Atlas Copco Annual Report 1999

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Atlas Copco's operating profit increased 3 percent to SEK 4,470 m. Earnings per share was SEK 11.50, compared to SEK 11.96 the preceding year.

Contents

Cover
Atlas Copco Rental Europe equipment and services for the pressurization of a nuclear power plant containment with a free air volume of 44 021 m^3.

Atlas Copco 1999

Revenues Group revenues increased 7 percent, to SEK 36,234 m. (33,740) mainly as a result of acquisitions related to the Rental Service Business Area. Overall, the North American market demand remained strong. In Europe, the demand was flat, while most Asian countries showed a strong recovery in the latter part of the year.

Earnings Profit after financial items decreased 6 percent, to SEK 3,412 m. (3,637), corresponding to a profit margin of 9.4 (10.8) percent. The profit includes SEK 83 m. resulting from the net effect of the divestment of Atlas Copco Controls and a non-recurring charge for restructuring the Alliance Tools division. Net profit after tax amounted to SEK 2,247 m. (2,283). Earnings per share was SEK 11.50 (11.96), adjusted for the effects of the equity rights issue.

Equity rights issue In October 1999 an equity rights issue provided the Group with net proceeds of around SEK 4.1 billion.

Proposed Dividend The Board of Directors proposes a dividend of SEK 4.75 (4.32) per share.

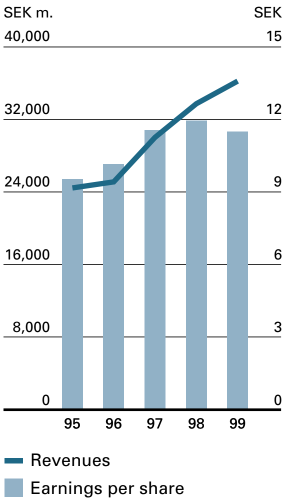
Acquisitions and Divestments In July 1999, Atlas Copco acquired the U.S.-based Rental Service Corporation (RSC) which operates more than 290 equipment rental yards in North America and serves more than 250,000 customers. RSC constitutes a new division in the Rental Service business area.

During the year, Compressor Technique acquired two compressor rental companies, ABIRD BV, based in the Netherlands, and Rand-Air Ltd., in South Africa. In October, Industrial Technique acquired Tool Technics NV, a Belgian service company that focuses on the automotive industry.

During the year Industrial Technique divested Atlas Copco Controls, the motion control products manufacturer, to Danaher Corporation, in the U.S.

Market Outlook Overall, demand is foreseen to be better in year 2000 than in 1999. The North American economy is expected to remain strong. Europe is foreseen to improve and the Asian recovery to continue.

Revenues and Earnings per Share



Dear Shareholders

The year began with a weak first quarter, but that was followed by three quarters of steadily improving business conditions. Despite the solid recovery, Atlas Copco's earnings were somewhat lower than in 1998. The Group did fortify its position in the equipment rental market in North America in 1999, through company acquisitions.

Demand in North America remained buoyant through fiscal 1999, showing no signs of fatigue. Europe has yet to show stronger demand for the Group's products to the extent expected. In addition, the previous low capacity utilization, which delayed capital investment, meant that the benefits of increased output were limited. In the latter part of 1999, business conditions in Asia began to recover, and that had a positive impact on the Group's sales in the region. Nevertheless, the region has a long way to go before reaching the level of demand regularly attained before the region suffered its economic crisis in 1997.

In July, Atlas Copco completed its second major strategic corporate acquisition in the United States when it purchased the equipment rental company Rental Service Corporation (RSC). This acquisition underscored the importance of growth in "use of products" while significantly broadening Atlas Copco's coverage of the North American market. The equipment rental segment in the United States has grown faster than the industries that it serves – and, on average, it has better profit margins.

Since Atlas Copco developed the strategy in 1997, determining to pursue additional growth in equipment rental and aftermarket service, the structure of the Group has changed considerably. Today, North America accounts for close to half of the Atlas Copco Group's total revenues, while Europe accounts for less than 40 percent. Besides the shift in the geographic balance, the content of operations has shifted towards aftermarket revenues. These represent the majority of demand nowadays, while equipment sales represent about 45 percent. Because of this and recent changes in the capital structure, Atlas Copco is reviewing the financial targets presently used.

In conjunction with the acquisition of RSC, Atlas Copco issued new shares with preferential rights for existing shareholders. Shareholders showed confidence in the Group, and the issue garnered about SEK 4.1 billion in new funds. The issue ensures that Atlas Copco has the latitude required to act quickly and it promises well for ongoing growth.

Atlas Copco's earnings for 1999 were slightly lower than in 1998. The share price underperformed the general index in 1999, while the total yield, including dividends and the change in share price, has averaged about 24.9 percent during the past five years. The Board of Directors proposes an increased dividend of SEK 4.75 per share.

On behalf of the Board, allow me to convey our deepest thanks to Group management and to all employees for the efforts they made in the last year of the 20th century. Many actions have been taken to enhance efficiency throughout the Group. They are one of the reasons that the Group stands so well prepared to make the most of business conditions in 2000, a year that promises growth for the Atlas Copco Group.

Anders Scharp
Chairman

The Board of Directors' Report on 1999 Operations

SEK m. unless otherwise indicated

The Atlas Copco Group's revenues for 1999 increased 7 percent, to SEK 36,234 m. (33,740). Markets outside Sweden accounted for 97 percent of revenues. Orders received increased 11 percent, to SEK 36,534 m. (32,979). For comparable units, revenues were down 2 percent, while orders received increased 1 percent.

	1999	1998	Change, %
Revenues	36,234	33,740	+7
Operating profit	4,470	4,345	+3
– as a percentage of revenues	12.3	12.9	
Profit after financial items	3,412	3,637	–6
– as a percentage of revenues	9.4	10.8	
Earnings per share*, SEK	11.50	11.96	–4

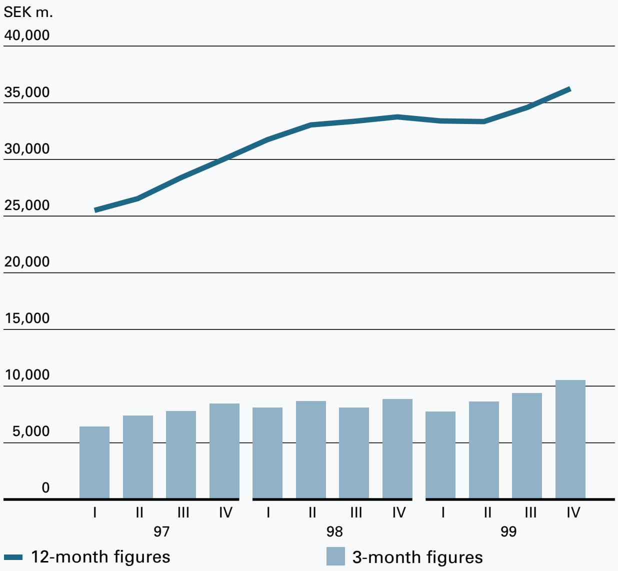
* Adjusted for the effects of the equity rights issue

The Atlas Copco Group's profit after financial items was SEK 3,412 m. (3,637). The profit margin was 9.4 percent (10.8).

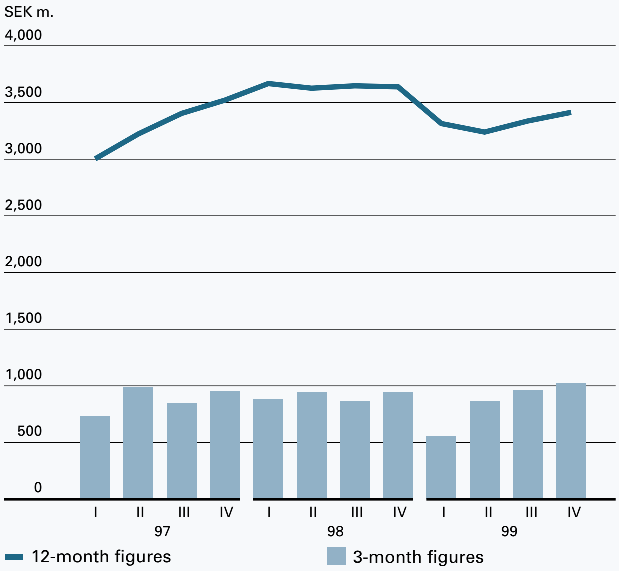
Dividend The Board of Directors proposes a dividend of SEK 4.75 (4.32) per share.

Market outlook The healthy level of demand in North America is expected to remain at its present level. The equipment rental industry is foreseen to continue growing at a faster pace than the economy in general. The rise in interest rates may negatively affect demand from some industry sectors. Overall, demand in Europe is expected to increase, as higher production output will eventually trigger investment in capacity expansion. The recovery in the Asian region is foreseen to continue, leading to improved demand from most industry sectors.

Revenues



Profit after Financial Items



Structural changes

At October 29, 1999, Tool Technics NV, Belgium, was acquired. Tool Technics, with 32 employees, specializes in the service of power tools and equipment for the automotive industry. It is part of the Industrial Tools and Equipment division.

At August 31, 1999, Atlas Copco divested its motion control business, Atlas Copco Controls, which was part of the Industrial Tools and Equipment division. Atlas Copco Controls had 235 employees and revenues of approximately SEK 470 m. in 1998.

At July 29, Atlas Copco acquired Rental Service Corporation (RSC), a company publicly traded on the New York Stock Exchange. For the most recent 12-month period before the acquisition, RSC reported revenues of approximately SEK 5,520 m. and an operating margin of 17 percent. Total consideration included approximately SEK 5,990 m. in cash paid for all shares in the company and SEK 7,790 m. of assumed debt. The acquisition is expected to have a positive impact on earnings for the first full year. Synergies are expected to yield approximately SEK 160 m. in the first full calendar year, increasing as the business grows. At the acquisition date, RSC had 3,600 employees, operated more than 270 equipment rental locations in 29 states, and served a base of more than 200,000 customers. RSC is a division in the Rental Service business area.

In August–December 1999, Rental Service Corporation (RSC) completed six acquisitions of rental companies in the United States, adding a total of nine locations, with some SEK 40 m. in annual revenues.

At July 1, 1999, ABIRD Holding BV, the Netherlands, was acquired by Atlas Copco. ABIRD is a specialty rentals company. The company has 25 employees and had annual sales of about SEK 40 m. ABIRD is part of the Atlas Copco Portable Air division.

At January 1, 1999, Rand-Air Ltd., South Africa, was acquired by Atlas Copco. Rand-Air is a compressor rental company. The company has about 200 employees and annual sales of roughly SEK 90 m. It is part of the Portable Air division.

At January 1, 1999, the Rental Service business area was created with Prime Service as the first division. Prime Service constituted a separate division in the Compressor Technique business area throughout 1998. All figures have been restated accordingly.

Market review

Orders Received

	1999	1998	Change %
Compressor Technique	12,965	13,161	–1
Construction and Mining Technique	6,062	6,117	–1
Industrial Technique	10,553	10,015	+5
Rental Service	7,426	3,990	+86
Eliminations	–472	–304	
Atlas Copco Group	36,534	32,979	+11
Order backlog, December 31	3,904	3,854	+1

Order volume increased marginally by 1 percent for comparable units. In total, orders increased by 11 percent, mainly due to the acquisition of RSC in the U.S.

Structure

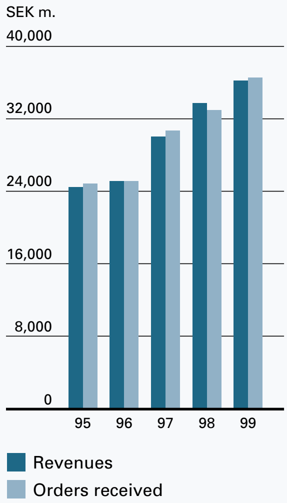
The geographical structure of the Atlas Copco Group has changed during the past couple of years, and North America is now its largest market, accounting for about half of the revenues on a pro forma basis. Europe is the second largest region, with more than one third of Group revenues, followed by Asia/Australia, Africa/Middle East, and South America.

Revenues from consumables and the after-market have grown and now represent 55 percent of revenues. This means that the Group is less dependent on investment in capital goods than it used to be. The change is a result of the Atlas Copco's "use-of-products" growth strategy, aiming to increase the proportion of sales related to service, rental, accessories, and consumables. The strategy is implemented in all business areas and was manifested through the recent acquisitions of Prime Service and RSC in the U.S.

Geographical regions

In North America, U.S. demand remained at a high level throughout the year chiefly because of the equipment rental industry, which is growing at a faster rate than the economy as a whole. The RSC acquisition implies that Atlas Copco now serves even more medium-sized and small customers. Recent trends show that some industrial sectors have been negatively affected by the high interest rate, while the rise in the oil price has begun to have a positive influence on certain sectors.

Revenues and Orders Received

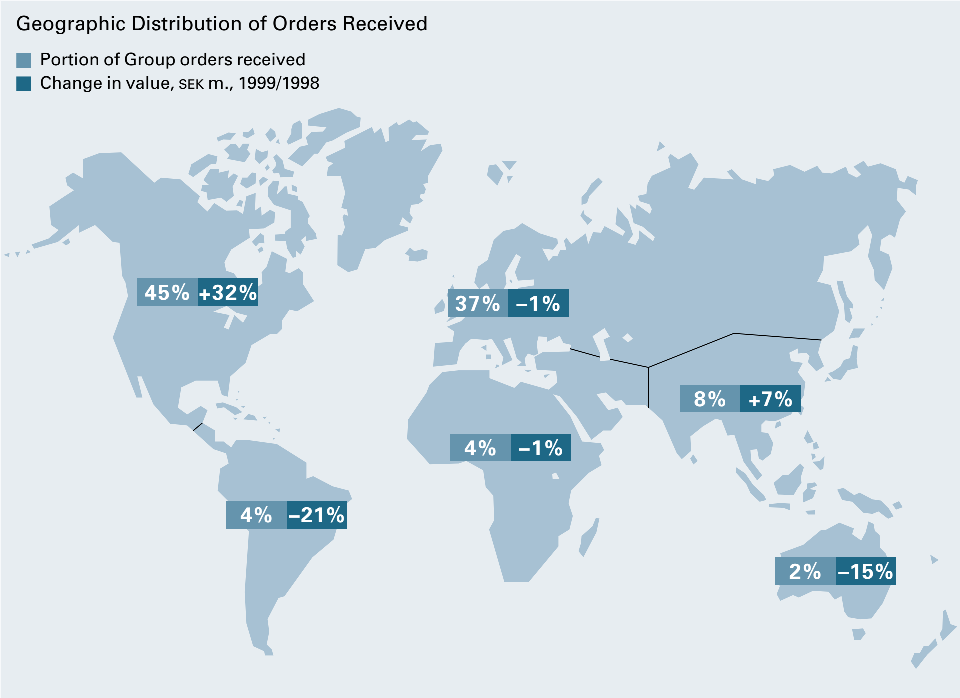


In Europe, overall demand was flat, albeit with big variations in the region. Germany remained at the same level as in 1998, and Great Britain continued to decline. The positive trend in the south continued, notably in France and Spain, while the north was weak. Demand for production-related equipment improved somewhat, while investments in new machinery have not yet materialized as capacity utilization was low when output started increasing. Demand from contractors remained flat, with a few signs of increased activity in infrastructure projects characterizing the last part of the year.

The Asian crisis reached its bottom, and demand started to recover during the latter part of the year. The pick-up in the economy included important markets like South Korea, India, and Taiwan. However, the level of activity is still far from its peak before the crisis in 1997. The Group's long-term ambition to have the same presence in this region as it has in Europe and North America remains. Production was consolidated, and the

Wuxi compressor plant in China extended its capacity.

In South America and Africa, recovery has been slower.



Manufacturing industry

The manufacturing industry, including mechanical, process, and automotive industries, accounts for about 45 percent of Atlas Copco Group revenues.

Compressors and related equipment offered by the Group are in demand in many sectors, including machinery and electronics. Sales of small and medium-sized industrial compressors improved during the year, driven by an increase in industrial production.

Generators are needed by customers with insufficient or unreliable power supply, or as stand-by units to ensure continuous operation in areas such as hospitals, banks, or telecommunications. Sales of generators increased substantially during the year, partly as a result of the special back-up measures taken by many companies because of fears of power disruption at the change of millennium.

Process industry sectors, such as food processing and chemicals, were hurt by the Asian crisis, and sales of large industrial and process compressors was lower than in 1998. However, in the latter part of the year positive signs were noted in Asia for the first time for larger compressors. Demand in Europe for the same type of products was relatively weak because of generally low capacity utilization.

Demand from the motor vehicle industry remained strong in 1999, both in North America and in Europe. Atlas Copco's sales of industrial power tools and assembly systems enjoyed healthy expansion in those markets. Japan's automotive industry was week.

Construction industry

The construction industry, broken down into residential building, non-residential building, and non-building, represents about 40 percent of Group revenues.

Sales of electric power tools, mainly related to demand from the residential building sector, continued to increase, as demand from professional customers in the United States remained buoyant. In the latter part of the year, house building was somewhat negatively affected by higher interest rates. In Europe, sales were flat. Overall, increasing price pressure characterized the market.

U.S. non-residential building was strong throughout the year, with some variations between the regions. Atlas Copco mainly serves this segment through the equipment rental industry, which demands products such as compressors, breakers, and tools.

Construction equipment and portable compressors are offered to infrastructure projects and other projects in the non-building sector. Demand in the United States remained strong, and sales of Atlas Copco's new line of surface crawlers increased. In Europe, demand remained at a low level, although tunneling projects for fast train lines and roads sparked some revitalization.

Mining industry

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

Sales of drilling rigs, rock tools, and loaders offered to the mining industry decreased during the year, affected by an extended period of low demand for metals worldwide and low metal prices.

In the latter part of 1999, metal prices began increasing again, indicating an upturn in the mining market. The big need to improve production and to modernize machinery remains and will have a positive impact on demand. Usually, there is a time lag from price increases to new capital investment. Atlas Copco received an increased number of requests for quotations, indicating that new investments will be made in 2000.

Equipment rental industry

The equipment rental industry serves both the construction and the manufacturing industries with rental machinery, new and used equipment, parts, merchandise and service.

The equipment rental industry in the United States continued to grow at a faster pace than the industrial sectors that it serves. The main reason is that the trend towards outsourcing has continued, allowing customers to focus on their core operations, reduce capital expenditure, and still gain access to equipment that offers state-of-the-art performance and reliability.

Construction activity was strong in the non-residential construction, which is the most important sector for Atlas Copco's rental operations in North America. Industrial activity accelerated in the latter part of the year, partly influenced by the activities related to the millennium shift.

Rentals of light construction equipment and machinery to small and medium-sized contractors have traditionally shown lower sensitivity to the business cycle. However, there is a weather-related seasonality effect during the year, with fewer projects being carried out in the winter months. Unexpected harsh weather conditions may also cause temporary halts in demand.

Overall price pressure on rental rates increased during the year, primarily an effect of competitive pressure on larger and longer-term rental contracts. A seasonal as well as a geographic variation in this pressure is also evident.

Through its Rental Service business area, Atlas Copco serves customers in the U.S., Canada and Mexico, with rental and service, new and used equipment, and with parts and merchandises.

Atlas Copco dramatically fortified its market coverage in the United States in 1999 through the acquisition of RSC, which at the time operated through more than 270 locations in 29 U.S. states and two provinces in Canada. Geographically, there was limited overlap with Prime but quite a substantial complementary effect. Since the acquisition, six smaller companies have been acquired in areas, which were previously not fully served.

Through Prime Equipment and RSC, Atlas Copco offers contractors and industry the opportunity to rent equipment, mainly for projects of short duration. A broad selection of products are available to rent, from smaller items such as pumps, welders and electric hand tools to larger equipment such as backhoes, forklifts, compressors, scissors lifts, booms, aerial lifts. Construction customers are nation-wide and regional contractors involved in office or plant construction, infrastructure, or similar projects. Industrial customers are primarily from the pulp and paper, chemical, petrochemical, steel, aluminum and textile industries, renting equipment to perform work required to construct, maintain and repair major industrial and manufacturing facilities.

Prime Energy serves the needs of industrial customers for compressors and generators. Many companies in the process and automotive industries need to rent compressors and generators for short periods to allow them, among other things, to meet short-term peaks in the level of demand or to supply air during service shut-downs.

Financial Summary and Analysis

Earnings

	1999	1998
Operating profit	4,470	4,345
Margin, %	12.3	12.9
Profit after financial items	3,412	3,637
Margin, %	9.4	10.8
Earnings per share, SEK	11.50	11.96
Return on capital employed, %	14.1	17.2
Return on equity, %	13.6	16.1

Operating profit rose SEK 125 m., or 3 percent, to SEK 4,470 m. (4,345), but the operating profit margin decreased to 12.3 percent (12.9). The profit included non-recurring items of SEK 83 m. in the third quarter from the Industrial Technique business area. The increase in operating profit was wholly attributable to the Rental Service business area and, in particular, the acquisition of RSC (included for five months). For comparable units, operating profit dropped as a result of the volume decrease and an unfavorable shift in the overall composition of equipment sales. The cost adjustments made by operating units to adapt to a lower level of activity early in 1999 and an increased share of after-market revenues helped to offset part of the negative volume effect.

In 1999, depreciation and amortization according to plan amounted to SEK 2,616 m. (1,876), of which property and machinery accounted for SEK 848 m. (780), rental equipment SEK 1,273 m. (668), and amortization of intangible assets SEK 495 m. (428). The Group applies an amortization period of 40 years for goodwill arising from the acquisitions of the U.S. companies Milwaukee Electric Tool (1995), Prime Service (1997), and Rental Service Corporation (1999). See also page 29.

Return on capital employed decreased to 14.1 percent (17.2), which reflects the increase in the rental fleet and goodwill following the RSC acquisition.

Operating profit for the Compressor Technique business area fell 6 percent, to SEK 2,153 m. (2,283), corresponding to a margin of 16.3 percent (16.9). The low volumes and unfavorable product and market mix in the first quarter caused the drop in profit. The other three quarters showed improvement over the preceding year, particularly the fourth quarter.

Operating profit for the Construction and Mining Technique business area decreased SEK 101 m., to SEK 397 m. (498), corres-

Key Figures by Business Area

	Revenues*		Operating profit		Return on capital employed		Investments in fixed assets	
	1999	1998	1999	1998	1999	1998	1999	1998
Compressor Technique	13,202	13,540	2,153	2,283	27	30	453	488
Construction and Mining Technique	5,725	6,437	397	498	13	15	415	494
Industrial Technique	10,345	10,059	1,032	1,046	14	14	323	338
Rental Service	7,434	4,010	1,010	566	6	5	2,125	1,124
Eliminations/Corporate items	–472	–306	–122	–48			–35	3
Total Group	36,234	33,740	4,470	4,345	14	17	3,281	2,447

* Starting in 1999, revenues reported by business area also include intercompany sales to other business areas. Figures for 1998 have been adjusted accordingly.

ponding to a margin of 6.9 percent (7.7). The negative impact of sharply lower volumes was partly offset by efficiency gains and positive currency effects.

Operating profit for the Industrial Technique business area decreased to SEK 1,032 m. (1,046), in spite of a contribution of SEK 83 m. from non-recurring items in the third quarter, including SEK 223 m. in capital gains from the sale of Atlas Copco Controls and a restructuring provision mainly for the consolidation of the production structure in the Alliance Tools division. The profit margin was 10.0 percent (10.4) or, excluding non-recurring items, 9.2 percent.

Operating profit for the Rental Service business area, including all related goodwill amortization, increased, to SEK 1,010 m. (566), corresponding to a margin of 13.6 percent (14.1).

RSC, included from July 29, contributed with the main portion of the profit increase. Downward pressure on rental rates reduced the margins, particularly towards the end of the year.

The Group's net financial items amounted to SEK –1,058 m. (–708), of which net interest items accounted for SEK –1,034 m. (–680). Interest expense increased mainly because of higher average borrowings in 1999, owing to the acquisition of RSC, but was partly offset by the repayment of debt after the equity rights issue in October. Financial foreign exchange differences were SEK –26 m. (–33), and net capital gains from sales of shares SEK 1 m. (4).

Atlas Copco Group profit after financial items decreased 6 percent, to SEK 3,412 m. (3,637), the net effect of stronger operating profit and higher interest costs. The profit margin was 9.4 percent (10.8).

Taxes for the year totaled SEK 1,137 m. (1,322), corresponding to 33.3 percent (36.3) of profit after financial items.

Net profit for the year totaled SEK 2,247 m. (2,283). Earnings per share amounted to SEK 11.50 (11.96), down by 4 percent.

Balance Sheet

	1999	1998
Net indebtedness	19,325	10,052
Debt/equity ratio, %	92	65
Equity/assets ratio, %	39	42

Balance sheet analysis

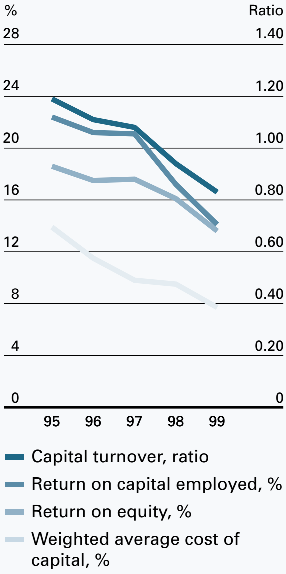
During the year, the Group's total assets increased 44 percent, to SEK 53,650 m. (37,166), which was entirely the result of company acquisitions, mainly of RSC. The capital turnover ratio was 0.83 (0.94). The continued reduction of this ratio reflects the impact of the growing rental service business, which is more capital intensive than the traditional business of the Group. Excluding the effect of the RSC acquisition, the capital turnover ratio would have been 0.90.

Investments

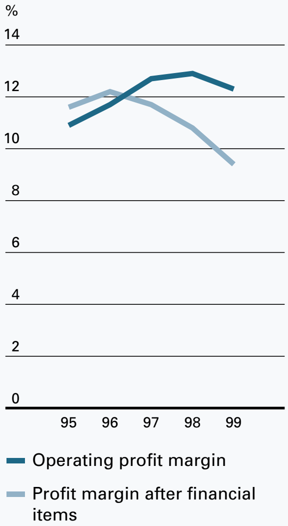
Excluding acquisitions, investments in property and machinery totaled SEK 939 m. (853), exceeding depreciation by SEK 91 m. (73). The distribution of investments was SEK 115 m. (151) in Sweden and SEK 824 m. (702) outside Sweden.

Investments in new modern equipment were made in several production plants in 1999. Major investments were made in Milwaukee, such as a new automated assembly line for electric motor components, in the factory in Blytheville, Arkansas. A number of non-core premises, such as sales company offices, were sold.

Return and Capital Turnover



Profit Margin



Investments in rental equipment increased, to SEK 2,342 m. (1,594), as a result of the strategic direction to grow the rental service business.

Geographic Distribution of Investments in Tangible Fixed Assets

	1999	1998
Europe	732	688
North America	2,347	1,541
South America	73	67
Africa/Middle East	32	35
Asia	57	95
Oceania	40	21
Total	3,281	2,447

Inventories and accounts receivable

The value of inventories as a proportion of revenues declined, to 14.8 percent (16.0). The impact of Rental Service represents part of the improvement, due to the lower level of inventories carried in that business in relation to revenues.

