent Company's total untaxed reserves of 1,398, deferred tax accounts for 391, reported in the consolidated accounts.

	Parent Company	
	1998	1997
Accumulated depreciation in excess of cost depreciation		
Buildings and land	2	2
Tax allocation reserve	1,075	898
Foreign exchange reserve	207	143
Tax equalization reserve	114	171
	1,398	1,214

Provisions have been made to the tax allocation reserve as shown below:

	1998
1995	240
1996	253
1997	261
1998	144
1999	177
	1,075

20 Provisions for pensions and similar commitments

	Group		Parent Company	
	1998	1997	1998	1997
Swedish companies				
FPG/PRI-pensions	522	741	225	371
Other pensions	53	72	45	52
Companies outside Sweden	1,365	1,203		
	1,940	2,016	270	423

Pension liabilities and pension expenses for the year are calculated by Atlas Copco Group companies according to local rules and regulations. To the extent these rules and regulations allow irrevocable pension obligations not to be reported as costs as pension rights accrue, 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 6. Accordingly, the item Provision for pensions is reported among interest-bearing provisions. The Swedish companies have redeemed the entire portion of its pension liability that relates to vested-benefit holders amounting to 238.

The majority of the Group's pension obligations are 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 based on individual or collective agreements between employer and employee representatives.

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

The amount for foreign companies includes 267 (251) 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 as a provision in the balance sheet.

21 Other provisions

	Group		Parent Company	
	1998	1997	1998	1997
Provisions for guarantee commitments	276	247		
Other provisions	463	452	2	8
	739	699	2	8

Other provisions include reserves for future restructuring charges. The purchase cost brought forward for companies acquired includes 17 (20) in such restructuring charges.

22 Long-term liabilities to credit institutions

The Parent Company's long-term interest-bearing liabilities are reported in the balance sheet as a compound item; the breakdown into individual items is shown below:

	Parent Company	
	1998	1997
Liabilities to credit institutions, etc.	5,266	2,133
Liabilities to Group companies	98	139
Total interest-bearing liabilities	5,364	2,272

The Group's long-term liabilities to credit institutions and others are as follows.

	1998	1997
Parent Company		
Bond loan USD 375,0 m.	3,031	–
Promissory notes USD 270.0 m.	2,182	2,133
Promissory notes SEK m.	53	–
The Parent Company's loan liabilities	5,266	2,133
Subsidiaries		
Finance leasing contracts	8	22
Other long-term loans	48	57
Less: amortization following year	–14	–11
Group loan liabilities	5,308	2,201

Loan liabilities are amortized as follows, translated at the exchange rates prevailing at December 31, 1998.

	Group	Parent Company
1999	14	–
2000	570	566
2001	4	–
2002	1,616	1,616
2003	53	53
2004 and later	3,065	3,031
	5,322	5,266

Group loan liabilities include future leasing costs attributable to finance leasing contracts. Payments due in 1999 are included in amortization following year and in the current loan liability. Future payments will fall due as follows:

Group	
1999	3
2000–2003	3
2004 and later	2
	8

23 Current liabilities to credit institutions

	Group		Parent Company	
	1998	1997	1998	1997
Liabilities to credit institutions, etc.	4,908	7,599	3,874	6,928
Amortization following year	14	11	–	–
Liabilities to Group companies			1,647	910
Total interest-bearing liabilities	4,922	7,610	5,521	7,838

Current loan liabilities are reported in the Group's balance sheet as follows:

	1998	1997
Parent Company		
Available under		
“USD 200 m. Euro Commercial Paper Program“		
Outstanding USD 77.7 m.	628	1,216
DEM 14.8 m.	71	–
Available under		
“USD 1,200 m. U.S. Commercial Paper Program“		
Outstanding USD 259.2 m.	2,095	4,269
Available under		
”BEF 4,000 m. Treasury Note Program“		
Outstanding BEF 2,962.7 m.	693	714
Available under		
“SEK 400 m. Commercial Paper Program“	150	296
Other short-term loans and promissory notes	237	433
The Parent Company's loan liabilities	3,874	6,928
Subsidiaries	1,034	671
Group loan liabilities	4,908	7,599

The Atlas Copco Group's short-term and long-term loans are distributed among the following currencies. The table also reflects the effect of currency swap agreements at year-end.

			1998	1997
Currency	Amount m.	SEK m.	%	%
USD	1,163	9,398	92	93
ITL	41	201	2	1
CAD	11	56	1	0
FRF	34	49	1	1
CNY	27	26	0	0
HKD	25	26	0	0
JPY	342	24	0	1
AUD	4	20	0	1
GBP	1	19	0	2
Others		411	4	1
		10,230	100	100

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 1,565 m., corresponding to SEK 12,650 m. These programs have a K1 rating in Sweden and an A1/P2/F1 rating internationally.

24 Operating liabilities

	Group		Parent Company	
	1998	1997	1998	1997
Advances from customers	481	541	–	–
Accounts payable	1,924	1,869	12	6
Notes payable	86	128	–	–
Income tax liability	281	256	–	–
Other operating liabilities	1,250	1,255	4	15
Accrued expenses and prepaid income	2,398	2,617	537	709
Total non-interest-bearing liabilities	6,420	6,666	553	730

Accrued expenses and prepaid income for the Group contains the conventional items, such as social costs, deferred vacation pay liability, commissions and accrued interest. Accrued expenses decreased from the preceding year partly as a result of accrued exchange-rate differences attributable to hedging the value of equity in foreign subsidiaries.

25 Assets pledged and contingent liabilities

	Group		Parent Company	
	1998	1997	1998	1997
Assets pledged for debts to credit institutions				
Real estate mortgages	55	35	–	–
Chattel mortgages	66	64	–	–
Receivables	115	103	–	–
	236	202	–	–
Contingent liabilities				
Notes discounted	76	62	–	–
Sureties and other contingent liabilities	1,435	1,312	579	529
	1,511	1,374	579	529

Of the contingent liabilities reported in the Parent Company, 546 (475) relates to contingent liabilities on behalf of subsidiaries.

26 Atlas Copco's stock option plan

The final outcome of Atlas Copco's yearly revolving stock option plan is linked to the performance of the Atlas Copco class A share. The size of grants will depend on the value added for shareholders in Atlas Copco. Grants will be determined by the fulfillment of a predetermined target for cashflow performance minus Atlas Copco's cost of capital. This performance benchmark is called cash surplus (CS).

For 1999 grants will be made only if CS is positive and at least 50 percent of the performance target is reached. The maximum grant, approximately SEK 9 m. in all, will be made if CS reaches 120 percent of 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 expenses + depreciation and amortization on fixed assets
Pre-tax WACC	WACC/(1–35%), where 35% is the estimated tax rate
Weighted average cost of capital (WACC)	$\frac{\text{Interest-bearing liabilities x i + market capitalization x r}}{\text{interest-bearing debt + market capitalization}}$
i:	The Swedish risk-free interest rate (10-year government bonds) plus 0.5 percentage points to compensate for the premium Atlas Copco pays on borrowings compared to that of the Swedish state.
r:	The Swedish risk-free interest rate, plus a risk premium (5.0%) times a risk factor (0.99) which indicates the volatility of Atlas Copco's share price compared to the stock market index.
Adjusted capital	Calculated at the beginning of the fiscal year as: Total assets – non-interest-bearing liabilities/provisions – short-term investments, cash, and bank accounts + accumulated depreciation of plant + accumulated amortization of goodwill.

27 Value added and stakeholders

Value added corresponds to the Group's total revenues, 33,740 less costs for the purchase of raw materials, wholly and semifinished goods and services, 18,956. The resulting figure is a measure of the company's productive contribution, that is, the value added through processing, management, and other activities.

In 1998, the value added amounted to 14,784 (13,067), an increase of approximately 13 percent, while value added per employee increased approximately 7 percent.

Distribution of value added:

	1998 SEK m.	1998 %	1997 SEK m.	1997 %
Wages and salaries	6,593	45	6,031	46
Social costs	1,970	13	1,772	14
Depreciation and amortization	1,876	13	1,451	11
Capital costs	708	5	293	2
Corporate and municipal taxes	1,322	9	1,280	10
Dividends paid	787	5	698	5
Retained in business	1,528	10	1,542	12
Value added	14,784	100	13,067	100
Value added per employee, SEK thousands	627		586	

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

Goodwill

The Group applies an amortization period of 40 years for goodwill arising from the acquisitions of the U.S. companies Milwaukee Electric Tool Corporation in 1995 (SEK 3,100 m.) and Prime Service, Inc. in 1997 (approximately SEK 6,800 m.). This provides the most accurate picture of the strategic acquisitions' impact on the Atlas Copco Group's earnings and financial position.

In taking this position, Atlas Copco deviated from that part of the recommendations of the Swedish Financial Accounting Standards Council, which prescribes amortization of goodwill over a maximum of 20 years. This does, however, 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 has now agreed on a standard whereby goodwill is to be amortized over its economic life. This means that the amortization period can exceed 20 years.

There are several strong reasons for the choice of an amortization period longer than 20 years. One reason being that it provides the most accurate picture of the acquisition. Atlas Copco's strategic acquisitions involve two large American groups with operations and sales mainly in the United States. The companies generate large operating cash flows. Another important reason for applying a longer amortization period is attributable to competitive factors. Atlas Copco must be in the same position as other parties in calculating the economic consequences of the purchase price and in the subsequent financial reporting of the acquisition. Currently, profitable companies command a price on the market, which to a very large extent exceeds reported shareholders‘ equity. Consequently, the handling of goodwill becomes significant.

Since Atlas Copco is an international group with 97 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 1998 SEK m.

Amortization period	20 years	40 years
Revenues	33,740	33,740
Operating expense	–29,656	–29,395
Operating profit	4,084	4,345
– as percentage of revenues	12.1	12.9
Profit after financial items	3,376	3,637
– as percentage of revenues	10.0	10.8
Profit for the year	2,022	2,283
Earnings per share, SEK	11.02	12.44
Equity/assets ratio, percent	40.7	41.6

Shares and Participations
Atlas Copco AB

	Number of shares	Per-cent held[1)]	Book value
Directly owned product companies			
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1,000,000	100	200
Atlas Copco Craelius AB, 556041-2149, Märsta	200,000	100	20
Uniroc AB, 556001-9019, Fagersta	2,325,000	100	112
Atlas Copco Berema AB, 556069-7228, Nacka	60,000	100	100
Atlas Copco Tools AB, 556044-9893, Nacka	100,000	100	20
Atlas Copco Controls AB, 556116-6355, Tyresö	35,600	100	30
Directly owned sales companies			
Atlas Copco Construction and Mining Export AB, 556395-7793, Nacka	1,000	100	7
Atlas Copco MCT Sverige AB, 556100-1453, Nacka	3,000	100	0
Atlas Copco Iran AB, 556155-2760, Nacka	3,500	100	0
Atlas Copco Compressor AB, 556155-2794, Nacka	60,000	100	10
Atlas Copco Ges.m.b.H., Vienna	45,000	100	13
Atlas Copco Brasil Ltda., Barueri	22,909,088	100	65
Atlas Copco Argentina S.A.C.I., Buenos Aires	157	0[2)]	0
Atlas Copco Tools spol s. r. o., Prague	500	100	0
Atlas Copco Chilena S.A.C., Santiago de Chile	24,998	100	6
Atlas Copco (Cyprus) Ltd., Nicosia	99,998	100	0
Atlas Copco Kompressorteknik A/S, Glostrup	4,000	100	2
Atlas Copco (India) Ltd., Pune	2,892,000	40	0
Atlas Copco KK, Tokyo	375,001	100	23
Atlas Copco Kenya Ltd., Nairobi	14,999	100	0
Atlas Copco (Malaysia), Sdn. Bhd., Selangor Darul Ehsan	700,000	70	2
Atlas Copco Maroc SA., Casablanca	3,852	96	1
Atlas Copco (Philippines) Inc., Makati City	121,995	100	3
Soc. Atlas Copco de Portugal Lda., Linda-a Velha	1	100	22
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2,500,000	100	8
Atlas Copco (Schweiz) AG, Studen/Biel	7,995	100	12
Atlas Copco Venezuela S.A., Caracas	37,920	100	14
Directly owned holding companies and subsidiaries			
Oy Atlas Copco Ab, Masala	150	100	30
Atlas Copco France Holding S.A., Franconville	329,994	100	192
Compresseurs Mauguière S.A., Sermamagny		100	
Atlas Copco Compresseurs S.A., Franconville		100	
Atlas Copco Applications Industrielles S.A., Franconville		100	
Atlas Copco Forage et Démolition S.A., Franconville		100	
Ets Georges Renault S.A., Nantes		100	
Desoutter S.A., Nanterre		100	
Compresseurs Worthington-Creyssensac S.A., Meru		100	
Atlas Copco Crépelle S.A., Lille		100	
Atlas Copco Holding GmbH, Essen	2	99[2)]	403
Atlas Copco Energas GmbH, Cologne		100	
Atlas Copco MCT GmbH, Essen		100	
Atlas Copco Tools GmbH, Essen		100	
Atlas Copco Kompressoren GmbH, Essen		100	
Desoutter GmbH, Hochstadt		100	
IRMER+ELZE Kompressoren GmbH, Oyenhausen		100	
Atlas Copco Elektrowerkzeuge GmbH, Essen		100	
Atlas Copco Electric Tools GmbH, Winnenden		100	
Atlas Copco UK Holdings Ltd., Hemel Hempstead	28,623,664	100	295
Atlas Copco Compressors Ltd., Hemel Hempstead		100	
Atlas Copco Construction & Mining Ltd., Hemel Hempstead		100	
Atlas Copco Tools Ltd., Hemel Hempstead		100	
Atlas Copco Kango Ltd, Peterborough		100	
Atlas Copco International Holdings Ltd., Hemel Hempstead		100	
Atlas Copco (Ireland) Ltd., Dublin		100	
Desoutter Brothers (Holdings) PLC, London		100	
Chicago Pneumatic Tool Co Ltd., Hemel Hempstead		100	
Atlas Copco Beheer b.v., Zwijndrecht	15,712	100	604
Atlas Copco Airpower n.v., Wilrijk		100	
Atlas Copco Coordination Center n.v., Wilrijk	1	0[2)]	0
Atlas Copco Compressor International n.v., Wilrijk		100	
Atlas Copco Kompresory s.r.o., Prague		100	
Atlas Copco Kompresor Spolka z.o.o., Warsaw		100	
Atlas Copco Kompresszor Kft., Budapest		100	
Atlas Copco Iwata KK, Fukushima		51	
Atlas Copco Mfg. Korea Co. Ltd, Seoul		100	

	Number of shares	Per-cent held[1)]	Book value
Atlas Copco Makinalari Imalat A.S., Istanbul	2,548,020	11[3)]	0
Atlas Copco Rental Europe n.v., Wilrijk		100	
Atlas Copco S.A.E., Madrid		100	
Atlas Copco Internationaal b.v., Zwijndrecht		100	
Atlas Copco Australia Pty Ltd., Blacktown		100	
Atlas Copco Belgium n.v., Overijse		100	
Power Tools Distribution n.v., Hoeselt	1	0[2)]	0
Atlas Copco Tools Europe n.v., Overijse		100	
Power Tools Business Services n.v., Wilrijk		100	
Atlas Copco Colombia Ltda., Bogota		100	
Atlas Copco Hellas AE, Rentis		100	
Atlas Copco (China) Investment Co Ltd., Shanghai		100	
Nanjing Atlas Copco Construction Machinery Ltd, Nanjing		92	
Wuxi-Atlas Copco Compressor Co Ltd, Wuxi		92	
Atlas Copco Changchun Electric Power Tool Ltd, Changchun		70	
Atlas Copco (HK) Ltd., Kowloon		100	
Atlas Copco Italia S.p.A., Milan		100	
Ceccato Aria Compressa S.p.A., Vicenza		100	
Inversora Capricornio S.A. de C.V., Tlalnepantla		100	
Atlas Copco Mexicana S.A. de C.V., Tlalnepantla		100	
Atlas Copco Nederland b.v., Zwijndrecht		100	
Atlas Copco Construction Tools Distribution Center b.v., Rotterdam		100	
Atlas Copco Canada Inc., Dorval		100	
Atlas Copco Peruana S.A., Lima		100	
ZAO Atlas Copco, Moscow		100	
Atlas Copco Holdings South Africa (Pty) Ltd., Benoni		100	
Atlas Copco Controls S.A., Penthaz		100	
Atlas Copco Elesta AG, St. Gallen		100	
Atlas Copco Taiwan Ltd., Taipei		100	
Atlas Copco (Zambia) Ltd, Ndola		100	
Atlas Copco Zimbabwe (Private) Ltd., Harare		100	
Atlas Copco A/S, Langhus	4,498	100	32

	Number of shares	Per-cent held[1)]	Book value
Atlas Copco North America Inc., Wayne, NJ	35,506	40[2)]	796
Atlas Copco Berema Inc., Holyoke, MA		100	
Atlas Copco Comptec Inc., Voorheesville, NY		100	
Atlas Copco Compressors Inc., Holyoke, MA		100	
Atlas Copco Tools Inc., Farmington Hills, MI		100	
Atlas Copco Roctec Inc., Denver, CO		100	
Atlas Copco AFS Inc., Detroit, MI		100	
Atlas Copco Rotoflow Inc., Los Angeles, CA		100	
Uniroc, Inc., Commerce City, CO		100	
Atlas Copco Wagner Inc., Portland, OR		100	
Desoutter Inc., Farmington Hills, MI		100	
Atlas Copco Controls Inc., Pittsburgh, PA		100	
Chicago Pneumatic Tool Company, Rock Hill, SC		100	
Esstar Inc., Wayne, NJ		100	
Esstar Industries Inc., Wayne NJ		100	
Milwaukee Electric Tool Corporation, Brookfield, WI		100	
Prime Service, Inc., Houston, TX		100	
Other directly owned subsidiaries			
Atlas Copco Construction & Mining Technique AB, 556277-9537, Nacka	700,500	100	356
Industria Försäkrings AB, 516401-7930, Nacka	50,000	100	5
Atlas Copco Reinsurance S.A., Luxembourg	4,999	100	8
Robbins Europe AB, 556062-0212, Nacka	95,000	100	11
Atlas Copco Fondaktiebolag, 556113-5541, Nacka	2,500	100	0
25 dormant companies			29
TOTAL BOOK VALUE			**3,431**

1) Percentage of number of shares equal to percentage of votes
2) Percent held refers to Atlas Copco AB, remaining holding owned by other Group companies
3) Percent held refers to Atlas Copco AB, 72 percent owned by other companies within the Group

Financial Exposure

The objective of Atlas Copco's financial risk 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 risk

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).

