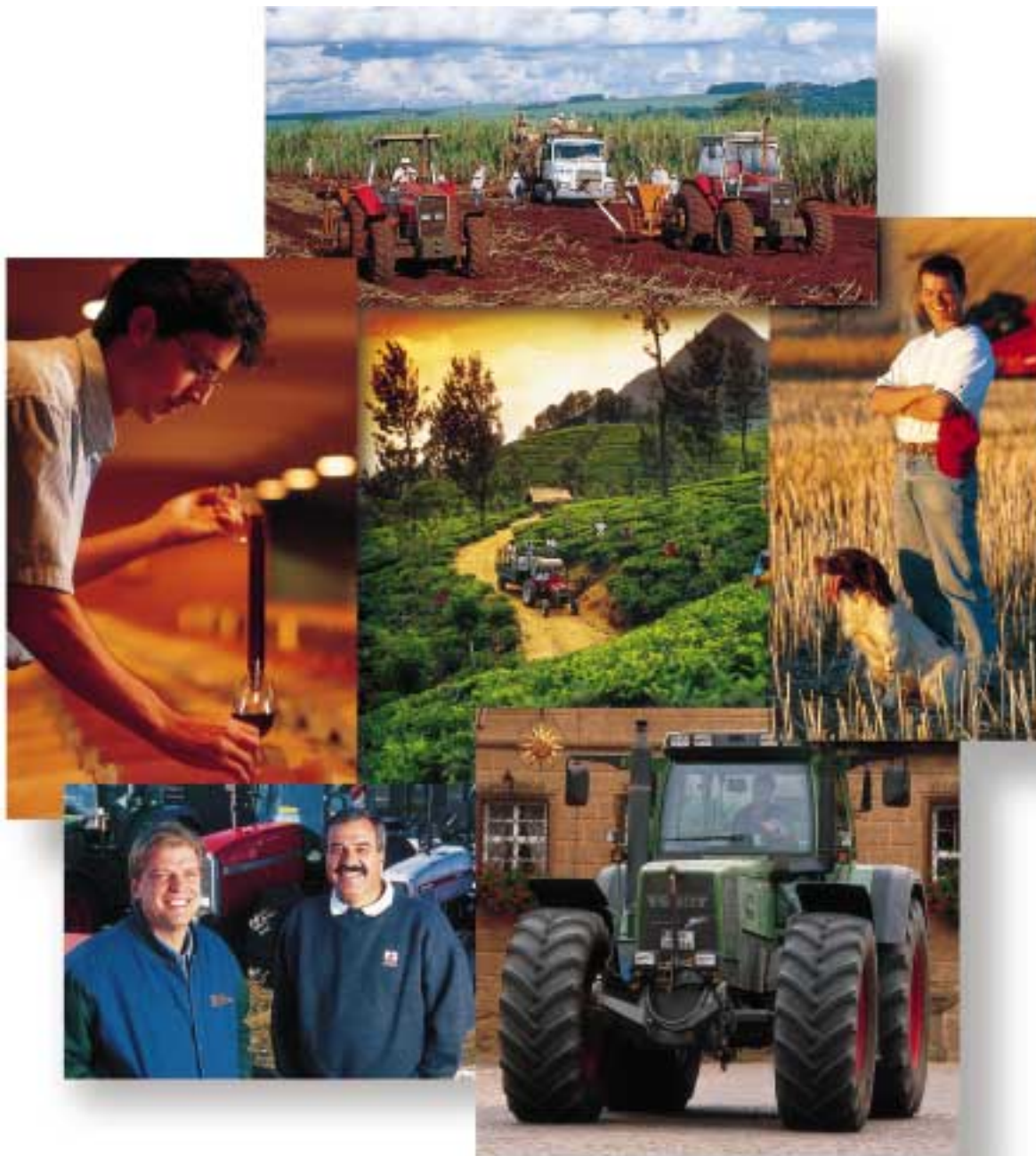




A G C O Corporation
1 9 9 8 Annual Report



P a r t n e r s h i p s i n A c t i o n

Financial Highlights

(in millions, except per share data)	1998	1997	1996
Net sales	\$2,941.4	\$3,224.4	\$2,317.5
Income from operations	170.5	319.1	211.9
Net income	60.6	168.7	125.9
Total assets	2,750.4	2,620.9	2,116.5
Stockholders' equity	982.1	991.6	774.6
Earnings per share ⁽¹⁾	0.99	2.71	2.20
Earnings per share excluding nonrecurring items ⁽¹⁾⁽²⁾	1.40	2.94	2.46
Dividends declared per common share	0.04	0.04	0.04

⁽¹⁾ On a diluted basis.

⁽²⁾ Excludes nonrecurring expenses for all periods and extraordinary losses in 1997 and 1996. For 1996, excludes a gain on the sale of a 51% interest in Agrico-credit-North America of \$4.7 million, or \$0.05 per share.

Company Profile

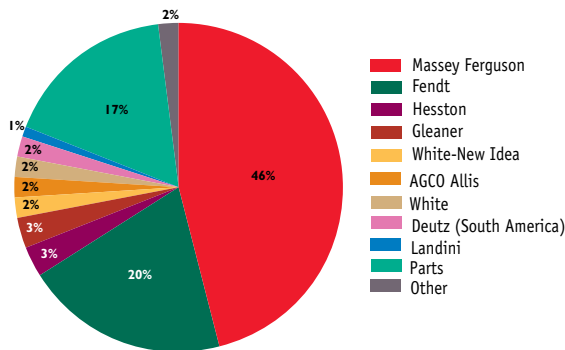
AGCO Corporation is one of the largest manufacturers and distributors of agricultural equipment in the world. The Company distributes its products through a network of over 8,500 independent dealers and distributors, associates, and licensees in more than 140 countries throughout the world. The Company's products are widely recognized in the agricultural equipment industry and are marketed under the following brand names: AGCO®, Allis, AGCOSTAR®, Black Machine, Deutz (South America), Farmhand®, Fendt™, GLEANER®, Glencoe®, HESSTON®, IDEAL, Landini (North American distribution), Massey Ferguson®, Spra-Coupe®, Tye®, White, White-New®, Idea and Willmar®.

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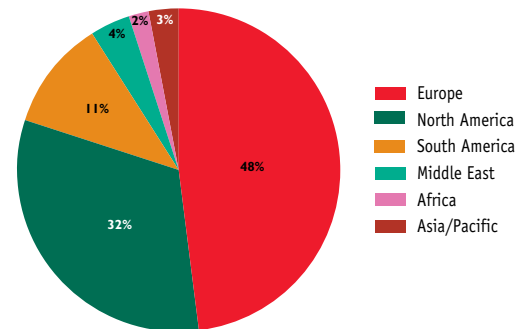
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AGCO at a Glance

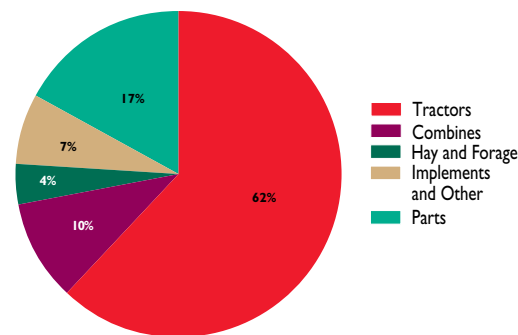
Sales by Brand



Sales by Geographic Territory



Sales by Product



AGCO Worldwide Distribution

(Number of Dealer and Distributor Outlets by Region)

Western Europe	3,170
North America	2,800
Middle East	1,175
Asia / Pacific	530
South America	475
Africa	310
Central and Eastern Europe	100
Total	8,560

AGCO Brands

AGCO® ALLIS

- Tractors: 14 models powered by air and liquid cooled engines from 45 to 225 horsepower

AGCOSTAR®

- Tractors: 2 four-wheel-drive, articulated models powered by 360 and 425 horsepower engines

BLACK MACHINE

- Patented "2-in-1" flexible frame planters

DEUTZ

(South America)

- Tractors: 8 models powered by air cooled engines from 60 to 190 horsepower
- Combines
- Agricultural Implements

FARMHAND®

- Loaders
- Tub Grinders
- Grinder Mixers
- Rotary Cutters
- Estate Groomers



- Tractors: Over 50 models powered by air and liquid cooled engines from 50 to 260 horsepower
- Forklift Trucks and Hydraulic Products

GLEANER®

- Rotary Combines: 4 classes ranging in bin size from 170 to 330 bushels and 185 to 300 horsepower
- Conventional Combines with 300 bushel bin size and 260 horsepower

Glencoe®

- Primary and Secondary Conservation Tillage Products

HESSTON®

- Windrowers
- Mower-conditioners
- Rakes
- Round and Rectangular Balers
- Forage Harvesters
- Manure Spreaders
- Disc Mowers
- Bale Wrappers
- Bale Processors

IDEAL

- Conventional combines ranging in bin size from 128 to 142 bushels and 165 to 210 horsepower



(North American Distribution)

- Tractors: 50 models of standard and specialty tractors ranging from 43 to 148 horsepower



MASSEY FERGUSON

- Tractors: Over 70 models ranging from 13 to 225 horsepower
- Conventional and Rotary Combines
- Lawn and Garden Equipment
- Implements
- Hay Tools

SPRA-COUPÉ

- 5 self-propelled sprayer models with under-500 gallon product tanks, and the exclusive ESP (Energized Spray System)



- No Till and Conventional Grain Drills
- Paratill® Deep Tillage Products

WHITE

- Tractors: 12 models powered by liquid cooled engines from 45 to 215 horsepower

WHITE-NEW IDEA

- Implements
- Planters
- Manure Spreaders
- Tillage Products
- Hay Tools

WILLMAR®

- Fertilizer Spreaders
- Tenders (10-24 ton)
- Wrangler loader
- 8 self-propelled high clearance sprayer models with 500-1000 gallon product tanks



Robert J. Ratliff

John M. Shumejda

Letter to Stockholders

1998 was a challenging year for the agricultural equipment industry, and one that proved the fundamental strength of AGCO's key strategies. Although 1998 results were impacted negatively by the worldwide downturn in the agricultural equipment industry, AGCO's ability to generate profits and solid operating cash flow during this difficult period demonstrates the advantages of our unique approach to the business.

1998 RESULTS

Net sales for 1998 were \$2.9 billion compared to \$3.2 billion in 1997. This decline reflects weakened global demand for agricultural equipment. Net sales were also negatively affected by foreign currency translation as the US dollar continued to strengthen against most currencies. The Company earned \$1.40 per share during 1998 compared to \$2.94 per share in 1997, excluding non-recurring expenses. This reflects lower sales volumes as well as the Company's actions to reduce production and adjust receivables and inventories to future forecast demand. Although these actions affected 1998 earnings, the Company ended the year with receivables and inventories in a strong position entering 1999.

AGCO'S STRATEGIC FOCUS

AGCO remains committed to our strategies of global distribution, multiple brands supported by a centralized operating cost structure, and a flexible horizontal manufacturing process. We persist in our strong

marketing orientation. We are developing new products that serve the growing trend towards farm mechanization. We continue to round out our product line through strategic acquisitions, such as our 1998 addition of the Spra-Coupe and Willmar brands. We have implemented a manufacturing program of common product platforms.

This agenda will serve AGCO well as the entire industry adjusts to the current slowdown.

During 1998, AGCO emerged as a leader in tackling market conditions. Utilizing AGCO's unique flexible cost structure and the resolve of our strong management team, we are taking aggressive action to meet the challenges of today while building for a successful future.

AGCO'S FLEXIBLE COST STRUCTURE PROVIDES AGILITY

During 1998, AGCO took quick and decisive action to combat negative industry conditions. We re-sized

the Company to be in line with forecasted industry volumes for 1999 and beyond. We cut production to 13% below 1997 levels and reduced our workforce accordingly. Production schedules for 1999 have been pared further to align inventories with forecast demand.

Cost savings from the workforce reductions, combined with further cuts in expenses and discretionary spending, are projected to reduce operating expenses by \$45 - \$50 million in 1999 when compared with 1998 levels. Some benefits of these actions were already seen in the fourth quarter of 1998 with a reduction of \$9 million in operating expenses when compared to the same period in 1997, excluding nonrecurring expenses.

AGCO's ability to generate profits and solid cash flow during this difficult period demonstrates the advantages of our unique approach to the business.

AGCO's flexible horizontal manufacturing strategy has allowed us to quickly adjust production to industry demand while maintaining a low fixed cost structure. AGCO is primarily an assembler, purchasing the majority of components such as engines, transmissions and cabs, and assembling them in our manufacturing facilities around the world. This unique manufacturing structure positions the Company for strength during cyclical declines in world agricultural equipment markets.

FOCUS ON STRONG CASH FLOW

We firmly believe that it is crucial to generate strong cash flow during depressed market cycles. AGCO has maintained solid operating cash flow as a result of our focus on managing receivables and inventories to meet changing demand. Operating cash flow for 1998 was \$11.2 million and was particularly strong in the fourth quarter at \$200 million. Cash flow will be a primary objective during 1999. We are committed to reduce our investment in working capital and we will ensure that 1999 production levels are below retail demand. We anticipate strong cash flow in 1999, which will be dedicated primarily to debt reduction and targeted debt-to-capital ratios.