Customer receivables in relation to revenues increased during the year, to 22.0 percent (19.8). Excluding the effect of the RSC acquisition, the increase is only 0.7 percentage points. This increase was due to an unfavorable product and market mix.

Cash flow and net indebtedness

Liquid assets amounted to SEK 1,286 m. (2,118) at year-end 1999, equal to 4 percent (6) of revenues. To compensate for the relatively low level of liquid assets, the Group has negotiated substantial stand-by credit facilities with banks (see Funding risk on page 33).

The operating cash surplus after tax (defined as revenues less non-financial operating expense after the reversal of non-cash items, such as depreciation and amortization, and after taxes) reached SEK 4,595 m. (4,162), corresponding to 13 percent (12) of Group revenues.

Working capital decreased SEK 20 m. (increased 557) during the year. Net investment in tangible fixed assets was SEK 2,215 m. (1,491), the majority of the increase attributable to the rental fleets in the Rental Service business area. The net of payments for company acquisitions and divestments was

SEK 13,894 m. (873), mainly related to the RSC acquisition.

Net cash flow for the year, including SEK 832 m. (787) for the dividend and SEK 4,125 m. for the new issue of shares, equaled SEK –8,188 m. (489).

The Group's net indebtedness (defined as the difference between interest-bearing liabilities and liquid assets) ended at SEK 19,325 m. (10,052), of which SEK 1,450 m. (1,940) was attributable to pension provisions. The decrease in pension provisions reflected the creation of a pension trust in Sweden during 1999 that is not consolidated in the Group's accounts. The SEK 522 m. capitalization of the fund simultaneously reduced liquid assets and thus did not affect reported net indebtedness. The debt/equity ratio (defined as net indebtedness divided by shareholders' equity) was 92 percent (65).

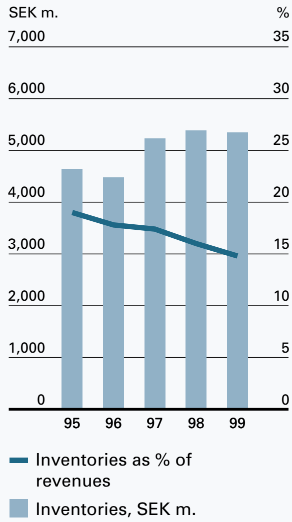
Summary Cash Flow Analysis

	1999	1998
Operating cash surplus after tax	4,595	4,162
of which depreciation added back	*2,616*	*1,876*
Change in working capital	20	–557
Cash flow from operations	4,615	3,605
Investments in tangible fixed assets	–3,281	–2,447
Sale of tangible fixed assets	1,079	991
Company acquisitions/divestments	–13,894	–873
Cash flow from investments	–16,096	–2,329
Dividends paid	–832	–787
New issue of shares	4,125	–
Net cash flow	–8,188	489

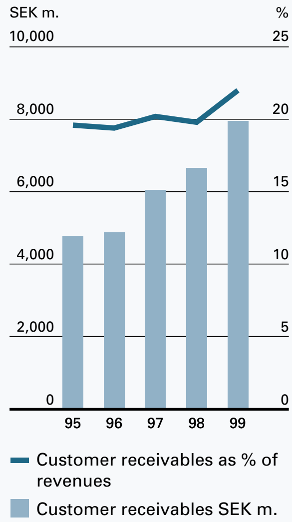
Shareholders' equity

At December 31, 1999, Group shareholders' equity, including

Inventories



Customer Receivables



minority interests, totaled SEK 21,077m. (15,465). Shareholders' equity per share was SEK 101 (84). Equity represented 39 percent (42) of total assets.

To strengthen the Group's capital base and enhance financial flexibility following the acquisition of Rental Service Corporation, the Extraordinary General Meeting held on September 6, 1999, approved the issue of new shares with primary priority right to existing shareholders. The new shares were issued at a subscription price of SEK 160 per share at a ratio of 1:7. In October 1999, the issue provided the company with net proceeds of around SEK 4.1 billion.

Personnel

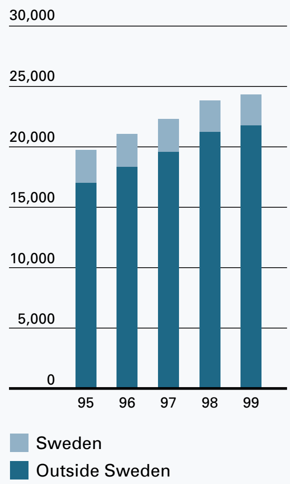
	1999	1998
Average number of employees, total	24,249	23,857
Sweden	2,532	2,633
Outside Sweden	21,717	21,224
Business areas		
Compressor Technique	8,288	8,565
Construction and Mining Technique	4,123	4,572
Industrial Technique	7,133	7,831
Rental Service	4,572	2,773
Other	133	116

The average number of employees in the Atlas Copco Group increased in 1999, by 392 to 24,249 (23,857). The proportion of employees in Swedish units was 10 percent (11). See also Note 2. At year-end, the Group had a total of 26,134 employees (23,393). For comparable units, the number of employees decreased by 928 during the year.

Option plan

In 1997, an option plan was introduced providing the possibility of annual grants of call options on Atlas Copco shares for 25–30 executives within the Group. The options have had 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. Based on the Group's performance in 1999, the Board of Directors have decided to grant options corresponding to a total amount of SEK 6.0 m. (4.8), excluding social fees. The Company's cost is not affected by changes in the stock price, as the option plan is financially hedged. The option plan is currently being reviewed in view of changes in the structure of the Group, and recent tax changes in Sweden.

Employees, average



Product development

	1999	1998
Research and development costs	943	945
In percent of revenues*	3.3	3.4

* Excluding Rental Service revenues

More than ever before, continuous research, development, and innovation are critical success factors for safeguarding the competitiveness of Atlas Copco's divisions. During 1999, the level of activity in this respect remained largely unchanged in comparison with 1998.

Compressor Technique took several important steps forward. The business area introduced a number of innovative and complementary compressors that focus on reducing customers' energy consumption. All divisions launched new products adapted to refined customer needs, and the modularization of products progressed. Patents on core technologies were granted or renewed, and at year-end a decision was made to invest in a new research laboratory in Antwerp, Belgium. For further information, see pages 44–49.

In Construction and Mining Technique's Rock Drilling Equipment division, two new series of underground and surface drilling rigs were launched. The new rigs have been designed to surpass customer demands in the areas of overall performance and productivity, reach and ergonomics. In the other divisions, efforts were largely concentrated on improving further the productivity and production of core products. For further information, see pages 50–55.

Overall, Industrial Technique's divisions brought a record number of new, state-of-the-art products to their markets. Among other things, new high-performance electrical motors, ergonomic solutions, niche tools, and improved electronic motion control systems were introduced. For further information, see pages 56–61.

For the Rental Service business area, which does not have any production, service development efforts are not classified as research and development costs. For further information, see pages 62–65.

Environmental impact

Atlas Copco aims at conducting its business in a manner that does not put nature at risk. In all operations and processes, environmental legislation is complied with. The Group conducts operations in five Swedish companies requiring permission based on Swedish environmental regulations.

To support environmental efforts, Atlas Copco has a policy that guides the organization in this area. All divisions shall implement an Environmental Management System (EMS), and the Group aims to have its major manufacturing sites certified according to ISO 14001 by the end of the year 2000. Today, 51 percent of production capacity is certified, the main sites being Atlas Copco Airpower in Belgium, Milwaukee Electric Tools in the United States, and Atlas Copco Electric Tools in Germany.

Almost all products have a greater impact on the environment over its useful life than from its manufacture. Environmental and ergonomic aspects have been integrated in Atlas Copco's product development process for many years. A good example of this is the extended range of compressors with variable-speed drives, which consume up to 30 percent less energy than the previous generation. A new range of turbine grinders has a lower weight than similar machines with the same output, thus putting less strain on the operator. Yet another example is a cabin for surface drilling rigs that protects the operator from hazards and provides a better working environment.

Parent Company

Earnings

Earnings from shares in subsidiaries equaled SEK 1,086 m. (1,275), from associated companies SEK 0 m. (81). Profit after financial items totaled SEK 1,261 m (1,428). The Parent Company reported a net profit after appropriations and taxes of SEK 1,037 m. (1,045). Hence, undistributed earnings totaled SEK 4,018 m. (3,807).

Financing

The total assets of the Parent Company increased SEK 14,855 m., to SEK 34,425 m. The increase was chiefly financed by the issue of new shares of SEK 4,125 m., and SEK 9,571 m. from increased external borrowing. At year-end 1999, cash, bank deposits, and short-term investments amounted to SEK 341 m. (525). The equity portion of total assets equaled 34 percent (38).

Personnel

The average number of employees in the Parent Company was 60 (64). A specification of the fees and other remuneration paid to the Board of Directors, the President, and other members of Group management is shown in Note 2.

Distribution of shares

At year-end 1999, Atlas Copco had share capital totaling SEK 1,048 m. (918). Each share has a par value of SEK 5. For further information, see page 72.

Dividend

The Atlas Copco Group's non-restricted shareholders' equity equals SEK 10,022 m. Of the retained earnings, SEK 20 m. will be transferred to restricted reserves.

The Board of Directors propose a dividend of SEK 4.75 (4.32) per share, corresponding to a total of SEK 996 (826). See page 36.

Consolidated Income Statement

Amounts in SEK m.		1999	1998
Revenues	Note 1	36,234	33,740
Cost of goods sold		–24,150	–22,045
Gross profit		12,084	11,695
Cost of marketing, administration, research and development	Note 3	–7,355	–7,250
Goodwill amortization	Note 4	–486	–415
Other income and expenses from operations	Note 5	227	315
Operating profit		4,470	4,345
Financial income and expenses	Note 6	–1,058	–708
Profit after financial items		3,412	3,637
Taxes	Note 8	–1,137	–1,322
Minority interest	Note 9	–28	–32
Profit for the year		2,247	2,283
Earnings per share, SEK	Note 10	11.50	11.96

Consolidated Balance Sheet

Amounts in SEK m.			Dec. 31, 1999		Dec. 31, 1998	
Assets						
Fixed assets	Intangible assets	Note 11	18,851		11,311	
	Tangible assets	Note 12	16,581		9,739	
	Financial assets	Note 13	2,121	37,553	958	22,008
Current assets	Inventories	Note 15	5,348		5,383	
	Current receivables	Note 16	9,463		7,657	
	Investments	Note 17	242		401	
	Cash and bank	Note 17	1,044	16,097	1,717	15,158
Total assets				53,650		37,166
Shareholders' equity and liabilities						
Shareholders' equity	**Restricted equity**	Note 18				
	Share capital		1,048		918	
	Restricted reserves		9,815		5,195	
	Non-restricted equity	Note 18				
	Retained earnings		7,775		6,871	
	Profit for the year		2,247	20,885	2,283	15,267
Minority interest		Note 9		192		198
Provisions	**Interest-bearing provisions**					
	Pensions and similar commitments	Note 20	1,450		1,940	
	Non-interest-bearing provisions					
	Deferred taxes		3,031		2,083	
	Other provision	Note 21	843	5,324	739	4,762
Long-term liabilities	**Interest-bearing liabilities**					
	Liabilities to credit institutions	Note 22	10,969		5,308	
	Non-interest-bearing liabilities					
	Other liabilities		334	11,303	289	5,597
Current liabilities	**Interest-bearing liabilities**					
	Liabilities to credit institutions	Note 23	8,192		4,922	
	Non-interest-bearing liabilities					
	Operating liabilities	Note 24	7,754	15,946	6,420	11,342
Total shareholders' equity and liabilities				53,650		37,166
Assets pledged		Note 25		206		236
Contingent liabilities		Note 25		1,475		1,511

Cash Flow Statement

Amounts in SEK m.		Group 1999	1998	Atlas Copco AB 1999	1998
Operations					
Operating profit		4,470	4,345	–11	–91
Depreciation and amortization		2,616	1,876	2	4
Capital gain/loss and other non-cash items		–399	–268	–21	0
Operating cash surplus		6,687	5,953	–30	–87
Net financial income/expense		–1,061	–718	1,267	1,423
Dividends from associated companies		2	83	–	81
Cash flow from equity hedge/other items		–70	–191		
Taxes paid		–963	–965	–170	–199
Cash flow before change in working capital		4,595	4,162	1,067	1,218
Change in					
Inventories		436	73		
Operating receivables		–760	–173	–179	107
Operating liabilities		344	–457	461	–183
Change in working capital		20	–557	282	–76
Cash flow from operations		4,615	3,605	1,349	1,142
Investments					
Investments in tangible fixed assets	Note B	–3,281	–2,447	–3	–8
Sale of tangible fixed assets	Note B	1,066	956	29	–
Company acquisitions/divestments	Note C	–13,894	–873	210	227
Other investments, net		13	35		
Cash flow from investments		–16,096	–2,329	236	219
Financing					
Dividends paid		–832	–787	–826	–780
New issue of shares		4,125	–	4,125	–
Change in interest-bearing liabilities	Note C	7,378	–56	–5,068	–163
Cash flow from financing		10,671	–843	–1,769	–943
Cash flow after financing		–810	433	–184	418
Liquid Funds					
Liquid funds at beginning of year		2,118	1,613	525	107
Cash flow after financing		–810	433	–184	418
Exchange-rate difference in liquid funds		–22	72		
Liquid funds at year-end		1,286	2,118	341	525

Notes to Atlas Copco Group Cash Flow Statement

SEK m. unless otherwise noted

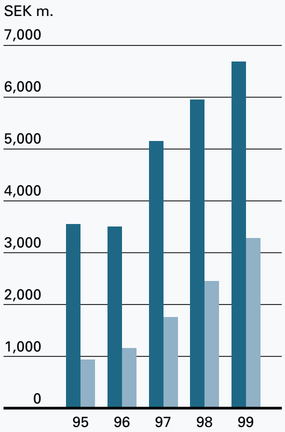
Net cash flow

		Group 1999	1998
Cash flow from operations		4,615	3,605
Cash flow from investments excl. company acquisitions/divestments		–2,202	–1,456
Cash flow from operations before financing		2,413	2,149
Company acquisitions/divestments	Note C	–13,894	–873
Dividends paid		–832	–787
New issue of shares		4,125	–
Net cash flow	Note A	–8,188	489

Five Year Summary of Cash Flow Statements 1995 –1999

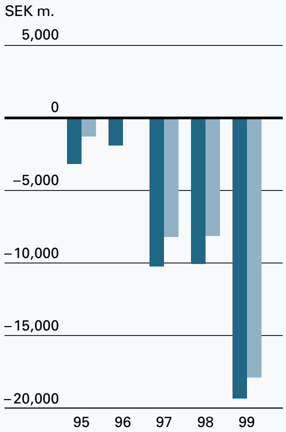
Operating cash surplus after tax	18,813
Of which depreciation added back	*7,835*
Change of working capital	–601
Cash flow from operations	18,212
Investments in tangible fixed assets	–9,585
Sale of tangible fixed assets	3,263
Company acquisitions/divestments	–29,687
Cash flow from investments	–36,009
Dividends paid	–3,307
New issue of shares	4,125
Net cash flow	–16,979

Cash Flow and Investments



Operating cash surplus
Investments

Net Indebtedness



Net indebtedness
Net indebtedness excl. provision for pensions

A Net indebtedness

	1995	1996	1997	1998	1999
Net indebtedness, Jan. 1	–351	–3,166	–1,899	–10,214	–10,052
Net cash flow	–3,143	1,322	–7,459	489	–8,188
Currency exchange-rate effects	328	–55	–856	–327	–1,085
Net from operations	–2815	1,267	–8,315	162	–9,273
Net indebtedness, Dec. 31	–3,166	–1,899	–10,214	–10,052	–19,325
Provision for pensions	1,910	1,924	2,016	1,940	1,450
Net indebtedness, excluding Provision for pensions, Dec. 31	–1,256	25	–8,198	–8,112	–17,875

B Investments in/sales of fixed assets

	1999	1998
Investments in tangible fixed assets		
Rental equipment	2,342	1,594
Property and machinery	939	853
	3,281	2,447
Sale of tangible fixed assets		
Rental equipment	839	557
Property and machinery	227	399
	1,066	956

C Company acquisitions/divestments

The fair value of assets acquired and liabilities assumed from companies acquired/divested during the year:

Fixed assets	14,442
Inventories	390
Receivables	1,110
Liquid funds	198
Loans	–8,050
Other liabilities and provisions	–1,831
Capital gain net, divested companies	–217
Purchase price	6,042
Liquid funds in acquired/divested companies	–198
Loans in acquired/divested companies	8,050
	13,894

Loans in acquired/divested companies are included in the cash flow statement under change in interest-bearing liabilities.

Income Statement and Balance Sheet

Income statement

Amounts in SEK m.		1999	1998
Administrative costs		–129	–163
Other income and expenses from operations	Note 5	118	72
Operating profit		–11	–91
Financial income and expenses	Note 6	1,272	1,519
Profit after financial items		1,261	1,428
Appropriations	Note 7	–54	–184
Profit before taxes		1,207	1,244
Taxes	Note 8	–170	–199
Profit for the year		1,037	1,045

Balance sheet

Amounts in SEK m.			Dec. 31, 1999		Dec. 31, 1998	
Assets						
Fixed assets	Tangible assets	Note 12	12		21	
	Financial assets	Note 13	15,299	15,311	9,956	9,977
Current assets	Current receivables	Note 16	18,773		9,068	
	Investments	Note 17	11		162	
	Cash and bank	Note 17	330	19,114	363	9,593
Total assets				34,425		19,570
Shareholders' equity and liabilities						
Restricted equity	Share capital	Note 18	1,048		918	
	Share premium reserve		3,994		–	
	Legal reserve		1,737		1,737	
Non-restricted equity	Retained earnings	Note 18	2,981		2,762	
	Profit for the year		1,037	10,797	1,045	6,462
Untaxed reserves		Note 19		1,453		1,398
Provisions	Pensions and similar commitments	Note 20	43		270	
	Other provisions	Note 21	–	43	2	272
Long-term liabilities	Interest-bearing liabilities	Note 22		11,027		5,364
Current liabilities	Interest-bearing liabilities	Note 23	10,091		5,521	
	Operating liabilities	Note 24	1,014	11,105	553	6,074
Total shareholders' equity and liabilities				34,425		19,570
Assets pledged				–		–
Contingent liabilities		Note 25		495		579

Notes to the Financial Statements

SEK m. unless otherwise noted

Accounting principles

The financial statements of Atlas Copco have been prepared in all respects in accordance with generally accepted accounting principles in Sweden.

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 decisive influence.

The consolidated financial statements have been prepared in accordance with the purchase method whereby assets and liabilities of acquired companies are reported at fair value at the time of acquisition. Any excess of the purchase price over the fair value is accounted for as goodwill (see below).

Earnings of companies acquired during the year are reported in the Consolidated Income Statement from 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.

Untaxed reserves and appropriations, which are reported in the financial statements of the individual companies, have been allocated to deferred taxes and restricted equity upon consolidation based on the local income tax which will apply for each company. Likewise, the current year changes in these reserves through appropriations are reported as a deferred tax item.

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 price 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, Prime Service and Rental Service Corporation, 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, after adjustments for 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 as appropriate.

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 Financial Accounting Standards Council (SFASC). 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 method. This method provides a more accurate reporting of the earnings and financial position 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 reported directly as a component of shareholders' equity and are not included in current earnings.

For those subsidiaries consolidated in accordance with the 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 for these companies have been included in the Income Statement.

Classification of foreign subsidiaries

In one respect the SFASC's standard 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. This classification 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 method.

Based on the criteria defined for classification of companies, the majority of Atlas Copco's subsidiaries have been defined as independent companies. Companies in high-inflation countries, primarily Latin America are translated according to the monetary method. 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 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 reported net of deductions for obsolescence and for internal profits arising in connection with deliveries from the production 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.

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 amortised cost.

Investments intended for trading are valued at the lower of cost or market.

Derivative instruments

When calculating the value of the forward contracts, options and swaps 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.

Hedging of net investments

Prior to 1998 forward contracts and currency swaps in foreign currencies have been entered into in order to hedge the Group's net assets in foreign subsidiaries (see page 32). In the Group accounts the valuation is based on market value and current rates. 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.

Premium and discounts are amortized straight-line over the life of the contracts and reported in interest income and expense.

Hedging of commercial flows

The Group uses forward exchange contracts to hedge certain future transactions based on budgeted volume, so called commercial flow hedges. Unrealized gains and losses on such forward exchange contracts are deferred and recognized in the income statement in the same period that the hedged transaction is recognized.

Product development costs and warranty costs

Research and development costs are expensed as incurred.

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

Depreciation

Depreciation according to plan is calculated based on the original cost using the straight-line method over the estimated useful life of the asset.

The following economic lives are used for depreciation:

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

Depreciation is also recorded for tax purposes as permitted by legislation in the respective tax jurisdictions. In the financial statements of the individual subsidiaries, this additional tax depreciation is reported in the balance sheet as untaxed reserves and as appropriations in the income statement. Untaxed reserves and appropriations are eliminated in consolidation.

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 associated with ownership. If this is not the case, the lease is accounted for as 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 recorded on the liabilities side. Fixed assets under financial leases are depreciated according to plan while the lease payments are reported as interest and amortization of the lease liability. 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

Income taxes include both current and deferred taxes in the consolidated accounts. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year. The calculation of deferred taxes is based on the differences between the values reported in the balance sheet and their respective values for taxation. Deferred taxes are recorded on temporary differences of which the most significant include the effects of untaxed reserves and tax effects resulting from purchase accounting and other adjustments. The liability method is applied in the calculation of deferred taxes including the use of the enacted tax rate for the individual tax jurisdiction. 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.

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 taxes 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.

Net cash flow
Change in net indebtedness excluding currency exchange-rate effects.

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 taxes 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.

Weighted average cost of capital (WACC)

$$\frac{\text{Interest-bearing liabilities} \times i + \text{market capitalization} \times r}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

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 (0.77) which indicates the volatility of Atlas Copco's share price compared to the stock market index.

Notes

1 Revenues by business area and market

Revenues by business area

		Group
	1999	1998
Compressor Technique	13,202	13,540
Construction and Mining Technique	5,725	6,437
Industrial Technique	10,345	10,059
Rental Service	7,434	4,010
Eliminations	–472	–306
	36,234	33,740

Starting in 1999, revenues reported by business area also include intercompany sales to other business areas. Figures for 1998 have been adjusted accordingly.

Revenues by market

		Group
	1999	1998
Europe incl CIS	13,416	13,743
of which Sweden	*1,013*	*1,061*
of which EU	*11,476*	*11,340*
North America	16,221	12,376
South America	1,381	1,919
Africa/Middle East	1,456	1,619
Asia	2,877	2,937
Oceania	883	1,146
	36,234	33,740

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 76.

2 Employees and personnel expenses

Average number of employees

			1999	1998
	Women	Men	Total	Total
Parent Company				
Sweden	30	30	60	64
Subsidiaries				
Europe incl CIS	1,735	8,755	10,490	11,043
of which Sweden	*349*	*2,123*	*2,472*	*2,569*
of which EU	*1,613*	*8,251*	*9,864*	*10,357*
North America	1,731	6,893	8,624	7,233
South America	118	760	878	925
Africa/Middle East	205	738	943	829
Asia	285	2,484	2,769	3,234
Oceania	86	399	485	529
Total in subsidiaries	4,160	20,029	24,189	23,793
Grand total	4,190	20,059	24,249	23,857

Salaries and other remuneration

		1999		1998
	Board & President	Other employees	Board & President	Other employees
Parent Company				
Sweden	18	28	15	29
of which bonuses	*4*		*3*	
Subsidiaries				
Europe incl CIS	112	3,286	104	3,341
of which Sweden	*9*	*725*	*9*	*722*
of which EU	*97*	*3,121*	*85*	*3,148*
North America	37	2,922	30	2,377
South America	15	155	14	196
Africa/Middle East	5	105	5	94
Asia	10	250	10	230
Oceania	3	143	3	145
Total in subsidiaries	182	6,861	166	6,383
of which bonuses	*25*		*19*	
Grand total	200	6,889	181	6,412

		Group	Parent Company	
	1999	1998	1999	1998
Salaries and other remuneration	7,089	6,593	46	44
Contractual pension benefits for Board members and Presidents	9	15	0	1
Contractual pension benefits for other employees	417	392	11	7
Other social costs	1,592	1,563	15	15
Total	9,107	8,563	72	67
Capitalized pension obligations to Board members and Presidents	43	50	17	24

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

In 1999, the Chairman of the Board received SEK 1,000,000. The Vice Chairman received SEK 350,000 on an annual basis and of the Board members not employed by the Company, each received board fees that amounted to SEK 275,000 on an annual basis.

Board member Paul-Emmanuel Janssen also received fees from Group companies of SEK 200,000 and board member Hari Shankar Singhania received fees from Group companies in the amount of SEK 27,000.

The President and Chief Executive Officer, Giulio Mazzalupi, received a salary of SEK 5,387,884 plus a bonus of SEK 1,937,000. In addition, he has a pension commitment from the Company equal to 47 percent of base salary upon retirement, payable from age 65.

Pension commitments for the Business Area Executives are either defined contribution in nature or a mixture of defined contribution and defined benefit. For commitments which are defined contribution only, contributions in 1999 were in the range 16 to 22 percent of pensionable salary. For other commitments, the pensions estimated to become payable upon retirement after 35 to 40 years of employment are in the range 35 to 70 percent of pensionable salaries.

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. However, for one of the Business Area Executives, the maximum Company commitment is to pay final base salary plus continued health benefits, both for 12 months.

Activities of the Board of Directors of Atlas Copco AB during the year 1999

The Board of Directors of the Company had ten 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 1999, there were ten meetings, of which one was held outside Sweden and two were per capsulam meetings. Each meeting was governed by an approved agenda. 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 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. Members of the Group management were regularly present at the Board meetings. In between 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 would not be unduly delayed, the Board appointed smaller committees among its members to follow up and make proposals to the Board regarding such matters. A remuneration committee was appointed 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 at the February meeting. In April 1999, the Board adopted its Rules of Procedure and Written Instructions.

Remuneration to auditors

Audit fees and consultancy fees to auditors, for advice or other assistance than audit, were distributed as follows for 1999:

	Group	Parent Company
KPMG		
Audit fee	10	1
Other	7	1
Arthur Andersen		
Audit fee	8	0
Other	3	1
Other audit firms		
Audit fee	1	–
	29	3

Audit fees excluding consultancy fees, for 1998 were estimated at 15 for the Group and 1 for the Parent Company.

3 Cost of marketing, administration, research, and development

	Group 1999	Group 1998
Marketing costs	3,907	3,865
Administrative costs	2,505	2,440
Research and development costs	943	945
	7,355	7,250

4 Depreciation according to plan

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Goodwill	486	415	–	–
Patents etc.	9	13	–	–
Buildings	109	109	–	1
Machinery and other technical plant	520	453	–	–
Equipment etc.	219	218	2	3
Rental equipment	1,273	668	–	–
	2,616	1,876	2	4

5 Other income and expenses from operations

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Non-recurring items	83	–	–	–
Other operating income	191	367	118	73
Other operating expenses	–47	–52	–	–1
	227	315	118	72

Non-recurring items include capital gain from divestment of subsidiaries of 223 and restructuring costs mainly for consolidation of the production structure in the Alliance Tools Division of 140. Atlas Copco Internationaal BV, the Netherlands, sold the European part of Atlas Copco Controls to a European subsidiary of Danaher Corp., USA. Simultaneously, Atlas Copco North America Inc. sold the US part of Atlas Copco Controls to a US subsidiary of Danaher Corp. The divestment of Atlas Copco Controls resulted in a capital gain before tax of 223 for the Atlas Copco Group.

