

Gunnar Brock's speech at the AGM 2004

Honored shareholders, ladies and gentlemen. I would like to warmly welcome you to Atlas Copco's general meeting. We are very pleased to see that so many shareholders want to attend this important meeting. It gives us a unique opportunity to describe what has happened in the past year and at the same time inform you of how well equipped we are to meet the challenges of tomorrow.

At Atlas Copco, we place great importance on giving our various stakeholders as detailed and comprehensive information as possible. We believe that this increases the possibilities of correctly analyzing and assessing our company, which must be an aspiration for all companies, especially in these times of intensive debate and questions surrounding corporate governance. It may therefore be appropriate to mention that last year Atlas Copco was recognized as the one company in Sweden that was viewed as the best at communicating and handling relationships with the stock market.

As you know, our vision is to be *First in mind – first in choice*. In other words, to be the one our customers and potential customers think of first and then choose as their supplier. Our goal here today is to try to increase understanding of how we work to realize our vision. I will do this by first providing an overview of 2003's performance figures, describing some of the important events in our business areas and then finally going through our efforts to develop our strategy and our business code of practice.

The past year proved to be another challenge for Atlas Copco. The economic recovery on the most important markets was not as strong as forecasted and the continued weakening of the U.S. dollar placed greater demands on sales and operating profit.

Strong demand was prevalent throughout the entire year in the mining industry while the construction market experienced weak demand. As in previous years, Asia, and China in particular, showed strong growth. Positive trends were also seen in Eastern Europe and Russia, and in the latter half of the year even in Western Europe and South America. The outlook improved somewhat in the latter half of 2003 and demand for our products and services rose somewhat.

Total order volume increased in 2003. From experiencing a drop in volume in the first two quarters, we succeeded in increasing volume by roughly 5% in each of the later two quarters. Group revenues were strongly affected by negative currency translation effects, primarily due to the declining dollar. On the positive side, both volume and prices improved by a total of +4%. The operating margin increased from 11.1 % to 11.9% and profit after financial items climbed by 10% to SEK 4.9 billion. The primary causes of this positive

trend were the many new product introductions, an increase in aftermarket business and overall productivity improvements. Operating cash flow remained strong during 2003. Our net liability has continued to decrease. The debt/equity ratio at the end of 2003 was 36% compared to 67% for 2002.

A plus for all shareholders, earnings per share increased from SEK 13.88 to SEK 15.62. In addition, in 2003, the share price trend exceeded the average trend on the Stockholm Stock Exchange. In total, the value of Atlas Copco stock increased with 51%.

Atlas Copco operates businesses in *four business areas*. Compressor Technique, Industrial Technique and Construction and Mining Technique are what we call manufacturing business areas. The fourth business area, Rental Service, rent equipment to customers throughout North America.

Compressor Technique showed strong earnings, and its presence in the most important markets was improved. Asia (primarily China), Eastern Europe and Russia developed very positively.

In 2003, a number of new machines and aftermarket products and services were launched. Our well-reputed VSD-compressors continue to achieve success with customers, due both to its high productivity and to energy savings. Here we will show a short film where one of our customers, Panasonic in Wales, tells why they chose VSD. Panasonic has exchanged their old compressor installation with new modern units in their TV and microwave oven manufacturing unit.

Aftermarket products and services grew on all large markets and the share of revenues from aftermarket business increased.

The compressor company Puska Pneumatic S.A. was acquired in Spain. This acquisition is in line with our strategy of increasing our presence in selected markets to reach more customers.

The *Industrial Technique* business area successfully launched corded and cordless tools for professional craftsmen. They also introduced a number of new industrial tools and assembly systems, including new DC tools for the motor vehicle industry. This year, our distinction – the Peter Wallenberg Marketing and Sales Award – goes to a team that successfully marketed this kind of tool to a large automotive customer in the U.S.

During the past year, the business area worked with a number of restructuring projects where segments of manufacturing were relocated. To increase efficiency, for example, we managed to move manufacturing from France to England, and from Germany to the Czech Republic. The project is generally

complete and we will now benefit from these restructuring efforts in 2004. The industrial tool-manufacturing unit has been expanded in Tierp, Sweden.

In accordance with our strategy to increase sales of accessories, DreBo Werkzeugfabrik GmbH, a manufacturer of carbide-tipped masonry drilling products for the construction industry, was acquired.

For the *Construction and Mining Technique* business area, growth was strong in the mining segment for both equipment and the aftermarket.

Relocation of the loader manufacturing from the U.S. to Sweden was completed and synergy effects will be achieved during 2004. The move entailed the creation of 125 new positions in Örebro, Sweden. At the same time, sales have increased and we have increased our market share.

To further strengthen our position in the fast-growing Chinese market, Shenyang Rock Drilling Machinery Co. Ltd. was acquired. In South Africa, two companies active in prospect drilling: Professional Diamond Drilling Equipment Pty and Mining Drilling Services Pty, were acquired, which will strengthen our position in the region.