ADVANTAGES OF GLOBAL DISTRIBUTION

AGCO's major strength is our global distribution network. AGCO manufactures and distributes 17 brands of farm equipment, sold through 8,500 dealers and distributors — the largest distribution network in the industry. Our products are sold in 140 countries. Approximately 70% of AGCO's 1998 net sales were made outside of North America. This geographical balance of distribution will be a major competitive advantage for AGCO during the current industry downturn.

While 1999 industry forecasts are most severe for North America, which is projected to be down 15 - 20%, they are less severe for other regions of the world where AGCO has strong distribution.

BUILDING FOR FUTURE GROWTH

We are steadfast in our belief that the global agricultural equipment business has significant long-term growth potential, as the world's population increases and the

demand for efficient and sophisticated farm machinery strengthens. AGCO is in a prime position to take advantage of our leadership in global distribution and the brand loyalty our products enjoy in every market around the world. We are taking vigorous actions to position the Company favorably for the future when market demand improves. During 1998, we forged ahead in developing new products, expanding distribution and making strategic acquisitions.

AGCO TAKES THE LEAD IN PRODUCT DEVELOPMENT

During 1998, AGCO established itself as the world leader in research, design and development of agricultural equipment. We introduced more than 40 new product models, continuing the reengineering of AGCO's product line that began with our launch of more than 50 new products in 1997. The result: A completely updated AGCO product line has emerged. Today, AGCO has an array of products unsurpassed in the industry, with features and technology that meet the needs of the changing agricultural market.

During 1998, AGCO launched the technologically advanced Fendt Favorit 700 and 900 Series tractors, the only vehicles in the world with a Continuously Variable Transmission (CVT). This revolutionary shiftless transmission provides unmatched in-field efficiency, productivity and fuel economy. Our unique CVT technology will be incorporated into other AGCO brands in the future as costs become lower and AGCO continues to develop new product innovations. AGCO's CVT technology will become the industry standard of tomorrow.

AGCO also added two significant new tractor series during 1998 — the new AGCO Allis 9700 Series and White FieldMASTER® Series row crop tractors. AGCO has engineered these tractors on a common platform with Massey Ferguson tractors, resulting in 70% parts commonality.

AGCO is the industry leader in Global Positioning System (GPS) technology with our state-of-the-art Fieldstar® products. Fieldstar is fast emerging as the industry standard in GPS, and we further strengthened our position during 1998. We increased our strategic affiliations with implement manufacturers, making AGCO's Fieldstar the most widely integrated GPS product in the industry.

AGCO's flexible horizontal manufacturing strategy has allowed us to quickly adjust production to industry demand.

Many of AGCO's new products reflect our common product platform strategy. This is one of the Company's most important initiatives. Common product platforms reduce inventory, engineering and production costs while expanding AGCO's product line. At the end of 1999, AGCO will have completed the implementation of our common product platform strategy and the overhaul of our primary tractor and combine lines.

ACQUISITIONS BOOST DISTRIBUTION, EXPAND PRODUCT LINE

During 1998, AGCO made three acquisitions that lowered manufacturing costs, strengthened distribution and expanded our product line.

Our 1998 acquisitions of the Spra-Coupe and Willmar brands give AGCO a significant share of the growing agricultural spraying equipment market, including the number one position in its strongest segment, under-500 gallon self-propelled agricultural sprayers. These acquisitions expand distribution for our other brands and offer us the opportunity to extend the reach of the Spra-Coupe and Willmar brands through AGCO's existing worldwide distribution network. Spra-Coupe provides AGCO with proprietary technology, and Willmar offers entry into two new product segments — dry fertilizer spreaders and loaders for bulk material handling.

During 1998, AGCO acquired the rights to distribute the Massey Ferguson brand in Argentina, increasing AGCO's market share to more than 35 percent in this market. This acquisition strengthened our extensive distribution network across South America and facilitated sales of other AGCO products. We also announced an agreement to sell our Haedo, Argentina manufacturing plant. This enables us to consolidate tractor manufacturing operations in South America.

During the first half of 1998 we integrated the operations of Dronningborg, which was acquired late in 1997. Dronningborg is the technology expert in combines and precision farming using GPS, reinforcing AGCO's strong position in GPS farming and data collection systems.

AGCO is determined to remain the leader in delivering new and useful technologies to customers through our expanding distribution network. This, and

our commitment to control costs, will serve as solid foundations for future success. Although the industry outlook is forecasted to decline in all major markets, the Company expects to remain profitable in 1999. Long-term growth and profit improvement continue to be AGCO's paramount goals.

LEADERSHIP AND PARTNERSHIP

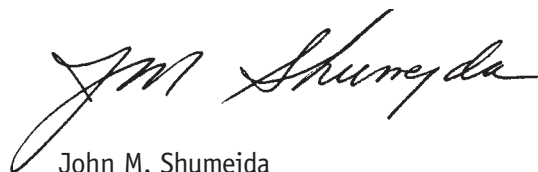
We know that, in tough times, steadfast leadership and decisive actions are the beacons that will guide AGCO's success. During 1998, we strengthened our management team with the appointment of John Shumejda to President and Chief Executive Officer. John, one of the founders of AGCO Corporation, previously served as President and Chief Operating Officer. Working together as a team, supported by AGCO's loyal employees, we will continue to focus on our long-term goals.

With this in mind, we have dedicated AGCO's 1998 annual report to the people who are most important to AGCO — our partners. They are the loyal dealers, distributors and customers around the world who have used our brands for years and who continue to work with us for mutual prosperity.

Especially during these challenging times, we salute our partners and remain committed to building success together. In the following pages, you will see examples of people who sell and use AGCO products. We hope you will enjoy getting to know them and learning how AGCO plays an important role in the growth of their businesses and their lives.



Robert J. Ratliff
Executive Chairman of the Board



John M. Shumejda
President and Chief Executive Officer

Reports from the Field

Year after year, AGCO has built upon our strengths by earning the loyalty of our strategic partners — the 8,500 dealers and distributors who sell AGCO products worldwide, and the customers who rely on AGCO equipment. AGCO's unwavering focus on meeting the needs of our partners is the glue that holds our strategy together. It is the heart of the AGCO tradition.

At AGCO we champion the cause of the dealer and customer because they are our future. We strive to be the easiest company to do business with, because that is simply the best way to build loyalty.

AGCO is consistently ranked as the manufacturer of choice among dealers who sell multiple brands of agricultural equipment. During difficult times for the industry, we will continue to focus on putting the dealer and customer first, while managing our business for the future.

At AGCO, we value the ideas of our dealers and customers. Whether in Twin Falls, Idaho, USA or Sertãozinho, Brazil, AGCO's partners are our most important experts. And we are there to listen.

On the following pages, we highlight a few examples of our partnerships in action. These dealers and customers are typical examples of the people around the world who use and sell AGCO products every day. The following real-life reports take place where we do our most important work — in the field.



"The advantages of AGCO's Fieldstar system go beyond cost savings. I'm a better farmer for it. I can focus on improving farm techniques by recognizing what is going on in different areas of the field."

**Robert Pask, farm owner,
Lincolnshire, UK**

PRECISION FARMING IN ACTION

Technological Leadership

Its customer-focused approach to technology makes AGCO a leader in product innovation. AGCO introduces the most advanced technology, and makes it accessible to customers in ways that meet their real needs. AGCO consistently produces award-winning product features and translates them into greater strength for its brands.

AGCO's Massey Ferguson brand pioneered the use of GPS (the satellite Global Positioning System) in farm equipment a decade ago. AGCO's 1998 acquisition of Dronningborg solidified AGCO's position as the leader in GPS technology.

Report From The Field

Yield Mapping Increases Crop Production

LINCOLNSHIRE, United Kingdom -- Robert Pask is the son of a farmer, but more than a generation gap differentiates his farming career from his father's. The young Mr. Pask is typical of the new breed of high-technology agribusinessmen – farmers of the future using the latest technology to boost efficiency. And that means AGCO technology.

For five years, Mr. Pask has been using the advanced satellite technology of AGCO's Fieldstar Global Positioning System (GPS) on his Massey Ferguson equipment to obtain the most accurate data about his crops. The satellite link, mounted on his combine, pinpoints the combine's position within ten feet. This information is merged with yield data taken from a sensor on the combine. The resulting yield map helps Mr. Pask to

make decisions about tillage practices, seeding and fertilizer application. The results have been dramatic for Mr. Pask's business. In the first year of using Fieldstar, he made a number of discoveries that changed his farming methods, doubled his output and resulted in substantial cost savings.

With the support of his AGCO dealer, Mark Colclough of Chandlers Farm Equipment Limited, Mr. Pask has taken the technology a step further. He has transferred Fieldstar onto the tractor to control fertilizer application. The next step? He will use AGCO's yield-mapping technology to analyze chlorophyll in his crops. "Today's farmers are most interested in profits and cost savings," says Mark Colclough, who also sold farm equipment to Mr. Pask's father. "Farmers are looking to put profit back into their businesses and AGCO's Fieldstar system helps them do that."

Yield map from Fieldstar reveals soil conditions.



▶ **Robert Pask and his AGCO dealer, Mark Colclough, discuss the natural soil variations at Pask Farms. Pask uses AGCO's Fieldstar GPS system to capture data about soil quality.**





Count von Schönborn inspects a sample of the wine from his vineyards in Franconia. Roses are planted on the property to help diagnose the quality of emerging grapes.

COMBINING TRADITION WITH INNOVATION

Brand Strength

AGCO's strategy is to acquire well-known brands and expand their product lines and geographical reach. AGCO preserves the unique identity of each of the brands it manufactures.

Across Europe, AGCO's premium Fendt brand represents the industry's highest standards of quality, engineering excellence and technological advancement. AGCO is expanding the reach and scope of the top-ranked Fendt brand even further. The Company has established an AGCO Product Research Center at Marktobendorf, Germany, where Fendt engineers are developing the technology of tomorrow's farm equipment.

Customer loyalty to the Fendt brand is understandably strong – and AGCO is working to make it even stronger.



Fendt tractors are a common sight on the roads of Gerolzhofen. Here, Klaus Warmuth travels between farms in his Fendt tractor.



"We've used Fendt tractors for the past ten years. Since we bought the first one, we've never changed the brand. We appreciate the driving comfort, but what's very important is our relationship with the dealer."

Klaus Warmuth, farmer, Gerolzhofen, Germany

Julius Then, the local Fendt dealer in Gerolzhofen, visits the Warmuth home to discuss the season's harvest.



Fendt is the only tractor brand able to speed comfortably along the highway at 40 miles per hour, making it practical to move from farm to farm.



Report From The Field

Brand and Dealer Loyalty Run Deep

GEROLZHOFEN, Germany -- Klaus Warmuth spends many long hours every day on his Fendt tractor, which is one reason why he would not consider switching brands. In the Franconia region of Germany, where the distance between fields is long, driving comfort and fuel efficiency are as important as productivity and reliability. Mr. Warmuth, like many farmers in Europe, can often be found on the highway in his Fendt tractor traveling from field to field. Fendt's state-of-the-art variable suspension, advanced electronically controlled driving environment and unique seating for driver health and comfort, are engineered to accommodate both field and highway driving.

Mr. Warmuth attends to the properties of Count von Schönborn of Franconia. On these vast fields managed by Mr. Warmuth, the major crops are wine grapes, sugarbeets, wheat, corn and barley. Warmuth works closely with Julius Then, his sales representative for the local branch of BayWa, the Fendt distributor in

Germany. Mr. Then takes pride in his ability to offer the latest Fendt technology to his customers. "With Fendt's integrated PC-based diagnostic system, we have been able to reduce the time and cost of maintaining Mr. Warmuth's tractors, with a minimum of down-time," he comments.

Mr. Then and Engelbert Müller, proprietor of the local BayWa distributorship, have sold Fendt equipment for decades. Along with BayWa, they are entering a new and exciting era as part of AGCO's family of dealers and distributors. During 1998, BayWa introduced AGCO's multiple-brand concept into Germany for the first time, adding the Massey Ferguson brand to its product offerings. The advantages are many: BayWa will expand its customer base, increase profitability and offer customers more options and services to meet their needs.

Customers like Mr. Warmuth, who trust their crops only to Fendt, also have much to look forward to as AGCO continues to expand the successful Fendt product line. Fendt customers can count on this: Fendt will continue to earn its reputation for quality and innovation.



"During 1993, when this business was just an idea, there were trees where the vineyard is now. There was a lot of work for our Massey Ferguson tractors to do."
Sebastien Bouetz, manager, Château Haut Selve, Bordeaux, France

Report From The Field

Massey Ferguson Tractors Help Entrepreneur to Realize His Dream

BORDEAUX, France -- In the scenic French countryside, Sebastien Bouetz has been part of a historical event, literally from the ground up. The vineyard he manages for owner Jean Jacques Lesgourgues is the first to be developed in this part of southwestern France for nearly 200 years.

Seven years ago, trees covered the property. With a dream of success and the help of Massey Ferguson tractors, Mr. Bouetz saw the land reborn as a modern château and vineyard.