Other operating income includes commissions received of 26 (39), capital gains of 38 (190) on the sale of fixed assets, surplus due to repatriation of pension debt – (18), and profits from insurance activities. Other operating income for the Parent Company includes commissions received totaling 94 (61), capital gains of 21 (–) 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.

6 Financial income and expense

	Group		Parent Company	
	1999	1998	1999	1998
Profit from shares in Group companies				
Dividends received			518	455
Group contributions			562	809
Capital gain/loss on divestment of shares			6	11
			1,086	1,275
Profit from shares and participation in associated companies				
Dividends			–	81
			–	81
Profit from financial fixed assets				
Dividends received	1	1	–	–
Interest income				
Group companies			596	237
Others	7	5	–	–
Capital gains	1	7	0	7
Write-downs	–	–3	–	–3
	9	10	596	241
Other interest income				
Interest income				
Group companies			648	651
Others	142	210	55	81
	142	210	703	732
Interest expenses and similar expenses				
Interest expense				
Group companies			–67	–94
Others	–1,183	–895	–1,044	–715
Foreign exchange differences	–26	–33	–2	–1
	–1,209	–928	–1,113	–810
Financial income and expenses	–1,058	–708	1,272	1,519

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 3.6 percent (4.9). The interest portion for 1999 amounted to 71 (99), of which Swedish companies accounted for 7 (39). In the Parent Company, the corresponding amount was 4 (20).

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 –8 (–6).

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	
	1999	1998
Difference between tax depreciation and depreciation according to plan		
Buildings	2	–
Equipment etc.	–1	–
Appropriation to tax allocation reserve	–154	–177
Dissolution of /Appropriation to foreign exchange reserve	42	–64
Dissolution of tax equalization reserve	57	57
	–54	–184

8 Taxes

	Group		Parent Company	
	1999	1998	1999	1998
Taxes paid				
Swedish taxes	183	213	170	196
Foreign taxes	786	752	–	3
Deferred taxes	166	356		
Taxes in associated companies	2	1		
	1,137	1,322	170	199

The tax expense for the year totaled 1,137 (1,322), equal to 33.3 percent (36.3) of profit after financial items. Changes in tax rates used to calculate deferred tax had a negative impact of 3 (positive:5) on tax expense for the year.

The tax expense for the year is positively affected by low taxation on capital gain from the divestment of Atlas Copco Controls. Adjusted for the capital gain and corresponding tax expense, the Group's tax rate was 35.5 percent.

The Group's total tax expense, compared to Swedish corporate tax rate, is affected 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 depreciation and the above mentioned capital gain, the Group's tax rate was 30.7 percent (32.6).

The Swedish corporate tax rate is 28 percent. The tax is calculated 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 158 (189), of which the Parent Company was 154 (177). If the Parent Company reported deferred tax on untaxed reserves and other appropriations, as the Group does, deferred tax would have amounted to 15 (52) for the year.

Capital-based tax equalization reserves (K-Surv) in the Group's Swedish companies amounted to 60 (120). 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 46 (45).

The income statement reports minority shares in the Group's profit after tax of 28 (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	198
Minority acquired	–2
Minority sold	–32
Dividends	–6
Translation differences	6
Profit for the year	28
Minority interest, Dec. 31	192

10 Earnings per share

	1999	1998
Profit for the year	2,247	2,283
Average number of shares	195,309,247	190,959,142
Earnings per share, SEK	11.50	11.96

After the new issue the number of shares outstanding is 209,602,184.

11 Intangible assets

	Goodwill	Patents etc.	Total
Accumulated cost			
Opening balance, Jan. 1	12,770	115	12,885
Investments	7,265	7	7,272
Sale of subsidiaries	–78	–3	–81
Divestment and retirement	–11	–13	–24
Reclassified items		8	8
Translation differences for the year	850	–3	847
Closing balance, Dec. 31	20,796	111	20,907
Accumulated amortization			
Opening balance, Jan. 1	1,497	77	1,574
Amortization for the year	486	9	495
Sale of subsidiaries	–39	–3	–42
Divestment and retirement	–11	–8	–19
Reclassified items		2	2
Translation differences for the year	50	–4	46
Closing balance, Dec. 31	1,983	73	2,056
Planned residual value, Dec. 31	18,813	38	18,851
Planned residual value, Jan. 1	11,273	38	11,311

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 1999 was distributed as follows:

	1999	1998
Goodwill amortization over 40 years	357	261
Goodwill amortization over 20 years	67	93
Goodwill amortization within 10 years	62	61
	486	415

Amortization in 1999 and planned residual value by business area:

	Amortization		Planned residual value	
	1999	1998	1999	1998
Compressor Technique	38	37	289	284
Construction and Mining Technique	17	14	179	155
Industrial Technique	139	169	3,753	3,736
Rental Service	291	194	14,590	7,096
Corporate items	1	1	2	2
	486	415	18,813	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.	3,745	413	3,332	36
Prime Service, Inc.	7,740	496	7,244	38
Rental Service Corp.	7,384	80	7,304	40
	18,869	989	17,880	
Goodwill amortized over 20 years:				
Desoutter Ltd	743	397	346	11
Atlas Copco Wagner Inc.	357	227	130	10
Chicago Pneumatic Tool Company	207	152	55	8
Atlas Copco Crépelle S.A.	127	17	110	18
ABIRD Holding BV	63	3	60	20
	1,497	796	701	
Goodwill amortized within 10 years:				
Compresseurs Worthington-Creyssensac S.A.	82	50	32	4
Atlas Copco Rotoflow Inc.	77	74	3	1
Ceccato Aria Compressa S.p.A.	69	14	55	8
Others	202	60	142	
	430	198	232	
Total	20,796	1,983	18,813	

12 Tangible assets

Group	Buildings and land	Machinery and equipment	Rental equipment	New construction and advances	Total
Accumulated cost					
Opening balance, Jan. 1	2,983	6,961	6,478	236	16,658
Investments	116	881	2,342	–58	3,281
Acquisition of subsidiaries	77	395	5,909		6,381
Sale of subsidiaries	–75	–138			–213
Divestment and retirement	–75	–598	–1,307		–1,980
Reclassified items	3	–10	–1	–3	–11
Translation differences for the year	–104	–192	543	3	250
Closing balance, Dec. 31	2,925	7,299	13,964	178	24,366
Accumulated depreciation according to plan					
Opening balance, Jan. 1	976	4,503	1,440		6,919
Depreciation for the year	109	739	1,273		2,121
Acquisition of subsidiaries	3	7	75		85
Sale of subsidiaries	–23	–80			–103
Divestment and retirement	–40	–444	–603		–1,087
Reclassified items	–17	13			–4
Translation differences for the year	–46	–180	80		–146
Closing balance, Dec. 31	962	4,558	2,265		7,785
Planned residual value, Dec. 31	1,963	2,741	11,699	178	16,581
Planned residual value, Jan. 1	2,007	2,458	5,038	236	9,739
Assets owned under finance leases					
Purchase cost	3	18			21
Accumulated depreciation	–	8			8
Planned residual value, Dec. 31	3	10			13
Planned residual value, Jan. 1	–	8			8

Note 12 continued	Group		Parent Company	
	1999	1998	1999	1998
Buildings and land	1,963	2,007	6	15
Machinery and other technical plant	2,137	1,908	–	–
Equipment etc.	604	550	6	6
Rental equipment	11,699	5,038	–	–
Construction in progress and advances	178	236	–	–
	16,581	9,739	12	21
Tax assessment value, buildings and land	183	191	5	14

The tax assessment values reported for the Group pertain exclusively to buildings and land in Sweden. The planned residual value of these is 194 (212).

The leasing costs for assets under operating leases, such as rented premises, machinery, and major computer and office equipment are reported among operating expenses and amounted to 418 (186). Future payments for non-cancelable leasing contracts amounted to 1,729 (892). Future payments for non-cancelable leasing contracts come due as follows:

2000	435
2001–2004	1,026
2005 or later	268
Total	1,729

Parent Company	Buildings and land	Equipment etc.	Total
Accumulated cost			
Opening balance, Jan. 1	19	24	43
Investments	–	3	3
Divestment and retirement	–12	–8	–20
Closing balance, Dec. 31	7	19	26
Accumulated depreciation according to plan			
Opening balance, Jan. 1	4	18	22
Depreciation for the year	0	2	2
Divestment and retirement	–3	–7	–10
Closing balance, Dec. 31	1	13	14
Planned residual value, Dec. 31	6	6	12
Planned residual value, Jan. 1	15	6	21

13 Financial assets

		Group		Parent Company	
		1999	1998	1999	1998
Shares in Group companies	Page 30			3,227	3,431
Receivables from Group companies				11,968	6,414
Shares and participations in associated companies	Note 14	120	99	11	11
Other long-term securities		6	11	3	4
Deferred tax receivables		1,814	658		
Other long-term receivables		181	190	90	96
		2,121	958	15,299	9,956

Shares in Group companies

	Parent Company
Accumulated cost	
Opening balance, Jan. 1	3,243
Capital redemption	–184
Conversion of loan	10
Divestment	–41
Closing balance, Dec. 31	3,028
Accumulated write-ups	
Opening and closing balances	764
Accumulated write-downs	
Opening balance, Jan. 1	–576
Divestment	11
Closing balance, Dec. 31	–565
Book value, Dec. 31	3,227

14 Shares and participation in associated companies

	Number of shares	Percentage of capital	Adjusted equity	Book value
Direct owned				
AVC Intressenter AB, 556506-8789, Gothenburg, Sweden	6,750,250	50	31	11
Indirect owned				
Atlas Copco Changchun Electric Power Tool Ltd, Changchun, China		25	6	
Atlas Copco-CLLS Tools Co Ltd, Hong Kong, China		30	4	
Atlas Copco-Diethelm Ltd, Bangkok, Thailand		49	21	
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	58	
			120	

	Group	Parent Company
Accumulated capital participation/ purchase cost		
Opening balance, Jan. 1	99	72
Transfer	6	
Dividends	–2	
Profit for the year	4	
Translation differences for the year	13	
Closing balance, Dec. 31	120	72
Accumulated write-downs		
Opening and closing balances		–61
Book value, Dec. 31	120	11

Income from associated companies is of insufficient size to justify being reported separately. Dividends from associated companies totaled 2 (83). The Group's share in the shareholders' equity and untaxed reserves of associated companies, less deferred tax, equaled 120 (99) at fiscal year-end.

After divestment of shares in the former subsidiary Atlas Copco Changchun Electric Power Tool Ltd., the remaining part is included in associated companies.

15 Inventories

	Group 1999	1998
Raw materials	148	186
Work in progress	772	822
Semi-finished goods	1,380	1,429
Finished goods	3,034	2,930
Advances to supplier	14	16
	5,348	5,383

16 Current receivables

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Trade receivables	7,955	6,665	0	4
Receivable from Group companies			18,526	8,978
Tax receivables	250	141	68	39
Other receivables	701	472	28	20
Prepaid expenses and accrued income	557	379	151	27
	9,463	7,657	18,773	9,068

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 1999	Group 1998	Parent Company 1999	Parent Company 1998
Short-term investments				
Treasury bills	–	84	–	84
Government bonds	242	239	11	–
Commercial papers	–	78	–	78
	242	401	11	162
Cash and bank accounts	1,044	1,717	330	363
Total	1,286	2,118	341	525

The Parent Company's guaranteed, but unutilized, credit lines equaled 17,000. Subsidiaries had been granted but had not utilized overdraft facilities equaling 3,066.

18 Shareholders' equity

Group	Share capital	Restricted reserves	Retained earnings
Opening balance, Jan. 1	918	5,195	9,154
Dividend to shareholders			–826
New issue of shares	130	3,994	
Statute-barred dividend			0
Transfers between restricted equity and retained earnings		626	–626
Equity hedging			–128
Translation differences for the year			201
Profit for the year			2,247
Closing balance, Dec. 31	1,048	9,815	10,022

Parent Company	Share capital	Share premium reserve	Legal reserve	Retained earnings
Opening balance, Jan. 1	918	–	1,737	3,807
Dividend to shareholders				–826
New issues of shares	130	3,994		
Statute-barred dividend				0
Profit for the year				1,037
Closing balance, Dec. 31	1,048	3,994	1,737	4,018

To strengthen the Group's capital base and enhance financial flexibility following the acquisition of Rental Service Corporation, an Extraordinary General Meeting held on September 6, 1999, approved the issue of new shares with preferential rights to existing shareholders. The new shares were issued at a subscription price of SEK 160 per share at a ratio of 1:7. In October 1999, the issue provided the Company with net proceeds of 4,125 after deduction for issue expenses of 50.

Group shareholders' equity has been affected by translation differences arising from the application of the current-rate method. The accumulated translation difference in equity since beginning of 1992 amounts to 1,144 (1,071). Translation differences in 1999 amount to 201 and have been reduced by 128 through hedging the net assets of certain subsidiaries.

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, 20 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 1,453, deferred tax accounts for 407, reported in the consolidated accounts.

	Parent Company	
	1999	1998
Additional tax depreciation		
Buildings	–	2
Equipment etc.	1	–
Tax allocation reserve	1,229	1,075
Foreign exchange reserve	166	207
Tax equalization reserve	57	114
	1,453	1,398

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

	1999
1995	240
1996	253
1997	261
1998	144
1999	177
2000	154
	1,229

20 Provisions for pensions and similar commitments

	Group		Parent Company	
	1999	1998	1999	1998
Swedish companies				
FPG/PRI-pensions	18	522	2	225
Other pensions	48	53	41	45
Companies outside Sweden	1,384	1,365		
	1,450	1,940	43	270

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 decrease in pension provisions reflected the creation of a pension trust in Sweden in the first quarter of 1999 that is not consolidated in the Group's accounts. The amount transferred to the trust was 522.

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 249 (267)) 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.

The Group has been advised by the insurance company SPP that the amount of 224 has been allocated to the Swedish Atlas Copco companies as refund of pensions. The amount has not affected the accounts for 1999.

21 Other provisions

	Group		Parent Company	
	1999	1998	1999	1998
Provisions for guarantee commitments	310	276		
Other provisions	533	463	–	2
	843	739	–	2

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	
	1999	1998
Liabilities to credit institutions, etc.	10,938	5,266
Liabilities to Group companies	89	98
Total interest-bearing liabilities	11,027	5,364

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

	1999	1998
Parent Company		
Bond loan USD 375.0 m.	3,192	3,031
Bond loan USD 400.0 m.	3,405	–
Promissory notes USD 270.0 m.	2,298	2,182
Promissory notes SEK m.	53	53
Available under		
"SEK 5,000 m. Medium Term Note Program"		
Outstanding EUR 65.0 m.	556	–
SEK 2,030 m.	2,030	–
Less: amortization following year	–596	–
The Parent Company's loan liabilities	10,938	5,266
Subsidiaries		
Finance leasing contracts	13	8
Other long-term loans	26	48
Less: amortization following year	–8	–14
Group loan liabilities	10,969	5,308

Loan liabilities are amortized as follows, translated at the exchange rates prevailing at December 31, 1999.

	Group	Parent Company
2000	604	596
2001	16	–
2002	1,707	1,703
2003	56	53
2004	2,460	2,457
2005 and later	6,730	6,725
	11,573	11,534

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	
2000	6
2001–2004	7
	13

23 Current liabilities to credit institutions

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Liabilities to credit institutions, etc.	7,588	4,908	7,176	3,874
Amortization following year	604	14	596	–
Liabilities to Group companies			2,319	1,647
Total interest-bearing liabilities	8,192	4,922	10,091	5,521

The Group's current loan liabilities to credit institutions and others are as follows:

		1999	1998
Parent Company			
Available under "USD 200 m. Euro Commercial Paper Program"			
Outstanding	USD 110.9 m.	944	628
	EUR 80.1 m.	684	–
	DEM (14.8) m.	–	71
Available under "USD 1,800 m. U.S. Commercial Paper Program"			
Outstanding	USD 273.8 m.	2,330	2,095
Available under "BEF 4,000 m. Treasury Note Program"			
Outstanding	BEF (2,962.7) m.	–	693
	EUR 194.4 m.	1,662	–
	USD 3.9 m.	33	–
Available under "SEK 400 m. Commercial Paper Program"		396	150
Available under "Medium Term Note Program" SEK 5,000 m.		744	–
Other short-term loans and promissory notes		383	237
The Parent Company's loan liabilities		7,176	3,874
Subsidiaries		412	1,034
Group loan liabilities		7,588	4,908

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.

Currency	Amount m.	SEK m.	1999 %	1998 %
USD	2,204	18,760	98	92
ITL	29	130	1	2
FRF	66	86	0	1
JPY	273	23	0	0
HKD	15	16	0	0
AUD	2	12	0	0
CNY	7	7	0	0
Others		127	1	5
		19,161	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 2,300 m., corresponding to SEK 19,600 m. These programs have a K1 rating in Sweden and an A2/P2/F1 rating internationally.

24 Operating liabilities

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Advances from customers	307	481	–	–
Accounts payable	2,426	1,924	59	12
Notes payable	58	86	–	–
Income tax liability	313	281	–	–
Other operating liabilities	1,613	1,250	6	4
Accrued expenses and prepaid income	3,037	2,398	949	537
Total non-interest-bearing liabilities	7,754	6,420	1,014	553

Accrued expenses and prepaid income for the Group contains the conventional items, such as social costs, vacation pay liability, commissions and accrued interest.

25 Assets pledged and contingent liabilities

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Assets pledged for debts to credit institutions				
Real estate mortgages	8	55	–	–
Chattel mortgages	66	66	–	–
Receivables	132	115	–	–
	206	236	–	–
Contingent liabilities				
Notes discounted	68	76	–	–
Sureties and other contingent liabilities	1,407	1,435	495	579
	1,475	1,511	495	579

Of the contingent liabilities reported in the Parent Company, 464 (546) relates to contingent liabilities on behalf of subsidiaries.

26 Value added and stakeholders

Value added corresponds to the Group's total revenues, 36,234 less costs for the purchase of raw materials, wholly and semi-finished goods and services, 20,041. The resulting figure is a measure of the company's productive contribution, that is, the value added through processing, management, and other activities.

In 1999, the value added amounted to 16,193 (14,784), an increase of approximately 10 percent, while value added per employee increased approximately 7 percent.

Distribution of value added:

		1999		1998
	SEK m.	%	SEK m.	%
Wages and salaries	7,089	44	6,593	45
Social costs	2,018	12	1,970	13
Depreciation and amortization	2,616	16	1,876	13
Capital costs	1,058	7	708	5
Corporate and municipal taxes	1,137	7	1,322	9
Dividends paid	832	5	787	5
Retained in business	1,443	9	1,528	10
Value added	16,193	100	14,784	100
Value added per employee, SEK thousands	668		627	

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 (approximately USD 440 m.), Prime Service, Inc. in 1997 (approximately USD 870 m.) and Rental Service Corporation in 1999 (approximately USD 860 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 present 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). IASC has agreed on a standard, effective as from January 1, 2000, whereby goodwill is to be amortized over its economic life. This means that the amortization period can exceed 20 years. The Swedish Financial Accounting Standards Council has in November 1999 issued a draft standard on amortization of goodwill in accordance with IASC's standard. The standard is intended to be effective as from January 1, 2001.

Atlas Copco's recent strategic acquisitions involve three large American groups with operations and sales mainly in the United States. The companies generate large operating cash flows and derive ongoing operating benefits from very strong brand names and extensive customer lists. In these cases there are 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 to the financial markets. Another important reason for applying a longer amortization period is attributable to competitive factors. Atlas Copco needs to 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 accounting for 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 to the acquired companies – it is of major importance that the financial statements is internationally comparable. It is therefore necessary that the Swedish companies can apply rules equivalent to those of foreign competitors. These rules 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 1999 SEK m.

Amortization period	20 years	40 years
Revenues	36,234	36,234
Operating expense	–32,121	–31,764
Operating profit	4,113	4,470
– as percentage of revenues	11.4	12.3
Profit after financial items	3,055	3,412
– as percentage of revenues	8.4	9.4
Profit for the year	1,890	2,247
Earnings per share, SEK	9.68	11.50
Equity/assets ratio, percent	38.2	39.3

Shares and Participations

December 1999

	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
Secoroc AB, 556373-8896, Fagersta		100	
Atlas Copco Berema AB, 556069-7228, Nacka	60,000	100	100
Atlas Copco Tools AB, 556044-9893, Nacka	100,000	100	20
Directly owned sales companies			
Atlas Copco Construction and Mining Export AB, 556395-7793, Nacka	1,000	100	7
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103,000	100	10
Atlas Copco Iran AB, 556155-2760, Nacka	3,500	100	0
Atlas Copco Compressor AB, 556155-2794, Nacka	60,000	100	10
Agartson Agentur och Förvaltnings AB, 556267-1403, Järfälla		100	
Hamrin Adsorptions- och Filterteknik AB, 556145-4017, Järfälla		100	
Atlas Copco Ges.m.b.H., Vienna	45,000	100	13
Atlas Copco Brasil Ltda., Sao Paulo	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, Copenhagen	4,000	100	2
Atlas Copco (India) Ltd., Mumbai	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., Kuala Lumpur	700,000	70	2
Atlas Copco Maroc SA., Casablanca	3,852	96	1
Atlas Copco (Philippines) Inc., Paranaque	121,995	100	3
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	22
Atlas Copco (South-East Asia) Pte. Ltd., Singapore	2,500,000	100	8
Atlas Copco (Schweiz) AG, Studen/Biel	7,996	100	12
Atlas Copco Venezuela S.A., Caracas	37,920	100	14
Directly owned holding companies and subsidiaries			
Oy Atlas Copco Ab, Vantaa	150	100	30
Oy Atlas Copco Kompressorit Ab, Masala		100	
Oy Atlas Copco Louhintateknikka Ab, Masala		100	
Oy Atlas Copco Tools Ab, Masala		100	

	Number of shares	Per-cent held[1)]	Book value
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	1	99[2)]	220
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, Bad Oyenhausen		100	
Atlas Copco Elektrowerkzeuge GmbH, Essen		100	
Atlas Copco Electric Tools GmbH, Winnenden		100	
Chicago Pneumatic Tool GmbH, Geisenheim		100	
Mark Kompressoren GmbH, Geretsried		100	
Atlas Copco EAC GmbH, Essen		100	
Atlas Copco UK Holdings Ltd., Hemel Hempstead	28,623,665	100	295
Atlas Copco Compressors Ltd., Hemel Hempstead		100	
Atlas Copco Construction & Mining Ltd., Hemel Hempstead		100	
Atlas Copco Tools Ltd., Hemel Hempstead		100	
Worthington-Creyssensac Air Compressors Products Ltd., Gravesend		100	
Atlas Copco International Holdings Ltd., Hemel Hempstead		100	
Atlas Copco (Ireland) Ltd., Dublin		100	
Desoutter Brothers (Holdings) PLC, Hemel Hempstead		100	
Desoutter Ltd., Hemel Hempstead		100	
Desoutter Sales 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	

	Number of shares	Per-cent held[1)]	Book value
Atlas Copco Kompresory s.r.o., Prague		100	
Atlas Copco Kompresor Spolka, zo.o., Warsaw		100	
Atlas Copco Kompresszor Kft., Budapest		100	
Atlas Copco Mfg. Korea Co. Ltd, Seoul		100	
Atlas Copco Makinalari Imalat A.S., Istanbul	2,548,020	11[3)]	0
Atlas Copco Rental Europe n.v., Rumst		100	
Atlas Copco S.A.E., Madrid		100	
Worthington Internacional Compresores S.A., Madrid		100	
Desoutter S.A., Madrid		100	
Atlas Copco Internationaal b.v., Zwijndrecht		100	
Atlas Copco Australia Pty Ltd., Blacktown		100	
Secoroc Australia Pty Ltd., Gateshead		100	
Atlas Copco (NZ) Ltd., Lower Hut		100	
Atlas Copco Belgium n.v., Overijse		100	
Abird Holding n.v., Rotterdam		100	
Power Tools Distribution n.v., Hoeselt	1	0[2)]	0
Atlas Copco Tools Europe n.v., Overijse		100	
Atlas Copco ASAP n.v., Wilrijk		100	
Tool Technics n.v., Limburg		100	
Atlas Copco Colombia Ltda., Bogota		100	
Atlas Copco Equipment Egypt SAE, Cairo		80	
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 (Shanghai) Trading Co. Ltd., Shanghai		100	
Atlas Copco China/Hong Kong Ltd., Kowloon		100	
PT Atlas Copco Indonesia, Jakarta		80	
Atlas Copco Italia S.p.A., Milano		100	
Ceccato Aria Compressa S.p.A., Vicenza		100	
Worthington Aria Compressa S.p.A., Milano		100	
Desoutter Italiana S.r.l., Milano		100	
Chicago Pneumatic Tool Co S.r.l., Milano		100	
Inversora Capricornio S.A. de C.V., Tlalnepantla		100	
Atlas Copco Mexicana S.A. de C.V., Tlalnepantla		100	
Prime Equipment S.A. de CV, Monterrey		100	
Atlas Copco Nederland b.v., Zwijndrecht		100	
Atlas Copco Canada Inc., Dorval		100	
Atlas Copco Peruana S.A., Lima		100	
Atlas Copco Boliviana S.A., La Paz		100	
Atlas Copco Ecuatoriana S.A., Quito		100	
ZAO Atlas Copco, Moscow		100	
Atlas Copco Holdings South Africa (Pty) Ltd., Benoni		100	
Atlas Copco South Africa (Pty) Ltd., Benoni		100	
Interoc (Pty) Ltd., Springs		100	
Secoroc (Pty) Ltd., Springs		100	
Desoutter (S.A.) (Pty) Ltd., Sandton		100	
Alliance Tools SA (Pty) Ltd., Springs		100	
Atlas Copco (Botswana) (Pty) Ltd., Gaborone		100	
Atlas Copco Namibia (Pty) Ltd., Windhoek		100	
Atlas Copco Taiwan Ltd., Taipei		100	

	Number of shares	Per-cent held[1)]	Book value
Atlas Copco Ghana Ltd., Accra		100	
Atlas Copco (Zambia) Ltd, Ndola		100	
Atlas Copco Zimbabwe (Private) Ltd., Harare		100	
Atlas Copco A/S, Langhus	4,498	100	32
Atlas Copco Kompressorteknikk A/S, Langhus		100	
Atlas Copco Anlegg- og Gruveteknikk A/S, Langhus		100	
Berema A/S, Langhus		100	
Atlas Copco Tools A/S, Langhus		100	
Atlas Copco North America Inc., Wayne, NJ	35,506	40[2)]	796
Atlas Copco North America Finance LLC, Wayne, NJ		100	
Atlas Copco Raise Boring Inc., Portland, OR		100	
Atlas Copco Berema Inc., Norwalk, 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 Assembly Systems 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., Livonia, MI		100	
Chicago Pneumatic Tool Company, Rock Hill, SC		100	
Chicago Pneumatic International Inc. Rock Hill, SC		100	
Chicago Pneumatic Tool Company Canada Ltd., Toronto		100	
Chicago Pneumatic India Ltd., Mumbai		51	
Esstar Inc., New Haven, CT		100	
Esstar Industries Inc., New Haven, CT		100	
Milwaukee Electric Tool Corporation, Brookfield, WI		100	
Prime Service, Inc., Houston, TX		100	
Prime Equipment Company, Houston, TX		100	
Rental Service Corporation, Scottsdale, AZ		100	
Rental Service Corporation, USA Ltd., Scottsdale, AZ		100	
Rental Service Corporation, Canada, Ltd., Calgary		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 Customer Credit AB, 556109-9150, Nacka	45,000	100	5
Atlas Copco Reinsurance S.A., Luxemburg	4,999	100	8
Robbins Europe AB, 556062-0212, Nacka	95,000	100	11
24 dormant companies			23
TOTAL BOOK VALUE			**3,227**

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, 88 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 SEK (translation risk).
- Group shareholders' equity – when the net assets of foreign subsidiaries are translated into SEK (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

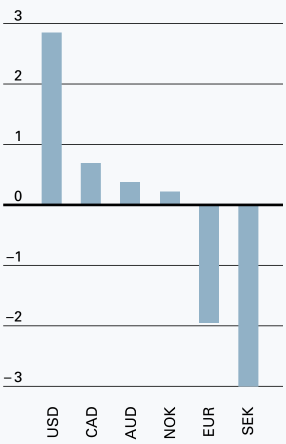
The risk policy states that the translation effect of currency changes on the Group's equity, expressed in SEK, shall be reduced by matching the currency of loans with the currency of the net assets, which corresponds to the value of net investment in foreign entities. Derivative contracts like forwards, swaps and options shall not be used for this hedging purpose, as derivative contracts give rise to cash flow 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, 1999, approximately 24 percent was hedged, primarily USD vs SEK.