Transaction risk

The Group's net cash flows in foreign currency give rise to transaction risks which corresponds to a value of approximately SEK 5,000 m. The largest surplus currencies, meaning those in which revenues exceed costs, and the deficit currencies, are shown in graph 1.

According to the policy such 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.

Translation risk

The risk policy states that the translation effect of currency changes on the Group's equity, expressed in SEK, shall be reduced by matching the currency of loans with the currency of the net assets, which corresponds to the value of net investment in foreign entities. Derivative contracts like forwards, swaps and options shall not be used for this hedging purpose, as derivative contracts give rise to cashflow risks at roll-over dates.

The percentage of foreign equity that will be effectively hedged against the SEK will vary depending on the borrowing requirements. As per December 31, 1998, approximately 50 percent was hedged, primarily USD vs SEK.

The described procedure was implemented in 1997 whereas previously the policy stated that approximately 80 percent of foreign subsidiaries' equity should be hedged against SEK and that derivative contracts or loans could be used to perform the hedge.

The interest differential between international and Swedish interest rates on forward contracts and swap agreements used in the hedge, prior to the change of policy described above, appears in the Group's interest net and was in 1998 negative SEK 6 m. (positive SEK 140 m.). Note 18 in the financial statements shows how shareholders' equity was affected by currency hedging in 1998. The value of the equity of foreign subsidiaries at year-end 1998 corresponded to approximately SEK 10,300 m. and is shown in graph 2, distributed by main currencies.

Graph 3 shows the currency translation effects on Group earnings for the year when the earnings of foreign subsidiaries are translated to SEK.

Interest-rate risk

Atlas Copco's net interest items are affected by changes in market interest rates. 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 periods on loans and investments. According to the financial risk policy, the average interest-rate period for loans shall not exceed three years and not be less than three months. Deposits with fixed interest shall not exceed 12 months. At year-end 1998, the average interest-rate period was close to the maximum 3 years for loans and less than one month 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.

Funding risk

Atlas Copco's financial policy states there should always be sufficient funds in cash and committed credit facilities to cover expected requirements for the next 12 months. Currently the Group has committed credit facilities of SEK 12,000 m. A substantial portion of the total debt shall always be long-term. The aim is to have an amount corresponding to all fixed assets covered by equity and interest-bearing debt with longer maturity than five years, including pension liability.

Credit risk

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 approved borrowers. No credit losses arose in 1998.

Financial derivative instruments

Atlas Copco uses standardized financial derivatives such as forward transactions, option 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 efforts to effectively control the Group's cash balances 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 1998 was insignificant.

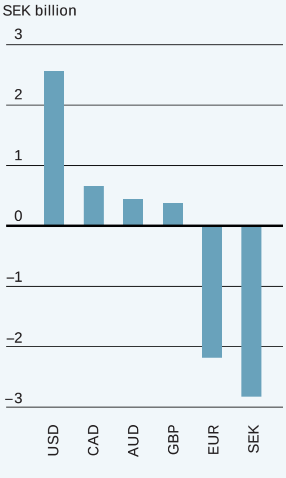
Exchange Rates

		Currency	Year-end rate		Average rate	
Country	Value	code	1998	1997	1998	1997
Australia	1	AUD	4.95	5.17	5.01	5.65
Austria	100	ATS	68.70	62.60	64.20	62.80
Belgium	100	BEF	23.40	21.40	21.90	21.40
Canada	1	CAD	5.21	5.49	5.36	5.49
European Union	100	EUR	9.52			
France	100	FRF	144.10	131.70	134.80	131.30
Germany	100	DEM	483.20	440.70	451.80	441.90
Great Britain	1	GBP	13.53	13.14	13.21	12.52
India	100	INR	19.00	20.10	19.30	20.90
Italy	100	ITL	0.488	0.449	0.458	0.449
Japan	100	JPY	7.01	6.09	6.10	6.29
Luxembourg	100	LUF	23.40	21.40	21.90	21.40
The Netherlands	100	NLG	428.80	391.10	400.80	392.60
Norway	100	NOK	107.10	107.30	105.50	108.20
Singapore	1	SGD	4.87	4.71	4.77	5.13
South Korea	100	KRW	0.673	0.483	0.579	0.808
Spain	100	ESP	5.68	5.21	5.32	5.23
Switzerland	100	CHF	590.80	543.20	548.80	527.20
U.S.	1	USD	8.08	7.90	7.96	7.62
Atlas Copco's currency index for transaction exposure			98.9	101.1	100.0	100.5

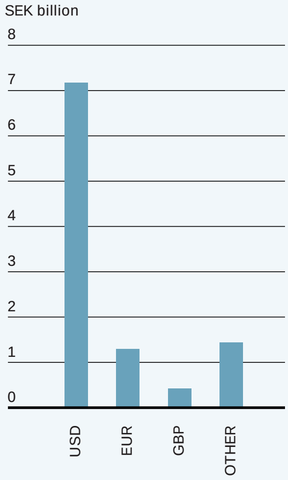
(A higher index indicates a positive effect on Group earnings.)

Based on the value of payment flows in various currencies, Atlas Copco applies a weighted currency index, in which the average rate for 1998 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 SEK 75–80 m. on annual earnings before tax.

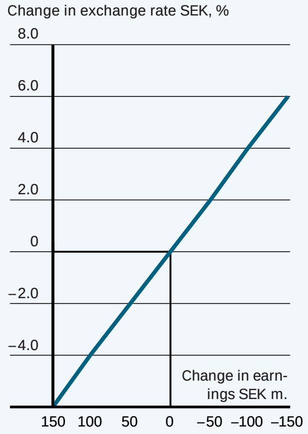
Graph 1
Transaction Exposure (in the most important currencies)



Graph 2
Net Assets in Foreign Currency



Graph 3
Translation Effect on Earnings before Tax



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.

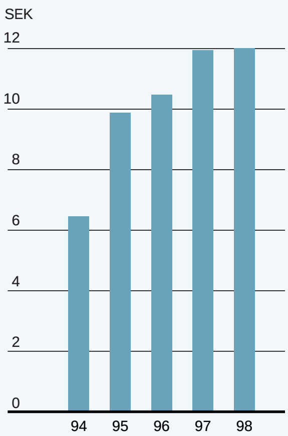
Capitalization of interest expenses

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 principles is not substantial and is not included in the accompanying reconciliation.

Earnings per Share according to U.S. GAAP



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.

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

	1998	1997
Profit for the year as reported in the Consolidated Income Statement	2,283	2,208
Items increasing/decreasing reported net profit:		
Depreciation/sales of revaluations	1	5
Capitalization of interest expenses	–3	–7
Amortization of goodwill	–12	–12
Sale and leaseback	–65	–
Calculated profit, U.S. GAAP	2,204	2,194
Calculated earnings per share, SEK	12.01	11.96
Total assets	37,616	35,242
Total liabilities	22,023	21,383
Shareholders' equity as reported in the Consolidated Balance Sheet	15,267	13,453
Net adjustments in reported shareholders' equity	326	406
Approximate shareholders' equity	15,593	13,859

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

	1998	1997
Profit for the year as reported in the Consolidated Income Statement	2,283	2,208
Items decreasing reported net profit:		
Amortization of goodwill	–261	–163
Calculated profit, IAS	2,022	2,045
Calculated earnings per share, SEK	11.02	11.14
Total assets	36,606	34,503
Total liabilities	21,904	21,342
Shareholders' equity as reported in the Consolidated Balance Sheet	15,267	13,453
Net adjustments in reported shareholders' equity	–565	–292
Approximate shareholders' equity	14,702	13,161

Company acquisitions

In accordance with Swedish accounting practices, the Secoroc Group has been included in the consolidated accounts for 1988 according to the pooling of interests method. The U.S. GAAP criteria for the application of the pooling of interests method differs in certain respects from the criteria then applicable, according to Swedish practices. One of the criteria in U.S. GAAP is that none of the merging companies may be a subsidiary of another company during the two years preceding the merger. On the date of acquisition, Secoroc was a subsidiary of Kinnevik, as a result of which it is impossible to apply the pooling of interests method according to U.S. GAAP.

Sale leaseback

In accordance with Swedish accounting practices, capital gains from property sold are recognized at the time of sale even when an operating lease contract is signed with the new owner. According to U.S. GAAP, in such cases revenue recognition of the capital gains should be distributed over the duration of the lease contract.

Share premium and restructuring reserves

Atlas Copco's accounting principles for allocation of share premiums in company acquisitions and for establishing a reserve for restructuring costs may differ from U.S. GAAP. However, the effect of this difference is not regarded as material.

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

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.

Pension provisions

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 IAS account presentation.

Amortization of goodwill

The goodwill arising from the acquisition of Milwaukee and Prime is being amortized over a period of 40 years. According to IAS, goodwill may be amortized over a period not exceeding 20 years. However, the IASC has agreed on a new standard effective July 1, 1999, as set forth on page 29.

Definitions

Operating profit margin
Operating profit as a percentage of revenues.

Profit margin
Profit after financial items as a percentage of revenues.

Return on capital employed
Profit after financial items plus interest paid and foreign exchange differences as a percentage of average total assets less non-interest-bearing liabilities/provisions.

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 items 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.

Capital turnover ratio
Revenues divided by average total assets.

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

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

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

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

Value added
Revenues less costs for the purchase of raw materials, wholly and semifinished goods and services.

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	2,762,474,813
Profit for the year	SEK	1,044,477,207
	SEK	3,806,952,020

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

To the shareholders, a dividend of SEK 4.50 per share	SEK	825,821,640
To be retained in the business	SEK	2,981,130,380
	SEK	3,806,952,020

Nacka, February 22, 1999

Anders Scharp
Chairman

Tom Wachtmeister

Gösta Bystedt

Michael Treschow

Paul-Emmanuel Janssen

Hari Shankar Singhania

Sune Carlsson

Lennart Jeansson

Jacob Wallenberg

Giulio Mazzalupi
President

Tore Hedberg

Lars-Erik Soting

Bengt Lindgren

Auditors' Report

To the General Meeting of the shareholders of Atlas Copco AB, reg. no. 55 60 14-2720

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Atlas Copco AB for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report.

In our opinion, the board members and the President have not committed any act or been guilty of any omission which could give rise to any liability to the Company. We therefore recommend

that the members of the Board of Directors and the President be discharged from liability for the financial year.

Nacka, March 1, 1999

Stefan Holmström
Authorized Public Accountant

Peter Markborn
Authorized Public Accountant

In 1998 Atlas Copco celebrated its 125th anniversary. This occasion has been used to strengthen relationships with customers, colleagues, and business partners around the world.

A Year of Changes

1998 was a year of milestones for Atlas Copco. The Group celebrated its 125th anniversary and expanded further into a new business: rental service. Overall, demand for Group products suffered from the repercussions of the Asian crisis. Despite changes in business conditions, Atlas Copco increased revenues and earnings in 1998.

1998 saw many changes, some of them unexpected. The financial crisis in Asia that began in 1997 had a deeper and more lasting effect on the real economy than we had anticipated. Slow growth in Asia adversely affected our sales in the region and had repercussions in commodity markets and other regions. The Russian and Latin American economies, in particular, suffered from weak demand.

In contrast, Europe maintained its pace of growth through most of 1998, though signs of weakening appeared late in the year. The U.S. economy continued to expand, with especially healthy growth in the equipment rental industry.

In 1997, the Group refined its strategy and entered the rental service business. After only 18 months, the business fulfilled our expectations. The rental service business is achieving higher growth and profitability than most of our traditional manufacturing businesses. The Group's strategic direction "use of products" – manifest in rental service – reinforces our ties with customers and improves feedback to R&D.

Having reached our initial objectives to develop synergies and to create a solid platform for growth, we have now formed a fourth business area: Rental Service. This area will have the mission of further developing the business geographically, exploiting synergies with Atlas Copco, and consolidating our U.S. operations. Prime is the first division in the new Rental Service business area, which will be reported separately beginning in 1999.

1998 performance

Strong performance in Europe and the United States offset the effects of lower demand, mainly in Asia. The Group also acquired operations in core businesses and divested one non-core business. Overall, Atlas Copco's revenues grew 12 percent.

Operating profit improved 14 percent, thanks to the contribution from the rental service business, somewhat higher volumes, and efficiency gains. Profit after financial items rose, to SEK 3,637 m., up 3 percent from 1997, corresponding to a profit margin of 10.8 percent. The Group's objective is to achieve a profit margin of at least 10 percent over the complete business cycle. Since 1994, Atlas Copco's profit margin has averaged 11.2 percent.

The Group generated satisfactory operating cash flow of SEK 2,149 m. in 1998. This was less than in 1997 partly because of expansion of the rental fleet but also because of exceptionally large nonrecurring inflows in 1997.

Compressor Technique

The Compressor Technique business area increased revenues. The rise was attributable to acquired units, mainly Prime. Some compressor divisions suffered lower order intake, mainly because of declining demand for large industrial and process compressors. Although the economic slowdown began in Asia, its effects led to weaker demand elsewhere as well. Changes in the product and market mix, combined with weaker volumes in some divisions, had a negative effect on operating profit. The operating margin ended at 16.4 percent.

Since Atlas Copco acquired Prime Services in July 1997, Prime has bought eight companies in the United States and Mexico. Prime also merged with Atlas Copco Rental, which added a second business line – Prime Energy – focusing on industrial customers. By adding the industrial business to its current non-residential construction business, Prime further enhanced its prospects for growth.

As a further step in the Group's use of products direction, Rand-Air, a compressor rental company in South Africa, was acquired in late 1998.

Construction and Mining Technique

The Construction and Mining Technique business area suffered from the ongoing economic slump in heavy construction projects and from low metal prices affecting the mining industry. In spite of the negative effect of weaker volumes, the operating profit margin strengthened, to 7.7 percent, thanks to measures to improve efficiency.

The business area continued its efforts to expand market coverage in 1998, in part by acquiring JKS Boyles, a Canadian manufacturer of exploration drilling rigs.

Industrial Technique

The Industrial Technique business area continued to expand sales volumes, mainly thanks to robust demand for industrial power tools from the automotive industry. In the United States, distribution through home centers significantly boosted sales of electric tools. The electric tool business in Europe suffered stiff competition.

The business area achieved an increase in its operating margin, to 10.5 percent, mainly because of better volumes.

Innovative products

In 1998, Atlas Copco continued its 125-year tradition of innovation and launched several key products. The range of tools introduced in 1998 included a new generation of grinders driven by a unique turbine motor. The new grinder, which is smaller and lighter than any comparable tool, is mainly used in metalworking. Atlas Copco's latest generation of industrial screw compressors is one of the quietest in the market. A key environmental benefit is that they consume up to 30 percent less energy than their predecessors do. Finally, a new range of underground drilling rigs was launched based on a modular concept for shorter time-to-market and better serviceability.

Year 2000

In 1996, Atlas Copco launched a Group-wide action plan to secure its computer systems for the year 2000. Some systems required modifications, while others had to be replaced. The costs of these efforts have been charged as they occurred since 1996, as are expenses for periodic upgrades. The Group is confident that its systems will be operational in the year 2000 and beyond.