Mr. Bouetz' pioneering spirit leads him to new, sometimes unconventional practices for growing the best grapes. His business sense leads him to use reliable Massey Ferguson tractors for preparing soil, planting, chemical treatment, trimming and towing trailers.

Mr. Bouetz' strong relationship with his Massey Ferguson salesman, Pascal Joisnot of the LaFue dealer-

ship in Beautiran, has provided support, expert knowledge and encouragement as the business developed. Starting from scratch, Mr. Bouetz has witnessed an amazing transformation. Today, Château Haut Selve produces 120,000 bottles of white wine and 250,000 bottles of red wine annually, four times the first year's production.

As AGCO has proven in the farm equipment business, Mr. Bouetz has also demonstrated that looking at a traditional business in a new way can produce outstanding results. "One always says in the winemaking business that you can only make good wine from old vine," he notes. "It is mostly a matter of rooting the trunk. We use very special techniques here that are totally new in the vine growing business. The results have been excellent."

Mr. Bouetz combines traditional Bordeaux methods with the latest innovations. His meticulous efforts have been rewarded: The 1996 harvest received a gold medal at the Paris agricultural competition, the Agricole de Paris.

AN AGCO PRODUCT FOR EVERY FARMER

Full Product Line

AGCO's many brands of farm equipment include a complete line of products across every size and price range. AGCO products range from the premium market tier to value models.

Every farmer in the world, from the smallest independent farm to the largest commercial operation, will find a quality AGCO product within the price range and performance level needed – and find it quickly, thanks to AGCO's linked worldwide distribution network.

As the needs of our customers change, AGCO will be there with the right products.



In the Bordeaux tradition, Sebastien Bouetz samples wine from oak barrels to check for color and clarity.



▶ **Pascal Joisnot, the local Massey Ferguson dealer, visits the caves of Château Haut Selve with Sebastien Bouetz.**



AGCO'S STRATEGY PROMOTES DEALER GROWTH

Multiple Brands

AGCO sells multiple brands of farm equipment through multiple networks of dealers and distributors. Worldwide, this strategy gives AGCO the power to acquire and preserve the strong brand identities that are so important in local markets. AGCO adds vitality to each brand by expanding distribution and extending product offerings.

In North America, where agricultural equipment is sold by independent dealers who often retail many different brands, AGCO's multiple-brand strategy positions the Company for aggressive market share growth. As AGCO adds new brands and products, its dealers have greater incentives to sell more AGCO equipment.

AGCO provides more product choices to customers, motivation to top dealers, and a commitment to be the easiest company to do business with. This combination gives AGCO and its dealers the greatest potential for profits.



▲ **Cleve Buttars (left) and Kevin Guthrie have built AgriService into AGCO's highest-performing North American dealership.**



"Our relationship with AGCO is cooperative. They let us retain our independence while supporting our growth. With AGCO, we are dealing with people who we consider friends."

***Kevin Guthrie,
Vice President of AgriService,
Twin Falls, Idaho, USA***

▶ The select group of high-performing dealers who earn a place in AGCO's Circle of Excellence can be recognized by their distinctive AGCO rings. Each diamond represents a year of outstanding performance.



Report From The Field

Multiple Brands Equal Multiple Profits for Top Dealer

TWIN FALLS, IDAHO, United States -- Cleve Buttars grew up working in his father's farm equipment dealership in Twin Falls, Idaho, he was in a prime position to connect the area's hay growers with its corporate dairy farms. The opening of his AgriService dealership in 1990 was the beginning of a success story.

When AGCO acquired the Hesston brand in 1991, Mr. Buttars recognized that a shift was taking place. AGCO was a new kind of agricultural equipment company, one that listens to dealers and is dedicated to dealer success and growth.

"AGCO was really helpful in the transition, after acquiring Hesston," says Mr. Buttars. "AGCO instituted face-to-face meetings between its top management and the independent dealers. This was something we never had before. The top management addresses really answers questions and addresses concerns directly. You can say anything in those meetings and you can get answers."

AgriService has achieved success in two ways. First, AgriService expanded its product offerings to include more and more AGCO brands through AGCO's multiple-brand strategy. Second, AgriService focused on excellent service and customer communications. The AgriService dealership mushroomed, expanding to six locations. Today, AgriService sells all 17 AGCO brands. With AGCO's support, Cleve Buttars and his partner, Kevin Guthrie, have led AgriService to become AGCO's top North American dealership.

"We sell all of AGCO's products because AGCO makes it advantageous to sell their products," Mr. Guthrie states. "AGCO's volume bonus program and multiple unit discounts that cross brands motivate dealers to sell more AGCO products. We can go to a major hay supplier and offer one AGCO brand of tractor, a second AGCO baler brand and a third AGCO combine brand. AGCO will put them into a congruent package, give a multiple discount and allow us to have one contract for all of it. It makes financial sense to deal with AGCO."

▶ Partners Cleve Buttars and Kevin Guthrie sell all 17 AGCO brands.



"Massey Ferguson was one of our main agricultural machinery brands from the start more than 60 years ago. As our business has grown, it has become our preference. Now we use only Massey Ferguson tractors."
Maurilio Biagi Filho,
President and Director,
Santa Elisa Sugar Mill,
São Paulo, Brazil

Report From The Field

Trust and Service Preserve Market Leadership

SÃO PAULO, Brazil -- The Santa Elisa Sugar Mill in São Paulo experienced ten-fold growth during 1998 — as it has done for 60 years. Today, it is one of the world's biggest sugar and alcohol producers, cultivating the largest area of raw sugarcane in the world and producing 300 million liters of alcohol.

As with many other agricultural operations in Brazil, the products of this business can be found on supermarket shelves around the world. Brazil, where AGCO has a dominant market presence, is growing in importance as a major exporter of agricultural commodities.

Exports to Canada, South Africa and the Middle East account for 30 percent of Santa Elisa's production.

Its customers are among the world's largest multinational corporations in the food, beverage and personal care industries. The Santa Elisa Sugar Mill uses only Massey Ferguson tractors, and it owns 160 of them.

This huge operation has chosen Massey Ferguson and remains a loyal customer because of the brand's distribution, its reliability and the support of its local distributor.

The Santa Elisa Sugar Mill is a family business with a long tradition of trust with its dealer, Stéfani Filho, President and Director of Santa Elisa Sugar Mill. "What makes the difference is the dealer. The Massey Ferguson dealer here in our region is the best. We define Massey Ferguson as our brand because of performance, reliability and the professional treatment we receive."

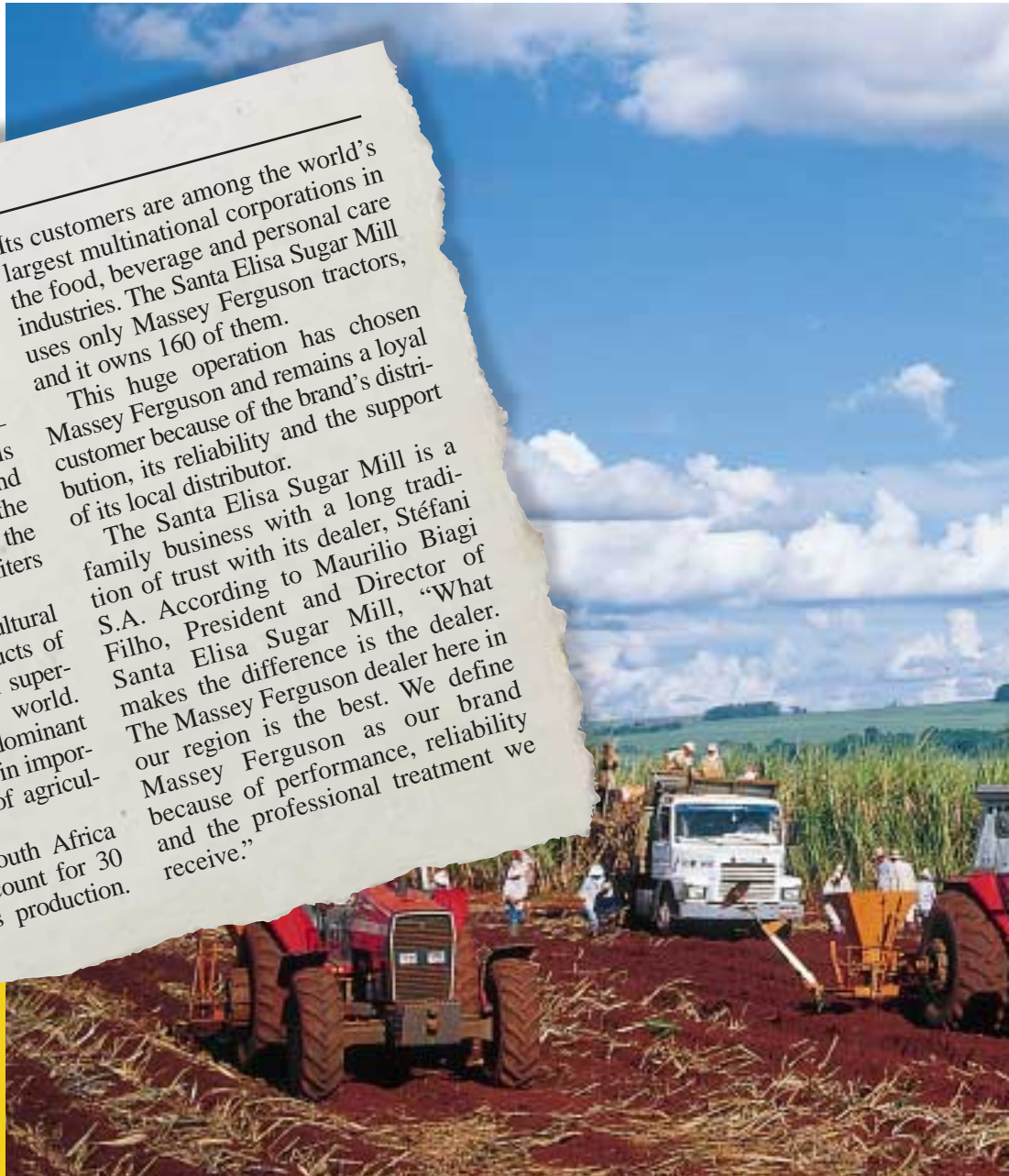
STRENGTH IN HIGH-POTENTIAL MARKETS

Global Reach

AGCO's products can be found in every corner of the globe. AGCO's Massey Ferguson brand, sold in 140 countries, is the most widely distributed brand in the world.

Developing markets and high-potential markets are no strangers to the Massey Ferguson name. This AGCO brand has provided the Company with global reach. In turn, AGCO is strengthening the foundation for future growth in every market.

The tradition of Massey Ferguson's worldwide market presence cannot be minimized. Combined with AGCO's commitment to the agricultural equipment industry and customer-focused strategy, it provides a platform for future success in a changing global marketplace.



Massey Ferguson tractors at work in the Santa Elisa sugarcane fields, preparing soil for a bountiful harvest.



▶ **Maurilio Biagi Filho, President and Director, Santa Elisa Sugar Mill, and his AGCO dealer, André Villa Nova of Stéfani.**

Products made with sugar from the Santa Elisa Sugar Mill can be found in markets throughout the world.



Global Reach

"Massey Ferguson was the first tractor of any kind to be introduced into Sri Lanka in 1952. Since then Massey Ferguson has continued to hold the leadership position."

Lasantha Wickremesooriya, Director of Agriculture, Brown and Company Limited, Colombo, Sri Lanka

Report From The Field

AGCO Adds Value for Loyal Customer

COLOMBO, Sri Lanka -- In this beautiful countryside, the mist rises every morning to reveal the vast tea plantations of James Finlay & Company. Distinctive red Massey Ferguson tractors dot the landscape as they have done for nearly half a century.

James Finlay & Company is a major tea and rubber producer in Colombo, Sri Lanka. The company's 36 estates produce 18 million kgs. of tea and 1.5 million kgs. of rubber annually, and export 100 tons of tea to the United States every year.

James Finlay & Company's longstanding loyalty to the Massey Ferguson brand began in the mid-1950's. Today, more than 80 Massey Ferguson tractors can be seen on the company's estates on the hilly terrain of Sri Lanka.