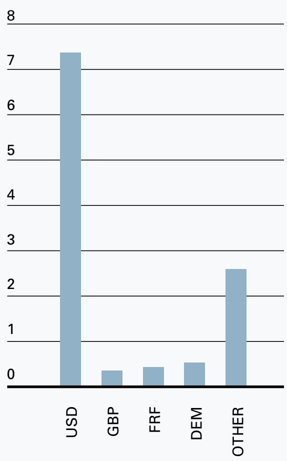
The interest differential between international and Swedish interest rates on the remaining forward contracts and swap agreements used in the hedge appears in the Group's interest net and was in 1999 SEK –8 m. (–6). Note 18 in the financial statements shows how shareholders' equity was affected by currency hedging in 1999. The value of the equity of foreign subsidiaries at year-end 1999 corresponded to approximately SEK 11,300 m. and is shown in graph 2, distributed by main currencies.

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

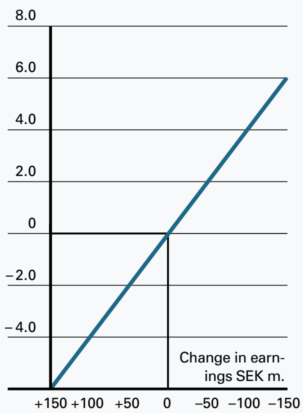
Graph 1
Transaction Exposure (in the most important currencies)



Graph 2
Net Assets in Foreign Currency



Graph 3
Translation Effect on Earnings before Tax



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 the time of printing this report in February 2000, the average interest-rate period was approximately 2 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 17,000 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.

Atlas Copco Internal Bank

In the area of financing and financial risk management there are clear and obvious advantages of a centralized management for an international Group like Atlas Copco. To safeguard that these benefits remain in the Group while respecting the decentralized operating structure of the Group, the Atlas Copco Internal Bank was developed.

The Internal Bank's mission is to serve the subsidiaries within the Group with loans, deposits, foreign exchange and trade finance transactions. All transactions and services are priced at market prices.

Furthermore, the Internal Bank manages the intercompany netting system and cash pooling within the Group. It is also the only entity that can take active risk positions in the currency and bond markets. This trading activity is governed by a risk mandate from the Board of Director's and has since the creation of the Internal Bank given a steady contribution to the Group's result.

During 1999 no credit losses on investments was recorded in this active risk management.

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 1999 was insignificant.

Exchange Rates

			Year-end rate		Average rate	
Country	Value	Currency code	1999	1998	1999	1998
Australia	1	AUD	5.56	4.95	5.31	5.01
Austria	100	ATS	62.13	68.70	64.20	64.20
Belgium	100	BEF	21.19	23.40	21.90	21.90
Canada	1	CAD	5.86	5.21	5.56	5.36
European Union	1	EUR	8.55	9.52	8.84	
France	100	FRF	130.32	144.10	134.68	134.80
Germany	100	DEM	437.08	483.20	451.70	451.80
Great Britain	1	GBP	13.76	13.53	13.40	13.21
India	100	INR	19.60	19.00	19.20	19.30
Italy	100	ITL	0.441	0.488	0.456	0.458
Japan	100	JPY	8.33	7.01	7.34	6.10
Luxembourg	100	LUF	21.19	23.40	21.90	21.90
The Netherlands	100	NLG	387.92	428.80	400.89	400.80
Norway	100	NOK	105.90	107.10	106.00	105.50
Singapore	1	SGD	5.11	4.87	4.89	4.77
South Korea	100	KRW	0.751	0.673	0.697	0.579
Spain	100	ESP	5.14	5.68	5.31	5.32
Switzerland	100	CHF	532.40	590.80	551.80	548.80
U.S.	1	USD	8.51	8.08	8.28	7.96
Atlas Copco,s currency index for transaction exposure			102.4	98.3	100.0	98.1

(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 1999 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.

U.S. and International Accounting Standards

The Group prepares its financial statements in accordance with generally accepted accounting principles in Sweden (Swedish GAAP). Swedish GAAP differs in certain significant respects from accounting principles generally accepted in the United States (US GAAP) and International Accounting Standards (IAS) adopted by the International Accounting Standards Committee. The following sections include information of certain significant differences for standards currently in effect between US GAAP and Swedish GAAP, and IAS and Swedish GAAP, which management believes is relevant to the Group.

US GAAP

Capitalization of interest

According to Swedish GAAP, the interest on external financing of assets constructed or otherwise produced for own use may be expensed. US GAAP requires that interest must be capitalized for certain qualifying assets if certain conditions are met as part of the historical cost of acquiring and making ready for their intended use.

Foreign currency transactions

The Group uses forward exchange contracts to hedge certain future transactions based on budgeted volume. For Swedish GAAP purposes, unrealized gains and losses on such forward exchange contracts are deferred and recognized in the income statement in the same period that the hedged transaction is recognized.

Under US GAAP, gains and losses on forward exchange contacts can be deferred only to the extent that the forward exchange contract is designated and is effective as a hedge of a firm commitment. Forward exchange contracts that exceed the amount of or that are not designated as hedges of firm commitments are marked to market under US GAAP and unrealized gains and losses are recorded in the income statement.

Pensions

Both Swedish and U.S. standards have the same objective which is the accruing for the projected cost of providing such pensions. There are certain differences with US GAAP being generally more prescriptive, requiring the use of the projected unit credit method; whereas under Swedish GAAP, the accrued benefit obligation is calculated. Other areas of differences include the actuarial assumptions, the treatment of actuarial gains and losses and plan changes. Provisions for pensions and related expenses for Atlas Copco's U.S. subsidiaries have been reported in the consolidated accounts in accordance with US GAAP.

Business combinations

Under Swedish GAAP, there are a number of criteria which determine whether a combination should be accounted for as a merger (pooling of interests). The criteria are designed to determine whether the business combination meets the conceptual definition of a merger.

The US GAAP criteria, although similar, are more prescriptive than those under Swedish GAAP. One of the criteria in US GAAP is that none of the merging companies may be a subsidiary of another company during the two years preceding the merger.

Income taxes

Atlas Copco reports deferred taxes on certain differences between financial reporting values and tax values. According to US GAAP, income taxes are accounted comprehensively under the liability method with deferred tax assets and liabilities being recognized on significantly all temporary differences between the bases of assets and liabilities as measured by tax and those reported in the financial statements. Valuation allowances are recognized for deferred tax assets if it is considered more likely than not that all or some portion of the deferred tax asset will not be recognized.

Goodwill and other intangibles

Generally Atlas Copco accounts for subsidiaries acquired by use of the purchase method which requires that goodwill arising on consolidation is capitalized and amortized on a straight-line basis over periods up to 40 years. Intangible assets are subject to a permanent impairment test.

Under US GAAP, all long-lived assets including goodwill are subject to a specific impairment test using undiscounted cash flows.

Debt and marketable equity securities

Atlas Copco accounts for financial and other investments held for trading purposes at the lower of cost or market. Financial and other investments, that are to be held to maturity, are valued at amortised cost.

US GAAP requires that all debt and marketable equity securities be classified within one of the three following categories: "held-to-maturity", "trading", or "available for sale". Debt securities which management has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Securities bought and held principally for the purpose of selling them in the near future are classified as trading securities and measured at fair value with the unrealized gains and losses included in net profit. Debt and marketable equity securities not classified as either held-to-maturity or trading are classified as available for sale and recorded at fair value with the unrealized gains and losses excluded from net profit and reported, net of applicable income taxes, as a separate component of shareholders' equity.

Translation of foreign currency financial statements in hyper-inflationary economies

For subsidiaries that operate in hyper-inflationary economies, primarily Latin America, the Group in consolidation remeasures the financial statements of the subsidiary as if USD was the functional currency.

Under US GAAP, the group would be required to translate the financial statements of subsidiaries that operate in hyper-inflationary economies as if the reporting currency, SEK, was the functional currency of the subsidiary.

Restructuring provisions

Under US GAAP, the recognition of restructuring cost is deferred until a commitment date is established, generally the date that management having the appropriate level of authority commits the company to the restructuring plan, identifies all significant actions, including the method of disposition and the expected date of completion, and in the case of employee termination, specifies the severance arrangements and communicates them to employees. The guidance under Swedish GAAP is not as prescriptive and in certain circumstances allow for earlier recognition.

Leases

Under Swedish GAAP, leases are reported in the consolidated financial statements as either financial or operating leases. A financial lease entails the transfer to the lessee, to a material extent, the economic risks and benefits generally associated with ownership. If this is not the case, the lease is reported as an operating lease and the lease payments are expensed as incurred.

The lease accounting rules under US GAAP are generally more prescriptive and would require leases that either transfer ownership, contain minimum payments in excess of 90 percent of fair market value of the leased asset, or the lease term is equal to or greater than 75 percent of the estimated economic life in the property, or contain a bargain purchase option are to be treated as a capital or finance lease.

Sale and lease back

Under Swedish GAAP, capital gains from property sold are recognized at the time of sale even when an operating lease is signed with the new owner.

Under US GAAP, gains realized would be deferred over the duration of the lease contract.

Revaluation of assets

Under Swedish GAAP, properties may under certain circumstances be written up and reported at values in excess of the acquisition cost. Such revaluation of assets is not permitted in accordance with US GAAP.

International Accounting Standards (IAS)

Retirement benefits

Similarly to US GAAP, the actuarial methods and assumptions prescribed under IAS vary from Swedish GAAP with IAS also requiring the use of the projected unit credit method. Likewise actuarial assumptions and the treatment of actuarial gains and losses and plan changes may differ from Swedish GAAP.

Income taxes

In accordance with IAS, deferred tax is provided in respect of temporary differences which are differences between the accounting and tax measurement of assets and liabilities. Liabilities are provided in full and assets are recognized to the extent that it is probable that a future taxable profit will be available against which the deferred tax asset may be utilized.

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	2,981,214,444
Profit for the year	SEK	1,036,639,271
	SEK	4,017,853,715

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

To the shareholders, a dividend of SEK 4.75 per share	SEK	995,610,374
To be retained in the business	SEK	3,022,243,341
	SEK	4,017,853,715

Nacka, February 18, 2000

Anders Scharp
Ordförande

Jacob Wallenberg	Michael Treschow	Paul-Emmanuel Janssen
Hari Shankar Singhania	Sune Carlsson	Lennart Jeansson
Kurt Hellström	Ulla Litzén	Giulio Mazzalupi *Verkställande direktör*
Tore Hedberg	Bengt Lindgren	Lars-Erik Soting

Auditors' Report

To the General Meeting of the shareholders of Atlas Copco AB (publ), Corporate identity number 556014-2720

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Atlas Copco AB (publ) for the year 1999. 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 annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. 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 annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any 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.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

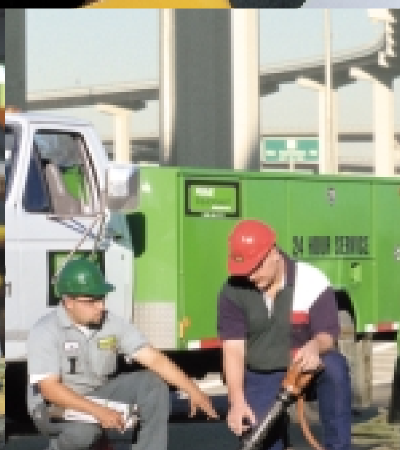
We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Nacka, February 25, 2000

Stefan Holmström
Authorized Public Accountant

Peter Markborn
Authorized Public Accountant

On January 1, 1999, the Rental Service business area was established to emphasize the increased importance of Atlas Copco's North American equipment rental operations. The Business Area now consists of two divisions, Prime Service and Rental Service Corporation.



Standing on a Firm Foundation for Growth

1999 started weak for the Group, but good progress was made later in the year. Atlas Copco made a number of important moves this year in line with its strategy. One was the acquisition of Rental Service Corporation (RSC), the second big step into the equipment rental business in North America.

Throughout 1999, business conditions in North America remained buoyant, with the equipment rental industry growing at an even faster rate than the economy as a whole. In Europe, expectations of stronger growth were not fulfilled. Production activity increased during the year, but investment stayed at a low level.

In the second half of 1999, many Asian economies started to develop better than originally anticipated. The Russian and South American economies were generally weak, with slower recovery.

1999 performance

Atlas Copco increased revenues 7 percent in 1999, corresponding to a volume decrease of 2 percent. Good progress in the last three quarters almost offset the weak start of the year.

Operating profit was SEK 4,470 m. (4,345), including nonrecurring items of SEK 83 m. Profit after financial items decreased 6 percent, to SEK 3,412 m., corresponding to a margin of 9.4 percent. The Group's objective is to achieve a profit margin of at least 10 percent over a complete business cycle. The average for 1995–1999 was 11.1 percent.

The Group continued to generate a satisfactory operating cash flow in 1999, SEK 2,413 m., which was 12 percent higher than in 1998.

Strategic moves

Since the beginning of 1999, the Group has operated in four business areas, as Rental Service is now a separate business area. In July, we made our second large acquisition in the equipment rental business in the United States by acquiring Rental Service Corporation (RSC), adding one division to the new business area. The acquisition further manifests Atlas Copco's strategy to grow by providing better service to customers. What drives this strategy is the increasing proportion of sales related to service, rental, accessories, and consumables. The Prime Service and RSC combination enables this business area to optimize its territorial coverage in a powerful way. To further improve Rental Service's competitiveness, projects are under way to develop synergies in areas such as administration, procurement, and distribution.

The strategy of growing by providing better service to customers during the lifetime of the products is also implemented in the Group's other business areas. In Europe, we continued to develop our rental business for compressors and drill rigs. Service contracts have always been a major business for compressors. For rock-drilling equipment, full-service contracts that include spare parts and drill steel have become more common. The motor vehicle industry is requesting more involvement from manufacturers to safeguard their processes, such as service and repair at a fixed cost, and we provide service workshops for tools on-site.

In the longer term, Atlas Copco aims for the same presence in Asia as in Europe and North America. Consequently, one of the highlights of the year was that the Asian region began to recover, and business trends are pointing up. To be prepared for more activity, we have continued to develop managers in this area.

Compressor Technique

In 1999, Compressor Technique extended its range of industrial compressors which consumes less energy, and new portable compressor and generator models were introduced to the equipment rental industry. Production in Asia was consolidated, and the Wuxi plant in China expanded capacity. Two companies have been acquired to strengthen the product rental business: Rand-Air in South Africa and ABIRD BV in the Netherlands. Also, new sales companies were established in Egypt and Indonesia.

Construction and Mining Technique

Construction and Mining Technique capitalized on investments it had made in new laboratories in Sweden. A new range of surface crawlers and an extended range of underground drilling rigs were introduced, based on an established modular concept. For the construction industry, a series of hydraulic breakers was launched.

Industrial Technique

Industrial Technique presented a number of new tools: grinders, angle nut-runners, and a series of cordless tools that use a universal charger. To serve customers better, the Alliance Tools division combined tools from three different brands into a single, broader offering. Atlas Copco Controls was divested, because it was not considered a core business. Finally, just before year-end, the business area acquired the service repair specialist Tool Technics NV in Belgium.

Rental Service

Besides the major acquisition of RSC, six smaller companies with nine locations were acquired in regions that had not been fully served previously. The Prime Energy business continued to grow, and demand for products used in temperature control and for generators was better in the food, manufacturing, petrochemical, and entertainment industries.

Environmental commitment

I am pleased to report new development in Atlas Copco's environmental work, in line with our strategy. In 1999, Milwaukee Electric Tools completed its audit for ISO 14001 certification, and the Group's electric tools business has now fully implemented the environmental management system. In total, 51 percent of the Group's production capacity are now certified, and more units are on their way.

To contribute to a better working environment for our customers while the products are in use, and to give Atlas Copco a competitive edge, our product development integrates environmental and ergonomic aspects in the process.

The Internet opportunity

The use of the Internet and e-commerce will have a major impact on our way of doing business. We will use the Internet for information, for interaction, and for transactions with customers, suppliers, and employees, to develop and improve our processes. The objective is to broaden and deepen our sales reach, to improve service to customers, and to develop internal efficiency. Atlas Copco has launched a number of projects at the Group and business area levels, and resources are being put in place. To support this development, we have published a policy and identified a working standard with clear responsibilities.

Common service providers

Internet technology offers exciting potential for people spread around the world to work together and to gain synergy between operations. With the focus on increased efficiency in administrative and support processes, we seek new solutions and structures which we can develop. A milestone in this respect is Atlas Copco ASAP, a common service provider established in 1999 to serve European sales companies with administrative services. The aim is to provide internal customers with higher quality services faster and to reduce the cost of doing business.

People carry the Group forward

Our success is based on good processes driven by customers, products, and people, where people are the asset that makes it all happen. One area in focus is the recruitment and retention of talented people, where the key task for Atlas Copco is to stay an attractive employer.

As a part of our skills development program, we held a number of regional Group Seminars for general managers of business units. The primary purpose was to develop managers' personal understanding of their own roles in a changing business environment. The divisions also conduct comprehensive training programs.

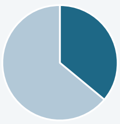
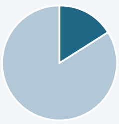
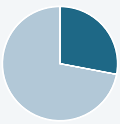
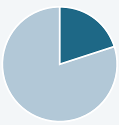
We encourage internal mobility in the Group as a means to transfer competencies and increase experience, and available jobs are posted on our internal job and project market, welcoming people to apply.

Continuous improvement and innovation

To gain a better competitive position, Atlas Copco must deal with continuous improvement and innovation. We are facing a number of important tasks for the Group, such as developing innovative products, applying the power of the Internet, and furthering synergies. At the same time, we must continue efforts to tighten our control over working capital and to reduce costs. I am confident that we can do that. We have strong business concepts, have made several key strategic moves, and now stand on a firm competitive foundation for growth.

Giulio Mazzalupi
President and Chief Executive Officer

Consumables and Services Continue to Fuel Growth

% of Group Revenues	Business Area	Business Concept	Brands*
 36%	Compressor Technique 	Compressor Technique concentrates on meeting customer needs in the areas of compression and treatment of air and gases. Hence, the business area develops, manufactures, and markets industrial, stationary, and portable compressors, generators, air dryers, aftercoolers, filters, some gas and process compressors and expanders. Further, the business area offers specialty rental of "air and power".	Atlas Copco, Ceccato Aria Compressa, Air Worthington Creyssensac, Mauguière, Rand-Air, Chicago Pneumatic, Irmer+Elze, Mark Compressors, ABIRD
 16%	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 in rock excavation, light construction and demolition, as well as in exploratory drilling.	Atlas Copco, Secoroc, Kango, JKS Boyles
 28%	Industrial Technique 	Industrial Technique develops, manufactures, and markets pneumatic and electric power tools for industrial and professional customers as well as assembly systems. The business area serves needs relating to industrial manufacturing, the automotive after-market, light construction, and OEMs.	Atlas Copco, Milwaukee, Chicago Pneumatic, AEG Power Tools, Desoutter, Georges Renault
 20%	Rental Service 	Rental Service aims at satisfying customer needs for rentals, maintenance, service, and sales of new and used equipment. The ambition is to offer a comprehensive range of high quality products and services mainly to the construction and manufacturing industries. Availability, quality, and price are three important success factors.	Prime Equipment Sales/Rentals, Prime Energy Systems, RSC Rental Service Corporation

*Registered trademarks.

Atlas Copco is a global industrial group headquartered in Stockholm, Sweden. Revenues for 1999 totaled SEK 36,234 m. The Group employs more than 26,000 people and manufactures products in 14 countries on four continents. The products are sold and rented under different brands through a worldwide sales and service 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	11.1
Sales growth (%)	8	11.6

Customers / Applications	Characteristics	Key Events in 1999
Compressed air is either used as a source of power or the air itself plays an active role in industrial processes. Clean and dry oil-free air is a crucial input in the electronics, food processing, and pharmaceutical industries. Filters and drying equipment are offered as integrated parts of its compressor packages. Portable 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 various process industries.	Compressor Technique claims world leadership in air 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. The main production plant is ISO 14001 certified and the business area has made major achievements in reducing energy consumption for some of the key products.	• New generation of compressors launched across all areas. • Key patents on core technology granted. • Manufacturing capacity in Wuxi, China, expanded. • Rental companies Rand-Air Ltd., South Africa, and ABIRD BV, the Netherlands, acquired. • New sales companies established in Indonesia and Egypt.
Construction and Mining Technique provides products and services for infrastructure, construction, and mining projects. Drilling rigs are used in tunneling, mining, ground engineering and exploration drilling. Atlas Copco also manufactures drilling tools such as drill steel, drill bits, and cutters. Light rock drills and breakers are used for demolition. Loading equipment is used in underground mining operations and construction projects.	Construction and Mining Technique builds its business on its well-established reputation as a global supplier of state-of-the-art products. Serving mature markets, Construction and Mining Technique aims to remain a leader in terms of quality, reliability, productivity, service, the environment, and ergonomics.	• Major orders received from Russia, Hong Kong, Brazil, India, and Switzerland. • New range of drill rigs, both surface and underground, introduced. • Increased emphasis on rental of drilling rigs. • Distribution of construction tools moved to Power Tools Distribution in Belgium
Industrial tools powered by compressed air or electricity have many industrial applications, including drilling, grinding, riveting, and tightening of nuts and screws. Electric tools are used extensively in the construction industry. Assembly systems, containing high-precision and computerized control systems, are supplied primarily to the automotive industry, for multiple and synchronized nut tightening.	Industrial Technique's success is based on intensive research and development, high quality products offering ergonomic features, an ability to serve large customers on a global basis, and on potent distribution concepts.	• Alliance Tools launched program to consolidate manufacturing. • Atlas Copco Controls sold to Danaher Corporation. • Tool Technics NV, Belgium, a specialty service company, was acquired. • Production and sales operations in and between most divisions further consolidated.
Rental Service serves a well-balanced and diversified customer base of contractors, industrial companies, and homeowners with different needs and activities. Larger multi-regional industrial customers, for example in the petrochemical sector, form an important customer segment. In total, Rental Service has more than 330,000 active customers in the U.S., Canada, and Mexico.	Rental Service operates in a fast-growing industry undergoing rapid consolidation. It has developed its strong market position by applying superior service concepts, efficient information systems, and economies of scale in logistics and purchasing.	• Rental Service established as separate business area. • Rental Service Corporation (RSC) acquired.

Primary Drivers of Atlas Copco Group Revenues

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

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 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 in Asian markets. Third, the Group shall expand revenue related to "use of products", such as service and maintenance, spare parts and accessories, consumables, 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, organization, and business flows are aimed to provide customers with better service and to safeguard short-term profit. Atlas Copco also believes in breakthrough innovation as a means to staying ahead of the competition and maximizing performance in the long run. The Group strongly supports specific projects to foster innovation in technology, concepts, and methods.

The Atlas Copco Group hosts a number of brands and its multi-brand strategy plays a significant role. To better satisfy specific customer needs, products and services 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 business.

Goals

Through its planning process, Atlas Copco companies use trends, targets, and goals to manage their businesses. Annual budgets have been 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 11.1 percent. In 1999, the profit margin was 9.4 percent (10.8).

To secure long-term profitability, growth must be a top priority for the Atlas Copco Group. The growth target is an annual rate of sales growth averaging 8 percent over a business cycle. This growth shall be accomplished with a balance of organic and acquisition growth. In the past five years, compound annual growth has averaged 11.6 percent, mainly owing to acquisitions.

Among qualitative targets and goals, Atlas Copco expects all products and services to boost customers' productivity and competitiveness. All divisions should be leaders in the area of environmental protection, which will strengthen their businesses. In the marketplace, Atlas Copco focuses on being first in mind – first in choice of our customers. Surveys are continuously performed to assess the success of Atlas Copco companies in this regard.

Strong market presence

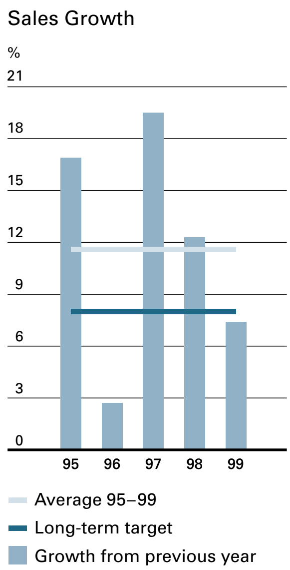
Atlas Copco manufactures and assembles products in 14 countries. Manufacturing is chiefly concentrated to Belgium, the U.S., Sweden, Germany, France, and India.

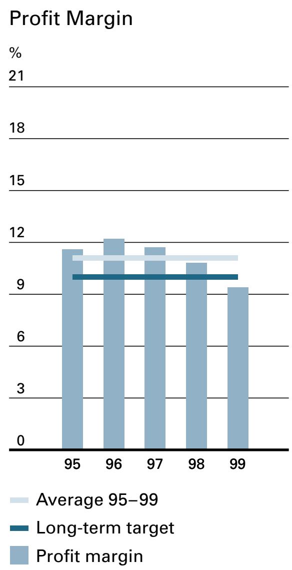
The Atlas Copco Group has a strong market presence and strives to maintain close and long-term relationships with its customers. Products are marketed through the Group's own sales operations in some 70 countries and through distributors in another 80 countries. The goals of strengthening ties with customers and emphasizing service and after-market revenues were vital factors in the Group's acquisitions of Prime Service and Rental Service Corporation.

The European market accounts for 37 percent of Group sales, the North American market 45 percent. Atlas Copco is dedicated to expanding the relative share of emerging markets, especially Asian markets. The recent expansion of Compressor Technique's manufacturing capacity in Wuxi, China, exemplifies the Group's commitment and belief in the region. However, the electric tool manufacturing has been transferred to Germany from China.