Environmental efforts

Consistent with Atlas Copco's aim to be a leader in environmental issues, compressor manufacturing in Belgium – the largest compressor factory in the industry – completed its audit for ISO 14001 certification in December 1998. Today, 35 percent of the Group's production sites are certified, and we expect the majority of our sites to be certified by year-end 1999.

Euro

On January 1, 1999, a common European currency became an everyday reality for many of our companies. Prior to that, Atlas Copco had introduced euro functionality in its administrative computer systems. However, we are aware that the euro will trigger harmonization of price levels because of greater transparency, so the divisions have assigned this issue to project teams. Some benefits from the single currency were immediate, while others that we hope to gain will accrue slowly over the next few years.

Information systems

As a tool for improving customer interaction and building stronger relationships, information technology is becoming increasingly valuable. For example, we have launched cross-border projects to use the Internet and shared services to improve the efficiency of service and customer care. "Shared services" is a way of concentrating financial and administrative tasks to allow sales companies to focus on marketing, sales, and service. The ultimate aim is to provide internal and external customers with information of better quality faster and to reduce the cost of doing business.

Growth strategies

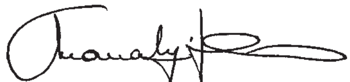
We stand by our plan focusing on growth in three main directions. One long-term strategic goal is to have the same business presence in Asia as we have in Europe and North America. We intend to continue to invest in people and presence in Asia, despite the present economic decline. For example, in 1998 we established our own operations in Indonesia and Thailand. When Asian economies recover, the Group will be positioned to take full advantage of growth in the region.

Another strategic direction has been "use of products," covering rental, service, parts, accessories, and consumables. Use of products also means becoming more involved in customers' processes. The more support we provide to customers after delivery of the primary product, the stronger our relationships with them. The Group now has a successful rental service model, which we will apply as we explore new markets.

Strive for a better Atlas Copco

While we take pride in our strengths and strive for our goals, we must never lose sight of reality. The operating environment looks even less favorable in 1999 than in 1998. This means that we must deal with change that comes so that we sharpen our competitive edge and support a higher level of efficiency.

We must strive for a dynamic Group structure that continuously adapts to growth. We must get tighter control of working capital. And, because there is little latitude for price increases, we must reduce costs to remain competitive in the marketplace. I am confident we can do this in 1999.

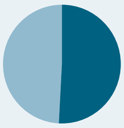
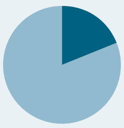
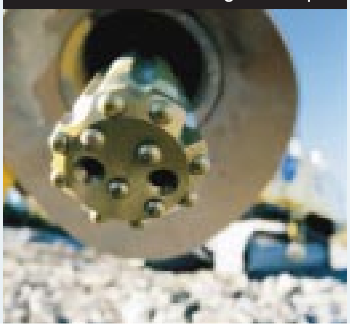
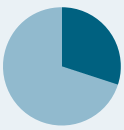
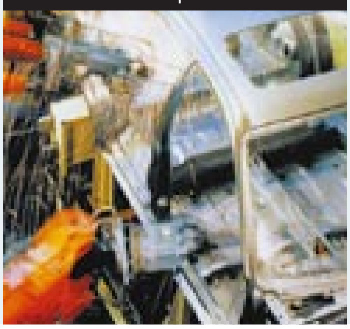


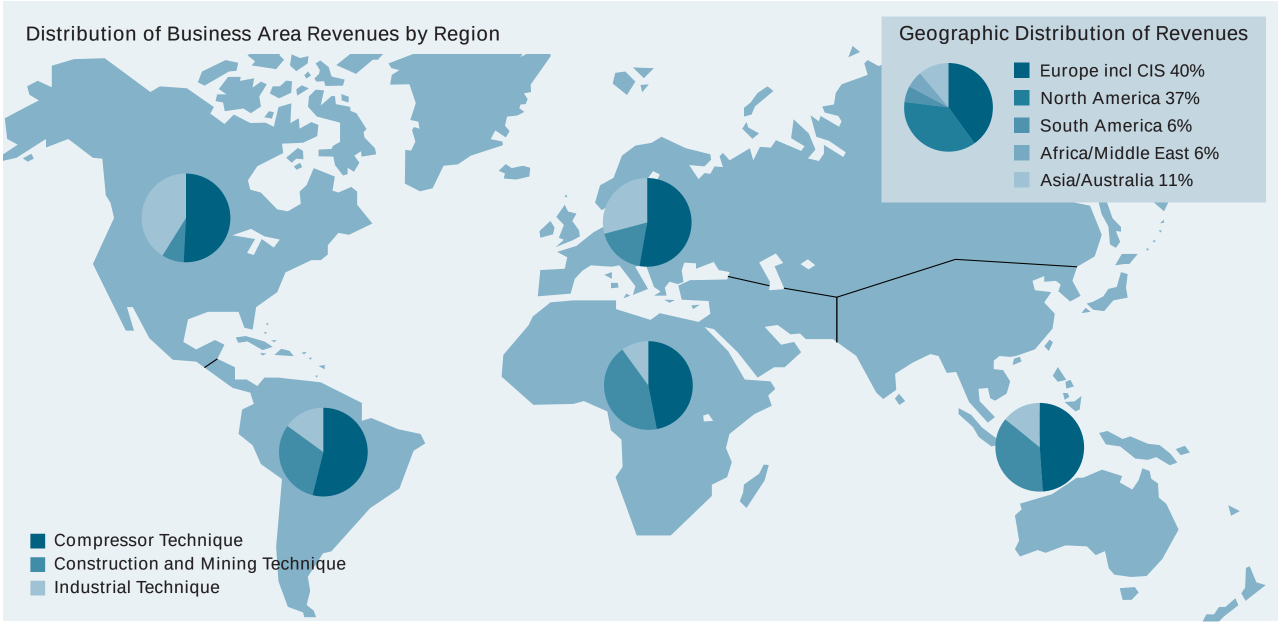
Giulio Mazzalupi
President and Chief Executive Officer

Steady Focus on Profitable Growth

Atlas Copco is a global group of industrial companies headquartered in Stockholm, Sweden. In 1998 sales totaled SEK 33,740 m. The Group employs close to 24,000 people and manufactures products in 15 countries on four continents. The products are marketed and sold under different brands through a worldwide sales network reaching 150 countries, half of which are served by wholly or partly owned sales companies.

	Goal	5-year Average
Profit margin before tax (%)	10	11.2
Sales growth (%)	8	12.3

% of Grp. Sales	Business Area	Business Concept	Brands
 51%	Compressor Technique 	Compressor Technique concentrates on meeting customer needs in the areas of compression and treatment of air and gases as well as equipment rental. Hence, the business area develops, manufactures, and markets industrial, oil-free, and portable compressors, generators, air dryers, aftercoolers, filters, gas and process compressors and expanders. The Prime Service division offers rentals, installation, maintenance and service, and sales of industrial equipment and is a fast-growing part.	Atlas Copco, Prime Equipment Sales/Rentals, Air Worthington Creyssensac, Ceccato Aria Compressa, Mauguière, Rand-Air, Chicago Pneumatic, Irmer+Elze
 19%	Construction and Mining Technique 	Construction and Mining Technique develops, manufactures and markets rock drilling rigs, rock drilling tools, loading equipment, construction tools, breakers and geotechnical drilling equipment to satisfy customer needs related to rock excavation, light construction and demolition, and exploration drilling.	Atlas Copco, Secoroc, Kango, JKS Boyles
 30%	Industrial Technique 	Industrial Technique develops, manufactures and markets pneumatic and electric power tools, assembly systems and sophisticated motion control products to satisfy the needs of industrial manufacturing, the automotive after-market, light construction and OEM's.	Atlas Copco, Milwaukee, Chicago Pneumatic, AEG Power Tools, Desoutter, Georges Renault



Customers / Applications	Characteristics	Key Events in 1998
Compressed air is traditionally used as a source of power, but increasingly the air itself plays an active role in production processes. Clean, dry quality air is a crucial input in the electronics, food processing, and pharmaceutical industries. Atlas Copco offers filters and drying equipment as integrated parts of its compressor packages. Portable air compressors are a reliable power source for machines and tools used primarily in the construction sector. Gas and process compressors and expanders are supplied to the chemical, oil and gas and related process industries. Atlas Copco rents compressors, generators, and other equipment to a wide variety of customers.	Atlas Copco Compressor Technique is the world leader in compressors. Because of its size, the business area can maintain a solid position in world markets and conduct basic research and development in all compressor technologies and fields related to the environment. Prime Service operates in a fast-growing industry undergoing consolidation and can develop its strong market position thanks to the superior level of service it provides, efficient information systems and economies of scale in purchasing.	• Three acquisitions in the Prime division: C&E Rentals and Clementina in the United States and Recomsa in Mexico. • Acquisition of Rand-Air, a South African compressor rental company. • Launch of a record number of products, including a range of variable speed drive (VSD) compressors. • ISO 14001 certification covering the production facilities in Belgium.
Atlas Copco Construction and Mining Technique offers products and services ranging from pneumatic breakers to packaged solutions for major construction and mining projects. Drill rigs are used in tunneling, mining, surface drilling operations, ground engineering, exploration drilling and straight longhole drilling. To offer a complete range of drilling equipment, Atlas Copco also manufactures various drilling tools, such as drill steel, drill bits and cutters. Light rock drills and breakers are used for demolition by contractors in the construction sector. Loading equipment is used in underground mining operations and construction projects.	Atlas Copco Construction and Mining Technique's global, well-established reputation as a supplier of state-of-the-art products constitutes a favorable platform on which the business can be built. As many of the markets served are mature, Atlas Copco Construction and Mining Technique must remain a leader in terms of quality, reliability, productivity, service, and environmental and ergonomic aspects.	• Acquisition of JKS Boyles, Canada. • Successful launch of new rock drilling rigs. • Breakthrough orders in the civil engineering and mining industries in the Philippines, Russia, Canada and India. • New Rock Drilling Research & Development Center opened in Sweden.
Tools powered by compressed air or electricity have many applications in industry such as drilling, grinding, riveting, and tightening of nuts and screws. Electric tools are used extensively in the construction sector. Assembly systems, containing high-precision and computerized control systems, are supplied primarily to the automotive industry, for multiple and synchronic nut tightening. Motion control products are used in complex industrial machinery and vehicles. The market for such equipment is growing rapidly owing to an increased need to automate production and maintain stricter process control.	Atlas Copco Industrial Technique's success is based on intensive research and development, high quality in its products, an ability to serve large customers on a global basis and potent distribution concepts. Also, the business area's expertise in electronics represents a significant opportunity for capitalizing on synergies as products become more technically advanced.	• Restructuring of Milwaukee's manufacturing. • Decision to transfer Kango production to Germany. • Entering strategic sourcing partnership agreements of products and services with major automotive manufacturers.

Primary Drivers of Atlas Copco Group Revenues

	Capital goods 55%	Consumables and aftermarket 45%
Industry	Industrial machinery investment	Industrial production
Construction	Public investment	Construction activity
Mining	Mining machinery investment	Metal and ore production

During recent years revenues from consumables and aftermarket have grown chiefly because the Group acquired Milwaukee Electric Tool and Prime Service.

Atlas Copco's key strategies

Growth to secure long-term profitability is one of the key strategies for the Atlas Copco Group. This growth – whether organic or through acquisitions – shall be achieved by growth in three main directions. First, the Group must achieve growth in the existing business by bringing out new products developed from core technologies and by finding new applications in new markets or niches. Second, it must strengthen the presence of all business areas in Asian markets. Third, the Group should expand revenue related to "use of products," such as maintenance, spare parts and accessories, and equipment rental, which will ensure further deep participation in our customers' business activities.

Development of the Group is safeguarded by continuous improvement in existing operations and by innovation. Continuous improvement in manufacturing, products, marketing, organizations, and business flows are aimed to service the customers better and safeguard short-term profit. Atlas Copco also believes in breakthrough innovation to be ahead of competition and secure the Company's performance in the long run. The Group strongly supports specific projects to foster innovation in technology, concepts, and methods.

The *multi-brand* strategy plays another significant role, and the Atlas Copco Group hosts a number of brands. To better satisfy specific customer needs, products are differentiated and marketed under various brands through different distribution channels. Each brand has a clear role and is justified when it adds to overall revenues and profit for each specific product.

Goals

Following the adoption of a new planning process, Atlas Copco companies now use trends, targets, and goals to manage their business. Budgets were abolished to give way to more forward-looking, continuous, and comprehensive managerial tools.

The *financial target* is to achieve a margin of profit after financial items of at least 10 percent over a business cycle. For the past five years, the Group's profit margin has averaged 11.2 percent. In 1998, the profit margin was 10.8 percent (11.7).

To secure long-term profitability, growth must be a top priority for the Atlas Copco Group. The *growth target* is to maintain an annual rate of sales growth averaging 8 percent through a business cycle. In the past five years, compound annual growth has averaged 12.3 percent, mainly owing to acquisitions.

Among *qualitative targets* and goals, Atlas Copco expects all products and services to boost customers' productivity and all divisions to achieve leadership in the area of environmental protection, which will strengthen their business. In the marketplace, Atlas Copco focuses on being the customer's No. 1 choice. Surveys are continuously performed to assess the success of Atlas Copco companies in this regard.

Strong market presence

Atlas Copco manufactures and assembles products at 60 plants in 15 countries. Most manufacturing is performed in Europe, but the number of plants located in the United States and Asia, mainly for assembly, is rising.

The Atlas Copco Group has a strong market presence and strives to maintain close and long-term relationships with its customers. Products are marketed through the Group's own sales operations in some 70 countries and through distributors in another 80 countries. The acquisition of Prime Service, Inc. and greater emphasis on service and after-market sales indicate how vital it is for the Group to strengthen its ties with customers.

The European and North American markets account for 40 percent and 37 percent of Group sales, respectively. However, in the long term Atlas Copco is dedicated to expanding the relative share of emerging markets in Group sales, especially in Asia-Pacific markets. The joint ventures set up in China between 1993 and 1997 attest to the Group's commitment and belief in the region.

Acquisitions and Joint Ventures 1993–1998

1993 Robbins, U.S. (CMT); Kango, U.K. (IT); Worthington-Creyssensac's European compressor operations, France (CT). Joint venture: Nanjing Atlas Copco Construction Machinery, China (CMT).

1994 Hamrin Adsorptions & Filterteknik, Sweden (CT). Joint venture: Wuxi-Atlas Copco Compressor Company, China (CT).

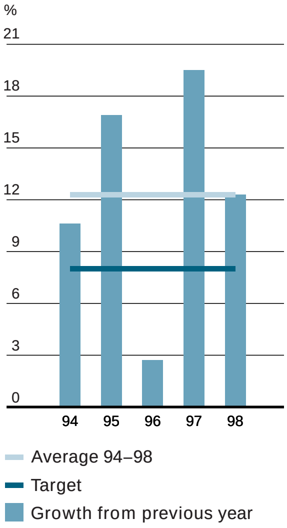
1995 Socapel, Switzerland (IT); Milwaukee Electric Tool Corporation, U.S. (IT); ABB's pressure let-down operations, Germany (CT). Joint venture: Atlas Copco Changchun Electric Power Tool, China (IT).

1996 IRMER+ELZE's portable compressor and pneumatic breaker operations, Germany (CT); Elesta Automation AG, Switzerland (IT).

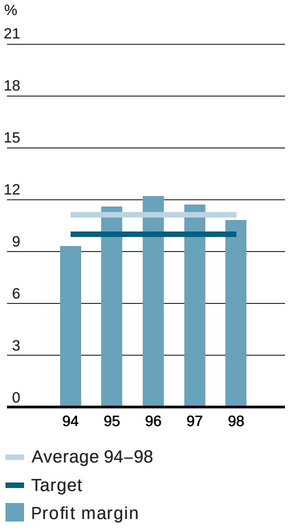
1997 Thomé-Crépelle, France (CT); Prime Service, U.S. (CT); Hubert Davis, South Africa (CMT); Arrow Rentals, Nordquip, Shreveport Rentals, Resco, and Mite-E-Lift, U.S. (CT). Joint venture: production of oil-injected screw compressors with Shanghai General Machinery Group, China (CT).

1998 Ceccato's compressor operations, Italy (CT); C&E Rentals and Clementina, U.S., Compresores Recomsa, Mexico (CT); JKS Boyles, Canada (CMT); Rand-Air, South Africa (CT).