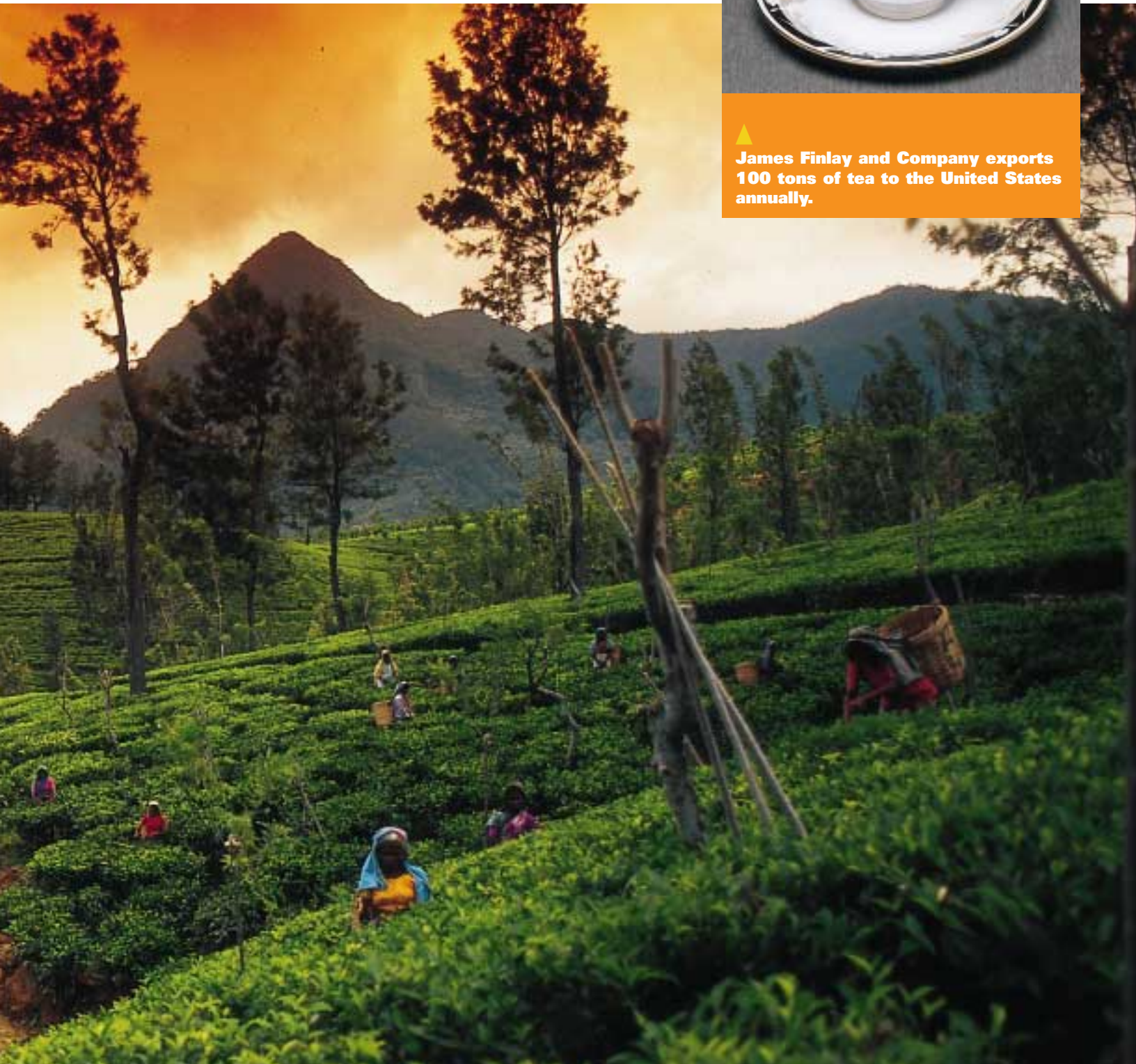
James Finlay & Company has purchased its tractors from its Massey Ferguson dealer, Brown and Company Limited, for 45 years. Brown and Company's Lasantha Wickremesooriya, Director of Agriculture, commented on the value added by AGCO: "Our relationship with AGCO is excellent. With the support of AGCO personnel and regular visits by AGCO representatives, we are able to maintain long-term business and carry out an aggressive marketing program."

As AGCO persists in support of its brands around the world, stories like these will continue to multiply. It is dedication and commitment – even through market downturns – that will continue to build on the brand loyalty advantage that AGCO enjoys around the world.

The familiar red of Massey Ferguson tractors is a daily sight on the tea plantations of Sri Lanka. Here, a MF240 negotiates the steep hillsides in Sri Lanka's High Lands.



▲ **James Finlay and Company exports 100 tons of tea to the United States annually.**



LEADERSHIP IN PRODUCT DEVELOPMENT

New Products

Technological innovation and continuous product improvement have made **AGCO** the leader in delivering advanced equipment to farmers. Every year, **AGCO's** product innovations enable its partners — **AGCO dealers and customers** — to enhance their businesses. During 1998 **AGCO** introduced more than 40 new product models. Some examples are pictured here.



MASSEY FERGUSON - The Massey Ferguson 271 and Massey Ferguson 281 high-performance utility tractors improve power and torque, cut emissions and reduce operating noise levels. The new Massey Ferguson 2200 Series mid-range utility tractors are designed for increased productivity and efficiency.



WHITE - White's four new FieldMASTER heavy-duty tractors are designed for perfect balance between rugged durability and economical power.



AGCO ALLIS - The new-generation AGCO Allis 9700 Series high-horsepower row crop tractors are loaded with features. They provide a level of power and torque performance that improves fuel efficiency and reduces emissions for a cleaner environment.



FENDT - The award-winning Fendt Vario Series is the first vehicle in the world with a Continuously Variable Transmission (CVT). The Vario 700 and 900 Series are designed to increase fuel efficiency and are the first tractors to run constantly in optimum range.



Selected Financial Data

(in millions, except per share data and number of employees)

Year Ended December 31,	1998	1997	1996	1995⁽¹⁾	1994⁽¹⁾
Operating Results					
Net sales	\$2,941.4	\$3,224.4	\$2,317.5	\$2,068.4	\$1,319.3
Gross profit	537.3	666.8	470.3	440.7	276.3
Income from operations ⁽²⁾	170.5	319.1	211.9	220.6	119.8
Net income ⁽²⁾	60.6	168.7 ⁽³⁾	125.9 ⁽³⁾	129.1	115.5 ⁽⁴⁾
Net income per common share-diluted ⁽²⁾⁽⁵⁾	\$ 0.99	\$ 2.71 ⁽³⁾	\$ 2.20 ⁽³⁾	\$ 2.31	\$ 2.35 ⁽⁴⁾
Weighted average number of common and common equivalent shares outstanding-diluted ⁽⁵⁾	61.2	62.1	57.4	56.6	49.1
Dividends declared per common share ⁽⁵⁾	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.01
Other Financial Data					
Working capital	\$1,029.9	\$ 884.3	\$ 750.5	\$ 661.5	\$ 513.9
Total assets	2,750.4	2,620.9	2,116.5	1,628.6	1,399.5
Long-term debt	924.2	727.4	567.1	415.9 ⁽⁶⁾	366.8
Stockholders' equity	982.1	991.6	774.6	588.9	476.7
Number of employees	10,572	11,829	7,801	5,548	5,789

⁽¹⁾ AGCO sold a 51% joint venture interest in Agrifacit-North America effective November 1, 1996. Accordingly, Agrifacit-North America is reflected on the equity basis of accounting for the years ended December 31, 1996, 1997, and 1998. For comparative purposes, the above table also reflects Agrifacit-North America on the equity basis of accounting for the years ended December 31, 1995 and 1994. If the Company's 100% interest in Agrifacit-North America were reflected on a consolidated basis for the years ending December 31, 1995 and 1994, total revenues would be \$2,125.0 million and \$1,359.0 million, respectively, total assets would be \$2,162.9 million and \$1,823.3 million, respectively, and long-term debt would be \$568.9 million and \$589.8 million, respectively.

⁽²⁾ These amounts include nonrecurring expenses of \$40.0 million, \$18.2 million, \$22.3 million, \$6.0 million and \$19.5 million for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively. The effect of these nonrecurring charges reduced net income per common share on a diluted basis by \$0.41, \$0.19, \$0.25, \$0.07 and \$0.33 for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Charges for Nonrecurring Expenses."

⁽³⁾ Includes extraordinary loss, net of taxes, of \$2.1 million, or \$0.03 per share, and \$3.5 million, or \$0.06 per share, for the write-off of unamortized debt costs related to the refinancing of the Company's revolving credit facility in January 1997 and March 1996, respectively.

⁽⁴⁾ These amounts include a deferred income tax benefit of \$29.9 million related to the reduction of a portion of the valuation allowance. The deferred income tax benefit had the effect of increasing net income by \$29.9 million and net income per common share on a diluted basis by \$0.61.

⁽⁵⁾ Net income per common share - diluted, weighted average number of common and common equivalent shares outstanding - diluted and dividends declared per common share have been restated for all periods to reflect all stock splits.

⁽⁶⁾ Includes \$37.6 million of the Company's 6.5% Convertible Subordinated Debentures. See Note 7 to the Consolidated Financial Statements.

Trading and Dividend Information⁽¹⁾

(in dollars)	High	Low	Dividends Declared
1998			
First Quarter	\$30 9/16	\$26 15/16	\$.01
Second Quarter	29 7/16	20 7/16	.01
Third Quarter	20 11/16	6 7/16	.01
Fourth Quarter	10 3/8	5 3/4	.01

(in dollars)	High	Low	Dividends Declared
1997			
First Quarter	\$30 3/8	\$27	\$.01
Second Quarter	35 1/2	25 9/16	.01
Third Quarter	35 1/8	30 11/16	.01
Fourth Quarter	32 5/8	25 9/16	.01

⁽¹⁾ The Company's stock trades on the New York Stock Exchange under the symbol AG. As of February 26, 1999, there were approximately 777 stockholders of record.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Transaction History

During the periods discussed below, AGCO's results of operations were significantly affected by a series of transactions that expanded the size and geographic scope of its distribution network, enabled it to offer new products and increased its manufacturing capacity. The results of operations and financial position for the years ended December 31, 1998, 1997 and 1996 were affected by the following transactions completed by the Company:

- In June 1996, the Company acquired the agricultural and industrial equipment business of Iochpe-Maxion S.A. (the "Maxion Acquisition"), which expanded its product offerings and its distribution network in South America, particularly in Brazil.
- In July 1996, the Company acquired certain assets of Western Combine Corporation and Portage Manufacturing, Inc., which were the Company's suppliers of Massey Ferguson combines and other harvesting equipment sold in North America (the "Western Combine Acquisition"). The Western Combine Acquisition provided the Company with access to advanced technology and increased the Company's gross profit margin on certain combines and harvesting equipment sold in North America.
- In November 1996, the Company sold a 51% interest in Agricredit Acceptance Company ("Agricredit-North America"), the Company's retail finance subsidiary in North America, to a wholly-owned subsidiary of Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland" ("Rabobank") (the "Agricredit Sale"). The Company retained a 49% interest in Agricredit-North America and now operates the finance company with Rabobank as a joint venture (the "Agricredit-North America Joint Venture"). The Agricredit-North America Joint Venture has continued the business of Agricredit-North America and seeks to build a broader asset-based finance business through the addition of other lines of business.
- In December 1996, the Company further enhanced its market presence in Argentina and South America by acquiring the operations of Deutz Argentina S.A. ("Deutz Argentina"), a manufacturer and distributor of agricultural equipment, engines and trucks to Argentina and other markets in South America (the "Deutz Argentina Acquisition").
- In January 1997, the Company acquired the operations of Xaver Fendt GmbH & Co. KG ("Fendt"), a manufacturer and distributor of tractors, primarily in Germany and throughout Europe and Australia (the "Fendt Acquisition"). The Fendt Acquisition added a new line of tractors to the Company's product offerings and expanded the Company's market presence in Germany and throughout Europe and Australia. In December 1997, the Company sold Fendt's caravan and motor home business in order to focus on its core agricultural equipment business (the "Fendt Caravan Sale").
- In December 1997, the Company acquired the remaining 68% of Dronningborg Industries a/s (the "Dronningborg Acquisition"),

the Company's supplier of combine harvesters sold under the Massey Ferguson brand name in Europe. The Company previously owned 32% of this combine manufacturer which developed and manufactured combine harvesters exclusively for AGCO. The Dronningborg Acquisition enabled the Company to achieve certain synergies within its worldwide combine manufacturing and increased the Company's gross profit margin on combines sold primarily in Europe.

- In December 1997, the Company sold 50% of Deutz Argentina's engine production and distribution business to Deutz AG, a global supplier of diesel engines. This joint venture (the "Engine Joint Venture") will allow the Company to share in research and development costs and gain access to advanced technology.
- In May 1998, the Company acquired the distribution rights for the Massey Ferguson brand in Argentina (the "MF Argentina Acquisition"). The MF Argentina Acquisition expanded the Company's distribution network in the second largest market in South America.
- In July 1998, the Company acquired the Spra-Coupe product line, a brand of agricultural sprayers sold primarily in North America (the "Spra-Coupe Acquisition"). In October 1998, the Company acquired the Willmar product line, a brand of agricultural self-propelled sprayers, spreaders and loaders sold primarily in North America (the "Willmar Acquisition"). The Spra-Coupe and Willmar Acquisitions expanded the Company's product offerings to include a full line of self-propelled sprayers.

As a result of these transactions, the historical results of the Company are not comparable from year to year in the periods presented and may not be indicative of future performance.

Results of Operations

Sales are recorded by the Company when equipment and replacement parts are shipped by the Company to its independent dealers, distributors or other customers. To the extent possible, the Company attempts to ship products to its dealers and distributors on a level basis throughout the year to reduce the effect of seasonal demands on its manufacturing operations and to minimize its investment in inventory. Retail sales by dealers to farmers are highly seasonal and are a function of the timing of the planting and harvesting seasons. In certain markets, particularly in North America, there is often a time lag, generally from one to twelve months, between the date the Company records a sale and the date a dealer sells the equipment to a farmer. During this time lag between the wholesale and retail sale, dealers may not return equipment to the Company unless the Company terminates a dealer's contract or agrees to accept returned products. Commissions payable under the Company's salesman incentive programs are paid at the time of retail sale, as opposed to when products are sold to dealers.