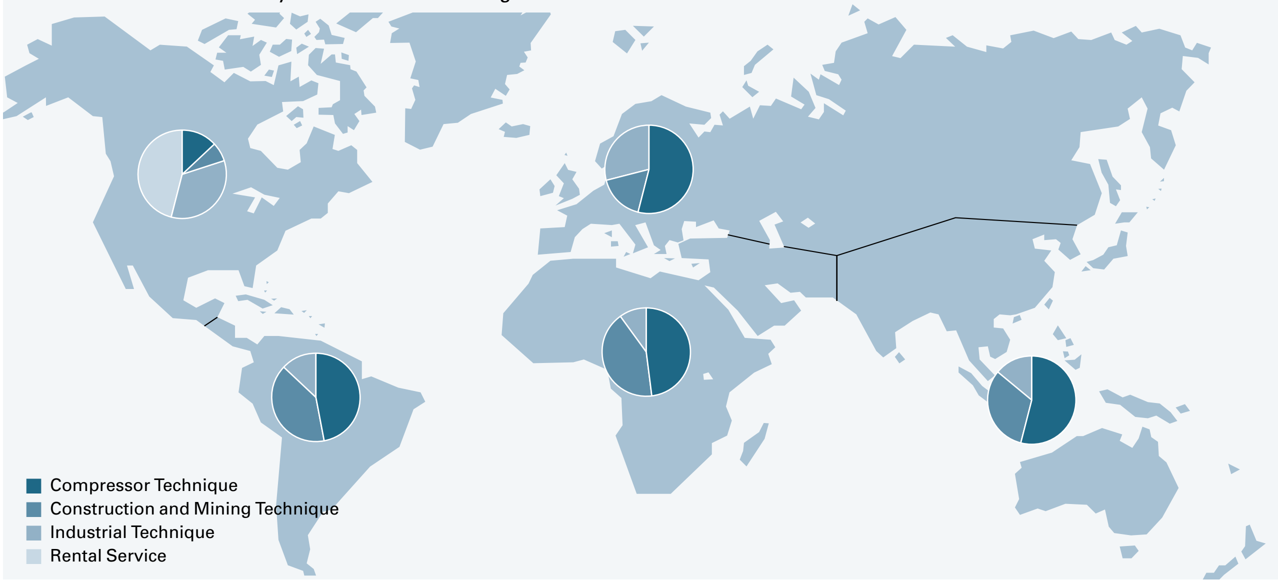
Increased importance of consumables, rentals, and services

Following the recent major acquisitions of Rental Service Corporation (1999), Prime Service (1997), and Milwaukee

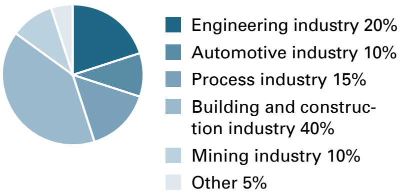




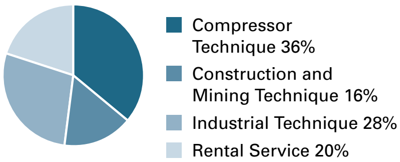
Distribution of Revenues by Business Area and Region



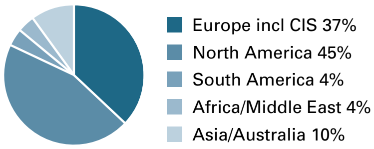
Revenues by Customer Category



Revenues by Business Area



Geographic Distribution of Revenues



Electric Tool Corporation (1995), Group revenues have become increasingly dependent on consumables, rentals, and services. 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 the equipment rental business offers a unique opportunity to make the most of end users' contributions to product and business development.

Nevertheless, the Group remains sensitive to the cyclical changes in investment in capital goods in various public and private sectors, such as manufacturing, infrastructure, and mining. The single largest segment in this sector – which is 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 core production processes.

Infrastructure projects are important for Atlas Copco's sales of construction equipment, including drilling rigs, drilling tools, breakers and portable compressors. Investment in railways, highways, and power plants often depends on political decisions. In the private sector, metal prices and stocks serve as leading indicators for mining industry demand for drilling equipment and loaders.

Finally, when sales of capital goods increase, the demand for consumables and services is also likely to increase. Customers need tools, spare parts, drill bits, and accessories on an ongoing basis. Demand for these products and services is relatively stable compared to the capital goods themselves, which exhibit more cyclical demand. The gradual shift to consumables and services is reducing cyclical influences on Atlas Copco's total performance.

**Important Acquisitions,
Joint Ventures and Divestments 1993–1999**

1993 Acquisitions: 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 Acquisition: Hamrin Adsorptions & Filterteknik, Sweden (CT). Joint venture: Wuxi-Atlas Copco Compressor Company, China (CT). Divestment: Atlas Copco Automation, Sweden (IT).

1995 Acquisitions: 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 Acquisition: IRMER+ELZE's portable compressor and pneumatic breaker operations, Germany (CT).

1997 Acquisitions: Thomé-Crépelle, France (CT); Prime Service, U.S. (CT).

1998 Acquisitions: Ceccato's compressor operations, Italy (CT); JKS Boyles, Canada (CMT). Divestment: Robbins, U.S. (CMT).

1999 Acquisitions: Rand-Air, South Africa (CT); ABIRD BV, the Netherlands (CT); Rental Service Corporation, U.S. (RS); Tool Technics NV, Belgium (IT). Divestment: Atlas Copco Controls, Sweden (IT).

Stable Demand for Industrial Compressors and Generators

Demand for compressors ended strong despite a slow start in 1999. European markets remained stable, and the Asia-Pacific region showed encouraging signs of recovery during the second half of the year. Sales reached SEK 13,202 m. (13,540), and operating profit was SEK 2,153 m. (2,283). From January 1, 1999, the equipment rental operations are reorganized into a new business area, Rental Service (see page 62–65), outside Compressor Technique.

	1999	1998	1997
Revenues, SEK m.	13,202	13,540	12,674
Operating profit, SEK m.	2,153	2,283	2,299
Return on capital employed, %	27	30	36
Investments, SEK m.	453	488	521
Number of employees	8,288	8,565	8,037

The Compressor Technique business area, headquartered in Antwerp, Belgium, develops Atlas Copco's position as the world's leading provider of equipment for air compression. 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 to Belgium, the U.S., Germany and France.

Revenues

Compressor Technique's revenues remained largely unchanged at SEK 13,202 m. (13,540), while orders received ended at SEK 12,965 m. (13,161). Business in Central Europe and the Mediterranean region was strong, while demand was flat in North America and quite weak in South America. East and Southeast Asia showed solid signs of recovery, especially in South Korea and China.

Earnings

Operating profit decreased to SEK 2,153 m. (2,283). Earnings equaled 16.3 percent (16.9) of revenues. The return on capital employed ended at 27 percent (30).

Business development

In 1999, Compressor Technique made several important moves to develop its business.

New compressor types from Industrial Air and Oil-free Air divisions attracted heightened interest from customers in new market segments and new markets. For example, variable speed drive compressors and compact industrial compressors, which reduce customers' operating costs, are products with continued growth potential.

Sales and rentals of portable compressors and generators were particularly healthy. For Portable Air, organic growth was complemented by acquisitions, and inter-company sales to Atlas Copco's rental operations in North America remained strong.

Process industries were uneven in 1999. Orders from the chemical and petrochemical sectors were reasonable, while the air separation market was extremely weak. Important orders were received from key customers and these niche segments and applications represent good growth opportunities.

To further emphasize market presence, new sales companies were established in two important markets: Indonesia and Egypt.

Product development

In 1999, Compressor Technique confirmed its position as the world's leading developer and innovator of compressor technologies. Key compressor components, overall performance, productivity, and designs were all enhanced to better fulfill the demands of existing and new customers.

Industrial Air and Oil-free Air continued to develop the popular variable speed drive compressors that employ a system that continuously adjusts the machine's energy consumption to the level needed, thus dramatically reducing energy costs in many applications. Also, several ranges of small and large compressors were augmented to better fit customers' demands.

Portable Air launched several new compressor models, including oil-free compressors for rental, and a new open frame generator range.

Applied Compressor and Expander Technique, which traditionally manufactures large customized compressor installations, shipped its first standardized turbo compressors for air separation.

To safeguard Atlas Copco's strong position in compressor technologies, various patent applications emanating from basic development activities were filed and granted during the year. These patents will further sharpen Compressor Technique's competitive edge during the next decade.

Investments

The business area invested a total of SEK 239 m. (259) in property and machinery. The majority of investments related to the replacement of production equipment, flow improvements and capacity extension. By year-end, the Business Area launched an ambitious investment in an expansion of a laboratory for product development in Antwerp, Belgium.

Investments in rental equipment totaled SEK 214 m. (229).

Training

Training during the year centered on Atlas Copco's crucial customer relationships. Programs covering service development and training, customer care, and general customer focus were implemented worldwide.

Compressor Technique's success greatly depends on product development and innovation, so during the year the business area continued to emphasize efficient exchange of information between product development, production, and the sales organization, which primarily interacts with customers.

Other efforts included management seminars and the adoption of a reinforced training policy that aims at safeguarding the continuous development of employees.

Structural changes

At January 1, 1999, Atlas Copco's Prime division was withdrawn from Compressor Technique to form a new business area, Rental Service (see pages 62–65).

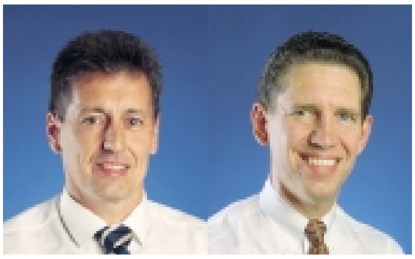
The Portable Air division acquired two specialty rental companies during the year. On January 1, 1999, Atlas Copco acquired South African Rand-Air Ltd. with roughly 200 employees and an annual turnover of SEK 90 m. At July 1, ABIRD BV based in Rotterdam was acquired. ABIRD BV had 25 employees at the time and annual sales of SEK 40 m.

In addition to this, the manufacture and assembly of compressors was further consolidated during the year. Most notably, capacity was extended in Wuxi, China, while a unit in Japan was divested and one in China closed.

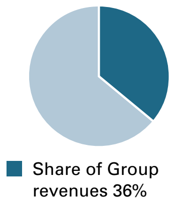
Market outlook

Global demand for Compressor Technique's products and services is foreseen to increase in the near term. The Asian and North American markets are expected to lead this expansion.

Oscar Duprix | Luc Hendrickx | Johan Molin



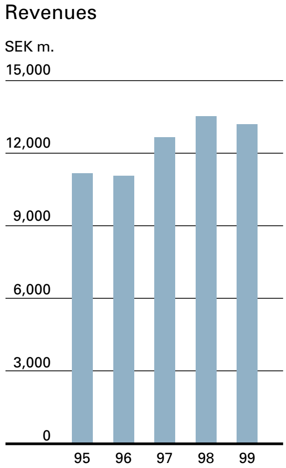
Ronnie Leten | James Tapkas

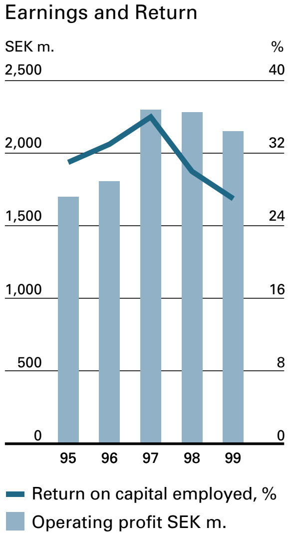


Business Area Executive: Bengt Kvarnbäck

Compressor Technique's divisions are:

- Portable Air, President Oscar Duprix
- Oil-free Air, President Luc Hendrickx
- Industrial Air, President Johan Molin
- Airtec, President Ronnie Leten
- Atlas Copco Applied Compressor and Expander Technique, President James Tapkas





European network guarantees delivery

Atlas Copco Rental Europe, a company in the Portable Air division, provides temporary oil-free compressed air, electric power and related services to industrial customers in Europe. The company's key strength is based on its ability to react instantly, providing total quality and full service to its customers.

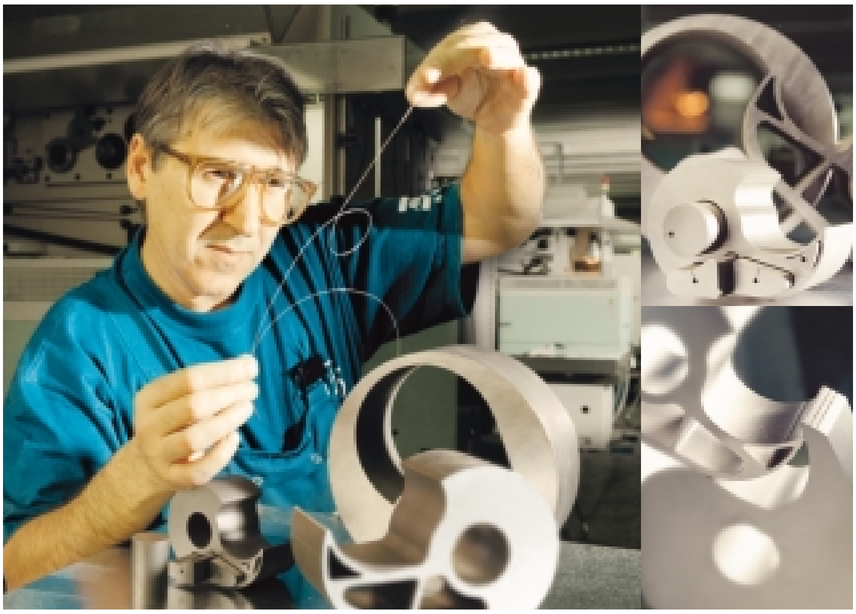
Rental customers these days are looking for more than just additional compressed air or electricity: They want a total solution. This was also the case at Phenolchemie, a chemical company in Belgium that produces phenol, which is used as the basis for products such as aspirin, compact discs, textile prints, and paint.

Already a customer of the Group, Phenolchemie turned to Atlas Copco Rental Europe when the company urgently needed back-up production capacity at its Antwerp plant. Within 12 hours after Phenolchemie made its first phone call to Atlas Copco one Saturday morning, 10 units and "round the clock" technical surveillance were operational at the customer's site. To be able to deliver the full 30,000 m^3/hr of air required, five additional units had to be installed in parallel with the 10 already available at the plant.

The choice fell on the new diesel-driven oil-free portable compressor, offering additional environmental protection as standard. The engine of the machine complies with the latest regulations, and the unit has a frame that is completely spillage-free, to protect against harmful discharge to the environment.

COMPRESSOR TECHNIQUE

Lead time cut from 35 days to six



The Airtec division delivers core compressor parts to other Compressor Technique divisions on a daily basis. The division is committed to creating value for its customers and staying competitive when it comes to cost and performance. A new spark erosion system in tooth production has significantly reduced lead times and costs.

For many years, tooth compressor stages have been the very heart of oil-free compressor units in the lower power range. A tooth compressor consists of a male and female tooth rotor built into a casing. The manufacturing process for this type of rotor was previously set up with different dedicated, single machine tools to cut a complex, cast stainless steel rotor body. The result was batch production with lead times up to 35 working days.

Recently, Airtec introduced a simplified, cost-saving process. The technology cuts complex pieces with the utmost precision using electrical spark erosion between a special thin wire and the material to be cut. The challenge was to implement this process – usually devoted to high-precision parts produced in small quantities – in serial production. The resulting machined rotor-profile has been improving the performance of the compressor in all stages of production since early 1998. Improved manufacturing flexibility has reduced lead times, in some cases to six days.

Long-term commitment to China

To improve service to customers and to safeguard future expansion the Wuxi compressor assembly plant in China expanded its production capacity during the year. The new facilities were inaugurated in September 1999.

Since production began in Wuxi in 1995, the plant has steadily upped production volumes, and the periodic introduction of new compressor models has meant that the initial set-up of the factory was not sufficient. Thus, a decision was made in November 1998 to extend the production area to cope effectively with the larger volumes forecast.

Besides increasing the factory's surface area, the complete set-up of materials handling, assembly, and test functions was changed. Each of the three divisions – Oil-free Air, Industrial Air, and Portable Air – now has a dedicated assembly line. Although the lines can function independently, all tools and equipment used are interchangeable.

Special care was taken to ensure an environmentally friendly factory, especially when it comes to noise emissions from the test cells and prevention of oil spills into the soil.

For the customer, the increased production capacity enables shorter delivery times as well as a wider range of products from which to choose. The test cell facilities are also very advanced, providing good arguments for promoting equipment to customers.

COMPRESSOR TECHNIQUE

New variable-speed models further increase energy savings

Most industrial applications demand amounts of air that can vary by the day, the hour, or the progress of the process. Recognizing this market need, Atlas Copco developed a range of air compressors powered by variable-speed drives (VSDs). Atlas Copco has now widened the availability of the VSD machines by launching oil-free compressors in versions up to a power rating of 315 kW.

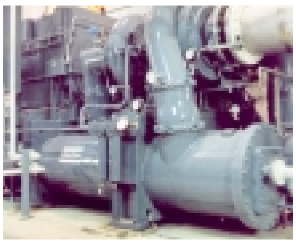
Variable-speed machines simply sense a drop in air demand and reduce the speed of the machine, thus closely following the air demand in the most efficient way. The outstanding energy savings – up to 30 percent compared to conventional regulation – provided by Atlas Copco's previous models, as well as benefits such as pressure stability and soft-start, has triggered substantial extra sales to customers new and old.

The new models optimize benefits to end-users in terms of energy savings and shorter payback on investment, typically one or two years depending on the air consumption profile. The substantial energy savings also mean a lower life-cycle cost, in which energy costs account for a very large portion.

These machines will find wide application throughout a broad spectrum of industries. Potential customer segments for the larger sizes include the automotive industry, air separation, fermentation, water treatment, pharmaceuticals, chemicals and petrochemicals, and power plants.

Premier web pages improve information flow

Information systems have become important tools for key account sales engineers building stronger relationships with the Applied Compressor and Expander Technique (ACT) division's key customers.



ACT has several key accounts in the air separation market, customers who purchase many large air and nitrogen compressors each year. The key account sales engineers visit these customers on a regular basis to provide support for projects on which customers are bidding. The sales engineers have notebook computers with customized software for selecting compressors and calculating performance for the customer. Some of these software programs are provided to key accounts, so the customers can size and select compressors on their own. Also, the ACT sales engineers in the U.S. have just had new software introduced for logging and tracking quotations, following the development of in-house orders, and tracking other customer-related information. Thus they now have a much better tool for territory management and communication.

The division also has introduced "Premier Pages" for key accounts on the Atlas Copco Internet web site. These are password-protected pages designed to shorten the distance between a key customer and the factory and to make the flow of information faster and more cost-effective. By accessing their Premier Pages, customers can send requests to the ACT service department, check on standard delivery lead-times of products, and monitor the status of orders directly on the Internet.

Future development of the premier web pages will give customers Internet access to contract drawings, which they can download and mark up, and an e-commerce system that will enable the customer to place orders for spare parts on-line.

Continuous Improvements on Recovering Markets

For Construction and Mining Technique, 1999 was marked by a weak start followed by a stronger end to the year. From a low level early on, metal prices lifted towards the second half, and the business area won major orders from infrastructure and mining projects. Projects to boost consumables, rentals, and services combined with additional organizational adjustments to counter the effects of a mature market.

	1999	1998	1997
Revenues, SEK m.	5,725	6,437	6,453
Operating profit, SEK m.	397	498	387
Return on capital employed, %	13	15	12
Investments, SEK m.	415	494	460
Number of employees	4,123	4,572	5,058

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 U.S.

Revenues

Revenues totaled SEK 5,725 m. (6,437). Orders received decreased 1 percent, to SEK 6,062 m. (6,117). Major orders were received from infrastructure projects and mining operations in Russia, India, Hong Kong, and Brazil.

Earnings

Operating profit ended at SEK 397 m. (498), giving an operating profit margin of 6.9 percent (7.7). Return on capital employed was 13 percent (15).

Business development

Initially, Construction and Mining Technique divisions were struggling in the aftermath of the economic turmoil in Asia, Australia and South America as well as depressed metal prices. During the second half of the year, these negative trends turned positive. Prices on metals increased with positive effect on the business.

To some extent, economic uncertainty represents an opportunity for the business area, because the business area's customers become even more intent on improving their own critical processes. They can accomplish their goals with high-performance equipment and effective service, maintenance, and operator training programs. In the midst of the construction and mining industry's adjustments, Atlas Copco Construction and Mining Technique's divisions have generally maintained or advanced their positions relative to their competitors.

Current opportunities to advance the business include expansion of rental operations for drilling rigs, new methods to further exploit customer productivity, and e-commerce for consumables such as spare parts and accessories.

Product development

Product development resulted in the introduction of several rig types and rock drills from Atlas Copco Rock Drilling Equipment, including a very large face-drilling rig with a surface reach of 165 square meters. Customer productivity remained in focus, and the emphasis on modularization of designs intensified.

Other products introduced by the business area included a new grouting pump and a small rig for reverse circulation, both for geotechnical drilling from Atlas Copco Craelius.

Uniroc, Atlas Copco Wagner, and Atlas Copco Construction Tools focused their development efforts on improving the performance of their core products – rock tools, bits, loading and construction equipment.

Investments

During the year, the business area invested a total of SEK 116 m. (202) in property and machinery. The majority of investments was attributable to improvements in production processes aimed at enhancing flow and reducing tied-up capital.

Investment in rental equipment totaled SEK 299 m. (292).

Training

The increased complexity and computerization of drilling rigs led to several new training efforts, internally for the sales organization and with customers. These typically make use of interactive computer-based training tools, which are aimed at complementing training in the real work environment.

The divisions in the business area conducted training programs in project management and 3D-CAD for development engineers.

Structural changes

To adjust to depressed market conditions and cope with declines in business volumes, all divisions completed downsizing programs.

In Atlas Copco Wagner especially, the unfavourable market development triggered major adjustments and outsourcing increased further.

In October 1999 the Atlas Copco Construction Tools division moved its distribution center from the Netherlands to Belgium to further exploit synergies with other Group operations.

Atlas Copco Craelius concluded its integration of JKS Boyles, which was acquired at the end of 1998.

Market outlook

Markets in Asia-Pacific, South America and southern Africa are foreseen to continue recovering, while North American and European markets are expected to remain at their current level.

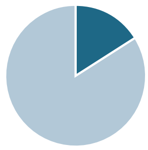

Björn Rosengren


John Noordwijk


Claes Ahrengart


Kjell Carlsson


Freek Nijdam

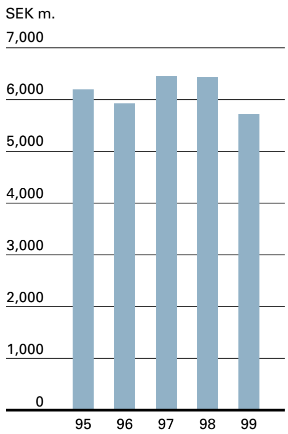

Share of Group revenues 16%

Business Area Executive: Freek Nijdam

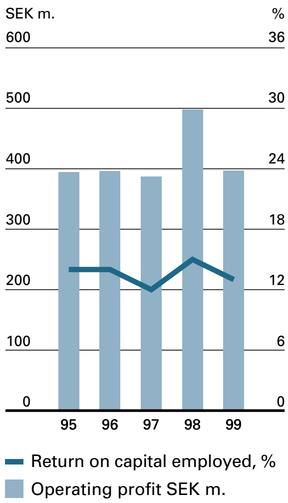
Construction and Mining Technique's divisions are:

- Atlas Copco Craelius, President Björn Rosengren
- Atlas Copco Wagner, President John Noordwijk
- Atlas Copco Construction Tools, President Claes Ahrengart
- Atlas Copco Rock Drilling Equipment, President Kjell Carlsson
- Uniroc, President Freek Nijdam (acting)

Revenues



Earnings and Return



Customer and supplier join forces in product development

Close cooperation with customers is essential for success in developing state-of-the-art rock drilling equipment. A basic requirement for a new product is that it improves customers' operations. Atlas Copco's Rock Drilling Equipment division continuously interacts with its customers to achieve better results in ever-changing rock conditions.

One example of how supplier-customer partnerships can successfully overcome formidable obstacles is apparent at the Zinkgruvan mine, located near the northern tip of Vättern, Sweden's second largest lake. Atlas Copco and the mine have cooperated on the development of drilling rigs and components for nearly 20 years. The benefits for both parties are significant. By participating in the development and testing of new products, the client gain quicker access to more efficient products that are adapted to their requirements and reduce their cost per ton of ore. Atlas Copco, in turn, benefits from shorter time-to-market and products that better match market demands.

The partnership is now contributing to a program designed to improve production drilling at Zinkgruvan. The changes involve closer cooperation between the four major underground mining areas and improvements in mining methods. An Atlas Copco-Zinkgruvan interactive project group was formed to evaluate investment in a new production rig and to define its specifications. Zinkgruvan set several criteria: accuracy of less than one degree in positioning the feed; high availability from reduced downtime between varied drilling tasks; fixed alternatives in the control system for different applications to reduce downtime and drill-steel consumption.

The project group opted for the updated Simba rig, which drills straighter and longer holes. Following changes at the mine, it will have a higher degree of utilization. The new rig will give Zinkgruvan the flexibility and accuracy needed to handle shifts in mining conditions and any alterations in methods they may wish to make.

Protecting operator and environment

When designing the Cobra, the most powerful fuel-driven asphalt breaker in the market today, the developers at the Atlas Copco Construction Tools division had to consider several aspects – both ergonomic and environmental.

The most important goal when developing the new breaker was to reduce the possibly harmful vibrations which everyone previously thought were unavoidable in drilling and breaking tasks.

In the Cobra, vibrations have been reduced to a substantial extent. This is one of the machine's most welcome features, according to operators at Frijo, a contractor active in Sweden. The operators also appreciate having all the buttons on a single panel at the top, as well as the easy-to-start two-stroke engine.

At the same time, the Cobra is an environmentally friendly product and meets both Swedish and U.S. Environmental Protection Agency (EPA) requirements.

The machine is completely recyclable, and no heavy pollutants are used in the product. Emissions are minimal – the engine runs on unleaded fuel.

CONSTRUCTION AND MINING TECHNIQUE

Greater computerization of drilling rigs facilitates mine planning

Based on demands from the market, Atlas Copco Craelius has further enhanced the computerized functions of its Diamec drilling rig. The new computer program helps the driller or geologist obtain information about the drilling operation and provides a quick analysis of the geology.

The new computer program is a geological data acquisition system developed by Atlas Copco in concert with major customers. It is designed to collect data during the drilling operation. The logging system is easy to use. All that a driller has to do is to plug the memory card into the operator's panel, enter the hole depth, and drill. After the shift, the driller hands the memory card to a geologist for analysis using the program, which plots the data as graphs and compiles a drill report.

A drilling rig equipped with this system has been tested at the Outokumpu Pyhäsalmi underground mine in Finland, where the accumulated data have proved valuable in mine planning and operations. The information obtained on the rock drilled through is helpful in rock mechanics, for planning and designing stopes. All these efforts are ultimately aimed at decreasing costs, a particularly important goal in underground mining today.