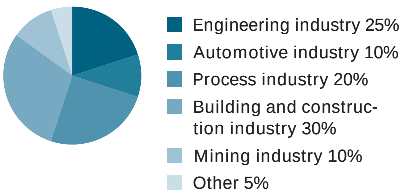
Sales Growth



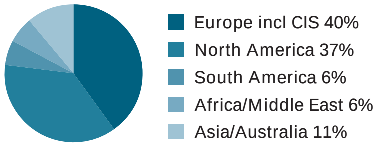
Profit Margin



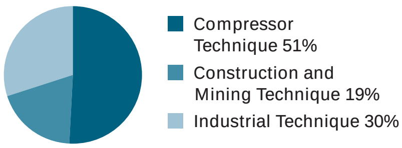
Revenues by Customer Category



Geographic Distribution of Revenues



Revenues by Business Area



Increased revenues from expendables and services

Following the recent major acquisitions, of Prime Service (1997) and Milwaukee Electric Tool Corporation (1995), Group revenues have become increasingly dependent on consumables and aftermarket activities. This shift has resulted from the Group's strategy of getting closer to its customers to secure competitive advantages. For example, the close interaction with customers in Prime's business offers a unique opportunity to make the most of end users' contributions to product and business development.

Nevertheless, the Group remains sensitive to investment in capital goods in various public and private sectors, such as manufacturing, infrastructure, and mining. Sales are heavily influenced by the manufacturing industry's demand for machinery and equipment. The single largest segment in this sector – also a growing segment – is the automotive industry, which needs substantial volumes of industrial tools, assembly systems, and compressors. Other key segments are the electronics and pharmaceutical industries, which require industrial compressors for sensitive production processes.

Infrastructure projects are important for Atlas Copco's sales of construction equipment, including drilling rigs, breakers, and portable compressors. Railway, highway, and power plant investment often depends on political decision making. Price and inventory trends for metals serve as leading indicators of the mining industry's demand for drilling equipment and loaders.

Finally, an increase in sales of capital goods suggests an analogous increase in the demand for expendables and service. For example, customers will need tools, spare parts, drill bits, and accessories on an ongoing basis. Demand for these products and services is relatively stable compared to investment in capital goods, which is more cyclical. The gradual shift to expendables and services reduces cyclical influences on Atlas Copco's total performance.

COMPRESSOR TECHNIQUE

Bolder Emphasis on Global Growth and Leadership

Demand for compressors and equipment rental was good overall in 1998 despite the decline in the Asia-Pacific region and South America and some weakening in the second half. Sales increased to SEK 17,343 m. (14,263), operating profit was SEK 2,849 m. (2,537). Prime Service had a strong year marked by further acquisitions and steady profitability.

	1998	1997	1996
Revenues, SEK m.	17,343	14,263	11,072
Operating profit, SEK m.	2,849	2,537	1,807
Return on capital employed, %	17	28	33
Investments, SEK m.	300	344	285
Number of employees	11,338	9,235	7,698

The Compressor Technique business area, headquartered in Belgium, develops Atlas Copco's position as the world's leading provider of compressed air equipment. The business area develops, manufactures, and markets top quality products for industrial customers who demand a high level of operating reliability and productivity in their operations. Each division is responsible for the development, manufacture, marketing, and sales of its own products. Manufacturing and assembly are concentrated in Belgium, the United States, Germany, France, Italy, Brazil, India, and China. Prime Service is headquartered in Houston, Texas.

Sales

Compressor Technique's revenues rose 22 percent, to SEK 17,343 m. (14,263), while orders received were up 15 percent, at SEK 16,958 m. (14,699). Business in Central and Southern European countries was strong, while the Asia-Pacific region declined sharply.

Earnings

Operating profit increased 12 percent, to SEK 2,849 m. (2,537). Earnings equaled 16.4 percent (17.8) of revenues. Improved profit resulted mainly from the addition of Prime Service. The return on capital employed ended at 17 percent (28).

Business development

Demand for Compressor Technique's products remained strong most notably in Western and Eastern Europe, North America, and the Middle East. South America declined, and Asia declined sharply.

Sales of portable compressors and generators were particularly healthy in the United States, partly thanks to more inter-company sales to the Prime division.

For Industrial Air, a new range of screw compressors, including a second generation of variable speed drive (VSD) compressors, spearheaded continued growth. Growth also resulted from the acquisition of Ceccato and from specific segments where new products were launched for specific customer needs and from after-sales service.

The process industry was active in 1998. Applied Compressor and Expander Technique's new standardized products were well received during the year, and the division sees substantial potential for penetrating and growing into new market segments. For example, a breakthrough order was won for a new fuel gas booster application. This market segment is currently quite active and should prove to be an area for growth. The PET market in which Atlas Copco Crépelle operates enjoyed brisk activity. This international niche market supported sales to new customers in the Mediterranean countries and Southeast Asia.

As a result of its own organic growth and acquisitions, Prime nearly doubled its customer base, to more than 90,000. Sales to new customer groups and in new geographical areas expanded. Prime is committed to continued growth, in the United States and abroad.

Product development

In 1998, a new universal small screw element joined the family of elements for oil-injected compressors. The newcomer is used in a variety of applications in the low power range 4–10 kW and costs significantly less than its predecessor to manufacture. Also, the release of a new generation of oil-free screw elements was completed.

Several product ranges for industrial, oil-free, and portable compressors were expanded and consolidated in 1998 to better satisfy customer needs.

Industrial Air developed and introduced a range of industrial screw compressors with unparalleled performance and environmental care.

Portable Air launched a record 32 new products or product variants, including a new generation of oil-free portable compressors specially designed for rental use.

Finally, Applied Compressor and Expander Technique introduced its first standardized gas turbine process compressor for air separation.

Investments

The business area invested a total of SEK 300 m. (344) in property and machinery. The majority of investments related to the replacement of production equipment, capacity extension, and IS/IT system upgrades, such as for year 2000 compliance. In line with the Group's growth strategy, investment in rental fleets further increased, to SEK 1,302 m. (666), the great majority being additions to Prime's fleet.

Training

Compressor Technique's success greatly depends on product development and innovation. To secure ongoing innovation, the business area needs to develop efficient information exchange between product development, production, the sales organization, customers, and other external expertise. Training efforts in 1998 included systematized knowledge transfer from the main production site in Antwerp, Belgium, to all other standard compressor-manufacturing units.

The Airtec division, which develops and manufactures all screw compressor elements and other key components, reinforced university ties to safeguard leadership in research and development.

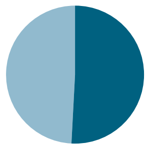
In Prime's service business, training is a crucial success factor. A number of programs cover areas such as inside sales, management communications, total quality management, information systems, service, and safety. The division's rapid growth has accentuated a need for training covering all aspects of Prime's successful service concept. A director of training was recently appointed to manage these processes.

Structural changes

Since Atlas Copco acquired Prime Service in July 1997, the new division has acquired eight equipment rental companies in the United States and Mexico with total annual sales of roughly SEK 900 m. As a further step in capitalizing on synergies between Prime and the rest of the Atlas Copco Group, the operations of Atlas Copco Rental, Inc. were integrated into Prime in 1998, producing a new business unit, Prime Energy Systems, focusing on oil-free compressor and generator rentals. Prime now operates a total 182 rental yards in 23 U.S. states, Mexico, Canada, and Puerto Rico. At January 1, 1999, Prime became the first division in a new business area, Rental Service.

Effective January 1998, Atlas Copco's Industrial Air division acquired the compressor business of Ceccato, in Vicenza, Italy. Ceccato manufactures and sells small and medium-sized industrial compressors and has about 125 employees and annual sales around SEK 200 m. In December 1998, Portable Air acquired Rand-Air, a South African compressor rental company with an annual turnover of approximately SEK 90 m.

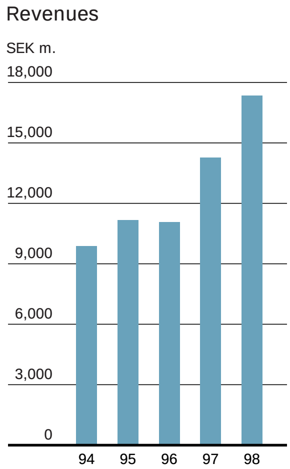
Oscar Duprix | Luc Hendrickx | Johan Molin
Ronnie Leten | James Tapkas | Thomas E. Bennett

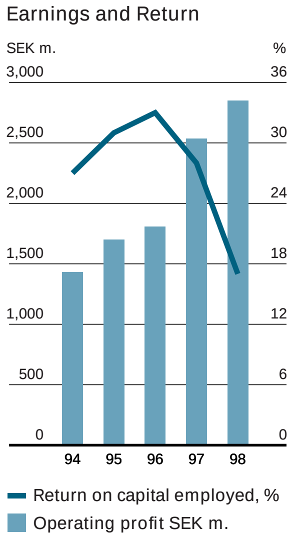


Share of Group revenues 51%

Business Area Executive: Bengt Kvarnbäck

Compressor Technique's divisions are:
- Airtec, President Ronnie Leten (effective January 1, 1999)
- Portable Air, President Oscar Duprix (effective January 1, 1999)
- Industrial Air, President Johan Molin
- Oil-free Air, President Luc Hendrickx
- Atlas Copco Applied Compressor and Expander Technique, President James Tapkas
- Prime Service, President Thomas E. Bennett



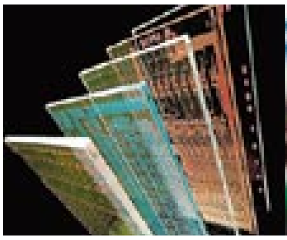


COMPRESSOR TECHNIQUE

COMPRESSOR TECHNIQUE

Semiconductor industry welcomes new centrifugal series

The semiconductor industry is an important and growing market for Atlas Copco. In 1998, the Oil-free Air division introduced a new series of centrifugal compressors that extends the range of options for customers. The very first customer for these new mid-sized compressors was Intel Corporation, which installed them in its 0.25-micron microprocessor plant in Ireland.



In 1998, Intel Corporation opened the first 0.25-micron microprocessor production plant in Europe. The factory, called Fab 14, is located outside Dublin and produces Intel's most modern integrated circuits. Fab 14 comprises 80,000 square meters of building area including 9,000 square meters of clean room. The air in this ultra-clean environment is 1,000 times cleaner than in a hospital operating theater, and sub-micron technology makes similarly exacting demands on compressed air for production processes. The centrifugal compressors installed at Fab 14 are also integrated in a way that ensures maximum efficiency and availability at all times. They provide flexible capacity to cope with peaks and fluctuations in the demand for air in manufacturing.

Atlas Copco's new range of compressors offers customers a choice between screw and centrifugal technology. The compressors are supplied with all requisite components mounted on a single frame – a compact design that reduces installation costs, minimizes floor space occupied, and simplifies and accelerates commissioning. Consequently, Atlas Copco can offer the most cost-effective solution for any specific application in semiconductor manufacture, which has heightened market interest in the new series.

Less noise and vibration let compressors join the flow

The Industrial Air division introduced a greatly improved series of oil-injected screw compressors in 1998. The compressors produce a uniquely low noise level of 65–67 dB(A), low enough to locate the units anywhere in a factory. The design also integrates all options in a single unit, making each compressor a flexible, stand-alone package.

Compressors have traditionally been locked up in compressor rooms, removed from the manufacturing processes they support, because of excessive noise. Now, this new series offers the possibility of integrating compressor installations into shop floor production flows. The new design has a small footprint and includes many features, which makes them easy and cost-effective to install for customers.

The compressors also economize on the environment. Compressed air filters, refrigerant dryers, condensate treatment, and energy recovery equipment can be integrated into the units. The refrigerant used is environment-friendly, with zero ozone depletion potential. Yet the units still satisfy all stringent standards for compressed air, delivering clean, dry air of extremely high quality to ensure maximum reliability in production processes.

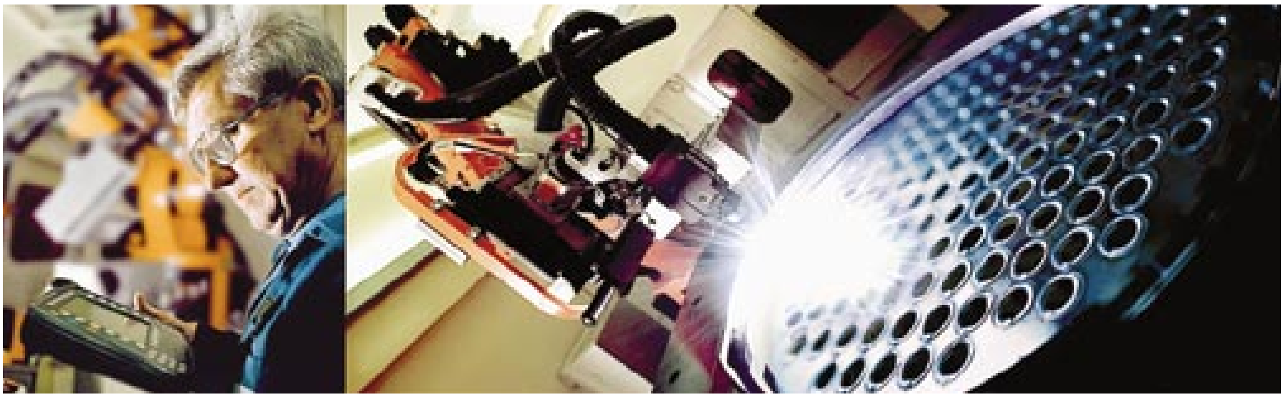
Extended integration with air separation industry

Global air separation companies design and manufacture air separation plants for their own use and for customers with sufficiently great demand. Atlas Copco Applied Compressor and Expander Technique (ACT) has explored new ways of cooperating with this key customer group to create a win-win situation.

Engineering costs account for the lion's share of the total investment in an air separation plant. How high such costs actually are depends on how much of the plant can be standardized or how little needs to be custom-made.

For several years, Atlas Copco has collaborated with leading air separation companies to reduce engineering costs by agreeing on standardized plant lay-outs, which specify certain models of compressors. Agreements have been reached with some of these companies that extend the cooperation to include much more and on a global basis. That means that price, delivery terms and lead times, guarantees and spare parts supply, service and maintenance are agreed on a worldwide basis for a number of years. Such standardization can eliminate costly and time-consuming activities on individual contracts, which means a much more efficient supply chain. As the extended partnership develops, it should result in additional efficiency gains and improvements. How these benefits will be shared is part of the overall agreement.

Thinking and acting as part of an integrated global supply chain has been successful for the ACT division and for the air separation companies as well. The biggest benefits from this kind of cooperation are deriving from the reduced lead times and overall reduced costs enjoyed by semiconductor manufacturers, pharmaceutical companies, steel mills, and other industries who are the end-users of the air separation plants.



Airtec strengthens leadership through focused investment

Screw elements, coolers, and other core compressor parts are manufactured by the Airtec division. Its manufacturing facility in Antwerp can take full advantage of combined volumes in the Atlas Copco Group, so the division has continuously invested in manufacturing processes to enhance its leading position.

In 1998, a new manufacturing line for screw rotors became fully operational. The new line covers a wide range of screw rotors for oil-injected compressors and incorporates several innovations, resulting in lower material costs, shorter process times, and fewer steps in the process. A fully automated turning cell will complete the new line in 1999. Important savings will result from reduced set-up times, which will substantially increase the facility's ability to match output with day-to-day customer demand.

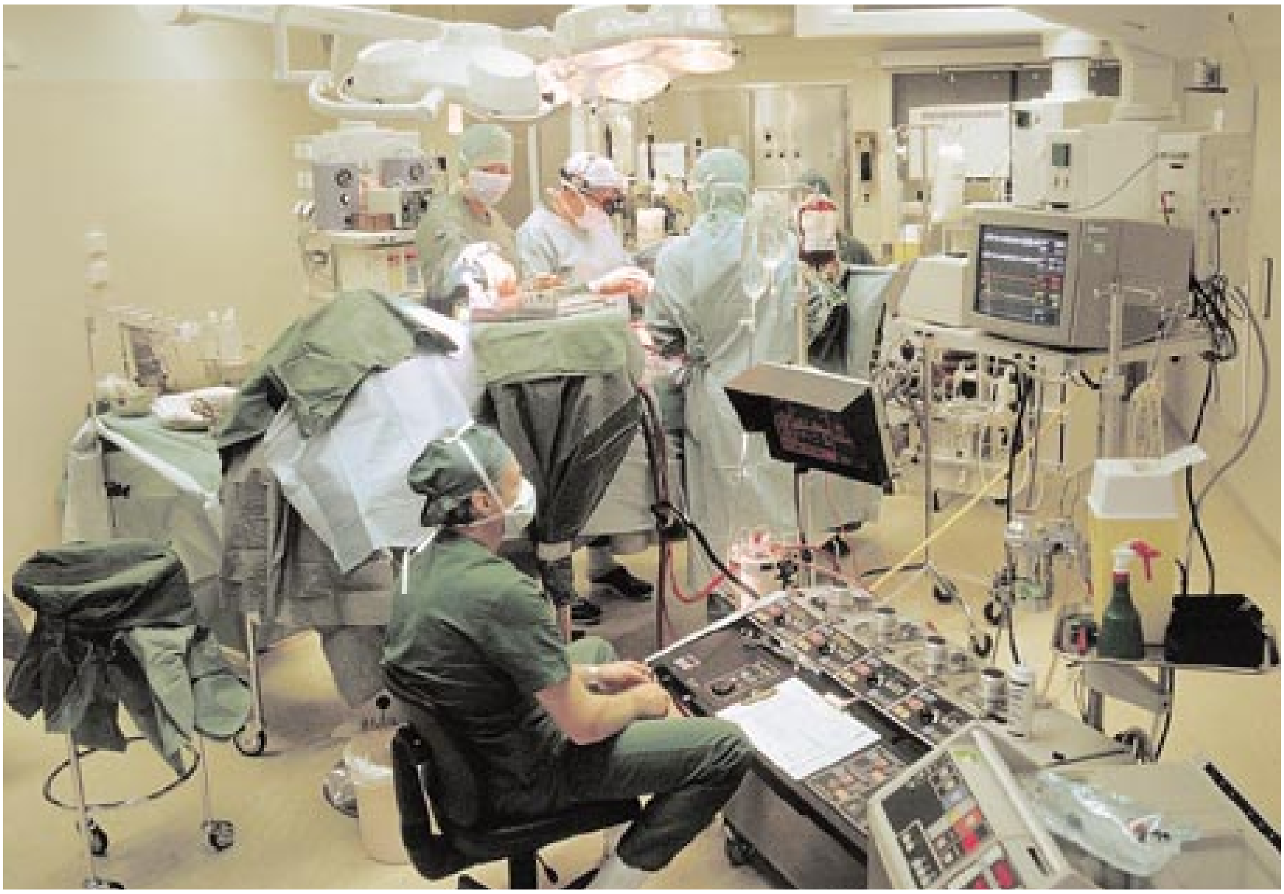
Major investments were also made in the manufacturing line for heat exchangers for oil-free compressors. The welding of these compressors' stainless tubular cooler bundles is now fully automated. Using an integrated multi-camera vision system, two welding robots in two different manufacturing cells can distinguish between 25 different types of heat exchangers, some of them having up to 500 tubes, and precisely position and control the welding seam from start to finish. The advantages achieved are outstanding welding quality and the elimination of any set-up time, allowing a high degree of flexibility.