The following table sets forth, for the periods indicated, the percentage relationship to revenues of certain items included in the Company's Consolidated Statements of Income:

Year Ended December 31,	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	81.7	79.3	79.7
Gross profit	18.3	20.7	20.3
Selling, general and administrative expenses	9.2	8.5	9.0
Engineering expenses	1.9	1.7	1.2
Nonrecurring expenses	1.4	0.6	1.0
Income from operations	5.8	9.9	9.1
Interest expense, net	2.3	1.7	1.4
Other expense, net	1.0	0.6	0.3
Income before income taxes, equity in net earnings of affiliates and extraordinary loss	2.5	7.6	7.4
Provision for income taxes	0.9	2.7	2.6
Income before equity in net earnings of affiliates and extraordinary loss	1.6	4.9	4.8
Equity in net earnings of affiliates	0.5	0.4	0.8
Income before extraordinary loss	2.1	5.3	5.6
Extraordinary loss, net of taxes	-	(0.1)	(0.2)
Net income	2.1%	5.2%	5.4%

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

The Company recorded net income for 1998 of \$60.6 million compared to \$168.7 million for 1997. Net income per common share on a diluted basis was \$0.99 for 1998 compared to \$2.71 in 1997. Net income for 1998 included nonrecurring expenses of \$40.0 million, or \$0.41 per common share on a diluted basis, primarily related to reductions in the Company's worldwide workforce (see "Nonrecurring Expenses"). Net income for 1997 included nonrecurring expenses of \$18.2 million, or \$0.19 per share on a diluted basis, primarily related to the restructuring of the Company's European Operations, the integration of the Deutz Argentina and Fendt operations and executive severance costs. In addition, net income for 1997 included an extraordinary loss of \$2.1 million, or \$0.03 per share on a diluted basis, for the write-off of unamortized debt costs related to the refinancing of the Company's revolving credit facility (see "Liquidity and Capital Resources"). The results for 1998 were negatively impacted by lower sales and operating margins caused by unfavorable industry conditions, lower production, lower price realization and the negative impact of currency translation.

Retail Sales

Global demand for agricultural equipment weakened in the second half of 1998 in most major markets. The industry decline was primarily due to the effects of high global commodity stocks and lower export demand for farm commodities which resulted in lower commodity prices. These conditions have the effect of reducing farm income thereby reducing demand for new equipment purchases. In many markets, this impact offset relatively favorable industry demand in the first half of the year.

In the United States and Canada, industry unit retail sales of tractors increased approximately 4% in 1998 over 1997 despite declining in the second half of the year. Industry retail sales of combines declined approximately 4% compared to 1997. Company retail sales of tractors were 2% higher than 1997 and Company retail sales of combines were 9% below the prior year. The Company's combine sales were negatively impacted relative to the industry primarily due to lower 1998 pre-season sales and new product introductions by competitors.

In Western Europe, industry unit retail sales of tractors in 1998 decreased approximately 3% compared to 1997. Industry results were mixed with significant declines experienced in the United Kingdom and Scandinavia offset by increases in Germany and Italy. Company retail sales of tractors decreased approximately 6% in 1998 compared to 1997. The Company's retail sales were negatively impacted by sales declines of the Massey Ferguson high horsepower tractors and aggressive pricing in this segment of the market.

In South America, industry unit retail sales of tractors in 1998 decreased approximately 5% compared to 1997. Industry results in 1998 were also mixed in this region with favorable industry results in Brazil offset by industry declines in Argentina and the remaining markets. Company retail sales of tractors were 2% below 1997, thereby slightly outperforming the market primarily due to favorable acceptance of new product introductions.

In other international markets, industry unit retail sales of tractors were lower than 1997, particularly in Asia and Africa. The Company also experienced lower retail sales in these markets.

Statement of Income

Net sales for 1998 were \$2.9 billion compared to \$3.2 billion in 1997. This decline primarily reflects lower retail demand in the majority of markets throughout the world. Net sales for 1998 were also negatively impacted by the Fendt Caravan Sale and Engine Joint Venture divestitures and the negative impact on foreign currency translation due to the strengthening of the U.S. dollar against most European currencies. Net sales for 1998 were positively impacted by the Dronningborg, MF Argentina, Spra-Coupe and Willmar Acquisitions. Excluding the impact of currency translation, acquisitions and divestitures, net sales decreased approximately 6% compared to 1997.

On a regional basis, net sales in North America decreased \$15.7 million, or 1.6%, compared to 1997, primarily due to unfavorable market conditions which particularly impacted sales of

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

combines and replacement parts. In the Europe/Africa/Middle East region, net sales in 1998 declined \$183.6 million, or 10.3%, compared to 1997 primarily due to unfavorable industry conditions, the impact of the Fendt Caravan Sale, and the negative impact of foreign currency translation. Net sales in South America decreased \$19.0 million, or 5.7%, for 1998 compared to 1997, primarily due to the impact of the Engine Joint Venture and the negative impact of foreign exchange. In the East Asia/Pacific region, net sales declined \$64.7 million, or 42.5%, for 1998 compared to 1997, primarily due to depressed industry conditions resulting from the Asian currency devaluation and the negative impact of currency translation.

Income from operations was \$170.5 million for 1998 compared to \$319.1 million in 1997. Excluding nonrecurring expenses (see "Nonrecurring Expenses"), operating income for 1998 was \$210.5 million, or 7.2% of net sales, compared to \$337.3 million, or 10.5% of net sales, for 1997. The reduction in operating margin was a result of lower gross margins, higher selling, general and administrative expenses ("S,G&A expenses") and higher engineering expenses as a percentage of net sales. Gross margins of 18.3% for 1998 were lower than gross margins of 20.7% for 1997 due to lower production overhead absorption, lower price realization in the majority of markets, and unfavorable foreign currency exchange relating primarily to the weakening of the Canadian dollar in relation to the U.S. dollar and the strengthening of the British pound compared to other European currencies. The Company lowered 1998 tractor and combine unit production volumes by approximately 13% to reduce inventory levels in response to weakening industry conditions. Price realization in 1998 was impacted by a more competitive market environment and higher discounts to liquidate older, slower-moving inventory. S,G&A expenses for 1998 were \$270.7 million, or 9.2% of net sales, compared to \$275.4 million, or 8.5% of net sales, for 1997. As a percentage of net sales, S,G&A expenses were higher in 1998 due to the lower sales volumes and Year 2000 costs recorded in 1998 (see "Year 2000"). Engineering expenses for 1998 were \$56.1 million, or 1.9% of net sales, compared to \$54.1 million, or 1.7% of net sales, for 1997. As a percentage of net sales, engineering expenses were higher in 1998 primarily due to lower sales volumes and higher expenses due to the Dronningborg Acquisition.

Interest expense, net was \$67.7 million in 1998 compared to \$53.5 million in 1997. The higher expense was primarily due to additional borrowings to fund the Company's recent acquisitions, common stock repurchases in the second quarter of 1998 and higher levels of working capital.

Other expense, net was \$28.5 million in 1998 compared to \$19.9 million in 1997. The increase in other expense primarily relates to increased hedging costs and foreign exchange losses in addition to higher amortization of intangibles due to the Company's recent acquisitions.

The Company recorded an income tax provision of \$27.5 million in 1998 compared to \$87.5 million in 1997. The Company's effective tax rate increased in 1998 compared to 1997 due to a change in the mix of income to jurisdictions with higher tax rates.

Equity in net earnings of affiliates was \$13.8 million in 1998 compared to \$12.6 million in 1997. The increase primarily related to increased earnings in the Company's retail finance joint ventures.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

The Company recorded net income for the year ended December 31, 1997 of \$168.7 million compared to \$125.9 million for the year ended December 31, 1996. Net income per common share on a diluted basis was \$2.71 for 1997 compared to \$2.20 for 1996. Net income for 1997 included nonrecurring expenses of \$18.2 million, or \$0.19 per share on a diluted basis, primarily related to the restructuring of the Company's European operations, the integration of the Deutz Argentina and Fendt operations and executive severance costs (see "Nonrecurring Expenses"). In addition, net income for 1997 included an extraordinary after-tax charge of \$2.1 million, or \$0.03 per share on a diluted basis, for the write-off of unamortized debt costs related to the refinancing of the Company's revolving credit facility (see "Liquidity and Capital Resources"). Net income for 1996 included nonrecurring expenses of \$22.3 million, or \$0.25 per share on a diluted basis, primarily related to the restructuring of the Company's European operations, the integration and restructuring of the Company's Brazilian operations acquired in the Maxion Acquisition and executive severance costs (see "Nonrecurring Expenses"). In addition, net income for 1996 included an extraordinary after-tax charge of \$3.5 million, or \$0.06 per share on a diluted basis, for the write-off of unamortized debt costs related to the refinancing of the Company's revolving credit facility and a gain on the Agricredit Sale of \$4.7 million, or \$0.05 per share on a diluted basis. The Company's improved results for 1997 primarily reflected the positive impact of the Fendt Acquisition completed in January 1997 and improved operating margins, particularly in the Company's South American operations, partially offset by the negative currency translation effect of the strengthening dollar against most European currencies.

Retail Sales

Conditions in the United States and Canadian agricultural markets were favorable in 1997 compared to 1996. Industry unit retail sales of tractors, combines and hay and forage equipment for 1997 increased approximately 12%, 9% and 8%, respectively, over 1996. The Company believes general market conditions were positive due to favorable economic conditions relating to high net cash farm incomes, stable commodity prices and strong domestic and export demand of commodities. Company unit retail sales of tractors in the United States and Canada increased 5% in 1997 compared to 1996 and were negatively impacted by a change in the timing of the Massey Ferguson volume bonus plan from January 1997 to December 1996. Company unit retail sales of combines in the United States and Canada for 1997 were flat compared to 1996. Company hay and forage equipment retail sales increased in line with the industry compared to the prior year primarily due to new products and improvements in the dairy and cattle industry. The

Company believes that aggressive competitor pricing and the introduction of certain new products contributed to the strong industry growth while the Company maintained its focus on improved profit margins.

Industry conditions in Western Europe showed mixed results in 1997 with unit retail sales of tractors decreasing approximately 3% compared to 1996 primarily due to declines in the U.K., France and Germany. The industry decline was partially due to farm consolidation in Western Europe and the relatively strong retail sales of tractors in 1996. Company unit retail sales of tractors in Western Europe, including sales of Fendt tractors in both periods, decreased in line with the industry compared to 1996. In addition to the industry conditions, the strength of the British pound against other European currencies also had a negative impact on sales and gross margins of the Company's tractors produced in the U.K.

Industry unit retail sales of tractors in South America increased approximately 35% compared to the prior year. This increase was primarily due to a recovery in Brazil resulting from increasingly favorable economic conditions and reduced farm debt levels. Company retail unit sales of tractors in South America increased approximately 25% and were negatively impacted by competitor discounting which the Company chose not to match. In other international markets, Company retail unit sales of tractors increased approximately 11%, consistent with the industry.

Statement of Income

Net sales for 1997 increased 39.1% to \$3.2 billion compared to \$2.3 billion for 1996. The increase was primarily the result of the Company's recent acquisitions. This increase was partially offset by the negative currency translation effect of the strengthening dollar against most European currencies. Net sales for 1997 were approximately \$181.0 million lower than they would have been at 1996 foreign exchange rates. On a regional basis in 1997, the Company experienced increased net sales of \$94.0 million, or 10.9% over 1996, in North America primarily due to the strong industry and introduction of new products. The Company achieved net sales increases in the Europe/Africa/Middle East region of \$596.5 million, or 50.3% over 1996, primarily resulting from the Fendt Acquisition, which was acquired effective January 1, 1997. In South America, the Company achieved net sales increases of \$234.0 million, or 233% over 1996, primarily related to the impact of acquired operations in Brazil and Argentina, acquired in June 1996 and December 1996, respectively. In the Asia/Pacific region, net sales in 1997 decreased \$17.6 million, or 10.4%, compared to 1996, primarily due to weak economic conditions in Asia.

Income from operations was \$319.1 million in 1997 compared to \$211.9 million in 1996. Excluding nonrecurring expenses, operating income for 1997 was \$337.3 million or 10.5% of net sales, compared to \$234.2 million, or 10.1% of net sales, in 1996. The improvement in operating margin in 1997 was the result of higher gross margins and lower S,G&A expenses as a percent of net sales. Gross profit for 1997 was \$666.8 million, or 20.7% of net sales, as compared to \$470.3 million, or 20.3% of net sales, for

1996. Gross margins were favorably impacted by cost reduction efforts, particularly in the Company's South American operations, partially offset by the negative effect of foreign exchange related to the Company's products sourced from the U.K., resulting from the strength of the British pound. S,G&A expenses were \$275.4 million, or 8.5% of net sales, for 1997 compared to \$208.4 million, or 9.0% of net sales, for 1996. The decrease in S,G&A expenses as a percentage of net sales was primarily due to a decrease in the amortization of stock-based compensation expense of \$5.2 million related to the Company's long-term incentive plan. Excluding the amortization expense related to the long-term incentive plan, S,G&A expenses were \$260.5 million, or 8.1% of net sales, in 1997 compared to \$188.3 million, or 8.1% of net sales, in 1996. Excluding the amortization expense related to the long-term incentive plan, S,G&A expenses as a percentage of net sales in 1997 were equal to 1996 primarily due to cost reduction initiatives in the Company's European operations offset by increased marketing expenses related to new product introductions. The cost reduction efforts involved the centralization of certain selling, general and administrative functions (see "Nonrecurring Expenses"). Engineering expenses were \$54.1 million, or 1.7% of net sales, for 1997 compared to \$27.7 million, or 1.2% of net sales, for 1996. The increase in engineering expenses as a percentage of net sales compared to 1996 primarily related to the higher level of engineering expenses in the newly acquired Fendt operations relative to the Company's other operations.