CONSTRUCTION AND MINING TECHNIQUE

The mark of quality is customer satisfaction

Atlas Copco Wagner believes that one measurement of quality is response to customer needs and demands. One critical demand from the customer's point of view is the mechanical availability of the equipment required to meet their project deadlines. To support this demand, Atlas Copco offers its customers a maintenance, service and spare parts program.

According to the program, Atlas Copco promises to service and maintain the equipment 24 hours a day, 7 days a week, from start to finish of the project. Atlas Copco provides the mechanics, training, labor, and spare parts needed to keep the vehicles operating and to meet the guaranteed mechanical availability, which allows projects to be completed on time.

One case in which this full-service Parts and Maintenance Agreement led to customer satisfaction was in the Philippines. Wagner met the challenge of providing 22 Load-Haul-Dump vehicles (LHDs) and trucks to Raytheon-Ebasco Overseas Ltd., the principal contractor on the San Roque Multi-Purpose Dam Project in San Manuel, Philippines. The only way the contractor could be assured of completing a critical part of the tunneling was to have 95 percent mechanical availability for the operating units. To make that type of commitment, Atlas Copco offered Raytheon-Ebasco a full-service Parts and Maintenance Agreement that ensured the units were ready to work when the contractor was ready for mucking and hauling. The units' reliability and performance allowed them to meet the project deadlines.

Uniroc offers full service to Mount Isa Mines

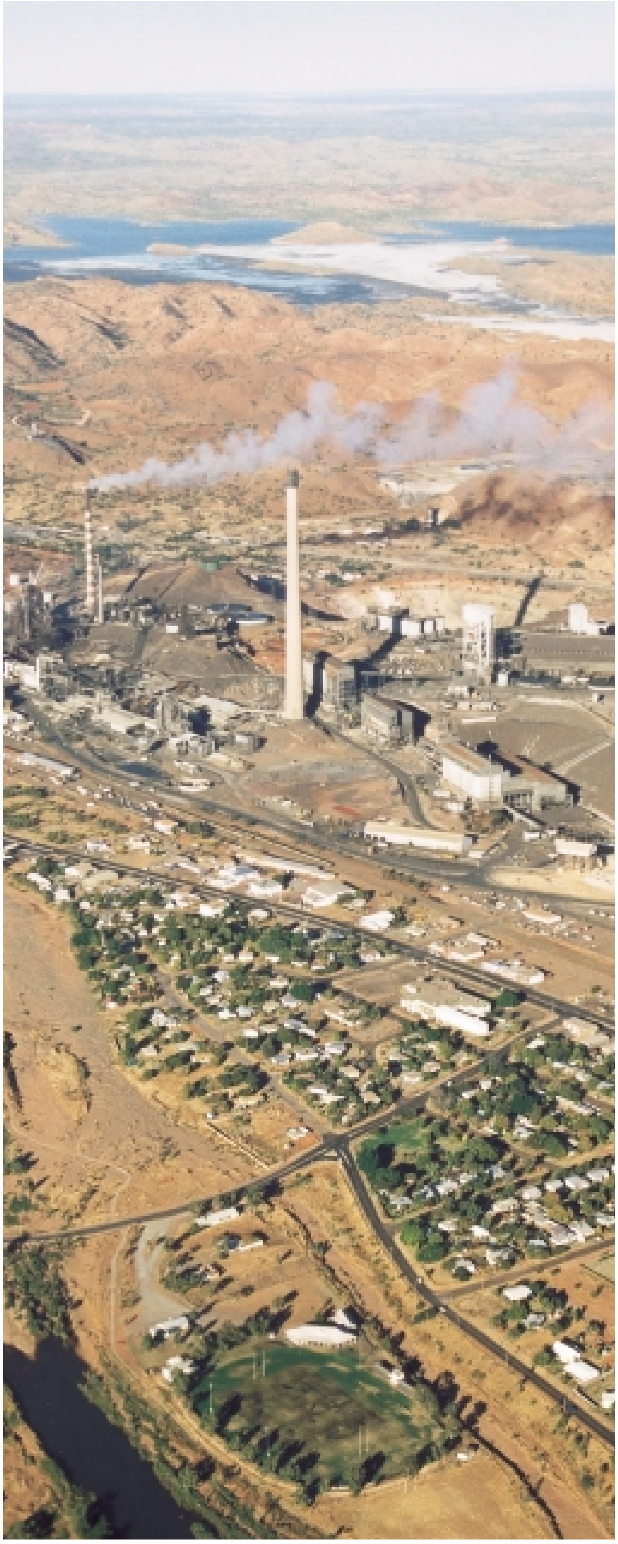
To remain competitive, Atlas Copco's Uniroc division has gone beyond the call of duty of standard supply contracts to provide its customers more than is traditionally expected. The supply contract now includes total logistic support for the mine as well as a fixed price per drilled meter.

Mount Isa Mines, in Queensland, Australia, is one example of a value-added contract where customer needs lie beyond Secoroc's traditional core business, which is the marketing, sale, and distribution of drilling consumables. Secoroc, a brand within the Uniroc division, currently provides Mount Isa Mines with a total top-hammer-drilling consumables package.

The package includes the supply and delivery of products to underground drilling rigs as well as refurbishment of worn drill bits. But it even covers the collection of data needed to calculate the cost of consumables per drilled meter per application as well as the drilled-meter lifetime of all components of the drill string. A total of 40 rigs are serviced across Mount Isa's four mine sites, with backup inventory of spare parts located underground.

Secoroc service personnel visit their assigned mine sites at least two or three times a week to replace used drill consumables, collect button bits for regrinding, and salvage rods for straightening purposes. Four-wheel-drive vehicles are used to bring the used or damaged goods to the surface. From there, they are taken directly to the Secoroc Mount Isa warehouse for examination.

Service personnel use lap top computers to collect data underground. The entry of data into a computerized system allows greater use of the data than just inventory control. Secoroc can offer timely and accurate information to Mount Isa Mines' management, enabling them to effectively monitor the utilization of drilling consumables across their four mine sites.



Competition Intensifies in Dynamic Markets

For Industrial Technique, stable demand from the engineering, automotive, and construction industries led to a rise in sales, to SEK 10,345 m. (10,059), despite the August 31 divestment of Atlas Copco Controls. The operating profit margin ended at 10 percent (10), or 9 percent excluding the non-recurring items presented below.

	1999	1998	1997
Revenues, SEK m.	10,345	10,059	9,316
Operating profit, SEK m.	1,032	1,046	942
Return on capital employed, %	14	14	13
Investments, SEK m.	323	338	279
Number of employees	7,133	7,831	7,898

Industrial Technique develops, manufactures, and markets pneumatic and electric power tools and assembly systems. The business area operates plants in the U.S., Sweden, Germany, France, Great Britain and India.

Revenues

Revenues rose 3 percent, to SEK 10,345 m. (10,059). Orders received were up 5 percent, at SEK 10,533 m. (10,015). All regions except South America reported sales on a par with or higher than sales in 1998. The North American market, in particular, enjoyed strong revenue growth.

Earnings

Operating profit decreased 1 percent, to SEK 1,032 m. (1,046), representing an operating profit margin of 10.0 percent (10.4). Return on capital employed was 14 percent (14).

Operating profit included non-recurring items of SEK 83 m. related to the net effect of restructuring in the Alliance Tools division and proceeds from the divestment of Atlas Copco Controls, effective August 31, 1999.

Business development

The business area enjoyed a healthy level of demand overall. The dynamism in the market is driven by demanding customers who make tough demands on continuous development, innovation, and value-added services.

Milwaukee's electric tools are marketed and sold through industrial, contractor, hardware and home center distributors. The Internet is used to support sales activities. All of these channels focus on expanding their businesses to reach professional end-users. As the premier brand in this category, Milwaukee has a clear opportunity to seize a leading position in all channels by providing the right products, training, marketing, and sales support that will enable them to grow among a wide range of professional end-users. In 1999, Milwaukee grew its business by further broadening its product range, boosting accessories, and capitalizing on campaigns related to the company's 75th anniversary.

For Atlas Copco Industrial Tools and Equipment, business developed favorably in 1999. A refined growth strategy was formulated. Growth will be generated through closer customer relations for better customer satisfaction, increased revenues from services, and growth in the base business. The foundation for growth is innovative products and a focused market segmentation. In this context, the service concept can encompass numerous activities, including installation, repairs, preventive maintenance, replacements, inventory management, calibration, torque setting, training, and production engineering.

To improve internal and external efficiency, Atlas Copco Electric Tools is currently consolidating its manufacturing and sales organization. A regional office for Asia was recently established in Singapore, and the European structure of the division will be refined for more efficient service to customers. All production activities have been concentrated to Winnenden, Germany.

In the Alliance Tools division, the different business units developed unevenly. While Chicago Pneumatic's Automotive division, and Georges Renault further exploited their base businesses and new niche markets, Chicago Pneumatic's Industrial and Construction units had to cope with tough market conditions which affected the overall efficiency. In the third quarter, a consolidation program was launched that is aimed at improving these business units. Part of this is a consolidation of manufacturing and development from the U.S. to England and India.

For the business area as a whole the use of products, and specifically the accessories business, play an important role.

Product development

In 1999, Atlas Copco Industrial Tools and Equipment introduced more products than ever before. A turbo grinder, a series of pulse tools, and a range of angle nut runners are a few innovations from 1999. Also, several novel tools, assembly systems, and electronic control systems will be launched in early 2000.

Atlas Copco Electric Tools developed a new generation of motors and a new type of percussion drill that focus on ergonomics for the end-user. Also, in-house development of a DC motor strengthened the cordless tools range.

Milwaukee sustained its momentum in product development by introducing several state-of-the-art products. One example is a broad line of versatile and agile cordless tools using a universal charger, an orbital-action reciprocating saw, and an ergonomic and multi-adjustable circular saw, "Tilt-Lok®," all well received by the market.

The Alliance Tools division, launched several new products such as a new automotive sander, an impact wrench, an industrial vibration-dampened riveting hammer and a new pistol grip screwdriver for the appliance industry and a high power angle drill for aerospace use. Another important step forward was the development of a new electronic controller range for electric tools primarily directed to the motor vehicle industry.

Investments

The business area invested a total of SEK 323 m. (338) in property and machinery, most of which related to expenditure aimed at flow and quality improvements in the manufacturing units. Additionally, Milwaukee successfully implemented a new company-wide enterprise resource planning system for manufacturing, distribution, and finance. The company also invested in a new automated assembly line for electric motor components.

Training

Industrial Technique's pace of innovation and its customers' ongoing pursuit of automation and consolidation require a proactive attitude towards training. The process whereby customers and Atlas Copco share knowledge is critical for driving the business forward. In this respect, 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 manner and that customers' knowledge and inquiries are managed properly. One key attitude is that the more Industrial Technique's customers understand about the products, the more likely they are to choose them.

Structural changes

During 1999, Atlas Copco Electric Tools division consolidated all production at the facilities in Winnenden, Germany. Also, the division started a restructuring project for its sales organization, to improve customer service.

Effective August 31, Atlas Copco Controls, a subdivision of Atlas Copco Industrial Tools and Equipment, was sold to the U.S. company Danaher Corporation. In 1998, Atlas Copco Controls had annual sales of SEK 470 m. and 235 employees.

In October, a restructuring plan for the Alliance Tools division was confirmed by which two of its product lines will be relocated from the U.S. to Great Britain and India.

Effective November 1, Industrial Tools and Equipment acquired Tool Technics NV, of Belgium, a service company focusing on the automotive industry. The company has 32 employees.

Market Outlook

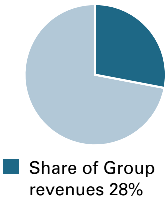
The global demand for industrial machinery and professional power tools is anticipated to continue growing. Especially Europe is expected to contribute to this growth. Service and consumables are important and promising areas for growth.


Johan Halling


Richard Grove


Charles Robison


Peter Möller

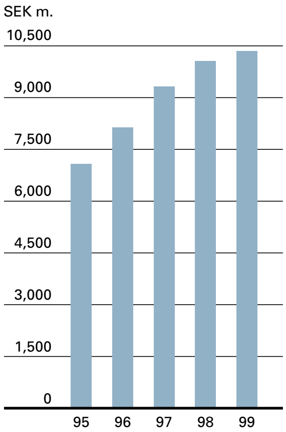


Business Area Executive: Giulio Mazzalupi (acting)

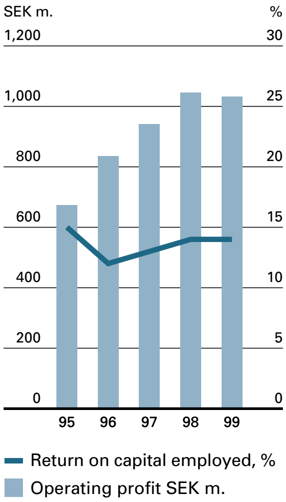
Industrial Technique's divisions are:

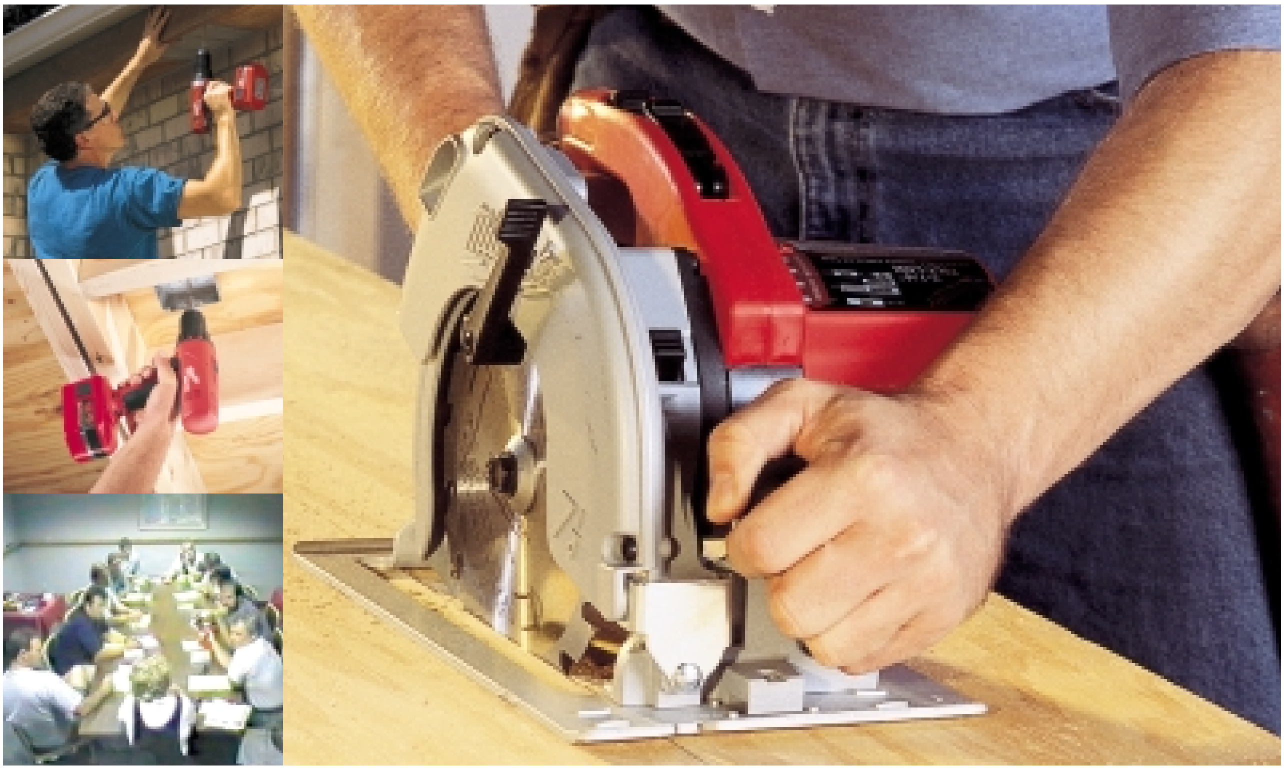
- Atlas Copco Electric Tools, President Johan Halling
- Milwaukee Electric Tool, President Richard Grove
- Alliance Tools, President Charles Robison
- Atlas Copco Industrial Tools and Equipment, President Peter Möller

Revenues



Earnings and Return





Customer needs guide product development

Milwaukee Electric Tool Corporation's leadership position in the American market for professional electric tools has resulted in part from the company developing products that meet the expectations of end-users of professional tools. Based on extensive end-user research, products are designed to ensure customer satisfaction.

Two years in the making, the Tilt-Lok® Circular Saw evolved from customer comments and input. Seeing an opportunity to design a circular saw that better met customer needs, Milwaukee Electric Tool began extensive research to understand what product features would fulfill those needs. The project team visited job sites, end-users, and distributors, conducted field sales surveys and competitive evaluations, met with focus groups, and performed secondary research. They found that customers desired a circular saw with an ergonomic design, easy adjustments, and good performance and durability.

Armed with this customer input, Milwaukee designed the powerful and lightweight 7 ¼″ Tilt-Lok® Circular Saw. Its multiposition adjustable handle allows the saw to be modified to the job application, whether reaching to cut large paneling, bending to cut flooring, or cutting overhead. Other features include cushioned grips, single-handle bevel adjustment, and an easy-to-use spindle lock.

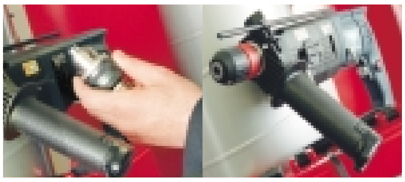
The Tilt-Lok® has won numerous awards, including the 1999 Popular Mechanics Editor's Choice Award, the Governor's New Product Award, and Best New Product Awards from Today's Homeowner and Tools of the Trade.

In 1999, Milwaukee also focused on understanding what product features are important to end-users of professional cordless tools. Through its product development and research processes, the company identified key features that would make its customers' jobs easier to do, with more comfort.

The new Contractor Cordless tools reflect those needs through features such as a reversible battery-pack design that allows the battery to be installed in either of two directions, depending on the job. Other features include a system approach to cordless design, with interchangeable batteries and a universal charger. Customers can easily "add on" new tools without investing in different batteries or chargers, which enhances value and convenience.

Millennium campaign exposes the AEG brand

Starting in October 1999 and running throughout 2000, AEG Power Tools presents a special Millennium-Edition of different power tools excellent price-performance ratio.



The choice of the three products, which demonstrate the innovative and problem-solving attitude of AEG Power Tools, marked the first phase of the special millennium campaign. The Millennium rotary hammer, jigsaw, and percussion drill are all equipped with the patented FIXTEC technology for simple and fast tool-changing. The tools are supported by an extended warranty package.

Thanks to the flexibility of the point-of-sale display, which makes the brand more noticeable, even small outlets and dealers with limited space have taken the opportunity to participate in this promotion. The feedback from sales companies as well as from distributors and dealers has been positive. Customers have also shown great interest in and appreciation for the campaign, which already shows signs of becoming a success for the company.

Organic growth through innovation

Several years ago, Atlas Copco accepted the challenge of satisfying the automotive industry's need for electrical industrial power tools that meet strict specifications for speed, efficiency, and secure fastening, mainly of critical joints.

The Industrial Tools and Equipment division developed an electrical nut-runner with the performance that customers desire. The biggest problem was a lack of fast, lightweight, and powerful electrical motors in the market. No electrical motor manufacturer in the world had been able to overcome the technical barriers. However, Atlas Copco's innovative engineers found solutions to the mechanical and electrical problems. The result was a new kind of motor that is significantly different from conventional electrical motors.

The first product with the new motor was named Tensor. It has generated substantial sales and profits. Tensor tools are now used by leading automotive manufacturers who have large-scale production and make exacting demands on quality.

INDUSTRIAL TECHNIQUE

Multi-brand strategy enhances product range

Alliance Tools is a division with three brands, a wide product range, and many channels to the market but it acts as a single company. The company's mission is to leverage the strengths of each brand to expand market share, and the overall division performance is what counts.

Alliance Tools' strategy is to make it easy for target customers to do business with all three brands – Desoutter, Georges Renault, and Chicago Pneumatic – and to satisfy the requirements of application support in the areas of assembly, materials removal, drilling, automotive after-market, and demolition.

Following the formation of a single Alliance Tools sales company in Great Britain, benefits have become apparent for three different groups: salespersons, distributors and end-users. The salesperson can offer an extensive range of solutions rather than just solve part of the customer's problem, which is often the case when only one brand can be offered. It is also easier for a salesperson to get an appointment with a customer, because each brand is recognized on its own strengths. While at the customer's, a salesperson can present the other brands' products as well.

From the perspective of end-users and distributors, the most significant advantage is having a single point of contact for each issue, such as sales or technical support, instead of three. Previously, a drilling and riveting problem might have been solved by two separate vendors, but now the customer only has to meet with one.

Many distribution customers also offer a fully integrated supplier package to large end-users. Alliance Tools will now be able to work in synergy with the distributors in these situations and will look to target specific customers in each sales region.

Moving customer-supplier relationships forward at Ford

During 1999, Atlas Copco made a commitment to Ford to collaborate in new ways that differ greatly from regular customer-supplier relationships. A commodity management supply (CMS) agreement was set up as a pilot project at Ford's Dagenham plant in Great Britain. The experience worked out well, and other Ford units in Europe will follow the lead in 2000.

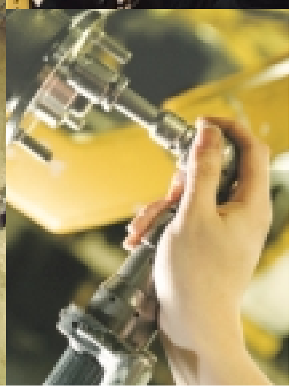
According to the contract, Atlas Copco is Ford's single source for all parts, products, and services related to all power tools in the car manufacturing plant. This even includes competitors' and complementary products.

Atlas Copco has committed to enhance plant service and application support, in some cases to the extent of having full-time engineering expertise on-site. The work also involves testing and comparing tools and soliciting feedback on problems.

To reduce Ford's inventory costs, Atlas Copco analyzes the company's stock and buys back fast-moving items while eliminating duplication across Europe. All CMS sourcing and inventory management for Ford is carried out by the Atlas Copco distribution center, Power Tools Distribution, in Belgium, provided as needed.

Ford aims to channel business in particular product groups through a smaller number of suppliers, which requires that those suppliers broaden their scope of supply. The CMS set-up allows Ford to focus on core business in the long-term and achieve savings in production.

Atlas Copco was chosen because the company was perceived as a global supplier who offers superior products and related services. Atlas Copco was also considered the most open to joint development of technical solutions and business practices. The Group's objective is to become the "first in choice" partner with Ford for products, engineering, service, and support across Europe and in other parts of the world.



INDUSTRIAL TECHNIQUE

New Business Area Highlights Emphasis on Services

On January 1, 1999, the Rental Service business area was established to emphasize the increased importance of Atlas Copco's North American equipment rental operations. The rental business tightly connects to the Group's strategy to further near our customers and capitalize on a greater part of the value chain generated from their demands for industrial equipment and other related products and services. Revenues increased to SEK 7,434 m. (4,010) and operating profit was SEK 1,010 m. (566) including 5 months of operations of Rental Service Corporation (RSC) that is now a parallel division to Prime. The RSC acquisition was effective July 29, 1999.

	1999	1998
Revenues, SEK m.	7,434	4,010
Operating profit, SEK m.	1,010	566
Return on capital employed, %	6	5
Investments, SEK m.	2,125	1,124
Number of employees	4,572	2,773

The Rental Service business area, whose newly appointed management team is co-located in Scottsdale, Arizona and Houston, Texas, holds a position as one of North America's leading providers of equipment rental and related services for a diversified market. The business area with its two divisions, Prime Service and RSC, has close to 500 rental yards in 36 U.S. States, Puerto Rico, Mexico and Canada. In total, over 330,000 customers are served in the construction, industrial manufacturing and homeowner segments. In addition to providing equipment rentals for industrial and construction use, services such as installation, replacement and maintenance represent an important part of the revenues. Also, sales of new and used equipment as well as accessories and merchandise are substantial and growing.

Revenues

Rental Service's revenues rose 85 percent, to SEK 7,434 m. (4,010), including five months of operations of RSC which was acquired on July 29. Rental and related services accounted for approximately 71 percent of revenues, sales of new equipment for approximately 8 percent of revenues, sales of parts and related merchandise for approximately 12 percent of revenues, and sales of used equipment for approximately 9 percent of revenues.

Earnings

Operating profit increased 78 percent, to SEK 1,010 m. (566). Earnings equaled 13.6 percent (14.1) of revenues including all goodwill expense related to the two acquisitions. In the short term, earnings are highly affected by the utilization rate and mix of the hire fleet, price development on all services and products offered are also important.

The return on capital employed ended at 6 percent (5). Considering the large amount of capital tied up in the rental fleet, return on capital invested is an important factor of evaluation in this business area.

Due to the relatively high amount of goodwill attached to both of these platform acquisitions, it is also relevant to look at the return on operating capital delivered by the two divisions, excluding the acquisition goodwill. The return on operating capital was 13 percent (15).

Business development

At January 1, 1999, Atlas Copco established its fourth business area, Rental Service, to further emphasize the importance of the Group's rental operations in the North American market. The business area then consisted of the Prime Service Division, which at October 1, 1998 integrated Atlas Copco Compressor Technique's North American energy rental operations, now Prime Energy, as a subdivision to Prime.

Effective July 29, 1999 the business area completed the acquisition of Rental Service Corporation (RSC), making the business area the second largest actor in the North American rental industry. RSC forms the second division in the Rental Service business area.

One key motive for the acquisition of RSC was the favorable fit that the combined companies represent. The dual force of Prime and RSC provides a platform for a very efficient territory management and gives better accessibility to rental fleet and opportunities for the exploitation of internal synergies in purchasing, IS and administration as examples. In the last quarter of 1999, a project to consolidate the number of vendors was initiated. The guideline is to have two vendors per product category.

During 1999, the business area continued to expand its presence in Mexico and completed minor acquisitions to complement the market presence. A significant number of cold starts were put in place during the year. A cold start is generally a very efficient way to develop already established clusters of stores.

Both divisions enhanced their national accounts programs. Furthermore, both divisions significantly improved their web sites, and a number of e-commerce projects were initialized.

Investments

Investments in the Rental Service business area mainly related to the replacement or expansion of the rental fleet and acquisitions of small add-on companies.

During 1999 investments totaled SEK 2,125 m. (1,124) of which approximately SEK 910 m. related to replacement investments in the rental fleet, SEK 970 m. to expansion of the rental fleet and SEK 245 m. to investments in property and equipment.

The average age of the rental fleet was approximately 2.6 years at the end of 1999.

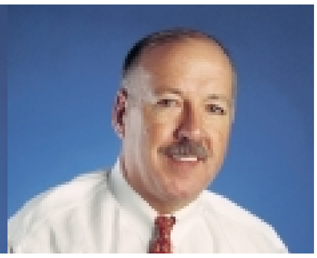
Training

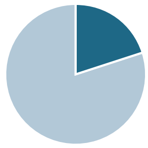
The pronounced service component in every aspect of the business makes training and development of the employees a key activity. The multi-location set up of the business gives great opportunities for the employees to come early in the career into a managerial position. Training is also a crucial success factor. Programs are carried out in areas such as customer service, service and safety, inside sales, communications, and territory management, and a train the trainer concept is well developed.