Industrial Air acquires Italian compressor business

The Italian company Ceccato's compressor business was acquired in January 1998. Based in Vicenza, in northern Italy, the company manufactures small to medium-sized screw and piston compressors for many different applications and industries.

The company's largest market is Italy, and most of its other key markets are also in Europe. The products are marketed under the brands Ceccato and Mark.

The Group intends to maintain and cultivate the brands and to develop the company's existing distribution channels and products. At the same time, synergies can be achieved through Atlas Copco's leading position in manufacturing, development, and procurement of components for air compressors. All in all, the new business will help strengthen the Industrial Air division's leading position in this market segment.



Portable Air broadens range of generators

Generators from the Portable Air division are meeting with excellent acceptance in the market. The number of generator sets sold in 1998 has increased significantly in the last few years. The introduction of a range of open-frame generators is opening up new applications and markets, such as back-up power for hospitals.

Atlas Copco's range of heavy-duty, top-of-the-line generators has been sold mainly in Europe. These products are ideally suited for demanding construction work and rental operations. Portable Air started selling its range in the North American market in 1998. Models are sold through Atlas Copco's network of distributors and rented by Prime Service.

The use of generators is growing in developing markets, often because of insufficient and unreliable centralized power supply and distribution. Factories, hotels, hospitals, and supermarkets install generators to ensure continuous power even in the event of a brownout in the public grid. Other applications include stand-by power for relay stations for cellular phone systems and peak sharing.

To cater to this large and growing market, the Portable Air division introduced a second line of generators in 1998. The line is lighter and open-framed, as these units are often used in locations that do not demand the same degree of sound dampening required in densely populated areas.

Generators are a growth business for Atlas Copco. To handle greater volumes, Portable Air is increasing its assembly capacity for generators at the division's factory in Antwerp.

Rental service sustains growth momentum

In only 18 months, Prime Service has proven itself a vibrant member of the Atlas Copco family. The equipment rental company is one of the most significant players in the highly active North American market.

In July 1997, Atlas Copco made a major strategic move into the equipment rental business by acquiring Prime Service, Inc., a frontrunner in the North American equipment rental industry. Prime operates 182 rental yards in 23 U.S. states, Mexico, Canada, and Puerto Rico and serves close to 100,000 customers.

The acquisition of Prime was intended to strengthen the Group's presence in customers' processes. This is in line with the Group's "use of products" strategy, aimed at expanding revenues and safeguarding growth. At January 1, 1999, Rental Service became the fourth business area in the Atlas Copco Group.

Promising industry

Overall growth in the North American rental industry has been outstanding in the past 10–15 years and is forecast to continue to grow some 15–20 percent each year as a result of general economization, the clear trend of increased outsourcing and underlying growth in the North American economy.

Prime aims to grow organically by enhancing the range of products and services it offers and by seeking new customers in current and new geographical markets. Prime's competitive advantages are that it offers high-quality services at low cost, uses efficient information systems and administration, and benefits from economies of scale.

Prime is also dedicated to growth by acquisition. Since joining the Group 18 months ago, Prime has acquired eight rental companies in strategically selected regions. The acquisition of the Mexican company Recomsa also set Prime on a southbound journey of internationalization.

Synergies with Atlas Copco

Synergies between Prime and the rest of the Atlas Copco Group are evident. First, the acquisition represents a good opportunity to increase sales of compressors, tools, and some other Atlas Copco products in the U.S. rental market via the Prime organization.

Second, Prime's successful business concept and processes can be transplanted to other parts of Atlas Copco's rental activities. In October 1998, Atlas Copco Rental, Inc., was combined with Prime Service, Inc., forming the new Prime Energy Systems business unit. The unit rents oil-free compressors and generators to industrial customers in North America and will benefit from Prime's market presence, customer base, know-how, information systems, logistics, and administrative processes.

Finally, as Prime enters new markets in selected regions, Atlas Copco will contribute valuable experience from operating an international business.

The San Francisco Bay Area is home to several dynamic customers who work with Prime to improve their processes and profitability.

The case of Clementina

Prime's recent acquisition of Clementina Equipment Company illustrates well the strategic criteria Prime applies when considering acquisitions. For Prime, it is essential to expand in dynamic geographical markets and to enforce continuity in its corporate strategy and identity.

In August 1998, Prime took a strategic step into Northern California by acquiring San Francisco-based Clementina Equipment Company. Clementina operates seven equipment rental yards in the Bay Area.

Clementina closely conforms to Prime's strategy of providing customers with a well-defined yet comprehensive range of products and services in promising geographical markets.

In Northern California, actual and expected growth is generated by the construction and industrial sectors and partly correlated to population growth. The region hosts several established multi-regional Prime customers, in the petrochemical industry for example, that can now be served on an even wider basis.

To be considered for acquisition, a company must comply with Prime's business concept, serve a mix of customer groups, be profitable, and operate in promising markets with large potential. Clementina fulfills all these criteria.

Mature Markets Yield Higher Profitability

For Construction and Mining Technique (CMT), 1998 was characterized by a shrinking market. Demand declined slightly, while profitability improved, mainly owing to streamlining. Towards year-end, Atlas Copco Craelius bolstered its position in North America by acquiring JKS Boyles, a Canadian manufacturer of exploration drilling rigs.

	1998	1997	1996
Revenues, SEK m.	6,437	6,453	5,921
Operating profit, SEK m.	498	387	396
Return on capital employed, %	15	12	14
Investments, SEK m.	202	207	211
Number of employees	4,572	5,058	5,143

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, rented, and serviced for building and construction companies, large infrastructure projects, quarries, and mining companies around the world. The business area has its chief manufacturing plants in Sweden and the United States.

Sales

Revenues amounted, to SEK 6,437 m. (6,453). Orders received decreased 8 percent, to SEK 6,117 m. (6,652). Major orders were received from infrastructure projects and mining operations in China, Russia, Peru, and the Philippines.

Earnings

Operating profit ended at SEK 498 m. (387), giving an operating margin of 7.7 percent (6.0). Return on capital employed was 15 percent (12).

Business development

All Construction and Mining Technique divisions were hit by economic turmoil in Asia and lower metal prices. However, economic uncertainty also represents a clear opportunity in that the business area's customers are even more intent on improving their own critical processes. They can accomplish their goals with high-performance equipment coupled with its effective service, maintenance, and operator training programs. In the midst of the construction and mining industry's current adjustments, Atlas Copco Construction and Mining Technique's divisions generally feel that they have advanced their positions relative to their competitors in the past year.

Rock Drilling Equipment's new rig types and rock drills met an encouraging reception in the market in 1998.

The Uniroc division added raise boring cutters – a business line taken over from the former Atlas Copco Robbins division – entailing substantial synergy in the manufacturing and marketing and sales processes. The division's new threaded bit range, released around year-end 1997, was favorably received by the market in 1998.

Atlas Copco Wagner made a breakthrough in sales to the international civil engineering sector with major orders in the Philippines, India and Bhutan, in a year otherwise marked by decline.

Atlas Copco Construction Tools continued expanding sales both to end users and the rental industry in the United States.

Finally, Atlas Copco Craelius suffered declining sales because of financial market turbulence and weak metal prices but still succeeded in raising profitability and strengthened its standing in the marketplace. The acquisition of JKS Boyles strengthens the division's position in the exploration drilling market.

Product development

Product development resulted in the introduction of four new rig types and new rock drills from Atlas Copco Rock Drilling Equipment. Customer productivity remained in focus. A completely new control system and improved ergonomics are two results of this concentration, and modularization of the designs has drastically reduced the lead times for assembly and service on customer premises.

Uniroc released a complementary range of threaded bench drilling bits designed for very hard and abrasive rock. The initial response was encouraging. Product development ventures in the down-the-hole area resulted in new releases of hammers tailor-made for quarry and water-well drilling operations.

Atlas Copco Wagner and Atlas Copco Construction Tools focused their engineering efforts on improving the performance of vehicles and tools introduced during the past two years.

Finally, Atlas Copco Craelius developed a new range of in-the-hole drilling equipment.

Investments

During the year, the business area invested a total of SEK 202 m. (207) in property and machinery. The majority of investment was attributable to improvements in production processes aimed at enhancing flow and reducing tied-up capital. Also, all divisions invested in IS/IT system updates focusing on flow and year 2000 compliance.

To secure its leading position in drilling equipment, Atlas Copco Rock Drilling Equipment invested substantial funds in setting up a product development laboratory in Örebro, Sweden. Investment in rental equipment totaled SEK 292 m. (254).

Training

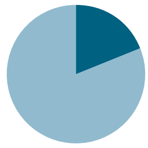
In 1998, several CMT divisions introduced interactive, computer-based training tools for rigs and rock drilling tools which are aimed at customers, staff, and others, meeting a need for deeper and more efficient learning about products and their applications. For example, the Uniroc division published a CD-ROM that teaches how products are manufactured, what accounts for their excellent quality, and what benefits they can provide to customers. The training package serves as an effective complement to "real life" training.

Structural changes

In November 1998, the Atlas Copco Craelius division acquired JKS Boyles, a Canadian manufacturer of diamond coring drills, in-the-hole tools, and drilling accessories. The acquisition fits well with the division's strategy to be recognized as a leading supplier of equipment for exploration drilling.

In addition, synergies in development and production were realized as the former Atlas Copco Robbins division's raise boring business was transferred to Rock Drilling Equipment's facility in Örebro and Uniroc's facility in Fagersta, Sweden. The rest of the Atlas Copco Robbins division was divested in early 1998.

Björn Rosengren Lars Renström John Noordwijk
Claes Ahrengart Kjell Carlsson

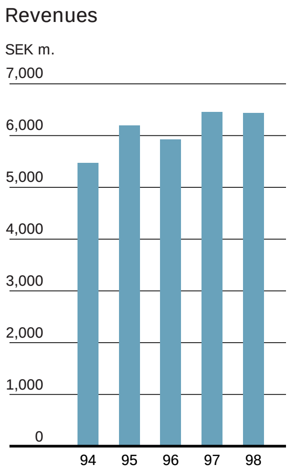


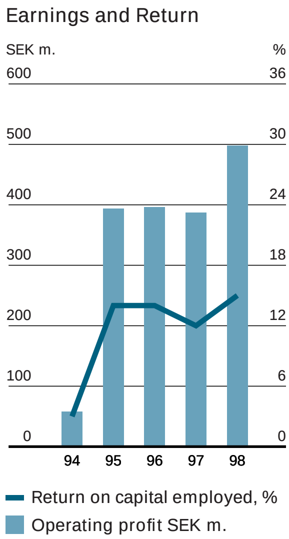
Share of Group revenues 19%

Business Area Executive: Freek Nijdam

Construction and Mining Technique's divisions are:

- Atlas Copco Rock Drilling Equipment, President Kjell Carlsson
- Atlas Copco Craelius, President Björn Rosengren
- Uniroc, President Lars Renström
- Atlas Copco Construction Tools, President Claes Ahrengart
- Atlas Copco Wagner, President John Noordwijk (effective March 1, 1999)





New generation of drill rigs bolsters position

In 1998, Atlas Copco Rock Drilling Equipment introduced a new generation of underground drill rigs. Their innovative design sets new standards for computerization, performance, and modular design.

A few years ago, engineers at Atlas Copco began work on the next generation of drill rigs to meet the demands of civil engineering contractors and mine operators for improved performance and productivity. The first fruits of these efforts were two new drill rigs introduced in 1998.

To improve performance, the engineers designed an innovative computer control system. The system controls the entire drilling cycle, ensuring optimal speed is achieved in every phase of the cycle. In addition, the system can assist the operator in selecting an accurate and optimal drill pattern, which increases the precision with which a tunnel can be excavated and thus reduces costly overbreak.

The system contains an integrated fault location system that makes it possible to detect and correct faults on a rig more quickly and easily. This diagnostic system also provides assistance in service and maintenance.

Also, the modular design of these drill rigs helps reduce down time and increase productivity. The design makes the drill rigs easier to service and significantly cuts the lead time for assembling the rigs.

All in all, the introduction of Atlas Copco's new generation of drill rigs strengthens the Company's position in the underground drill rig market, consolidating its reputation as the pacesetter in drilling technology.

CONSTRUCTION AND MINING TECHNIQUE

Higher productivity and lower operating costs made a new series of core drill bits a success

Atlas Copco Craelius introduced a series of reaming shells and drill bits in 1998 marketed under the name "The Magic Combination." They rapidly won the approval of the core drilling market and proved to be a winner for customers looking for higher productivity and lower costs.

The reaming shells and drill bits feature an innovative design that entails matching the units at exact specifications throughout the manufacturing process. Advantages for the customer include faster penetration rates and longer service life of the reaming shells and drill bits.

The new range also makes it easier for customers to find the correct product for an application.

The best drilling performance has been attained with Atlas Copco Craelius's new computerized rig, but improvements can be achieved with more conventional rigs, too.

Since the products were introduced, sales of reaming shells have doubled, and "The Magic Combination" range now accounts for 35 percent of total drill bit sales.

Atlas Copco Wagner enjoys breakthrough in construction market

Atlas Copco Wagner's loaders and trucks are well established in the mining industry. A push to penetrate the construction market promptly yielded gains in 1998 in the form of two major contracts for hydroelectric power projects.

To meet the productivity demands of mine operators around the world, Atlas Copco trucks and loaders are built to high standards of quality and performance. A growing number of contractors and civil engineering companies are discovering the advantages of Atlas Copco's designs in their operations. Also, Atlas Copco Wagner has begun focusing on accelerated growth in this market segment.

The initial results of these efforts were contracts related to two major hydroelectric power projects in 1998. The first order was awarded in March for the San Roque project in the Philippines. The order encompassed 16 loaders and six trucks. A customized service program was also developed to support the equipment. The second contract comprised 16 trucks, for a hydroelectric power project in the Himalayan Kingdom of Bhutan.

Solid Body Concept makes a difference in hydraulic breakers

With the introduction of a 300-kg hydraulic breaker in 1998, Atlas Copco Construction Tools completed its Solid Body series of hydraulic breakers. The series now consists of six models, ranging from 30 kg to 400 kg for small to medium-sized carriers, particularly well-suited to building renovation.

When it was launched, the Solid Body Concept (SBC) indicated a totally new direction for hydraulic breaker design.

Instead of being made up of parts bolted and welded together, an SBC breaker is cast in one piece. The patented design contains significantly fewer parts and greatly reduced size and weight.

The result is a compact hammer that is virtually maintenance-free, with an exceptionally high degree of reliability and the best power-to-weight ratio in the market. These features have made the hammers popular in quarries and mines as well as construction. While some markets have suffered a decline in new construction over the past few years, renovation and restoration have taken up some of the slack.

The demand for SBC breakers has grown steadily since the concept was first introduced. And increased use of hydraulic breakers in the reconstruction, renovation, and repair of buildings and infrastructure should sustain demand for years to come.