The *Rental Service* business area experienced another year of low activity levels in the market, primarily in the commercial construction segment.

With no help from increased demand, the business area focused their activities on increasing internal efficiency and increasing rental rates. The degree of utilization of the rental fleet was also increased. A significant step has been decentralizing the organization and re-organizing the districts to establish a clear management structure and offer the customers better service and raise their productivity.

After improving Internet rental applications, the customers need not spend as much time on routine administration. At the same time the customers have the opportunity to call us 24 hours a day, seven days a week.

All of these efforts contributed to considerably improved earnings for 2003. In relation to our competitors, we are probably the most successful company in the industry.

During the year, we have developed and refined the *Group's strategy* to achieve our vision of being and remaining "first in mind – first in choice" (or being the first our customers think of and choose). The vision also encompasses other important stakeholders; primarily our employees, business partners and owners, but it is also important to have a positive view of Atlas Copco in society in general.

Our strategic focus is to **grow organically** with the help of selective acquisitions. The most effective approach is to increase our customers' competitive ability by supplying products and systems, either through sales or rental service, that increase their productivity.

High investments in research and development allow us to continuously launch new products and services, which is a prerequisite to maintaining our strong competitive edge. This has entailed that the share of sales resulting from recently launched products has increased. A very innovative solution that has also succeeded in becoming a commercial success is awarded with the Group's prestigious John Munck award. This year the award goes to Roland Henriksson for the development of the Solid Body Concept.

Our strategy of increasing sales to the aftermarket has been further intensified. By effectively cultivating the aftermarket, we can contribute to increased efficiency and reliability in the use of our products. Besides high growth and strong profit potential, the aftermarket offers close relationships with the end-users of our products.

To further focus on the opportunities in the aftermarket and ensure that experiences are shared across business areas and divisions, an aftermarket expertise network has been established within the Group.

For potential **acquisitions** to be carried out, they must be "modest in size and close to our core business." Acquisitions are without a doubt tied to greater risk than organic growth. The larger the acquisition or the further away it is from the core business, the greater the risk. To minimize this risk, we have created a knowledge pool with representatives from the business areas and headquarters. This group creates and develops acquisition procedures and processes, and carries out inspections prior to an acquisition, during integration and after an acquisition has been carried out.

Corporate social responsibility has been discussed and debated both externally and within the Group. Atlas Copco has strong, well-established values that have been strengthened and made even clearer in our strategy. To emphasize the importance of these values in our organization and to ensure that they are the same the world over, we have developed the **Atlas Copco Group Business Code of Practice** in which we summarize our internal guidelines related to business integrity as well as social and environmental performance.

We have carried out a number of internal activities to ensure that the code is known and that the meaning is the same wherever in the world we operate our business. The most comprehensive activity took place on Atlas Copco Day in February of this year, when more than 2,500 employees gathered at 300 locations around the world to simultaneously go through and discuss both our strategy and our business code of practice. This spring the activity will reach

all employees within the Group. Those of you who came early today got to see a slide show from our Atlas Copco Day before the general meeting started.

Now for a look at *2004 and developments so far this year*. Earlier this year, we announced an agreement to acquire Ingersoll Rand Drilling Solutions, and we are now awaiting the approval of authorities. This business has annual revenues of more than SEK 2 billion. When the acquisition is completed, the business will be a part of its own division in the Construction and Mining Technique business area. The company will fit us like a glove in that Drilling Solutions is strong above ground, mainly in North America, and our underground business has a very strong position on the global market. In China, we have signed an agreement on forming a joint venture company with the Chinese industrial tool manufacturer QQPMC. This acquisition will further strengthen Atlas Copco's position in China. We have also signed agreements on acquiring Guimera, a Spanish machine rental company that primarily rents generators and compressors. The acquisition matches well with Compressor Technique's strategy of expansion in specialized rental business.

Earlier today, we reported our results for the first quarter. The volumes continued to develop positively. Also, the operating profit increased. We expect the positive demand trend for Atlas Copco's products and services to continue in the near-term. The manufacturing and process industries are expected to continue to increase their investments and demand more aftermarket products and services. It is foreseen that the recent general improvement in demand for construction equipment will continue, even though the activity level in the important non-residential building sector in the United States is expected to remain largely flat. Demand from the mining industry is expected to remain high.

There are still opportunities for the Group to lower costs, improve internal efficiency and increase prices. At the same time, we must further increase the resources used for service and product development to meet and exceed our customers' current and coming needs. This is the best way of achieving profitable growth, which must also be seen as a priority by you and other shareholders who have invested in the Group.

Over the past year, we have strengthened our position both geographically and product-wise. Based on our plans and ambitions, and with the commitment and expertise we possess within the Atlas Copco Group, we are well equipped to meet the challenges of 2004.

Thank you for your support.

Gunnar Brock
President and CEO