Market outlook

The North American demand for equipment rental and related services is foreseen to grow at a faster pace than the North American economy as a whole, and mainly driven by the continued outsourcing trend.


Doug Waugaman


Pete Post


Share of Group revenues 20%

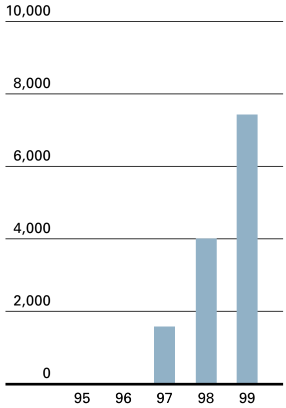
Business Area Executive: Thomas E. Bennett,
Deputy Business Area Executive:
Lennart Johansson

Rental Services's divisions are:

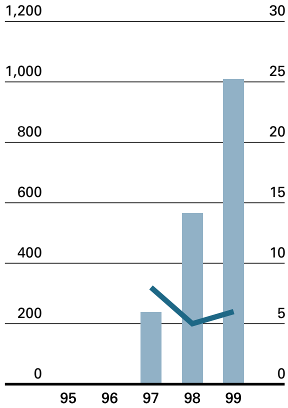
- RSC, President Doug Waugaman
- Prime Service, President Pete Post

	1997	1998	1999
Number of rental yards	122	182	482
Number of U.S. States covered	14	23	36
Number of customers	>50,000	>75,000	>330,000

Revenues



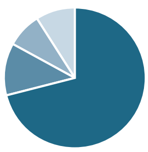
Earnings and Return



Return on capital employed, %*
Operating profit SEK m.

* including goodwill expenses for both major acquisitions

Revenues by Type



- Rental and related services
- Sales of parts & merchandise
- Sales of new equipment
- Sales of used equipment

RENTAL SERVICE

Focus on direct response hones competitive edge

Prime's Customer Service Center located in Houston – a toll-free telephone line staffed 7 AM to 7 PM – ensures that customer feedback is delivered to the right people and that customers' needs are met. When a customer can make a quick phone call to talk about a problem or get information, a tighter relationship is achieved.

The system is also an effective way to gauge customer needs for better business in the future. The service center gathers information on product preferences, generally related to equipment needs and what a customer's expectations are. It is critical in the rental business to know what the customer wants and is willing to pay for, and the Customer Service Center helps Prime Service establish priorities.

Customer satisfaction surveys, which the Customer Service Center sends out, ask customers to rank their satisfaction and list the importance of safe and reliable equipment, delivery and pickup, knowledgeable and cooperative employees, rental rates, equipment availability and brand selection, response to service calls, and convenient locations. Survey results and data collected from customer contact are shared company-wide so that everyone at Prime Service can act on them.

The Customer Service Center has evolved into a relationship center completely focused on customer needs, following findings that customers need a centralized resource not only to obtain product and service information, but also to express concerns.

Prime at Shell sites

Through a strategic alliance with Shell, Prime Service is on-site at Shell refineries and chemical plants throughout the U.S., servicing the majority of Shell's equipment needs, in addition to tracking and managing equipment, maintaining equipment, and providing expert training on its use.

By resolving to handle a company's equipment needs from beginning to end and providing extra managerial and support services to boot, Prime Service is carving a niche in an area where industries are looking more and more to outsource. Many major customers are outsourcing so they can focus on their core business, such as producing oil and gas, making pulp and paper, producing petrochemicals, generating electricity, or building ships – rather than taking care of their equipment.

Shell discovered that by using an equipment rental specialist to take care of its equipment needs, it could save money and increase efficiency.

An Integrated Rental Management agreement, forged between the two companies about six years ago, enables Prime Service to extend its highest level of commitment to Shell sites throughout the U.S., providing rental equipment and support services as part of a team.

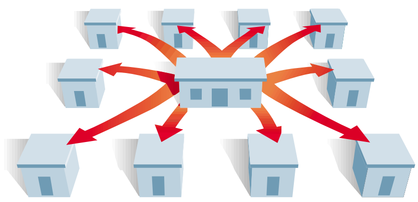
Through the management program, equipment not being used on a project is taken off rent, thereby eliminating idle time with the meter running. A mechanic is always available to handle problems, and a preventive maintenance program ensures that equipment is always reliable.

A hub system to serve non-urban areas

Rental Service Corporation (RSC) is a strong competitor in the equipment rental industry in non-metropolitan areas across the U.S. through its hub and satellite operating system. The system allows RSC to focus on smaller geographic markets served by fewer competitors than in adjacent metropolitan areas. RSC currently has 290 locations in 31 states in the U.S.and Canada.

RSC pinpoints healthy businesses with strong management teams to build additional hub-satellite networks of equipment rental location in markets not yet penetrated. This research is followed by the acquisition of a hub operation on the perimeter of a metropolitan area with a population of between 10,000 and 100,000.

Hubs are supplied with additional fleet equipment. These hubs serve as the administrative, service, and fleet center for the surrounding satellites, eliminating duplication of business functions, thus lowering overhead costs. Once the hub is established, up to 10 satellite locations are opened within a 150 mile radius. These satellite locations typically employ two to six employees and utilize a smaller dedicated rental fleet, which requires minimal maintenance and administrative functions. The option of new store startups – when acquisitions are unavailable or too costly – gives RSC more flexibility for growth.



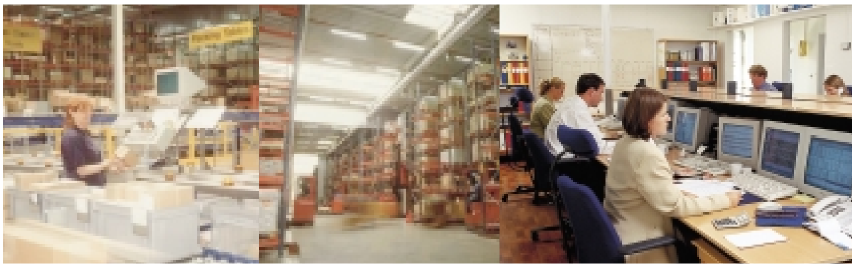
This strategy enables regional growth of the hub and satellite locations and provides customers with an expansive, centralized pool of rental equipment as well as centralized mechanical maintenance. Customer service is enhanced by the availability of equipment that is never more than a phone call away. This approach also sets up RSC with a cost structure consistent with the size of the market being served.

All locations are linked through a sophisticated on-line equipment reservation system that allows satellite locations to draw on the larger hub fleet as needed. Reserved equipment is delivered nightly from the hub for delivery to the customer the following day. The availability of this on-line fleet management system results in excellent customer service and competitive rates.

RSC will continue to invest in the hub-satellite strategy, as outstanding opportunity lies in rural areas, where economic growth rates have been higher thanks to the national shift away from heavy industry and toward expanding the information highway.

Efficiency Gains through Support Functions

Apart from continuously improving the efficiency of its operations, the Group develops synergies between support functions where the potential for efficiency gains through bigger volumes has been identified. Good examples are the Atlas Copco Internal Bank, which serves the entire Group; the distribution centers, where a number of divisions share a single center; and Atlas Copco ASAP, serving sales companies in Europe with administrative tasks.



Efficient distribution flow

Atlas Copco has well-established distribution centers both in Europe and the U.S. These companies specialize in distribution and are responsible for all administration of goods, from the time they enter the warehouse, to the time they reach the customer. After seven years of operation, Power Tools Distribution (PTD), Belgium, has expanded to serve five divisions in two business areas and 10 production units. PTD ships to 110 countries, with deliveries to 24 countries in Europe and North America on a daily direct-delivery basis. All orders received before 4 PM are picked, packed, and dispatched on the same day, and the average time of order to delivery is between 24 and 48 hours.

Bank open 24 hours a day

The Atlas Copco Internal Bank, a profit-driven operation, assists companies in the Group with services that previously were performed by an external bank. To have a competitive edge over local banks and become the customers' first choice, the bank has tailored its organization and product offering to fit the Group. The bank has gradually developed its product offering during the 1990s and now supports customers in the area of funding and deposits, foreign exchange, payments and netting, and in trade finance, the latter mainly to emerging markets. With offices in Sweden, the U.S., and Hong Kong, the bank provides services worldwide, 24 hours a day. As a complement to personal services, the Internal Bank has developed its own web site where customers have on-line access to a number of functions in real-time.

Fast and accurate information

Atlas Copco ASAP was established in May 1999, with a mission to sell administrative services to sales companies in Europe, in areas such as information systems, accounting, and reporting. This new internal service provider will be operating through a more or less virtual organization. A core team is based in Belgium, and more people will be co-located at sales companies around Europe. The objective is to improve the quality of administrative processes by applying best practices, re-engineering processes, and using better tools. One of the first processes ASAP focused on was financial reporting. Thanks to a new tool developed by ASAP, internal customers can get accurate information faster. The first customer to buy and implement the new system, Atlas Copco Compressor in the Benelux, will soon be followed by others.

Internet Makes Impact as Business Tool

The Atlas Copco Group believes the use of the Internet will have a major impact on the way we do business. To keep on top of this trend and safeguard future growth, adequate resources are being allocated to the different tasks and an organization is being put in place. An Internet policy, implemented by the companies in the Group, supports this work.

Atlas Copco aims to be a pacesetter in use of the Internet to broaden and deepen sales reach, improve service to customers, and boost internal efficiency. The Internet will be used to inform, interact, and transact with customers, suppliers, employees, and other stakeholders at all levels. Doing business with Atlas Copco should be easy.

A web site for each brand

Atlas Copco has a multi-brand strategy and today hosts a number of different brands. Each brand will have an Internet site; at the end of 1999, 13 had their own sites.

The product databases are structured to give each product and service the best chance possible in the market, and information is supplied accordingly. This means the customer will find relevant and accurate information about products and services that is always up-to-date.

Business transactions can be executed at some sites. For example, registered customers can buy equipment on-line at Rental Service Corporation's (RSC) site. Atlas Copco Applied Compressor and Expander Technique offers key customers a unique site, where they can follow up projects, place orders, and check deliveries.

Standardization simplifies

Some years back, the Atlas Copco Group chose Lotus Notes for its electronic mail and work-flow systems. It is now the preferred software for publishing information on the Internet, too. Having a standard enables knowledge sharing between companies and brands. It will also save costs, as the Company does not have to continuously reinvent the wheel.

Besides the standardized software, the Group is also launching special projects that benefit all units. Two such projects commenced in 1999. One, "get-onboard.com," resulted in a package of templates to be used as a uniform gateway by Atlas Copco branded companies worldwide. The other was launched to provide a common platform for business transactions on the Internet. This platform will help integrate ordering, confirmation, delivery, and invoicing at a specific site.

People with operational positions are encouraged to use the Internet to support both internal and external processes. They can use the Internet to interact and increase their knowledge of customers and potential customers, competitors, technology trends, and other topics.

Organized for fast development

The Atlas Copco Group has specified clear responsibilities for Internet publishing, development, and maintenance. Each business area has established its own Internet structure and defined development projects. An Internet forum is coordinating activities in the Group and working to safeguard the use of the Internet as a major business tool.

Since the Internet will be used as an aggressive marketing and communication tool, each business area will keep track of advantages gained in the marketplace. Internet activities and their impact on the business from the beginning of 2000 will be reported to the Business Boards.

Brand	Internet address
ABIRD	www.abird.nl
AEG Power Tools	www.aeg-pt.de
Atlas Copco	www.atlascopco.com
Ceccato	www.ceccato-compressors.com
Chicago Pneumatic	www.chicagopneumatic.com
Irmer + Elze	www.irmerelze.com
JKS Boyles	www.jksboyles.com
Milwaukee Electric Tool	www.mil-electric-tool.com
Prime Equipment and Prime Energy	www.prime-equip.com
Rand Air	www.randair.co.za
Rental Service Corporation	www.rentalservice.com
Secoroc	www.secoroc.com
Worthington Creyssensac	www.worthingtoncreyssensac.com

Environmental Focus

Ergonomics & environment Devlopment 1950–today

Year	Milestones	Environmental impact
1950s	Development and launch of a drill with an ergonomic grip	Reduced possible harm to joints in the wrist
1960s	Silenced portable compressors and breakers	Minimized noise pollution
	Introduction of the oil-free screw compressor	Eliminated oil vapor in compressed air
1970s	Introduction of dust collectors on rock-drilling crawlers and hand tools	Protected people from inhaling possibly harmful dust
	Design of heat recovery systems for compressors	Lowered the total energy consumption and with that the emission of CO_2, eventually contributing to the reduction of the greenhouse effect
	Introduction of hydraulic rock drills	Produced energy savings of more than 50%, eliminated oil mist from rock drills
1980s	Option to run hydraulic rock drills on vegetable oil or water mixtures	Reduced pollution from spill oil and leaks in nature
1990–95	Replacement of solvent-based paint processes with powder coating	Reduced the emission of harmful gases
	Cadmium-free batteries in electric hand tools	Reduced heavy metal waste
	Replacement of freon by less harmful gases as cooling medium in refrigerant air dryers	Contributing to reducing the depletion of the ozone layer
	Oil injected screw compressors with variable speed drive	Energy savings up to 30%, contributing to a reduction of the greenhouse effect
	Oil/water separators for compressor condensate at production sites	Reduced pollution
1997	ISO14001 certification for Atlas Copco Electric Tools, Germany	Sets a precedent as the first electric tool manufacturer in the industry to be approved
1997–98	Labeling of components for easier sorting by material at scrapping	Contributing to materials recycling and reducing the consumption of raw materials
1998	ISO 14001 certification for Atlas Copco Airpower, Belgium	As the world's largest compressor manufacturing site, Atlas Copco Airpower adheres to sound environmental management
	Introduction of environmental factors as parameters in subcontractor and sub-supplier evaluations	Ensures that sub-suppliers of materials, parts and services participate in the total environmental improvement by the Group
1999	Introduction of a Group standard for black, grey and white lists of substances, which are prohibited, restricted in use, and preferred choices, respectively	Guiding design departments in the selection of environmentally friendly materials
	ISO 14001 certification for Milwaukee Electric Tool, U.S.	Atlas Copco's largest manufacturing plant for electric tools complies with the most widely adopted environmental management system

For people working at Atlas Copco, contributing to a better environment has always been part of the company culture. Today the large production sites of Atlas Copco Electric Tools, Germany, Atlas Copco Airpower, Belgium, and Milwaukee Electric Tool, U.S., have been ISO 14001 certified.

Consequently, about 51 percent of the Group's production capacity officially adheres to sound environmental management. Atlas Copco Rock Drilling Equipment will go through an ISO 14001 audit during the spring of 2000, and there are more projects under way. The Group will continue to implement environmental systems at its sites beyond the year 2000, the deadline it has set for certification of major sites.

In addition to ISO 14001, product development taking into account environmental concerns has a high priority. After all, a product has a greater impact on the environment over its useful life than during its manufacture alone. During the year, the divisions continued to concentrate on further reducing energy consumption and noise levels in the products to give Atlas Copco a competitive edge.

Reports on the status and progress of environmental efforts within the Group will be published regularly on Atlas Copco's web-site: www.atlascopco.com.

Evaluation of power tools

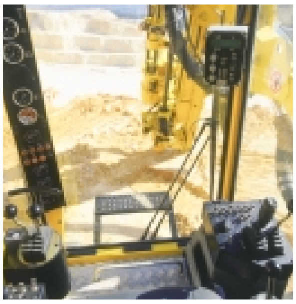
To develop a range of tools with good ergonomics takes time. Every workstation and process is unique, and tool manufacturers need to be familiar with these varied work environments. Atlas Copco has worked with these issues for decades and is proud that its range of tools is state-of-the-art in terms of ergonomics.

"There is no such thing as an ergonomic tool. But a tool design can incorporate good or bad ergonomics," says Bo Lindqvist, at the Atlas Copco Industrial Tools and Equipment division. With 40 years of research and testing experience under his belt, and having developed a method to evaluate ergonomic features on power tools, he should know. The evaluation method can be used by designers, in industrial design, by customers, or other groups interested in comparing different tools from one or several manufacturers.

Lindqvist's method gives guidance in the ergonomic field. Factors like handle geometry, external load, weight, temperature, shock reaction, vibration, noise, dust, and oil are evaluated in a scoring system, and the results can be studied in a bar diagram giving the ergonomic profile of the tool in question.

Back in the mid-1980s, Atlas Copco published its first book on ergonomic tools: *Ergonomic Tools in Our Time,* by Bo Lindqvist. The second book on the same topic, *Power Tool Ergonomics,* by the same author, was published in 1997.

Drilling rig cabins provide safety



Atlas Copco's well-known innovative approach to product development is typified in the design of its award-winning cabins for surface drilling rigs. The cabins improve the working environment by shielding the operator from rock falls and other hazards and protecting him from poor air quality, heat, cold, moisture, noise, and vibration.

The latest generation of vertically adjustable cabins offers improved ergonomics, including better visibility. The heated, air-conditioned cabins sport a number of features that boost productivity as well as comfort. Controls are mounted in the armrest of the operator's ergonomic seat, which has a wide range of positions. The operator can also operate the rig via a control panel while standing.

Low-energy compressor is easy on the environment

Traditionally, compressors were placed in a dedicated compressor room. Atlas Copco's latest generation of GA VSD compressors can, thanks to a low noise level, be placed on the production line itself. The technically advanced drive system relies on an electronic frequency converter that operates at exactly the rate of compressed air required with energy savings of up to 30 percent as a result. These savings have a considerable impact on the life cycle cost of the compressor, and help to make the compressor installation environment-friendly.

People Management Ensures Growth and Profit

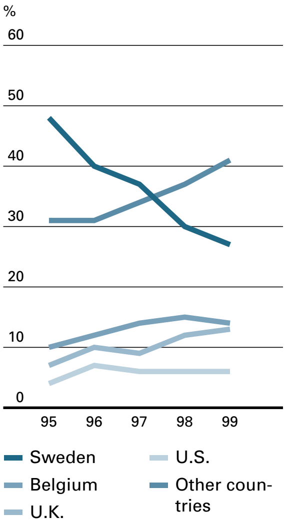
To help the Group achieve profitable growth in a competitive and changing world, Atlas Copco has defined and implemented a leadership model. Each manager for a business unit receives a mission, serving as a starting point and a framework for steering the business and making things happen.

Based on the mission received, the manager develops a vision and specifies a strategy. The only way to implement the strategy in an efficient way is by professionally managing people. To this end, the crucial task for the success of any company in the Group is to bring in, develop, and keep the right people. It is also the manager's responsibility to grow people into new positions within the Group.

To support managers in people management, processes are available to everyone throughout the Group, through an internal knowledge management system. Tools – for example, for skills development or performance assessment – are available, and an organization is in place to support managers in their implementation.

In 1999, key indicators for people management were specified, and a reporting structure is now established. For year 2000, relevant goals will be set, enabling focused action plans to be put into place. In other words, the Group now has improved management tools to support each manager in the steering of the business. The goal is to have competent and committed people, to bring the Group forward in line with our strategy and to achieve results.

Percentage of Expatriates from Certain "Home" Countries



Key Indicators for Business Unit Managers	Actual 1999
Manager with university degree or higher, %	83
Internal applications per management vacancy	5.1
Average years a manager remains in a position	4.1
Managers who are expatriates, %	32

Group Seminars Develop Managers

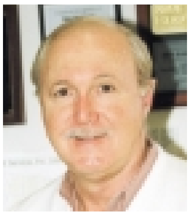
As part of managers' ongoing development within Atlas Copco, the Group runs regular seminars in Europe, America and Asia. Here, the primary purpose is to develop each manager's understanding of his / her role in a changing business environment. To increase the competence base in this context, experts from inside and – where needed – outside the Group are invited to contribute to each seminar.

Another equally important purpose for seminars is to grow the Group. This is done by selecting participants with diverse backgrounds, in terms of their positions and the years of experience, and having them identify and then form projects around issues where they feel that the Group can be developed.

Excellence in Sales

Every year, the Atlas Copco Group recognizes outstanding sales performance. In 1999, many significant efforts were made in sales companies around the world.

Paulo Sérgio Ribeiro, Sales Representative in Brazil, achieved his success by working exceptionally hard to win the trust of customers and to exceed their expectations for after-sales service, technical assistance, and problem solving. He has created strong customer references for prospects. Paulo has a superb relationship with the product company, and they have worked closely together to develop marketing innovations that meet customer needs.



Ben Basinger, Outside Sales Representative, has had a number of stellar achievements. One of Ben's greatest came in 1999 when he secured more than USD 200,000 in rentals and then sold USD 200,000 worth of new equipment to that same customer. Such a monumental accomplishment exemplifies his exceptional sales ability. Dedication to his customers and to PRIME is Ben's formula for success.

Rich Fredette, District Manager in the Western Massachusetts, Vermont, and New Hampshire area, significantly increased sales in his area. He focuses on power tool accessories and has had great success with distributors throughout his district. Rich has been successful because of his knowledge of users' needs, how distributors need to sell Milwaukee products, and how to train and educate others on Milwaukee products.

Sandeep Juneja, Senior Sales Engineer in India, works closely with customers discussing their requirements. He has built excellent business relationships and contributed to CMT's strong sales growth in India and Bhutan in recent years. Sandeep and his team were instrumental in securing an order for 14 drill rigs.

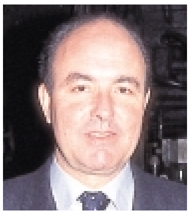
Alan Van Der Bergh is Product Manager for Secoroc's surface drilling equipment in South Africa. His greatest selling tool has been the productivity gains achieved by customers with Atlas Copco equipment. According to Alan, the key to success is to understand customers' needs, have confidence in the product you are marketing, and provide customers with excellent after-sales service.

John Maughan has developed the hydraulic breaker market in the UK during the past two years. Vying with extremely aggressive competitors, he expanded Atlas Copco's market share from a very low 5.5 percent, to an estimated 10 percent today. This has taken exceptional efforts on John's part, organizing distributors and sales representatives. It required training programs, customer contact, stocking and campaign organizing, as well as a lot of commitment.

Santiago Perea Gallegos is Business Manager for geotechnical drilling equipment in Mexico. In 1998, he made a breakthrough into the Mexican core-drilling market. Continuing his hard work in 1999, he focused on improving the image of services provided by Atlas Copco by becoming directly involved with his customers' problems and working closely with customers to find solutions. This has resulted in improved customer relations.

Petr Kulhanek, Salesman at Atlas Copco Tools in the Czech Republic, has created a strong independent sales channel with several subcontractors in the automotive industry in just the past two years. His efforts led to substantial sales growth in 1998 and 1999. Petr has also won and retained major projects in his market. He approaches his goals with systematic planning and, above all, shows tenacity in work with customers on-site.

Ronald Hogeweg, Internal Sales Support in the Netherlands, significantly improved Atlas Copco's generator business with a major Dutch telephone company. First, he coordinated performance tests to demonstrate our unit's capability to back up switching stations, leading to an order for 26 mobile units. Later, he significantly contributed to further business for open-frame generators with an order for 76 units to back up a customer's fiberoptic-cable network.



Rogério Macedo, Senior Salesman for Oil-free Air compressors in Northern Portugal, has managed to establish an extremely professional and mature relationship with his customers based on knowledge, skills, and experience, and achieved complete control of business in his area. He has won all oil-free screw compressor orders in the past three years and, in 1999, also obtained the first order for four Atlas Copco centrifugal compressors.

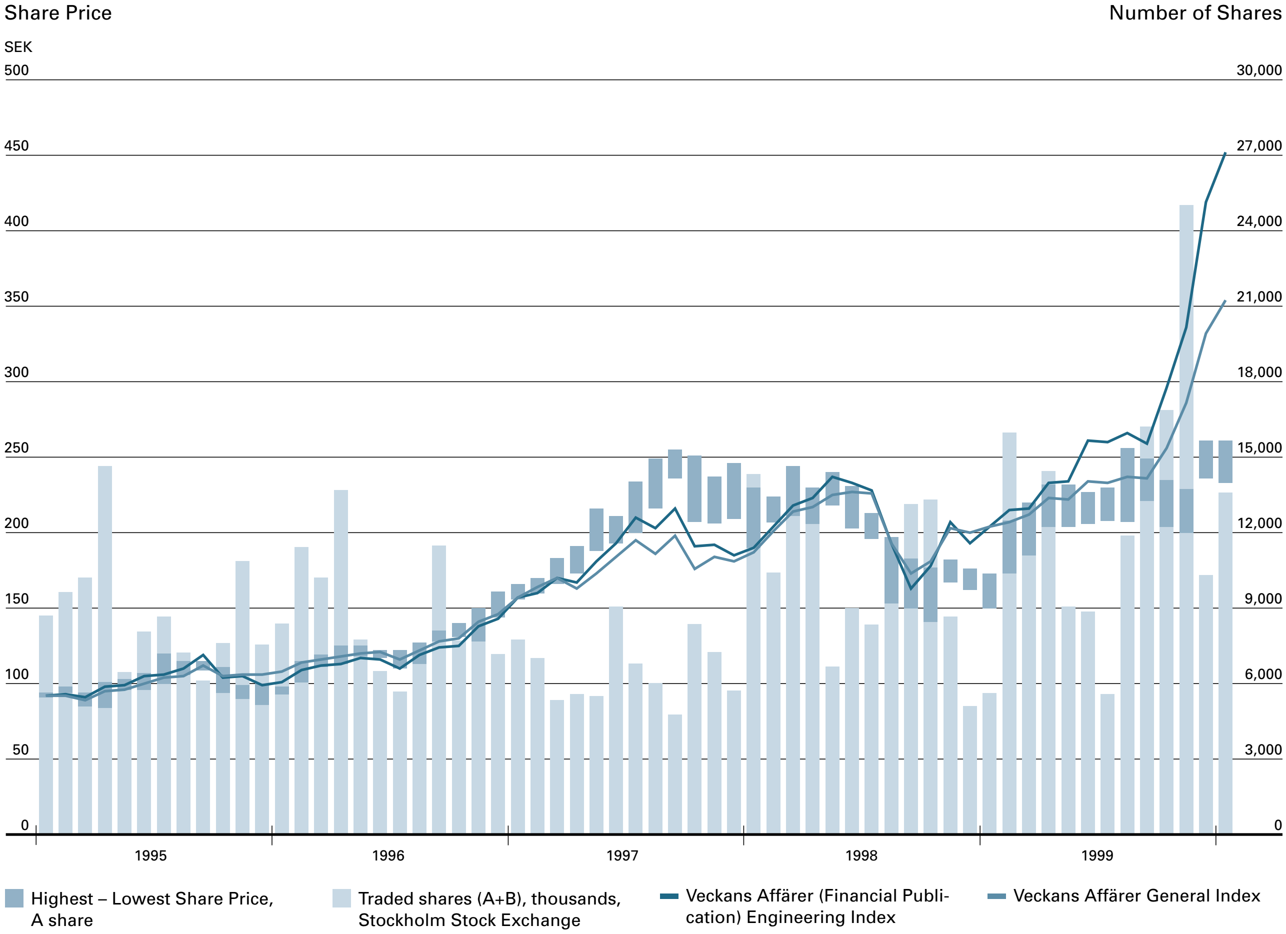
The Atlas Copco Share

At December 31, 1999, the price of the Atlas Copco A share was SEK 251.50. During 1999, the price of the A share increased 47 percent, while the Stockholm Stock Exchange's Engineering Index rose 117 percent and the General Index rose 66 percent. The annual total yield on the Atlas Copco A share, equal to the dividend plus the appreciation of the share price, averaged 19.1 percent for the past 10 years and 24.9 for the past five years. The corresponding total yield for the Stockholm Stock Exchange as a whole was 18.5 percent (1989–1999) and 33.4 percent (1994–1999).