Down-the-hole hammer boosts underground performance

In 1998, Secoroc, a brand in the Uniroc division, launched a series of 3.5-inch down-the-hole (DTH) hammers based on a new concept providing enhanced drill performance and energy efficiency. Getchell Gold compared these new hammers with others and found Secoroc's DTH hammers offer better performance.

In North America, gold mining companies are going underground. Surface deposits are reaching their limits, and continued low cost operation is possible only through large-scale underground mining. However, large ore bodies must be mined selectively because of variations in the grade of the ore. That means companies not only drill underground for blasting and fragmentation but also for ore sampling during production.

Throughout 1998, Getchell Gold in Nevada, a North American gold mining company, used Secoroc's new hammers in different applications to compare them with hammers used previously. The new DTH hammers were a success.

The 100–140 mm hole size of Secoroc's new hammers is ideal for large-scale production drilling underground. They provide the precision and productivity necessary for long hole drilling underground, that is, 20–50 m.

The DTH hammer also has an adapter for ore sampling during drilling, using a reliable and simple technique. This way, a mine operator can continuously monitor ore grade during production drilling.

The new hammers fill a gap in the range of hammers Uniroc offers. They were specially designed for high air pressures (10–25 bar), a growing segment. Higher drilling pressure is more common now than a few years ago. In principle, the drilling pressure is proportional to the penetration rate. Operators are drilling at up to 25 bar nowadays, so productivity has doubled in the past few years.

In addition to greater penetration rates, the new DTH hammers have provided greater overall efficiency for Getchell Gold. The new technology utilizes compressed air energy better, lowering the cost per drilled meter.

Several other mine operators have also taken advantage of the new technology. Consequently, the high-pressure DTH segment is likely to grow in importance for Atlas Copco as more customers learn the advantages of the new hammers.

Fortified Positions in Major Markets

For Industrial Technique strong demand from the engineering, automotive, and construction industries led to a 7-percent rise in sales, to SEK 9,960 m. (9,316). Milwaukee was named Supplier of the Year by several U.S. distributors, and Atlas Copco Industrial Tools and Equipment had another outstanding year in terms of financial performance and research and development.

	1998	1997	1996
Revenues, SEK m.	9,960	9,316	8,128
Operating profit, SEK m.	1,046	942	836
Return on capital employed, %	14	13	12
Investments, SEK m.	338	279	309
Number of employees	7,831	7,898	8,119

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

Sales

Revenues rose 7 percent, to SEK 9,960 m. (9,316). Orders received were up 6 percent, at SEK 9,904 m. (9,334). Sales of industrial tools increased in the European and North American markets and were particularly strong in China, while several smaller markets reported decline.

Earnings

Operating profit advanced 11 percent, to SEK 1,046 m. (942), representing an operating margin of 10.5 percent (10.1). Return on capital employed was 14 percent (13).

Business development

As a whole, the business area enjoyed favorable demand. European and North American markets grew, while the Asia-Pacific area declined, with the exception of China.

Milwaukee's electric tools are marketed and sold through industrial, contractor, hardware, and home center distributors. All of these channels are either focusing on or actually expanding their businesses to reach professional end-users. As the premier brand in this category, Milwaukee has a tremendous opportunity to seize a leading position in all channels by providing the products, training, marketing, and sales support that will enable them to grow among a wide range of professional end-users. In 1998, Milwaukee Electric Tool was named Supplier of the Year for overall quality and exceptional performance in market planning and sales support by several major distributors.

For Industrial Tools and Equipment, business also developed favorably in 1998. Growth remained strong in Europe, was moderate in the United States, and, in spite of instability, remained firm in the Far East and South America.

Atlas Copco Electric Tools capitalized on marketing campaigns tied to the 100-year anniversary of the AEG brand and the 125-year jubilee of Atlas Copco. A series of AEG Golden Tools and an Atlas Copco jubilee range of tools were great successes. However, the division suffered from low demand in Asia as well as price competition in Europe.

Alliance Tools moved forward in its Chicago Pneumatic Automotive business unit as it signed new major customers and enjoyed healthy sales of recently launched products. Chicago Pneumatic's Industrial unit, however, concentrated on consolidating its product ranges to adjust to shifts in customer needs. Georges Renault of France grew its business through exports, mainly to Great Britain and Germany, and also supported its French customers in their plants outside France. Also, synergies between Chicago Pneumatic, Georges Renault, and Desoutter were further exploited in the Alliance Tools division.

Product development

In 1998, Atlas Copco Industrial Tools and Equipment introduced a second generation of handheld grinders with improved operator comfort thanks to a unique turbine motor that dramatically reduced the weight of the tool. Atlas Copco Controls launched a standardized drive system for lift trucks that proved extremely popular.

Atlas Copco Electric Tools developed a new angle grinder – an innovative tool for industrial applications that combines high performance, durability, and an advanced ergonomic design – in cooperation with Industrial Tools and Equipment.

Milwaukee's newly developed electric saw, the Super Sawzall, has set a standard in the industry for performance. Its powerful motor generates 3,200 strokes per minute, making it the fastest cutting reciprocating saw in the market. It has become the hottest selling saw in Milwaukee's successful Sawzall product line.

The Alliance Tools division developed several new products under its three different brands to promote customer efficiency and penetrate new market niches. Chicago Pneumatic launched a new compact air ratchet, a high-performance half-inch impact wrench, and improved chipping and riveting hammers. Desoutter's reengineered screwdrivers represent a segment where the division gained a lead during the past year. Finally, Georges Renault succeeded in reducing the cost of its fastening systems.

Investments

The business area invested a total of SEK 338 m. (279) in property and machinery. 1998 investments were dominated by machinery replacement, flow and quality improvement efforts, and expansion of production capacity. For example, Milwaukee Electric Tool has initiated a major investment in a new integrated information system to enhance material and information flow throughout the division.

All divisions invested to upgrade their IS/IT systems, partly to address Year 2000 compliance.

Training

As Industrial Technique's customers pursue automation and consolidation, knowledge sharing between Atlas Copco and its customers becomes a critical process that must be secured. Here, Industrial Technique's divisions have developed new training concepts that ensure, in a systematized way, that front-line staff can serve customers in the best possible way, and that customers' knowledge and inquiries are taken care of. The more Industrial Technique's customers understand about its products, the more likely they are to choose them.

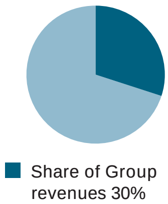
Structural changes

At year-end, the Atlas Copco Electric Tools division decided to integrate the production of Kango products from Bedford, England, with the division's main plant in Winnenden, Germany. The move will be finalized in the first half of 1999 and will improve customer service.

In 1998, Milwaukee Electric Tool divested one plant, outsourcing the production of battery chargers and other electronic devices to focus on core processes and reduce costs.

Atlas Copco Controls, a subdivision of Atlas Copco Industrial Tools and Equipment, finalized the move of a Swiss production unit to its main plant in Tyresö, Sweden.

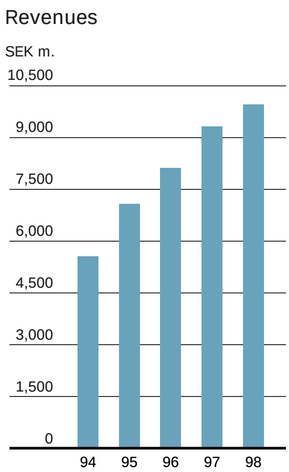
Johan Halling — Richard Grove
Charles Robison — Peter Möller

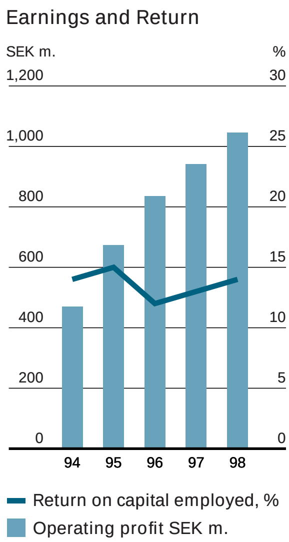


Business Area Executive: Gunnar Palme

Industrial Technique's divisions are:

- Milwaukee Electric Tool, President Richard Grove
- Atlas Copco Electric Tools, Johan Halling (effective March 1, 1999)
- Atlas Copco Industrial Tools and Equipment, President Peter Möller
- Alliance Tools, President Charles Robison





INDUSTRIAL TECHNIQUE

Jaguar model for customer integration promises growth

The Atlas Copco Industrial Tools & Equipment (ITE) division is exploring exciting opportunities for growth through integration with key customers by providing on-site support and service of equipment delivered.

Gary Roberts and his engineers, all employees of Atlas Copco, start their workday by entering the gates of the Castle Bromwich plant of Jaguar Cars Ltd in the U.K. They are part of the Jaguar production team and at a minute's notice are accessible to anyone in the plant. On-site they have a dedicated Atlas Copco area for service and storage of spare parts and products.

To produce its new and well-received S-type sports saloons, Jaguar Cars Ltd selected Atlas Copco as its primary supplier of power tools and assembly systems. The agreement with Jaguar also means that Atlas Copco maintains staff on-site during all shifts for preventive maintenance, training of Jaguar personnel, and application advice. Atlas Copco's objective is to ensure maximum performance in customers' processes through continuous improvement of quality and efficiency.

The ITE division has undertaken in-house service support contracts in other parts of the world, but this is one of the most comprehensive. It is a logical result of trends in the manufacturing industry, an arrangement that benefits both parties. Customers want to reduce the number of suppliers and increase each supplier's responsibility. This presents Atlas Copco with an excellent opportunity, as the Group's ambition is to be close to its customers and grow by assuming greater responsibility related to the use of its products. Such an arrangement also leads to enhanced understanding of customer applications in processes, which is very important for feedback into research and development.

The ITE division aims to significantly boost the proportion of sales attributable to the use of its products, by implementing this customer integration model in other plants, following its success at Castle Bromwich.

Lift truck industry expands use of Atlas Copco electric drive systems

Focused efforts to develop innovative solutions for forklift trucks, in close cooperation with leading manufacturers, have resulted in a breakthrough for Atlas Copco's electric drive systems in this market segment.

Atlas Copco Controls designs and manufactures electronic drive systems for electric motors. The products are used to control the motion of different types of industrial products, such as robots, packaging machinery, and electric lift trucks.

In 1993, Atlas Copco Controls formed a team to focus on the development of drive systems for electric lift trucks. This originated in collaboration with BT Industries, the leading forklift truck manufacturer in Sweden. These efforts resulted in a series of innovative products and steadily growing sales. Today, Atlas Copco is a leading supplier of drive systems to this thriving industry.

The new drive systems make lift trucks more productive and more reliable. Productivity improves thanks to better acceleration and speed, and down time decreases because electric motors used with the drive systems are virtually maintenance free.

These new electronic drive systems are so far only used in a small portion of all electric lift trucks produced in the world. But that portion is growing fast, as more manufacturers learn the advantages of the systems.

Desoutter poised to lead appliance market with product launch

Desoutter has launched a new screwdriver targeted at the appliance segment. The product has been well-received in the market, and sales in this product class are expected to increase significantly.

Over the past two years, Desoutter has focused on the appliance manufacturing industry with the goal of becoming market leader. The latest product introduced in this battle to the top is the new screwdriver, launched in May 1998.

The screwdriver is intended to be used in production line applications, in the appliance industry, with low torque requirements, such as the assembly of computer components or food processors.

The screwdriver responds to the growing importance attached to ergonomics and operator safety by hand tool customers around the world. The screwdriver was designed to be user-friendly, minimizing operator fatigue. Key ergonomic product design features include its light weight, small size, and ergonomic grip.

Other features include a tamper-proof torque setting, a low button or rotary reverse options, and the choice of three speeds. The new product range offered is fully modular to allow customers maximum flexibility.

The screwdriver also fulfills Desoutter's aim of constantly reducing product development time and cost. By using rapid prototyping and proven technology, the screwdriver was taken from concept to launch in 18 months, resulting in fewer parts and lower product costs.

The company intends to apply the product styling and ergonomic features of the screwdriver in the development of future products. By designing a complete range of screwdrivers catering to the needs of the market, Desoutter aims to become the customer's first choice.

INDUSTRIAL TECHNIQUE

Milwaukee Electric Tool invests to enhance delivery

Milwaukee Electric Tool Corporation's leadership position is partly based on its reputation for delivery excellence. To meet and exceed demands made by distributors and professional customers, the company invests on an ongoing basis to improve its processes. Such investments steadily raise standards for delivery excellence.

Milwaukee Electric Tool's distribution center in Olive Branch, Mississippi, is located near Memphis, Tennessee, known as the distribution capital of the United States. Here, Milwaukee recently installed a state-of-the-art carousel picking system. The system includes automatic conveyors, flow-through racks, and carousels. It is used to pick, pack, and ship Milwaukee's fastest moving power tool accessories and power tool repair parts.

The picking system starts with print-outs of customer orders as bar-coded documents. The information is scanned so the system can automatically route each order container. Containers stop at the flow-through racks and carousels that contain inventory needed to fill the orders. After an operator at a carousel scans an order, inventory racks in the carousel move to bring the materials to the operator. Computerized read-outs tell the operator the specific location of a component in the racks and the quantities required to accurately fill that order. After the order container has visited each location necessary to complete its order, the system sends the container to the packing and shipping area.

The new system has significantly improved order picking accuracy and distribution center productivity. It has also enhanced the distribution center's ability to provide customers with same day shipments.

Indy racing campaign heightens brand awareness

The Alliance Tools division manages some of the Group's important brands. Each year, the division invests in building and strengthening these brands. One example is the Chicago Pneumatic Indy racing campaign, revolving around the sponsorship of two-time Indy 500 winner Arie Luyendyk and the Treadway racing team.

The Automotive Business Unit launched the Indy campaign in 1998 to foster brand awareness. To ensure maximum exposure, the campaign included a fully integrated marketing and advertising program.

New products were introduced through advertisements that appeared in key trade publications. The ads highlighted the reliance of driver Luyendyk and his crew on Chicago Pneumatic products. "At over 200 mph, I've got enough to worry about. That's why I trust Chicago Pneumatic's Tools!" one headline read.

A variety of sales promotion items were given to customers who purchased featured products. In addition, one lucky customer won a "Work the Pits" contest sponsored by Chicago Pneumatic and spent an exhilarating day in the pits with the Treadway crew during an Indy race in Atlanta.

The campaign has proven a success. Products introduced during the campaign have been extremely well received, and the overall response and resulting sales have been overwhelming. In addition to the highly visible advertisements and tie-in sales promotions, which run throughout the campaign, Chicago Pneumatic received wide exposure throughout the industry – as well as among the general public – from the prominent placement of its logo on the front of Arie Luyendyk's No. 5 Indy racing car.

The sponsorship and campaign activities will continue in 1999.

Motor racing is the largest spectator sport in North America, and an extremely high percentage of attendees repair automobiles professionally or work on their own cars. Those groups will be the focus of Chicago Pneumatic in 1999 as it makes the most of the momentum from its Indy campaign.

Excellence in Sales

Every year, the Atlas Copco Group recognizes outstanding sales performance. In 1998, many significant efforts were made in sales companies around the world.

Krister Torssell, Product Line Manager for electric vehicle drives (EVDs) at Atlas Copco Controls, has been instrumental in the strong sales growth of the EVD product line for several years. Thanks to his and his group's persistent efforts, the recent launch of the AC SuperDrive, a new type of motor drive system for forklift trucks, has been a great success.

Marek Brociek, Oil-free Air Business Manager in Poland, has worked steadily during the past few years to promote Atlas Copco products and build trusting relationships with industrial customers. His efforts led to substantial sales growth in 1997 and 1998, as he closed numerous major compressor orders and achieved breakthroughs in key sectors such as the automotive and cement industries.

Lars Gellerhed, Product Manager for Industrial Air compressors in the Nordic region, has promoted, trained, and assisted the Nordic sales team in special selling techniques for the variable speed drive (VSD) concept. With his extensive technical knowledge and enthusiasm, he succeeded in boosting the sales of VSD compressors in the Nordic market more than 70 percent.

Steve Snyder, Salesman for Applied Compressor Technique (ACT) in Houston, Texas, concentrates on process business. His accounts have been primarily engineering and construction firms, large chemical and petrochemical customers, and petroleum refiners. The orders he won crossed product lines and included the first centrifugal compressors purchased by Exxon in the U.S. and one of the first magnetic bearing process gas expander systems installed for non-platform operation.

John Erickson, Prime Service in the U.S., has steadily increased his sales volume every year. He takes a balanced approach to sales and has had success with new as well as used equipment, parts and merchandise, and even rentals. He approaches his task creatively, looking for new ways to expand sales in his territory, including successful regional agreements and sole source regional and national agreements.

Osvald Inderberg is the Marketing Manager for geotechnical equipment in Norway. He always works closely with customers, listening to their needs and trying to satisfy their requests. In four years, he doubled the sales of Atlas Copco Craelius equipment in Norway. His efforts made the company the market leader in grouting equipment, core-drilling products, and consumables.