Interest expense, net was \$53.5 million for 1997 compared to \$32.7 million for 1996. The increase in interest expense, net was primarily due to the additional borrowings associated with the financing of the Maxion, Deutz Argentina and Fendt Acquisitions. The increased interest expense related to acquisition indebtedness was partially offset by proceeds from the Company's offering of 5.2 million shares of common stock in March 1997.

Other expense, net was \$19.9 million for 1997 compared to \$7.6 million for 1996. The increase in other expense, net was primarily due to increased amortization of intangible assets resulting from the Maxion, Deutz Argentina and Fendt Acquisitions and a gain of \$4.7 million recorded in 1996 for the Agricredit Sale.

The Company recorded a net income tax provision of \$87.5 million for 1997 compared to \$59.9 million for 1996. In 1997 and 1996, the Company's income tax provision approximated statutory rates, although actual income tax payments remained at rates below statutory rates. The Company's effective tax rate increased slightly in 1997 compared to 1996 due to a change in the mix of income to jurisdictions with higher tax rates.

Equity in net earnings of affiliates was \$12.6 million in 1997 compared to \$17.7 million in 1996. The decrease in income was primarily due to a decrease in net income recognized relating to Agricredit-North America. As a result of the Agricredit Sale in November 1996, the Company recognized only 49% of net income of the North American retail finance company in 1997 compared to 100% through October 31, 1996.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Quarterly Results

The following table presents unaudited interim operating results of the Company. The Company believes that the following information includes all adjustments (consisting only of normal, recurring adjustments) that the Company considers necessary for a fair presentation, in accordance with generally accepted accounting principles. The operating results for any interim period are not necessarily indicative of results for any future interim period or the entire fiscal year.

Three Months Ended	March 31	June 30	September 30	December 31
(in millions, except per share data)				
1998:				
Net sales	\$701.5	\$816.1	\$665.7	\$758.1
Gross profit	144.5	156.5	131.2	105.1
Income from operations ⁽¹⁾	67.9	73.2	46.1	(16.7)
Net income ⁽¹⁾	32.7	32.3	17.9	(22.3)
Net income per common share - diluted ⁽¹⁾	0.52	0.52	0.30	(0.37)
1997:				
Net sales	\$704.3	\$871.9	\$759.5	\$888.7
Gross profit	134.3	175.8	169.5	187.2
Income from operations ⁽¹⁾	56.6	89.2	82.4	90.9
Income before extraordinary loss ⁽¹⁾	27.8	48.8	44.2	50.0
Net income ⁽¹⁾⁽²⁾	25.7	48.8	44.2	50.0
Net income per common share before extraordinary loss - diluted ⁽¹⁾⁽²⁾	0.47	0.77	0.70	0.79

⁽¹⁾ The 1998 operating results include nonrecurring expenses of \$40.0 million, or \$0.42 per share, for the three months ended December 31, 1998. The 1997 operating results include nonrecurring expenses of \$2.6 million, or \$0.03 per share, for the three months ended March 31, 1997, \$5.2 million, or \$0.05 per share, for the three months ended June 30, 1997, \$4.9 million, or \$0.05 per share, for the three months ended September 30, 1997 and \$5.5 million, or \$0.06 per share, for the three months ended December 31, 1997.

⁽²⁾ The 1997 operating results include an extraordinary after-tax loss of \$2.1 million, or \$0.03 per share, for the write-off of unamortized debt costs related to the refinancing of the Company's revolving credit facility for the three months ended March 31, 1997.

To the extent possible, the Company attempts to ship products to its dealers on a level basis throughout the year to reduce the effect of seasonal demands on its manufacturing operations and to minimize investments in inventory. However, retail sales of agricultural equipment are highly seasonal, with farmers traditionally purchasing agricultural equipment in the spring and fall in conjunction with the major planting and harvesting seasons. The Company's net sales and income from operations have historically been the lowest in the first quarter and have increased in subsequent quarters as dealers increase inventory in anticipation of increased retail sales in the third and fourth quarters. The Company's results in the fourth quarter of 1998 reflect the impact of lower sales due to weakening industry conditions, a significant reduction in worldwide production resulting in low production overhead absorption and increased competitive pricing environment in certain markets.

Liquidity and Capital Resources

The Company's financing requirements are subject to variations due to seasonal changes in inventory and dealer receivable levels. Internally generated funds are supplemented when necessary from external sources, primarily the Company's revolving credit facility. In January 1997, the Company replaced its \$650.0 million unsecured revolving credit facility with a new \$1.2 billion unsecured revolving credit facility (the "January 1997 Credit Facility"). The January 1997 Credit Facility is the Company's primary source of financing. In March 1997, the lending commitment for the January 1997 Credit Facility was reduced by \$141.2 million which represented the proceeds to the Company, net of underwriting discounts, from the Company's common stock offering. Effective January 1, 1999, lending commitments under the January 1997 Credit Facility were

further reduced to \$1.0 billion. Borrowings under the January 1997 Credit Facility may not exceed the sum of 90% of eligible accounts receivable and 60% of eligible inventory. As of December 31, 1998, approximately \$661.2 million was outstanding under the January 1997 Credit Facility and available borrowings, based on the lending commitment of \$1 billion, were approximately \$338.6 million. Total long-term debt for the Company increased from \$727.4 million at December 31, 1997 to \$924.2 million at December 31, 1998.

In December 1997, the Company's Board of Directors authorized the repurchase of up to \$150.0 million of its outstanding common stock. As of December 31, 1998, the Company has repurchased approximately 3.5 million shares of its common stock at a cost of approximately \$88.1 million. The purchases are made through open market transactions, and the timing and number of shares purchased depends on various factors, such as price and other market conditions.

In March 1997, the Company completed a public offering of 5.2 million shares of its common stock (the "Offering"). The net proceeds to the Company from the Offering were approximately \$140.4 million after deduction of underwriting discounts and commissions and other expenses. The Company used the proceeds from the Offering to reduce a portion of the borrowings outstanding under the January 1997 Credit Facility.

In March 1996, the Company issued \$250.0 million of 8 1/2% Senior Subordinated Notes due 2006 (the "Notes") at 99.139% of their principal amount. The sale of the Notes provided the Company with subordinated capital and replaced a portion of its floating rate debt with longer term fixed rate debt.

The Company's working capital requirements are seasonal, with investments in working capital typically building in the first

half of the year and then reducing in the second half of the year. The Company had \$1,029.9 million of working capital as of December 31, 1998 compared to \$884.3 million as of December 31, 1997. The increase in working capital was primarily due to working capital acquired in the Company's recent acquisitions and lower accounts payables due to lower production volume in 1998 compared to 1997.

Cash flow provided by operating activities was \$11.2 million for 1998, \$100.0 million for 1997, and \$206.7 million for 1996. The decrease in operating cash flow for 1998 compared to 1997 was primarily due to lower net income, a lower provision for deferred income taxes primarily due to the utilization of net operating losses in 1997, and lower accounts payable. This impact was offset to some extent by a lower use of cash for receivables and inventories in 1998 compared to 1997. In response to the weakening industry conditions, the Company reduced production levels, particularly in the second half of 1998. The lower production levels had the effect of generating positive cash flow by reducing the Company's receivables and inventory levels, partially offset by reducing payables due to lower raw material requirements.

The operating cash flow for 1996 was impacted favorably by the collection in 1996 of unusually high accounts receivable levels at December 31, 1995. The 1995 international receivables were unusually high due to the timing of shipments of tractors in Western Europe which were delayed until the fourth quarter of 1995 due to tire supply shortages resulting from a labor strike of a major supplier. While this tire shortage impacted the Company's cash flow at that time, the Company has alternative sources of supply and adequate borrowing availability should a similar situation occur in the future. Excluding this impact, cash flow provided by operating activities for 1997 was lower compared to 1996 primarily due to increases in inventory compared to the prior year partially caused by higher inventory levels related to the introduction of new tractors sourced from the Company's U.K. and France production facilities and increased accounts receivable related to sales growth in certain markets that require longer than average payment terms.

Capital expenditures were \$61.0 million in 1998, \$72.1 million in 1997 and \$45.2 million in 1996. For all years, the Company's capital expenditures related to the development of new and existing products as well as the maintenance and improvement of existing facilities. The decrease in capital expenditures in 1998 compared to 1997 was due to lower capital requirements for new products. The increase in capital expenditures in 1997 compared to 1996 was primarily due to capital expenditures at Fendt. The Company currently estimates that aggregate capital expenditures for 1999 will range from approximately \$55 million to \$65 million and will primarily be used to support the development and enhancement of new and existing products. The capital expenditures for 1999 are expected to be funded with cash flows from operations.

The Company's debt to capitalization ratio was 48.5% at December 31, 1998 compared to 42.3% at December 31, 1997. The increase in the debt to capitalization ratio was primarily due to the common stock repurchases and acquisitions completed in 1998.

The Company believes that available borrowings under the January 1997 Credit Facility, available cash and internally generated funds will be sufficient to support its working capital, capital expenditures, and debt service requirements for the foreseeable future.

The Company from time to time reviews and will continue to review acquisition and joint venture opportunities as well as changes in the capital markets. If the Company were to consummate a significant acquisition or elect to take advantage of favorable opportunities in the capital markets, the Company may supplement availability or revise the terms under its credit facilities or complete public or private offerings of equity or debt securities.

Nonrecurring Expenses

In 1998, the Company recorded nonrecurring expenses of \$40.0 million primarily related to severance and related costs associated with the reduction in the Company's worldwide permanent workforce of approximately 1,400 employees. These headcount reductions were made to address the negative market conditions which are expected to adversely affect demand in the majority of markets. The headcount reductions are expected to result in cost savings related to manufacturing costs and S,G&A expenses.

In 1997, the Company recorded nonrecurring expenses of \$18.2 million which consisted of (i) \$15.0 million related to the restructuring of the Company's European operations and the integration of the Deutz Argentina and Fendt operations, acquired in December 1996 and January 1997, respectively, and (ii) \$3.2 million related to executive severance. The costs associated with the restructuring and integration activities primarily related to the centralization and rationalization of certain manufacturing, selling and administrative functions in addition to the rationalization of a small portion of the Company's European dealer network. These restructuring and integration activities resulted in cost savings related to manufacturing costs and selling, general and administrative expenses. In addition, the European dealer rationalization is expected to improve long-term sales in certain markets.

In 1996, the Company recorded nonrecurring expenses of \$22.3 million which consisted of (i) \$15.0 million related to the restructuring of the Company's European operations and the integration and restructuring of the Company's Brazilian operations, acquired in the Maxion Acquisition in June 1996, and (ii) \$7.3 million related to executive severance. The European restructuring costs are primarily related to the centralization of certain parts warehousing, administrative, sales and marketing functions. As a result of these actions, the Company achieved savings in reduced selling, general and administrative expenses primarily relating to the Company's parts warehousing, finance, dealer communications, sales and marketing functions. The Brazilian integration costs are primarily related to the rationalization of manufacturing, sales and administrative functions designed to resize the operations to then existing sales and production volumes. The Company achieved savings from the integration and restructuring of the Brazilian operations resulting primarily in reduced selling, general and administrative expenses and product cost reductions.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Outlook

The Company's operations are subject to the cyclical nature of the agricultural industry. Sales of the Company's equipment have been and are expected to continue to be affected by changes in net cash farm income, farm land values, weather conditions, the demand for agricultural commodities and general economic conditions.

Global demand for agricultural equipment weakened in the second half of 1998 in most major markets. Economic uncertainty coupled with low commodity prices caused by strong harvests and reduced export demand of commodities are expected to continue to adversely affect agricultural equipment sales in the world's significant markets. In 1999, retail demand in North America is expected to decrease 15-20% due to the continued impact that low commodity prices will have on net cash farm income. In Western Europe, retail demand in 1999 is expected to decline 5-10% due to uncertainty surrounding the Common Agricultural Policy reforms discussions and projected lower European Union farm income. Retail demand in 1999 in South America is expected to decline 10-15% resulting from the recent Brazilian currency devaluation and economic uncertainty in the region. In other international markets, retail demand in 1999 is expected to decline due to continued weak economic conditions in many regions.

As a result of these conditions, the Company has taken and will continue to take aggressive actions to reduce manufacturing overheads and operating expenses in order to resize the business in line with anticipated lower levels of demand. In addition, the Company has reduced its production schedules in 1999 compared to 1998 to minimize its investments in inventories and receivables. Based on these conditions, the Company expects to remain profitable in 1999 but below 1998 levels. The Company will focus its efforts in 1999 on generating strong cash flow and on its long-term growth and profit improvement initiatives.