Share capital

Atlas Copco's share capital at year-end 1999 amounted to SEK 1,048,010,920 distributed among 209,602,184 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.

To strengthen the Group's capital base and enhance financial flexibility following the acquisition of Rental Service Corporation, the Extraordinary General Meeting held on September 6, 1999, approved the issue of new shares with primary priority



right to existing shareholders. The new shares were issued at a subscription price of SEK 160 per share at a ratio of 1:7. In October 1999, the issue provided the company with net proceeds of around SEK 4.1 billion.

Distribution of Shares, December 1999

Class of share	Shares outstanding	% of votes	% of capital
A shares	139,899,016	95.3	66.7
B shares	69,703,168	4.7	33.3
Total	209,602,184	100.0	100.0

At year-end 1999, Atlas Copco had 31,168 shareholders. The proportion of shares held by institutional investors was 78 percent. The 10 largest shareholders accounted for 53 percent of the voting rights and 51 percent of the number of shares. Non-Swedish investors held 32 percent (26) of the shares and represented 32 percent (24) of the voting rights.

Ownership structure, December 1999

Number of shares	% of shareholders	% of capital
1 – 500	71.3	1.8
501 – 2,000	21.7	3.1
2,001 – 10,000	5.1	3.1
10,001 – 50,000	1.1	3.5
50,001 – 100,000	0.2	2.3
> 100,000	0.6	86.2
Total	100.0	100.0

Shareholders by Country, December 1999

	% of votes	% of capital
Sweden	67.7	68.3
Great Britain	15.1	14.4
U.S.	3.9	5.0
Germany	2.2	1.8
Japan	1.9	1.4
France	1.9	1.3
Others	7.3	7.8
Total	100.0	100.0

Largest Shareholders, December 1999

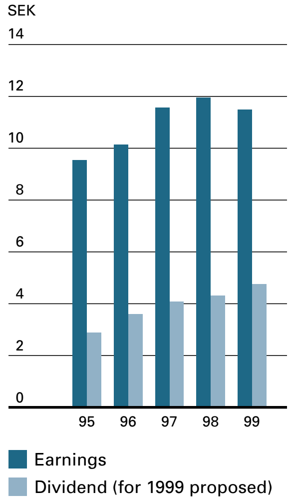
	Number of shares	% of votes	% of capital
Investor Group	31,422,477	21.4	15.0
FöreningsSparbanken Group	34,825,333	14.9	16.6
Fourth National Pension Insurance Fund	8,275,028	4.5	3.9
Svenska Handelsbanken Group	6,843,409	3.4	3.3
SEB Trygg Group	6,025,284	2.8	2.9
Fifth National Pension Insurance Fund	2,209,942	1.5	1.0
Banco Group	2,125,695	1.5	1.0
Skandia Group	4,129,840	1.2	2.0
SPP Group	6,825,071	0.9	3.3
Nordbanken Fund	3,401,744	0.7	1.6
Others	103,518,361	47.2	49.4
Total	209,602,184	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 52,053 m. (32,544), which corresponds to 1.4 percent (1.3) of the total market value of the Stockholm Stock Exchange.

Earnings and Dividend per Share



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 goal is to cover the major part of the dividend payment with dividend income from subsidiaries.

If the shareholders approve the Board of Directors' proposal for a dividend of SEK 4.75 per share for 1999, the average dividend growth for the five-year period 1994–1999 will equal 16.5 percent. During that period, the dividend has averaged 35.9 percent of earnings per share. Expressed as a percentage of shareholders' equity, the dividend proposed for 1999 is 4.7 percent (5.4).

Trading

Trading in the Atlas Copco AB shares is primarily made on the Stockholm Stock Exchange. In 1999, the Atlas Copco share was the 19th (19th) most actively traded share on this stock exchange. A total of 152,064,767 shares were traded (108,835,419 class A, 43,228,348 class B), corresponding to a value of SEK 33,297 m. (25,461). On average, 603,432 shares (499,110) were traded each business day. The turnover rate (degree of liquidity) in 1999 was 80 percent (66), compared with the stock market average of 94 percent (76). As of November 1999, foreign trading in the Atlas Copco share showed a net export of SEK 2,229 m. (1998 total: net import 1,857). 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 U.S. Since then, both A and B shares are available as depositary receipts in the U.S. without being formally registered on a U.S. stock exchange. One ADR corresponds to one share. The depositary bank is Citibank NA. At year-end 1999, there were 611,428 depositary receipts outstanding, of which 249,046 represented class A shares and 362,382 class B.

Atlas Copco options

The Atlas Copco options listed on the Stockholm Option Market (OM) consist of call options and put options, each linked with 100 shares. Option contracts traded in 1999 corresponded to approximately 12.9 million shares (11.1), or about 7 percent (6) of the total number of Atlas Copco shares. Each day, an average of 54,200 Atlas Copco shares are 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, 1999, the beta value of the Atlas Copco A share on the Stockholm Stock Exchange was 0.77 (0.91). This means that the share fluctuated 23 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 0.75 (0.43), which means that 25 percent of changes in the share price is company-specific.

Per Share Data

SEK	1994	1995	1996	1997	1998	1999	Avg. growth 94–99, %
Earnings [1]	6.26	9.54	10.15	11.56	11.96	11.50	12.9
Dividend	2.21	2.88	3.60	4.08	4.32	4.75[2]	16.5
Dividend as percent of earnings [3]	35.4	30.2	35.5	35.3	36.2	41.3	
Offer price, Dec. 30, A	91	98	159	228	171	252	22.6
Offer price, Dec. 30, B	91	96	159	228	169	250	22.4
Highest price quoted, A	104	120	160	256	247	260	
Lowest price quoted, A	78	84	93	155	141	150	
Average price quoted, A	90	99	122	206	197	214	
Equity [4]	49	56	62	71	81	101	14.6
Direct yield, percent [5]	2.4	2.9	3.0	2.0	2.2	1.9	
Price/earnings [6]	14.5	10.4	12.0	17.8	16.5	18.6	
Price/sales [7]	0.83	0.77	0.93	1.31	1.12	1.24	

1) Profit after financial items, less 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 1973–1999

			Increase of share capital, SEK m.	Amount paid in, SEK m.
1973	Bonus issue	1:2	69.2	
1974	New issue	1:4 SEK 25	51.7	51.7
1976	New issue	1:5 SEK 50	51.7	103.5
1979	Bonus issue	1:6	51.7	
	New issue	1:6 SEK 60	51.7	124.1
1982	Bonus issue	1:4	103.5	
	New issue (non-preferential)	2,765,000 shares at SEK 135	69.1	373.3
1989	Bonus issue	1 B share: 3 A shares	195.5	
1990	New issue (non-preferential)	4,000,000 B shares at SEK 320.13	100.0	1,280.5
	Conversion*	7,930 shares	0.2	1.2
1991	Conversion*	42,281 shares	1.1	6.3
1992	Conversion*	74,311 shares	1.9	11.1
1993	Non-cash issue**	383,500 shares at SEK 317	9.5	121.6
	Conversion*	914,496 shares	22.9	137.2
1994	Split	5:1 par value SEK 5		
1999	New issue	1:7 SEK 160	130.4	4,173,8

* 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.*	1995	1996	1997	1998	1999
Operating profit	2,665	2,931	3,813	4,345	4,470
Operating profit margin, %	10.9	11.7	12.7	12.9	12.3
Profit after financial items	2,840	3,070	3,520	3,637	3,412
Profit margin, %	11.6	12.2	11.7	10.8	9.4
Profit for the year	1,823	1,938	2,208	2,283	2,247
Return on capital employed, %	22.4	21.2	21.1	17.2	14.1
Return on equity, %	18.6	17.5	17.6	16.1	13.6
Equity/assets ratio, %	47.8	51.8	39.2	41.6	39.3
Earnings per share, SEK	9.54	10.15	11.56	11.96	11.50
Dividend per share, SEK	2.88	3.60	4.08	4.32	4.75**
Orders received	24,843	25,159	30,685	32,979	36,534
Revenues	24,454	25,121	30,032	33,740	36,234
Change, %	+17	+3	+20	+12	+7
Sales outside Sweden, %	96	96	97	97	97
Net interest expense	129	127	–306	–680	–1,034
As percent of revenues	0.5	0.5	–1.0	–2.0	–2.9
Interest coverage ratio	8.7	10.6	6.5	4.9	3.8
Cash flow from operations before financing	1,530	1,920	3,878	2,149	2,413
Total assets	22,106	23,175	34,790	37,166	53,650
Debt/equity ratio, %	29.9	15.8	74.9	65.0	91,7
Capital turnover ratio	1.19	1.11	1.08	0.94	0.83
Investments in property and machinery	711	822	840	853	939
As percent of revenues	2.9	3.3	2.8	2.5	2.6
Investments in rental equipment	228	336	920	1,594	2,342
As percent of revenues	0.9	1.3	3.1	4.7	6.5
Average number of employees	19,751	21,085	22,296	23,857	24,249
Revenues per employee, SEK thousands	1,238	1,191	1,347	1,414	1,494
Value added per employee, SEK thousands	512	496	586	627	668

* For definitions, see page 17.

** According to the Board of Directors' proposal.

Quarterly Data

Revenues by Business Area and Quarter

				1998				1999
SEK m.	1	2	3	4	1	2	3	4
Compressor Technique	3,384	3,460	3,230	3,466	2,971	3,422	3,288	3,521
Construction and Mining Technique	1,479	1,816	1,492	1,650	1,353	1,477	1,323	1,572
Industrial Technique	2,445	2,510	2,425	2,679	2,448	2,645	2,522	2,730
Rental Service	878	969	1,012	1,151	1,082	1,202	2,335	2,815
Eliminations*	–78	–79	–48	–101	–103	–127	–111	–131
Atlas Copco Group	8,108	8,676	8,111	8,845	7,751	8,619	9,357	10,507

* Starting in 1999, revenues reported by business area also include intercompany sales to other business areas. Figures for 1998 have been adjusted accordingly.

Earnings by Business Area and Quarter

				1998				1999
SEK m.	1	2	3	4	1	2	3	4
Compressor Technique	607	595	548	533	390	572	579	612
Construction and Mining Technique	104	155	113	126	84	104	88	121
Industrial Technique	260	264	241	281	216	257	288	271
Rental Service	97	123	171	175	83	146	359	422
Corporate items	–25	–25	–7	9	–48	–17	–31	–26
Operating profit	1,043	1,112	1,066	1,124	725	1,062	1,283	1,400
Financial income and expenses	–162	–169	–199	–178	–168	–194	–318	–378
Profit after financial items	881	943	867	946	557	868	965	1,022

Summary in USD and EUR

Atlas Copco Group

Amounts in USD m. and EUR m. unless otherwise noted*	USD m. 1995	1996	1997	1998	1999	EUR m. 1995	1996	1997	1998	1999
Operating profit	313	344	448	511	525	312	343	446	508	523
Operating profit margin, %	10.9	11.7	12.7	12.9	12.3	10.9	11.7	12.7	12.9	12.3
Profit after financial items	334	361	414	427	401	332	359	412	425	399
Profit margin, %	11.6	12.2	11.7	10.8	9.4	11.6	12.2	11.7	10.8	9.4
Profit for the year	214	228	259	268	264	213	227	258	267	263
Return on capital employed, before tax, %	22.4	21.2	21.1	17.2	14.1	22.4	21.2	21.1	17.2	14.1
Return on equity, after tax, %	18.6	17.5	17.6	16.1	13.6	18.6	17.5	17.6	16.1	13.6
Equity/Assets ratio, %	47.8	51.8	39.2	41.6	39.3	47.8	51.8	39.2	41.6	39.3
Orders received	2,919	2,956	3,606	3,875	4,293	2,906	2,943	3,589	3,857	4,273
Revenues	2,874	2,952	3,529	3,965	4,258	2,860	2,938	3,513	3,946	4,238
Percent change	+17	+3	+20	+12	+7	+17	+3	+20	+12	+7
Sales outside Sweden, %	96	96	97	97	97	96	96	97	97	97
Net interest expense	15	15	–36	–80	–122	15	15	–36	–80	–121
As percent of revenues	0.5	0.5	–1.0	–2.0	–2.9	0.5	0.5	–1.0	–2.0	–2.9
Interest coverage ratio	8.7	10.6	6.5	4.9	3.8	8.7	10.6	6.5	4.9	3.8
Cash flow from operations before financing	180	226	456	253	284	179	225	454	251	282
Total assets	2,598	2,723	4,088	4,367	6,304	2,585	2,711	4,069	4,347	6,275
Debt/equity ratio	29.9	15.8	74.9	65.0	91.7	29.9	15.8	74.9	65.0	91.7
Capital turnover ratio	1.19	1.11	1.08	0.94	0.83	1.19	1.11	1.08	0.94	0.83
Investments in properties and machinery	84	97	99	100	110	83	96	98	100	110
As percent of revenues	2.9	3.3	2.8	2.5	2.6	2.9	3.3	2.8	2.5	2.6
Investments in rental equipment	27	39	108	187	275	27	39	108	186	274
As percent of revenues	0.9	1.3	3.1	4.7	6.5	0.9	1.3	3.1	4.7	6.5
Average number of employees	19,751	21,085	22,296	23,857	24,249	19,751	21,085	22,296	23,857	24,249
Revenues per employee, thousands	145	140	158	166	176	145	139	158	165	175

Per Share Data, Amounts in USD and EUR, unless otherwise noted*	USD 1995	1996	1997	1998	1999	EUR 1995	1996	1997	1998	1999
Earnings	1.12	1.19	1.36	1.41	1.35	1.12	1.19	1.35	1.40	1.35
Dividend	0.34	0.42	0.48	0.51	0.56**	0.34	0.42	0.48	0.51	0.56**
Offer price, Dec. 30, A share	11.52	18.68	26.79	20.09	29.61	11.46	18.60	26.67	20.00	29.47
Offer price, Dec, 30, B share	11.28	18.68	26.79	19.86	29.38	11.23	18.60	26.67	19.77	29.24
Highest price quoted, A share	14.10	18.80	30.08	29.02	30.55	14.04	18.71	29.94	28.89	30.41
Lowest price quoted, A share	9.87	10.93	18.21	16.57	17.63	9.82	10.88	18.13	16.49	17.54
Average price quoted, A share	11.63	14.34	24.21	23.15	25.15	11.58	14.27	24.09	23.04	25.03
Direct yield, percent	2.9	3.0	2.0	2.2	1.9	2.9	3.0	2.0	2.2	1.9
Price/Earnings	10.4	12.0	17.8	16.5	18.6	10.4	12.0	17.8	16.5	18.6
Price/Sales	0.77	0.93	1.31	1.12	1.24	0.77	0.93	1.31	1.12	1.24

Exchange rates: USD 1=8.51, EUR 1=8.55

* For definitions, see page 17 and 74.

** According to the Board of Directors' proposal.

Consolidated Income Statement in USD and EUR

Amounts in USD m. and EUR m. unless otherwise noted	USD m. 1999	USD m. 1998	EUR m. 1999	EUR m. 1998
Revenues	4,258	3,965	4,238	3,946
Cost of goods sold	–2,838	–2,591	–2,825	–2,578
Gross profit	1,420	1,374	1,413	1,368
Cost of marketing, administration, research and development	–865	–851	–860	–848
Goodwill amortization	–57	–49	–57	–49
Other income and expenses from operations	27	37	27	37
Operating profit	525	511	523	508
Financial income and expenses	–124	–84	–124	–83
Profit after financial items	401	427	399	425
Taxes	–134	–155	–133	–154
Minority interest	–3	–4	–3	–4
Profit for the year	264	268	263	267
Earnings per share, USD/EUR	1.35	1.41	1.35	1.40

Exchange rates: USD 1=8.51, EUR 1=8.55

Consolidated Balance Sheet in USD and EUR

Amounts in USD m. and EUR m. unless otherwise noted		USD m. Dec. 31, 1999	USD m. Dec. 31, 1998	EUR m. Dec. 31, 1999	EUR m. Dec. 31, 1998
Assets					
Fixed assets	Intangible assets	2,215	1,329	2,205	1,323
	Tangible assets	1,949	1,144	1,939	1,139
	Financial assets	249	113	248	112
		4,413	2,586	4,392	2,574
Current assets	Inventories	628	632	626	629
	Current receivables	1,112	900	1,107	896
	Investments	28	47	28	47
	Cash and bank	123	202	122	201
		1,891	1,781	1,883	1,773
Total assets		6,304	4,367	6,275	4,347
Shareholders' equity and liabilities					
Shareholders' equity	**Restricted equity**				
	Share capital	123	108	123	107
	Restricted reserves	1,153	611	1,148	607
	Non-restricted equity				
	Retained earnings	914	807	909	804
	Profit for the year	264	268	263	267
		2,454	1,794	2,443	1,785
Minority interest		23	23	22	23
Provisions	**Interest-bearing provisions**				
	Pensions and similar commitments	170	228	169	227
	Non-interest-bearing provisions				
	Deferred taxes	356	245	355	244
	Other provision	99	87	99	86
		625	560	623	557
Long-term liabilities	**Interest-bearing liabilities**				
	Liabilities to credit institutions	1,289	624	1,283	621
	Non-interest-bearing liabilities				
	Other liabilities	39	34	39	34
		1,328	658	1,322	655
Current liabilities	**Interest-bearing liabilities**				
	Liabilities to credit institutions	963	578	958	576
	Non-interest-bearing liabilities				
	Operating liabilities	911	754	907	751
		1,874	1,332	1,865	1,327
Total shareholders' equity and liabilities		6,304	4,367	6,275	4,347
Assets pledged		24	28	24	28
Contingent liabilities		173	178	173	177

Exchange rates: USD 1=8.51, EUR 1=8.55

Group and Business Areas Summary in USD and EUR

	USD m.		EUR m.	
Amounts in USD m. and EUR m. unless otherwise noted	1999	1998	1999	1998
Atlas Copco Group				
Revenues	4,258	3,965	4,238	3,946
Operating profit	525	511	523	508
Profit after financial items	401	427	399	425
Return on capital employed, %	14	17	14	17
Investments	386	288	384	286
Average number of employees	24,249	23,857	24,249	23,857
Compressor Technique				
Revenues	1,551	1,591	1,544	1,584
Operating profit	253	268	252	267
Return on capital employed, %	27	30	27	30
Investments	53	57	53	57
Average number of employees	8,288	8,565	8,288	8,565
Construction and Mining Technique				
Revenues	673	756	670	753
Operating profit	47	59	46	58
Return on capital employed, %	13	15	13	15
Investments	49	58	49	58
Average number of employees	4,123	4,572	4,123	4,572
Industrial Technique				
Revenues	1,216	1,182	1,210	1,176
Operating profit	121	123	121	122
Return on capital employed, %	14	14	14	14
Investments	38	40	38	40
Average number of employees	7,133	7,831	7,133	7,831
Rental Service				
Revenues	874	471	869	469
Operating profit	119	67	118	66
Return on capital employed, %	6	5	6	5
Investments	250	132	249	131
Average number of employees	4,572	2,773	4,572	2,773

Exchange rates: USD 1=8.51, EUR 1=8.55

Group Management

Giulio Mazzalupi
President and Chief Executive Officer. Employed since 1971. Born 1940. Holdings: 4,571 A, 9,697 A call options.

Bengt Kvarnbäck
Senior Executive Vice President Business Area Compressor Technique. Employed since 1992. Born 1945. Holdings: 11,371 A, 57 B, 5,244 A call options.

Freek Nijdam
Senior Executive Vice President Business Area Construction and Mining Technique. Employed since 1970. Born 1940. Holdings: 457 A, 3,763 A call options.

Thomas Bennett
Senior Executive Vice President Business Area Rental Service. Employed since 1997. Born 1943. Holdings: 3,954 A call options.

Lennart Johansson
Deputy Senior Executive Vice President Business Area Rental Service. Employed since 1987. Born 1955. Holdings: 2,281 A call options.

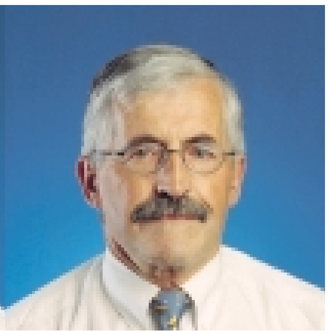
Hans Ola Meyer
Senior Vice President Controlling and finance. Employed since 1991. Born 1955. Holdings: 571 A, 3,763 A call options.

Marianne Hamilton
Senior Vice President Organizational development and Management resources. Employed since 1990. Born 1947. Holdings: 3,085 A, 3,763 A call options.

Hans Sandberg
Senior Vice President Legal. Employed since 1975. Born 1946. Holdings: 1,200 A, 2,281 A call options.

Annika Berglund
Senior Vice President Corporate Communications. Employed since 1979. Born 1954. Holdings: 1,300 A, 165 B, 1,385 A call options.

Arthur J. Droege
Regional Executive Asia Pacific and responsible for projects in Asia. Employed since 1976. Born 1948. Holdings: 5,244 A call options.



Hans W. Brodbeck
Regional Executive Latin America. Employed since 1969. Born 1940. Holdings: 5,244 A call options.

Board of Directors and Auditors


Anders Scharp


Jacob Wallenberg


Giulio Mazzalupi


Michael Treschow


Paul-Emmanuel Janssen


Hari Shankar Singhania


Sune Carlsson


Lennart Jeansson

Honorary Chairman

Peter Wallenberg Dr Econ. h.c. Employed in various positions within Atlas Copco, 1953–1974. Chairman of the Board 1974–1996. Honorary Chairman of Investor AB. Chairman of The Knut and Alice Wallenberg Foundation.

Board of Directors

Anders Scharp Chairman (1992). Born 1934. Chairman of the Boards of SKF, Saab, Scania, and The Swedish Employers' Confederation. Member of the Boards of Investor AB and of The Federation of Swedish Industries. Stockholdings: 28,571 A.

Jacob Wallenberg Vice Chairman (1998). Born 1956. Chairman of the Board of SEB. Executive Vice Chairman of Investor AB. Vice Chairman of The Knut and Alice Wallenberg Foundation and AB Electrolux. Board Member of ABB Ltd., WM-data AB, The Swedish Federation of Industries, The Nobel Foundation, EQT Scandinavia BV and Novare Kapital AB. Stockholdings: 26,657 A.

Giulio Mazzalupi (1990). Born 1940. President and Chief Executive Officer of Atlas Copco. Employed by Atlas Copco since 1971. Member of the Boards of Electrolux-Zanussi, Parker Hannifin (U.S.) and The Swedish-American Chambers of Commerce of the USA, Inc. Stockholdings: 4,571 A, 9,697 A call options.

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: 32,000 A.

Paul-Emmanuel Janssen (1994). Born 1931. Honorary Chairman of Générale de Banque, Brussels, Belgium. Past Chairman of Belgian Banking Association and Past Director of the Federation of Belgian Industry. Director of Solvac (Solvay Group), Union Financière Boël and Lhoist Group. Chairman of the Board of Directors of Atlas Copco Airpower, Belgium. Stockholdings: 1,286 B.

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. Former President of the International Chamber of Commerce. Stockholdings: 0.

Sune Carlsson (1997). Born 1941. President and Chief Executive Officer of AB SKF. Member of the Board of AB SKF. Stockholdings: 5,714 B

Lennart Jeansson (1997). Born 1941. Executive Vice President AB Volvo. Member of the Board of Bilia. Stockholdings: 1,142 A.

Kurt Hellström

Ulla Litzén

Tore Hedberg

Bengt Lindgren

Lars-Erik Soting

Håkan Hagerius

Sune Kjetselberg

Stefan Holmström **Peter Markborn**
Thomas Jansson **Björn Sundkvist**

Kurt Hellström (1999). Born 1943. President of Telefonaktiebolaget L M Ericsson. Stockholdings 1,142 A.

Ulla Litzén (1999). Born 1956. Managing Director of Investor AB. Member of the Boards of SKF and Saab Automobile. Stockholdings: 6.900 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, Örebro. Stockholdings: 0.

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

Financial Information

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 Thursday, April 27, 2000, at 5 p.m. in Berwaldhallen, Strandvägen 69 Stockholm.

Financial information from Atlas Copco

Atlas Copco will publish the following financial reports on the operations for year 2000:

President's Address to Shareholders at the AGM	April 27, 2000
Interim Report on the first three months of operations	April 27, 2000
Interim Report on the first six months of operations	August 8, 2000
Interim Report on the first nine months of operations	October 23, 2000
2000 Preliminary Year-end Report	February 12, 2001
2000 Annual Report	March, 2001

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	*Tobias Henriksson*
Carnegie, Stockholm	*Ola Asplund*
Cheuvreux de Virieu Nordic, Stockholm	*Peter Karlsson*
Collins Stewart, London	*Mustapha Omar*
Credit Lyonnais, London	*Werner Friedmann*
Credit Suisse First Boston, Boston	*John E McGinty*
Deutsche Morgan Grenfell, Stockholm	*Hans-Olov Bornemann*
Dresdner Kleinwort Benson, London	*Nick Hyslop*
Enskilda Research, Stockholm	*Anders Eriksson*
Fischer Partners Fondkommission, Stockholm	*Henrik Moberg*
Goldman Sachs, London	*Johan Trocmé*
Hagströmer & Qviberg, Stockholm	*Johan Tisell*
Handelsbanken, London	*Niklas Tollsten*
HSBC Securities, London	*Roddy Bridge*
JP Morgan, London	*Niall O'Connor*
Lehman Brothers, London	*Peter Lawrence*
MeritaNordbanken, Stockholm	*Jonas Victorsson*
Merrill Lynch, London	*Paul Compton*
Morgan Stanley, London	*Gideon Franklin*
Myrberg Fondkommision, Stockholm	*Örjan Rödén*
Orkla Securities, Stockholm	*Anders Roslund*
Paribas, London	*Christian Diebitsch*
Penser Fondkommission, Stockholm	*Johan Sivander*
Salomon Smith Barney, Frankfurt	*Peter Metzger*
Sanford Bernstein, New York	*Lisa Shalett*
SG Securities, London	*Fabrice Theveneau*
Swedbank, Stockholm	*Henrik Sandell*
Warburg Dillon Read, Stockholm	*Patrik Sjöblom*
Öhman Fondkommission, Stockholm	*Ylwa Häggström*

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Compressor Technique Divisions

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Construction and Mining Technique Divisions

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SE-701 91 Örebro, Sweden
Phone: +46-19-670 7000
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Uniroc
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SE-105 23 Stockholm, Sweden
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Atlas Copco Wagner
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Portland, OR 97294-0307, USA
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Fax: +1-503-255 7175

Industrial Technique Divisions

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13135 West Lisbon Road
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Phone: +1-262-781 3600
Fax: +1-262-781 3117

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

Atlas Copco Industrial
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SE-105 23 Stockholm, Sweden
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Fax: +46-8-640 0546

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Rock Hill, SC 29730, USA
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Fax: +1-803-817 7006

Rental Service Divisions

Prime Service Inc
16225 Park Ten Place,
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Fax: +1-281-647 2412

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Scottsdale, Arizona 85254,
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Fax: +1-480-905-3400

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