Snehathi Roy, is responsible for Atlas Copco's regional office for construction and mining equipment in Calcutta, which covers Eastern India, Nepal, Bhutan, and Bangladesh. Snehathi has worked every level – from the grassroots to government authorities – to sell in Atlas Copco's equipment in the region. His efforts resulted in major orders for drilling rigs, trucks, and parts.

Kate Holding, Sales Engineer for compressors in the U.K., has demonstrated her capability in several outstanding successes since she joined Atlas Copco in 1996. Recently, she has won substantial orders for generators and portable compressors in this competitive market.

Mark Jones, Area Sales Manager for Electric Tools in the U.K., identified the potential in Wales right from the start, although it had not been covered in the past. He has opened more than 30 accounts, which gave Atlas Copco depth in its coverage of new purchases and after-sales support. Moreover, the area was the source of a few outstanding sales thanks to the sound distributor base established.

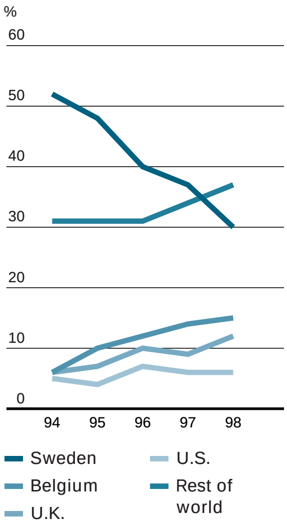
Chuck Patton works as a Salesman for Milwaukee in Las Vegas, Nevada. He increased sales in his territory by 34 percent through promotions with his industrial and construction distributor accounts. He has been involved in training sessions at distributors and home centers to be sure their employees understand the tools and can help end-users make appropriate selections. He also works with end-users to demonstrate the benefits of our tools.

Karl-Heinz Wennmohs, Business Manager for rock drilling equipment in Germany, has built up excellent business relationships with his customers and amassed extensive know-how concerning applications, products, and the competition. He has also won and defended major shares of his market. He has placed Atlas Copco equipment in many interesting projects in 1998.

International Assignments Play Major Role

Atlas Copco is an international group of companies and a market leader in a broad and diverse range of activities. Naturally, people are crucial to the Group's success, and competencies must continuously be developed throughout the organization worldwide. There needs to be a constant focus on expanding the knowledge and experience of people who share the Group's values and improving the organization's ability to benefit from these people's growth.

Percentage of Expatriates from Dominant "Home" Countries



One impetus is diversity. We need people of differing backgrounds, experiences and perspective working together in full-time positions and in project teams. To achieve this and also take advantage of the international reach of operations, an internal job market was launched in 1991 (presented in the Annual Report 1995). As a result information about all vacant managerial positions is distributed to every corner of the Group, so suitable candidates anywhere can apply directly. To augment this, in 1994 significant changes were made to the policy governing how international assignments are handled, to encourage a more international mix of people working in the Group.

The results? Moving abroad for a new assignment is a natural step in a person's development within the Atlas Copco Group. To illustrate, since 1991 at least 80 percent of the Group's most senior managers have changed jobs, and most of them countries. Since 1994, the number of employees working on expatriate contracts has risen 20 percent. The mix of home countries (currently 32) has become more internationally balanced, as shown in the diagram. The Group now has expatriates working in 50 countries worldwide.

A Key Task for Expatriate Managers: Training Local Talent

As Atlas Copco continued to invest in China in 1998, the Group stepped up its activities to ensure that local Chinese employees are well trained and that current and future local managers continuously develop their competencies.

Structured training programs were put in place to cultivate skills necessary for the Group. For most people, the programs entail operational training followed by financial instruction. Management program topics include leadership, communication, and operational management. The training is conducted in Chinese in cooperation with one of China's most reputable universities, Jiang Tong University in Shanghai. The university's professors bridge Chinese traditions and modern management concepts. Sessions are also held on Atlas Copco topics such as corporate culture and vision and beliefs. Formal training is complemented by day-to-day coaching by expatriates with extensive management experience.

Environmental Concern from Design to Scrapping

For a long time, Atlas Copco has been a leader in developing products with environmental and ergonomic features. When the environment and ergonomics are in focus from the design stage on, users avoid adverse impacts, and products produce savings for users and the environment. In production and distribution, many actions are taken to reduce waste, energy consumption, and harmful emissions.

In 1998, work introducing the Environmental Management System in the Group's production sites continued. All divisions made progress, and many are already working with the system, which is the step before the certification audit.

The largest site, Atlas Copco Airpower, Belgium, successfully completed its audit for ISO 14001 certification in December 1998. Consequently, at year-end 1998 about 35 percent of Atlas Copco's production capacity had ISO 14001 certification, and another 25 percent is under way. The goal is to have all major sites certified by the year 2000.

Atlas Copco also revised its Environmental Policy in 1998 and gave it a new form to clearly distinguish the policy from the vision and implementation phase. The policy is available on the Internet, at www.atlascopco.com.

Built into the products

Atlas Copco continued to invest substantial resources in developing products that are compatible with the environment. R&D focused on products that consume less energy, produce less noise and vibrations, and are safer to operate.

One result of this focus is the new generation of industrial compressors, equipped with a frequency-regulated drive motor which regulates the speed with a minimum of efficiency loss. Energy savings are in many cases as much as 30 percent annually. Considering that a compressor has a long lifetime, the new generation means considerable cost savings and a positive environmental effect. The new range of compressors was very well received by the market.

Another good example of this process is the new drilling rigs, which can be equipped with dust collectors that prevent drill dust from being released into the air.

The waste flow

Product companies as well as sales companies are actively managing their waste flows. In offices, paper is separated from other waste for recycling. Atlas Copco product companies further sort paperboard, wood, plastic, metals, chemical waste, and waste containing oil. Systems with clear indicators and color coding for the different types of waste are displayed at various locations. Specialized companies take care of and recycle or destroy the waste.

In some sales companies, the service organization works with oil companies in a return system for used oil from oil changes.

Thorough planning of transports

Product transportation was identified at an early stage as having a significant environmental impact to be dealt with. The distribution system requires a high degree of accuracy, as the Group works with daily direct deliveries from strategically located distribution centers.

In Europe, most products are shipped on trucks nowadays. In supplier evaluations of transportation companies, their environmental characteristics are specifically looked at. Projects are also under way in the Group testing rail as an alternative to road transport, as well as sea transport based on a roll-on, roll-off system.

To benefit from high volumes and consequently minimize transport requirements, Power Tools Distribution in Belgium, a distribution center, has expanded to serve four divisions and nine production units. Here, loading methods are studied in detail to reduce the number of truckloads. In some cases, trucks are even loaded with goods from other companies to be filled up at our distribution center, or a "loose loading" system is used to fill the available loading volume to an optimum.

Reduction of packages

In the product companies, incoming goods are frequently received and unpacked into specially designed reusable containers for direct use in assembly lines. This is but one example of how Atlas Copco is reducing unnecessary packaging.

Machinery once packed in a wooden box or crate nowadays is shipped, to a large extent, on a wooden platform and covered with a plastic sack that can be recycled. This has drastically reduced wood waste in our operations. Loose loading mentioned above has reduced the use of wood an additional 20 percent, as it does away with pallets. Packing materials of today are often made from recycled materials, and reuse of boxes and pallets is now standard practice.

Year 2000 Readiness

In March 1996, Atlas Copco initiated a Group-wide effort regarding the year 2000 readiness of its computer systems. The Group management appointed Atlas Copco's Information Systems Council responsible for internal coordination of the Year 2000 issue.

Operational organization

In each division in the Group, a Year 2000 project has been organized based on the division's needs, and a person has been appointed to take responsibility for compliance. The divisions evaluated all factors critical to their operations and subsequently developed action plans to resolve potential Year 2000 compliance problems. One example is the Wagner division, which identified 32 project elements. Each project element was assigned a team leader, priorities were set for each project team, and each team developed an action plan. By year-end 1998, two-thirds of all elements had been completed, while actions on the remaining elements had been planned and were being carried out.

Year 2000 Follow-Up is an item on the agenda of the Business Board at each division and site, and status reports from the project teams are a mandatory item at Board meetings.

Business systems

A key Year 2000 issue is the compliance of the divisions' business systems at product companies, distribution centers, and sales companies. The results of the Group-wide survey showed that many divisions had systems that were not Year 2000 compliant, meaning they had to be upgraded to current platform versions or be replaced by new business systems.

In the Industrial Technique business area for example, some product companies had an administrative system that had no Year 2000 compliant versions available. In such cases, projects were launched to replace old computer systems with new software for production, finance, and distribution. Schedules call for finalizing these projects by mid-1999 at the latest.

Many sales companies had a business system that had been adapted to specific needs and was thus not supported by the software provider and was also impossible to upgrade to Year 2000 compliance. All business areas faced similar problems, so they coordinated projects to convert to new releases of their systems. Most of these projects were finalized in 1998.

Manufacturing equipment

All production equipment, from machine controllers to postage machines, has been checked for Year 2000 compliance. Where action was needed, steps have been or are being taken towards compliance. Some sites have utilized automated equipment for manufacturing, warehousing, or distribution that could contain embedded processors or systems which could be vulnerable to the Year 2000 problem; those sites have implemented programs to verify compliance in such processors and systems. In addition, on several occasions Atlas Copco's Information Systems Council advised all production sites to evaluate equipment that is not obviously susceptible, such as heating and air-conditioning, security, testing, and other types of equipment.

Products

The divisions have each evaluated potential product compliance situations that might need to be evaluated and potentially addressed. In the compressor ranges, for example, the Elektronikon®, which is the most common control device used in the products, has been verified as Year 2000 compliant in all tests conducted thus far.

To support customers, the Company has issued a Year 2000 declaration for this product. The Atlas Copco web site is being modified to include a statement of compliance for the Elektronikon® and an easy method for customers to send Year 2000 product compliance requests to the appropriate Atlas Copco local sales representative. Declarations for other products sold by the Group are also available on the Internet.

Business partners

The operations of Atlas Copco's computer systems are vulnerable to third parties', principally suppliers', possible failure to remedy their own Year 2000 issues. Strategic suppliers to the Group have been requested to report on their computer systems and products and the degree to which they are Year 2000 compliant. Their replies have been reviewed, and in the case of non-compliance, the compliance process has been followed closely. Other business partners, such as agents, distributors, and banks, have also been questioned, and whenever necessary their compliance process was also monitored.

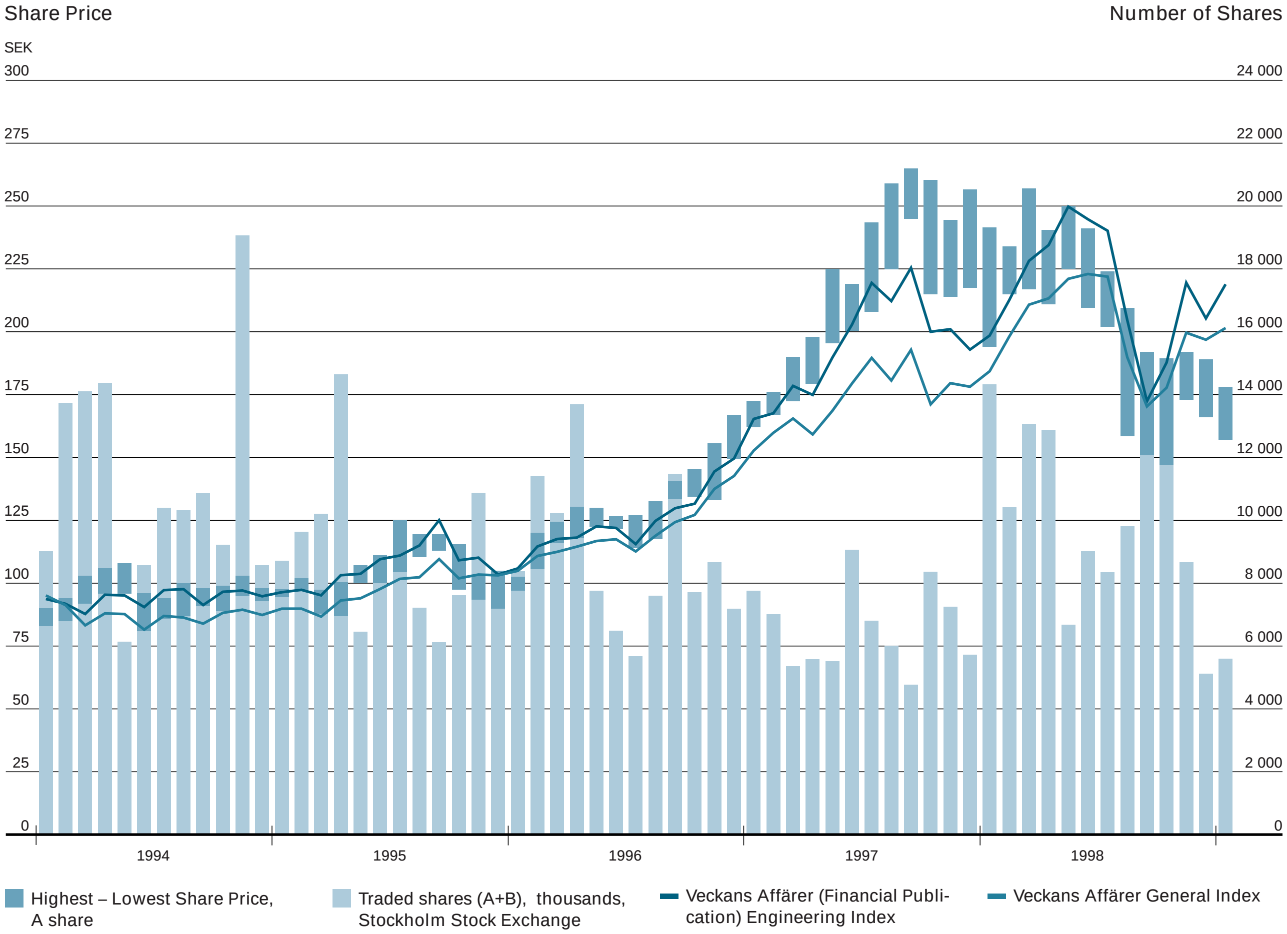
The Atlas Copco Share

At December 31, 1998, the price of the Atlas Copco A share was SEK 178. During 1998, the price of the A share decreased 25 percent, while the Stockholm Stock Exchange's Engineering Index rose 6 percent and the General Index rose 10 percent. The annual total yield on the Atlas Copco A share, equal to the dividend plus the appreciation of the share price, averaged 18.6 percent for the past 10 years and 18.8 for the past five years. The corresponding total yield for the Stockholm Stock Exchange as a whole was 15.1 percent (1989–1998) and 21.6 percent (1994–1998).

Share capital

Atlas Copco's share capital at year-end 1998 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 100 shares.

At year-end 1998, Atlas Copco had 34,544 shareholders. The proportion of shares held by institutional investors was 66.4 percent. The 10 largest shareholders accounted for 55.5 percent of the voting rights and 51.1 percent of the



number of shares. Non-Swedish investors held 26 percent (33) of the shares and represented 24 percent (30) of the voting rights.

Distribution of Shares

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

Ownership structure, December 1998

Number of shares	% of shareholders	% of capital
1 – 500	73.6	2.4
501 – 2,000	20.1	3.8
2,001 – 10,000	4.6	3.6
10,001 – 50,000	1.0	4.1
50,001 – 100,000	0.2	2.7
< 100,000	0.5	83.4
Total	100.0	100.0

Shareholders by Country, December 1998

	% of votes	% of capital
Sweden	75.7	74.4
Great Britain	8.2	7.8
United States	6.9	8.9
Belgium	2.0	1.8
France	1.8	1.3
Luxembourg	1.0	1.3
Others	4.4	4.5
Total	100.0	100.0

Largest Shareholders, December 1998

	Number of shares	% of votes	% of capital
Investor Group	27,522,100	21.4	15.0
FöreningsSparbanken Group	29,602,366	15.0	16.1
Fourth National Pension Insurance Fund	7,240,650	4.5	3.9
Svenska Handelsbanken Group	5,958,293	3.1	3.2
SEB Trygg Group	6,194,636	2.9	3.4
SPP Group	7,739,135	2.6	4.2
Skandia Group	4,164,316	1.8	2.3
Fifth National Pension Insurance Fund	2,258,700	1.8	1.2
Scudder International	1,573,206	1.2	0.9
Banco Group	1,683,510	1.2	0.9
Others	89,579,008	44.5	48.9
Total	183,515,920	100.0	100.0

The table above shows the largest shareholdings directly registered with VPC, the Swedish securities register center.

Market capitalization

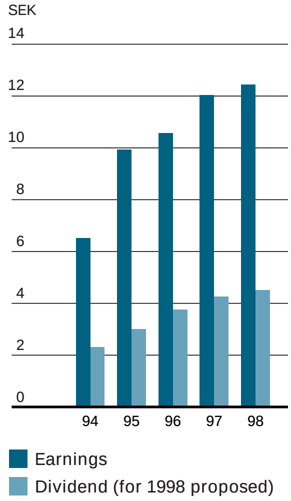
Atlas Copco's market capitalization at December 31 was SEK 32,544 m. (43,463), which corresponds to 1.3 percent (2.4) of the total market value of the Stockholm Stock Exchange.