Foreign Currency Risk Management

The Company has significant manufacturing operations in the United States, the United Kingdom, France, Germany, Denmark and Brazil, and it purchases a portion of its tractors, combines and components from third party foreign suppliers primarily in various European countries and in Japan. The Company also sells products in over 140 countries throughout the world. The Company's most significant transactional foreign currency exposures are the Canadian dollar in relation to the U.S. dollar and the British pound in relation to other European currencies. Fluctuations in the value of foreign currencies create exposures which can adversely affect the Company's results of operations.

The Company attempts to manage its transactional foreign exchange exposure by hedging identifiable foreign currency cash flow commitments arising from receivables, payables, and expected purchases and sales. Where naturally offsetting currency positions do not occur, the Company hedges certain of its exposures through the use of foreign currency forward contracts. The Company's hedging policy prohibits foreign currency forward con-

tracts for speculative trading purposes. The Company's translation exposure resulting from translating the financial statements of foreign subsidiaries into U.S. dollars is not hedged. When practical, this translation impact is reduced by financing local operations with local borrowings.

The following is a summary of foreign currency forward contracts used to hedge currency exposures. All contracts have a maturity of less than one year. The net notional amounts and fair value gains or losses as of December 31, 1998 stated in U.S. dollars are as follows (in millions):

	Net Notional Amount Buy/(Sell)	Average Contract Rate*	Fair Value Gain/(Loss)
Australian dollar	\$ 3.7	1.61	\$(0.1)
Austrian shilling	(3.5)	11.85	-
Belgian franc	(3.1)	34.91	-
British pound	40.7	0.60	(0.3)
Canadian dollar	(13.8)	1.53	0.1
Danish krone	16.9	6.25	(0.3)
Dutch guilder	14.3	1.89	0.1
French franc	173.0	5.74	3.8
German mark	(100.6)	1.64	1.7
Greek drachma	(5.6)	284.49	(0.1)
Irish punt	(4.0)	0.68	(0.1)
Italian lira	32.5	1,651.70	-
Japanese yen	(3.4)	103.63	0.3
Spanish peseta	(6.6)	145.02	(0.1)
Other	0.5		0.2
	\$141.0		\$ 5.2

*per U. S. dollar

Because these contracts were entered into for hedging purposes, the gains and losses on the contracts would largely be offset by gains and losses on the underlying firm commitment.

Since December 31, 1998, the Brazilian currency has devalued significantly. The devaluation will have the result of decreasing the Company's stockholders' equity and reducing the value of sales of the Brazilian subsidiary when translated into U.S. dollars. As of January 31, 1999, the translation of the Brazilian financial statements resulted in a decrease to stockholders' equity of approximately \$95 million.

Interest Rates

The Company manages its debt structure and interest rate risk through the use of fixed and floating rate debt. The fixed rate debt is primarily the 8 1/2% Senior Subordinated Notes due 2006. The floating rate debt is primarily the January 1997 Credit Facility (see "Liquidity and Capital Resources"). The Company's net exposure to interest rate risk consists of its floating rate debt which is tied to

changes in U.S. and European labor rates. Assuming a 10% increase in interest rates, interest expense, net for 1998 would have increased by approximately \$4.6 million.

Year 2000

The Company has assessed the impact of the Year 2000 issue on its reporting systems and operations. Based on its assessment, the Company has developed a Year 2000 compliance plan, in which all key information systems are being tested and all noncompliant software or technology is being modified or replaced. This review included all information technology systems and embedded systems in the Company's manufacturing equipment, facility equipment and in the Company's products. The Company is also reviewing the Year 2000 compliance status and compatibility of customers' and suppliers' systems which interface with the Company's systems or could impact the Company's operations.

The Company has completed the majority of the necessary modifications to its information technology systems and plans to complete testing of its systems for Year 2000 compliance during 1999. During 1998, the Company reviewed a majority of its embedded systems and identified a small percentage of systems with Year 2000 problems. The Company expects to have these affected systems replaced or corrected by mid-1999 and to complete testing of all systems during 1999. Based on its reviews, the Company estimates that the required costs to modify existing computer systems and applications will be approximately \$10 million to \$12 million of which \$5.9 million has been incurred to date. The remaining costs will be incurred in 1999.

While the Company believes that its plans are adequate to ensure that the Year 2000 issue will not materially impact future operations, the risks of these plans not being adequate or the risk that the Company's major customers and suppliers do not modify or replace their affected systems could have a material adverse impact on the Company's results of operations or financial condition in the future. Failure by the Company or its customers or suppliers to resolve the Year 2000 problem could result in a temporary slowdown or cessation of manufacturing operations at one or more of the Company's facilities and a temporary inability of the Company to process some orders and to deliver some finished products to customers. The Company is currently identifying and considering various contingency options, to minimize the risks of any Year 2000 problems.

Euro Currency

The Company has established the capability to trade in the Common European currency (the "Euro") in all European locations beginning January 1, 1999. The Company began communicating with suppliers, dealers and financial institutions in 1998 and has formulated a transition plan to move to a Euro based business in 2001. The Company does not expect its competitive position (including pricing, purchasing contracts and systems modifications) to be materially affected by the change to the Euro.

Accounting Changes

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company will be required to adopt the new statement in 2000. The Company has not yet quantified the financial impact of adopting SFAS No. 133 and has not determined the method of adoption. However, SFAS No. 133 could increase volatility in earnings and other comprehensive income.

Effective December 31, 1998, the Company adopted SFAS No. 132, "Employer's Disclosures About Pensions and Other Postretirement Benefits," which revises disclosure requirements related to the Company's employee benefit plans and postretirement benefits, and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which revises disclosure requirements related to segment reporting. SFAS No. 132 and SFAS No. 131 require disclosure only; therefore their adoption had no impact on the Company's financial position or results of operations.

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which requires disclosures regarding the Company's comprehensive income defined as the total of net income and all other non-owner changes in equity. SFAS No. 130 requires disclosure only; therefore its adoption had no impact on the Company's financial position or results of operations.

Forward Looking Statements

Certain information included in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including the information set forth under "—Outlook". Although the Company believes that the expectations reflected in such forward looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Additionally, the Company's financial results are sensitive to movement in interest rates and foreign currencies, as well as general economic conditions, pricing and product actions taken by competitors, production disruptions and changes in environmental, international trade and other laws which impact the way in which it conducts its business. Important factors that could cause actual results to differ materially from the Company's current expectations are disclosed in conjunction with the Company's filings with the Securities and Exchange Commission.

Consolidated Statements of Income

(in millions, except per share data)

Year Ended December 31,	1998	1997	1996
Net sales	\$2,941.4	\$3,224.4	\$2,317.5
Cost of goods sold	2,404.1	2,557.6	1,847.2
Gross profit	537.3	666.8	470.3
Selling, general and administrative expenses	270.7	275.4	208.4
Engineering expenses	56.1	54.1	27.7
Nonrecurring expenses	40.0	18.2	22.3
Income from operations	170.5	319.1	211.9
Interest expense, net	67.7	53.5	32.7
Other expense, net	28.5	19.9	7.6
Income before income taxes, equity in net earnings of affiliates and extraordinary loss	74.3	245.7	171.6
Provision for income taxes	27.5	87.5	59.9
Income before equity in net earnings of affiliates and extraordinary loss	46.8	158.2	111.7
Equity in net earnings of affiliates	13.8	12.6	17.7
Income before extraordinary loss	60.6	170.8	129.4
Extraordinary loss, net of taxes	—	(2.1)	(3.5)
Net income	\$ 60.6	\$ 168.7	\$ 125.9
Net income per common share:			
Basic:			
Income before extraordinary loss	\$ 1.01	\$ 2.82	\$ 2.44
Extraordinary loss	—	(0.03)	(0.07)
Net Income	\$ 1.01	\$ 2.79	\$ 2.37
Diluted:			
Income before extraordinary loss	\$ 0.99	\$ 2.74	\$ 2.26
Extraordinary loss	—	(0.03)	(0.06)
Net Income	\$ 0.99	\$ 2.71	\$ 2.20
Weighted average number of common and common equivalent shares outstanding:			
Basic	59.7	60.4	53.0
Diluted	61.2	62.1	57.4

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(dollars in millions)

December 31,	1998	1997
Assets		
Current Assets:		
Cash and cash equivalents	\$ 15.9	\$ 31.2
Accounts and notes receivable, net of allowances	1,016.3	997.2
Inventories, net	671.6	622.7
Other current assets	86.7	63.7
Total current assets	1,790.5	1,714.8
Property, plant and equipment, net	417.6	403.7
Investments in affiliates	95.2	87.6
Other assets	76.6	75.8
Intangible assets, net	370.5	339.0
Total assets	\$2,750.4	\$2,620.9
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 287.0	\$ 367.5
Accrued expenses	428.0	430.0
Other current liabilities	45.6	33.0
Total current liabilities	760.6	830.5
Long-term debt	924.2	727.4
Postretirement health care benefits	24.5	24.5
Other noncurrent liabilities	59.0	46.9
Total liabilities	1,768.3	1,629.3
Commitments and Contingencies (Note 11)		
Stockholders' Equity:		
Common stock; \$0.01 par value, 150,000,000 shares authorized, 59,535,921 and 62,972,423 shares issued and outstanding in 1998 and 1997, respectively	0.6	0.6
Additional paid-in capital	427.3	515.0
Retained earnings	635.8	577.6
Unearned compensation	(11.1)	(20.0)
Accumulated other comprehensive income	(70.5)	(81.6)
Total stockholders' equity	982.1	991.6
Total liabilities and stockholders' equity	\$2,750.4	\$2,620.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(dollars in millions)

	Common Stock		Additional	Retained	Unearned	Additional	Cumulative	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Compensation	Minimum	Translation	Stockholders'	Income
			Capital			Pension	Adjustment	Equity	
						Liability			
Balance, December 31, 1995	50,557,040	\$0.5	\$307.2	\$287.7	\$(22.6)	\$(2.6)	\$ 18.7	\$588.9	
Net income	-	-	-	125.9	-	-	-	125.9	\$125.9
Issuance of restricted stock	474,500	-	13.7	-	(13.7)	-	-	-	-
Conversions of subordinated debentures into common stock	5,916,319	0.1	37.5	-	-	-	-	37.6	-
Stock options exercised	312,292	-	1.7	-	-	-	-	1.7	-
Common stock dividends (\$0.04 per common share)	-	-	-	(2.2)	-	-	-	(2.2)	-
Amortization of unearned compensation	-	-	-	-	18.5	-	-	18.5	-
Additional minimum pension liability	-	-	-	-	-	2.6	-	2.6	2.6
Change in cumulative translation adjustment	-	-	-	-	-	-	1.6	1.6	1.6
Balance, December 31, 1996	57,260,151	0.6	360.1	411.4	(17.8)	-	20.3	774.6	130.1
Net income	-	-	-	168.7	-	-	-	168.7	168.7
Issuance of common stock, net of offering expenses	5,175,000	-	140.4	-	-	-	-	140.4	-
Issuance of restricted stock	373,017	-	12.7	-	(12.7)	-	-	-	-
Stock options exercised	164,255	-	1.8	-	-	-	-	1.8	-
Common stock dividends (\$0.04 per common share)	-	-	-	(2.5)	-	-	-	(2.5)	-
Amortization of unearned compensation	-	-	-	-	10.5	-	-	10.5	-
Change in cumulative translation adjustment	-	-	-	-	-	-	(101.9)	(101.9)	(101.9)
Balance, December 31, 1997	62,972,423	0.6	515.0	577.6	(20.0)	-	(81.6)	991.6	66.8
Net income	-	-	-	60.6	-	-	-	60.6	60.6
Repurchases of common stock	(3,487,200)	-	(88.1)	-	-	-	-	(88.1)	-
Stock options exercised	50,698	-	0.4	-	-	-	-	0.4	-
Common stock dividends (\$0.04 per common share)	-	-	-	(2.4)	-	-	-	(2.4)	-
Amortization of unearned compensation	-	-	-	-	8.9	-	-	8.9	-
Change in cumulative translation adjustment	-	-	-	-	-	-	11.1	11.1	11.1
Balance, December 31, 1998	59,535,921	\$0.6	\$427.3	\$635.8	\$(11.1)	\$ -	\$(70.5)	\$982.1	\$ 71.7

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in millions)