Dividend policy

The Board's goal is for dividends to shareholders to correspond to 30 to 40 percent of earnings per share. Atlas Copco AB's aim is to cover the majority of dividend payments with dividend income from subsidiaries.

If shareholders approve the Board of Directors' proposal for a dividend of SEK 4.50 per share for fiscal 1998, the average dividend growth for the five-year period 1993– 1998 will equal 20 percent. During that period, the dividend has averaged 34.5 percent of earnings per share. Expressed as a percentage of shareholders' equity, the dividend proposed for fiscal 1998 is 5.4 percent (5.7).

Earnings and Dividend per Share



Trading

Trade in the Atlas Copco share is concentrated to the Stockholm Stock Exchange. In 1998, the Atlas Copco share was the 19th (20th) most actively traded share on the Stockholm Stock Exchange. A total of 124,777,000 shares were traded (80,323,000 class A, 44,455,000 class B), corresponding to a value of SEK 25,461 m. (16,840). On average, 499,110 shares (318,097) were traded each business day. The turnover rate (degree of liquidity) in 1998 was 66 percent (41), compared with the stock market average of 76 percent (66). As of November 1998, foreign trading in the Atlas Copco share showed a net import of SEK 1,857 m. (1997 total: net import 2,035). 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.

In 1990, a program for American Depositary Receipts (ADRs) was established in the United States. Hence, both A and B shares are available as depositary receipts in the United States without being formally registered on a stock exchange. One ADR corresponds to one share. The depositary bank is Citibank NA. At year-end 1998, there were 706,790 depositary receipts outstanding, of which 290,229 represented class A shares and 416,561 class B.

Atlas Copco options

The Atlas Copco options listed on the Stockholm Option Market (OM) consist of call options and put options, each associated to 100 shares. Option contracts traded in 1998 corresponded to approximately 11.1 million shares (4.6), or about 6 percent (3) of the total number of Atlas Copco shares. Each day, an average of 44,500 Atlas Copco shares is affected by trading in options. Because the options confer on the holder the right to buy or sell existing shares only, the options have no dilution effect.

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, reflecting how it has tracked the stock exchange index during the preceding 48 months. At December 31, 1998, the beta value of the Atlas Copco A share on the Stockholm

Stock Exchange was 0.99 (0.91). This means that the share fluctuated 1 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 the Atlas Copco A share, the characteristic value is 0.43 (0.38), which means that 57 percent (62) of changes in the share price is company-specific.

Per Share Data

SEK	1993	1994	1995	1996	1997	1998	Avg. growth 93–98, %
Earnings [1]	4.74	6.51	9.93	10.56	12.03	12.44	21
Dividend	1.80	2.30	3.00	3.75	4.25	4.50 [2]	20
Dividend as percent of earnings [3]	38.0	35.4	30.2	35.5	35.3	36.2	
Offer price, Dec. 30, A	83	95	102	165	237	178	16.5
Offer price, Dec. 30, B	82	95	100	166	237	176	16.5
Highest price quoted, A	86	108	125	167	266	257	
Lowest price quoted, A	60	81	87	97	161	147	
Average price quoted, A	70	94	103	127	214	205	
Equity [4]	46	51	58	65	74	84	13
Direct yield, percent [5]	2.6	2.4	2.9	3.0	2.0	2.2	
Price/earnings [6]	14.9	14.5	10.4	12.0	17.8	16.5	
Price/sales [7]	0.68	0.83	0.77	0.93	1.31	1.12	

1) Profit after financial items, less full tax and minority interests, divided by the average number of shares outstanding.
2) Proposed by the Board of Directors.
3) Dividend divided by earnings per share.
4) Equity and minority interest divided by the number of shares.
5) Dividend divided by the average price quoted during the year.
6) The average price quoted during the year divided by earnings per share as defined in 1).
7) The average quoted price during the fiscal year divided by sales per share.

Share Issues 1973–1998

				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.
** In connection with the acquisition of The Robbins Company.

Five Years in Summary

Atlas Copco Group

SEK m. unless otherwise noted.*	1994	1995	1996	1997	1998
Operating profit	1,890	2,665	2,931	3,813	4,345
Operating profit margin, %	9.0	10.9	11.7	12.7	12.9
Profit after financial items	1,955	2,840	3,070	3,520	3,637
Profit margin, %	9.3	11.6	12.2	11.7	10.8
Profit for the year	1,194	1,823	1,938	2,208	2,283
Return on capital employed, %	18.4	22.4	21.2	21.1	17.2
Return on equity, %	13.7	18.6	17.5	17.6	16.1
Equity/assets ratio, %	51.1	47.8	51.8	39.2	41.6
Earnings per share, SEK	6.51	9.93	10.56	12.03	12.44
Dividend per share, SEK	2.30	3.00	3.75	4.25	4.50**
Orders received	21,701	24,843	25,159	30,685	32,979
Revenues	20,914	24,454	25,121	30,032	33,740
Change, %	+11	+17	+3	+20	+12
Sales outside Sweden, %	95	96	96	97	97
Net interest expense	57	129	127	–306	–680
As percent of revenues	0.3	0.5	0.5	–1.0	–2.0
Interest coverage ratio	6.7	8.7	10.6	6.5	4.9
Cash flow from operations after financial items	1,376	1,530	1,920	3,878	2,149
Total assets	18,198	22,106	23,175	34,790	37,166
Assets/liabilities ratio	2.0	1.9	2.1	1.6	1.7
Current assets/current liabilities ratio	2.0	1.7	1.9	1.0	1.3
Debt/equity ratio, %	3.8	29.9	15.8	74.9	65.0
Capital turnover ratio	1.16	1.19	1.11	1.08	0.94
Investments in property and machinery	632	711	822	840	853
As percent of revenues	3.0	2.9	3.3	2.8	2.5
Investments in rental equipment	169	228	336	920	1.594
As percent of revenues	0.8	0.9	1.3	3.1	4.7
Average number of employees	18,104	19,751	21,085	22,296	23,857
Revenues per employee, SEK thousands	1,155	1,238	1,191	1,347	1,414
Value added per employee, SEK thousands	480	512	496	586	627

* For definitions, see page 35.

** According to the Board of Directors' proposal.

Quarterly Data

Revenues by Business Area and Quarter

				1997				1998
	I	II	III	IV	I	II	III	IV
Compressor Technique	2,809	3,280	3,950	4,224	4,209	4,375	4,219	4,540
Construction and Mining Technique	1,458	1,743	1,557	1,695	1,479	1,816	1,492	1,650
Industrial Technique	2,139	2,355	2,286	2,536	2,420	2,485	2,400	2,655
Atlas Copco Group	6,406	7,378	7,793	8,455	8,108	8,676	8,111	8,845

Earnings by Business Area and Quarter

				1997				1998
	I	II	III	IV	I	II	III	IV
Compressor Technique	462	581	730	764	704	718	719	708
Construction and Mining Technique	90	126	91	80	104	155	113	126
Industrial Technique	218	258	196	270	260	264	241	281
Corporate items	–22	–8	–24	1	–25	–25	–7	9
Operating profit after depreciation	748	957	993	1,115	1,043	1,112	1,066	1,124
Financial items	–13	27	–147	–160	–162	–169	–199	–178
Profit after financial items	735	984	846	955	881	943	867	946

Group Management

Giulio Mazzalupi
President and Chief Executive Officer. Employed since 1971. Born 1940. Stockholdings: 4,000 A, 4,410 A call options.

Bengt Kvarnbäck
Senior Executive Vice President Compressor Technique. Employed since 1992. Born 1945. Stockholdings: 9,950 A, 50 B, 2,600 A call options.

Freek Nijdam
Senior Executive Vice President Construction and Mining Technique. Employed since 1970. Born 1940. Stockholdings: 400 A, 2,600 A call options.

Gunnar Palme
Senior Executive Vice President Industrial Technique. Employed since 1980. Born 1954. Stockholdings: 1,000 A, 2,600 A call options.

Hans Ola Meyer
Finance. Employed since 1991. Born 1955. Stockholdings: 500 A, 2,600 A call options.

Lennart Johansson
Controlling, accounting and auditing. Employed since 1987. Born 1955. Stockholdings: 1,118 A call options.

Marianne Hamilton
Organization development and management resources. Employed since 1990. Born 1947. Stockholdings: 2,700 A, 1,250 B, 2,600 A call options.

Hans Sandberg
Legal. Employed since 1975. Born 1946. Stockholdings: 1,000 A, 1,118 A call options.

Arthur J. Droege
Regional Executive Asia Pacific and responsible for projects in Asia. Employed since 1976. Born 1948. Stockholdings: 0.

Hans W. Brodbeck
Regional Executive Latin America. Employed since 1969. Born 1940. Stockholdings: 0

Board of Directors and Auditors


Anders Scharp


Tom Wachtmeister


Gösta Bystedt


Sune Carlsson


Paul-Emmanuel Janssen


Lennart Jeansson


Hari Shankar Singhania


Michael Treschow

Honorary Chairman

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

Board of Directors

Anders Scharp Chairman (1992). Born 1934. Chairman of the Boards of SKF, Saab, Scania, and The Swedish Employers' Confederation. Vice Chairman of the Board of Investor AB. Board member of Email (Australia) and The Federation of Swedish Industries. Stockholdings: 25,000 A.

Tom Wachtmeister Vice Chairman (1975). Born 1931. Employed by Atlas Copco 1959–1991. President and CEO 1975–1991. Member of the Boards of Norsk Hydro (Norway), North Atlantic National Resources, and The Svenska Dagbladet Foundation. Chairman of Swedish Taxpayers' Association and Sweden-China Trade Council (SCTC). Vice Chairman of the General Export Association. Stockholdings: 92,000 A.

Gösta Bystedt (1987). Born 1929. Vice Chairman of the Boards of Electrolux, Kalmar Industries and Axel Johnson. Member of the Board of The Federation of Swedish Industries. Stockholdings: 12,330 A, 1,665 B.

Sune Carlsson (1997). Born 1941. President and Chief Executive Officer of AB SKF. Member of the Board of AB SKF. Stockholdings: 0.

Paul-Emmanuel Janssen (1994). Born 1931. Honorary 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, Solvac (Solvay group) and Lhoist. Chairman of the Board of Directors of Atlas Copco Airpower, Belgium. Stockholdings: 1,125 B.

Lennart Jeansson (1997). Born 1941. Executive Vice President AB Volvo. Member of the Boards of AGA and Bilia. Stockholdings: 1,000 A.

Hari Shankar Singhania (1996). Born 1933. President, J.K. Organisation (India). Chairman of e.g. Atlas Copco (India), J.K. Industries and J.K. Corp Ltd. Member of the Board of Commonwealth Development Corporation, UK. Former President of the International Chamber of Commerce. Stockholdings: 0.

Michael Treschow (1991). Born 1943. President and Chief Executive Officer of Electrolux. Chairman of Swedish Trade Council, Vice Chairman of Saab Automobile. Member of the Boards of e.g. Electrolux and Investor AB. Stockholdings: 27,555 A, 530 B.


Giulio Mazzalupi


Jacob Wallenberg


Tore Hedberg


Bengt Lindgren


Lars-Erik Soting


Håkan Hagerius


Sune Kjetselberg


Stefan Larsson





Stefan Holmström
Peter Markborn

Thomas Jansson
Björn Sundkvist

Giulio Mazzalupi (1990). Born 1940. President and Chief Executive Officer of Atlas Copco. Employed by Atlas Copco since 1971. Member of the Board of Electrolux-Zanussi and Parker Hannifin (USA). Stockholdings: 4,000 A, 4,410 A call options.

Jacob Wallenberg (1998). Born 1956. Chairman of the Board of SEB. Executive Vice President of Investor AB. Member of the Board of WM-data AB, Investor AB, AB Electrolux and of the Knut and Alice Wallenbergs Foundation. Stockholdings: 23,325 A.

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.

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

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

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 Metal Workers' Union, Tierp. Stockholdings: 0.

Stefan Larsson Deputy Member (1998). Born 1967. Chairman, Atlas Copco local association of the Swedish Graduate Engineers, Atlas Copco Rock Drills, Örebro. Stockholdings: 0.

Auditors

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

Peter Markborn (1998) Born 1945. Authorized Public Accountant, Arthur Andersen AB.

Thomas Jansson (1998) Born 1950. Authorized Public Accountant, Deputy KPMG Bohlins AB.

Björn Sundkvist (1998) Born 1953. Authorized Public Accountant, Deputy Arthur Andersen AB.

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 20, 1999, at 5 p.m. in Berwaldhallen, Strandvägen 69, Stockholm.

Financial information from Atlas Copco

Atlas Copco will publish the following financial reports on 1999 operations:

President's Address to Shareholders at the AGM	April 20, 1999
Interim Report on the first three months of operations	April 20, 1999
Interim Report on the first six months of operations	August 12, 1999
Interim Report on the first nine months of operations	October 26, 1999
1999 Preliminary Year-end Report	February 14, 2000
1999 Annual Report	March 2000

Atlas Copco's Annual Report can be ordered through Atlas Copco AB, Corporate Communications, SE-105 23 Stockholm, Sweden, fax: +46-8-643 3718, or www.atlascopco.com

Analysts following Atlas Copco

ABG Securities, London	*Klas Andersson*
Alfred Berg, Stockholm	*Magnus Behm*
Aros Securities, Stockholm	*Per Colleen and Mikael Sens*
Carnegie, Stockholm	*Ola Asplund*
Cheuvreux de Virieu Nordic, Stockholm	*Peter Karlsson*
CS First Boston, Boston	*John E McGinty*
Deutsche Morgan Grenfell, Stockholm	*Hans-Olov Bornemann*
Dresdner Kleinwort Benson, London	*Peter Lawrence*
Enskilda Research, London	*Erik Schødt*
Fischer Partners Fondkommission, Stockholm	*Henrik Moberg*
FöreningsSparbanken, Stockholm	*Mats Larsson*
Goldman Sachs, London	*Johan Trocmé*
Handelsbanken, London	*Niklas Tollsten*
JP Morgan, London	*Niall O'Connor*
Lehman Brothers, London	*Michael Hagmann*
MeritaNordbanken, Stockholm	*Mathias Wallerström*
Morgan Stanley, London	*Gideon Franklin*
Myrberg Fondkommision, Stockholm	*Örjan Rödén*
Orkla Securities, Stockholm	*Anders Roslund*
Paribas, London	*Christian Diebitsch*
Penser Fondkommission, Stockholm	*Johan Sivander*
Sanford Bernstein, New York	*Lisa Shalett*
Warburg Dillon Read, Stockholm	*Patrik Sjöblom*
Öhman Fondkommission, Stockholm	*Ylwa Häggström*

www.atlascopco.com

At www.atlascopco.com, we provide continuously updated financial information, presentation materials, press releases, product information and contact information, on the Internet. A visit to Atlas Copco's web site is a great way to learn more about the Group.

Addresses

Atlas Copco AB
SE-105 23 Stockholm, Sweden
Phone: +46-8-743 8000
Fax: +46-8-644 9045
Internet: www.atlascopco.com
Reg. no.: 55 60 14-2720

Atlas Copco AB
A Public Company (publ)

Compressor Technique Divisions

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

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

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

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

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

Prime Service
Suite 200
16225 Park Ten Place,
Houston, TX 77084, U.S.
Phone: +1-281-578 5600
Fax: +1-281-647 2412

Construction and Mining Technique Divisions

Atlas Copco
Rock Drilling Equipment
SE-701 91 Örebro, Sweden
Phone: +46-19-670 7000
Fax: +46-19-670 7070

Atlas Copco Craelius
SE-195 82 Märsta, Sweden
Phone: +46-8-587 785 00
Fax: +46-8-591 187 82

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

Atlas Copco
Construction Tools
SE-105 23 Stockhom, Sweden
Phone: +46-8-743 9600
Fax: +46-8-743 9665

Atlas Copco Wagner
P O Box 20307
Portland, OR 97294-0307, U.S.
Phone: +1-503-255 2863
Fax: +1-503-255 7175

Industrial Technique Divisions

Milwaukee Electric Tool
13135 West Lisbon Road
Brookfield, WI 53005, U.S.
Phone: +1-414-781 3600
Fax: +1-414-781 3117

Atlas Copco
Electric Tools
Postfach 320
DE-71361 Winnenden, Germany
Phone: +49-7195-120
Fax: +49-7195-12478

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

Alliance Tools
1800 Overview Drive
Rock Hill, SC 29730, U.S.
Phone: +1-803-817 7000
Fax: +1-803-817 7115

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Atlas Copco AB, SE-105 23 Stockholm, Sweden
www.atlascopco.com