Year Ended December 31,	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 60.6	\$168.7	\$125.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary loss, net of taxes	-	2.1	3.5
Gain on sale of affiliate	-	-	(4.7)
Depreciation and amortization	57.6	49.4	29.2
Equity in net earnings of affiliates, net of cash received	(3.3)	(12.6)	(17.7)
Deferred income tax provision (benefit)	(22.4)	53.4	20.1
Amortization of intangibles	13.2	12.1	5.8
Amortization of unearned compensation	8.9	10.5	18.5
Changes in operating assets and liabilities, net of effects from purchase/sale of businesses:			
Accounts and notes receivable, net	17.7	(94.7)	3.7
Inventories, net	(17.3)	(100.4)	(22.6)
Other current and noncurrent assets	(1.2)	(10.0)	(14.1)
Accounts payable	(87.7)	25.5	(9.4)
Accrued expenses	(15.0)	(1.3)	54.3
Other current and noncurrent liabilities	0.1	(2.7)	14.2
Total adjustments	(49.4)	(68.7)	80.8
Net cash provided by operating activities	11.2	100.0	206.7
Cash flows from investing activities:			
(Purchase)/sale of businesses, net	(60.6)	(289.2)	(347.0)
Purchase of property, plant and equipment	(61.0)	(72.1)	(45.2)
Proceeds from sale of affiliates	-	-	45.2
Net cash used for investing activities	(121.6)	(361.3)	(347.0)
Cash flows from financing activities:			
Proceeds from long-term debt	984.4	932.2	977.8
Payments on long-term debt	(798.9)	(813.8)	(803.2)
Payment of debt issuance costs	-	(3.5)	(12.5)
Proceeds from issuance of common stock	0.4	142.2	1.7
Repurchases of common stock	(88.1)	-	-
Dividends paid on common stock	(2.4)	(2.5)	(2.2)
Net cash provided by financing activities	95.4	254.6	161.6
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(3.8)	0.4
(Decrease) increase in cash and cash equivalents	(15.3)	(10.5)	21.7
Cash and cash equivalents, beginning of period	31.2	41.7	20.0
Cash and cash equivalents, end of period	\$ 15.9	\$ 31.2	\$ 41.7

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Operations and Summary of Significant Accounting Policies

Business

AGCO Corporation (the "Company") is a leading manufacturer and distributor of agricultural equipment and related replacement parts throughout the world. The Company sells a full range of agricultural equipment, including tractors, combines, hay tools, sprayers, forage equipment and implements. The Company's products are widely recognized in the agricultural equipment industry and are marketed under the following brand names: AGCO Allis, Massey Ferguson, Hesston, White, GLEANER, New Idea, AGCOSTAR, Black Machine, Landini, Tye, Farmhand, Glencoe, Deutz (South America), IDEAL, Fendt, Spra-Coupe and Willmar. The Company distributes its products through a combination of over 8,500 independent dealers, distributors, associates and licensees. In addition, the Company provides retail financing in North America, the United Kingdom, France, Germany and Brazil through its finance joint ventures with Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland" ("The Retail Finance Joint Ventures").

Basis of Presentation

The consolidated financial statements represent the consolidation of all majority owned companies. The Company records all affiliate companies representing a 20%-50% ownership using the equity method of accounting. Other investments representing an ownership of less than 20% are recorded at cost. All significant inter-company transactions have been eliminated to arrive at the consolidated financial statements.

Effective November 1, 1996, the Company sold a 51% interest in Agricredit Acceptance Company ("Agricredit-North America"), the Company's retail finance subsidiary in North America (Note 2). Accordingly for all periods presented, the Company's consolidated financial statements reflect Agricredit-North America on the equity method of accounting.

Certain prior period amounts have been reclassified to conform with the current period presentation.

Revenue Recognition

Sales of equipment and replacement parts are recorded by the Company when shipped to independent dealers, distributors or other customers. Provisions for sales incentives and returns and allowances are made at the time of sale to the dealer for existing incentive programs. Provisions are revised in the event of subsequent modification to the incentive programs. In certain markets, particularly in North America, there is a time lag, which varies based on the timing and level of retail demand, between the date the Company records a sale and when the dealer sells the equipment to a retail customer.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated into United States currency in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." Assets and liabilities are translated

to United States dollars at period-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of stockholders' equity. Gains and losses which result from foreign currency transactions are included in the accompanying consolidated statements of income. For subsidiaries operating in highly inflationary economies, financial statements are remeasured into the United States dollar with adjustments resulting from the translation of monetary assets and liabilities reflected in the accompanying consolidated statements of income.

For 1997 and 1996, the Company accounted for its subsidiary in Brazil by applying the highly inflationary economy provisions of SFAS No. 52, where the U.S. dollar is substituted as the functional currency. For the year ended December 31, 1998, the Company ceased the application of highly inflationary accounting of its Brazilian subsidiary and established the functional currency as the Brazilian Real.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates made by management primarily relate to receivable and inventory allowances and certain accrued liabilities, principally relating to reserves for volume discounts and sales incentives, warranty and insurance.

Cash and Cash Equivalents

The Company considers all investments with an original maturity of three months or less to be cash equivalents.

Accounts and Notes Receivable

Accounts and notes receivable arise from the sale of parts and finished goods inventory to independent dealers, distributors or other customers. Terms vary by market, generally ranging from 30 day terms to requiring payment when the equipment is sold to retail customers. Interest is charged on the balance outstanding after certain interest-free periods, which generally range from 1 to 12 months.

Accounts and notes receivable are shown net of allowances for sales incentive discounts available to dealers and for doubtful accounts. Accounts and notes receivable allowances at December 31, 1998 and 1997 were as follows (in millions):

	1998	1997
Sales incentive discounts	\$ 58.4	\$53.1
Doubtful accounts	49.4	44.1
	\$107.8	\$97.2

The Company occasionally transfers certain accounts receivable to various financial institutions. The Company records such transfers as sales of accounts receivable when it is considered to

have surrendered control of such receivables under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out method. Market is net realizable value for finished goods and repair and replacement parts. For work in process, production parts and raw materials, market is replacement cost.

Inventory balances at December 31, 1998 and 1997 were as follows (in millions):

	1998	1997
Finished goods	\$271.2	\$267.7
Repair and replacement parts	256.7	250.2
Work in process, production parts and raw materials	222.6	184.5
Gross inventories	750.5	702.4
Allowance for surplus and obsolete inventories	(78.9)	(79.7)
Inventories, net	\$671.6	\$622.7

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of 10 to 40 years for buildings and improvements, 3 to 15 years for machinery and equipment, and 3 to 10 years for furniture and fixtures. Expenditures for maintenance and repairs are charged to expense as incurred.

Property, plant and equipment at December 31, 1998 and 1997 consisted of the following (in millions):

	1998	1997
Land	\$ 52.2	\$ 51.5
Buildings and improvements	139.7	127.7
Machinery and equipment	325.5	274.9
Furniture and fixtures	51.5	45.0
Gross property, plant and equipment	568.9	499.1
Accumulated depreciation and amortization	(151.3)	(95.4)
Property, plant and equipment	\$ 417.6	\$403.7

Intangible Assets

Intangible assets at December 31, 1998 and 1997 consisted of the following (in millions):

	1998	1997
Goodwill	\$330.1	\$287.1
Trademarks	66.0	66.0
Other	4.2	2.9
Accumulated amortization	(29.8)	(17.0)
Intangible assets	\$370.5	\$339.0

The excess of cost over net assets acquired ("goodwill") is being amortized to income on a straight-line basis over periods ranging from 10 to 40 years. Goodwill and accumulated amortization are shown net of the excess of net assets over cost ("negative goodwill") of \$23.2 million for both 1998 and 1997 and its related accumulated amortization of \$19.5 million and \$17.4 million for 1998 and 1997, respectively. The Company also assigned values to certain acquired trademarks which are being amortized to income on a straight-line basis over 40 years. The net amortization expense included in other expense, net in the accompanying consolidated statements of income was \$13.2 million, \$12.1 million and \$5.8 million for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company periodically reviews the carrying values assigned to goodwill and other intangible assets based upon expectations of future cash flows and operating income generated by the underlying tangible assets.

Accrued Expenses

Accrued expenses at December 31, 1998 and 1997 consisted of the following (in millions):

	1998	1997
Reserve for volume discounts and sales incentives	\$ 93.8	\$ 86.9
Warranty reserves	79.4	63.5
Accrued employee compensation and benefits	55.7	58.4
Accrued taxes	50.1	88.7
Other	149.0	132.5
	\$428.0	\$430.0

Warranty Reserves

The Company's agricultural equipment products are generally under warranty against defects in material and workmanship for a period of one to four years. The Company accrues for future warranty costs at the time of sale based upon historical warranty experience.

Insurance Reserves

Under the Company's insurance programs, coverage is obtained for significant liability limits as well as those risks required to be insured by law or contract. It is the policy of the Company to self-insure a portion of certain expected losses related primarily to workers' compensation and comprehensive general, product and vehicle liability. Provisions for losses expected under these programs are recorded based on the Company's estimates of the aggregate liabilities for the claims incurred.

Extraordinary Loss

In 1997, the Company recorded an extraordinary loss of \$2.1 million, net of taxes of \$1.4 million, for the write-off of unamortized debt costs related to the March 1996 Credit Facility (Note 6) which was refinanced with the January 1997 Credit Facility (Note 6). In 1996, the Company recorded an extraordinary loss of \$3.5 million, net of taxes of \$2.2 million, for the write-off of unamortized debt

Notes to Consolidated Financial Statements (continued)

costs related to the Company's \$550.0 million secured revolving credit facility which was refinanced with the March 1996 Credit Facility.

Net Income Per Common Share

The computation, presentation and disclosure requirements for earnings per share are presented in accordance with SFAS No. 128, "Earnings Per Share." Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share assumes exercise of outstanding stock options, vesting of restricted stock and the conversion of the Convertible Subordinated Debentures (Note 7) into common stock during the periods outstanding.

A reconciliation of net income and the weighted average number of common shares outstanding used to calculate basic and diluted earnings per common share for the years ended December 31, 1998, 1997 and 1996 is as follows (in millions, except per share data):

Basic Earnings Per Share

	1998	1997	1996
Weighted average number of common shares outstanding	59.7	60.4	53.0
Income before extraordinary loss	\$60.6	\$170.8	\$129.4
Extraordinary loss	—	(2.1)	(3.5)
Net income	60.6	168.7	125.9
Net income per common share:			
Income before extraordinary loss	\$1.01	\$ 2.82	\$ 2.44
Extraordinary loss	—	(0.03)	(0.07)
Net income	\$1.01	\$ 2.79	\$ 2.37

Diluted Earnings Per Share

Weighted average number of common shares outstanding	59.7	60.4	53.0
Shares issued upon assumed vesting of restricted stock	1.3	1.4	1.7
Shares issued upon assumed conversion of the Convertible Subordinated Debentures	—	—	2.2
Shares issued upon assumed exercise of outstanding stock options	0.2	0.3	0.5
Weighted average number of common and common equivalent shares outstanding	61.2	62.1	57.4
Income before extraordinary loss	\$60.6	\$170.8	\$129.4
Extraordinary loss	—	(2.1)	(3.5)
Net income	60.6	168.7	125.9
Interest expense on Convertible Subordinated Debentures, net of applicable income taxes	—	—	0.5
Net income available for common stockholders	\$60.6	\$168.7	\$126.4
Net income per common share:			
Income before extraordinary loss	\$0.99	\$ 2.74	\$ 2.26
Extraordinary loss	—	(0.03)	(0.06)
Net income	\$0.99	\$ 2.71	\$ 2.20

Comprehensive Income

The Company reports comprehensive income, defined as the total of net income and all other non-owner changes in equity and the components thereof in the Consolidated Statements of Stockholders' Equity. The cumulative translation adjustment is the sole component of Accumulated other comprehensive income on the Consolidated Balance Sheets.

Financial Instruments

The carrying amounts reported in the Company's consolidated balance sheets for cash and cash equivalents, accounts and notes receivable and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The carrying amount of long-term debt under the Company's revolving credit facility (Note 6) approximates fair value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities. At December 31, 1998, the estimated fair value of the Company's 8 1/2% Senior Subordinated Notes (Note 6), based on its listed market value, was \$242.6 million compared to the carrying value of \$248.3 million.

The Company enters into foreign exchange forward contracts to hedge the foreign currency exposure of certain receivables, payables and expected purchases and sales. These contracts are for periods consistent with the exposure being hedged and generally have maturities of one year or less. Gains and losses on foreign exchange forward contracts are deferred and recognized in income in the same period as the hedged transaction. The Company's foreign exchange forward contracts do not subject the Company's results of operations to risk due to exchange rate fluctuations because gains and losses on these contracts generally offset gains and losses on the exposure being hedged. The Company does not enter into any foreign exchange forward contracts for speculative trading purposes. At December 31, 1998 and 1997, the Company had foreign exchange forward contracts with gross notional amounts of \$429.1 million and \$609.0 million, respectively. The deferred gains or losses from these contracts were not material at December 31, 1998 and 1997.

The notional amounts of foreign exchange forward contracts do not represent amounts exchanged by the parties and therefore, are not a measure of the Company's risk. The amounts exchanged are calculated on the basis of the notional amounts and other terms of the foreign exchange hedging contracts. The credit and market risks under these contracts are not considered to be significant.

Accounting Changes

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company will be required to adopt the new statement in 2000. The Company has not yet quantified

the financial impact of adopting SFAS No. 133 and has not determined the method of adoption. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income.

Effective December 31, 1998, the Company adopted SFAS No. 132, "Employer's Disclosures About Pensions and Other Postretirement Benefits," which revises disclosure requirements related to the Company's employee benefit plans and postretirement benefits (Note 8), and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which revises disclosure requirements related to segment reporting (Note 12). SFAS No. 132 and SFAS No. 131 require disclosure only; therefore their adoption had no impact on the Company's financial position or results of operations.

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which requires disclosures regarding the Company's comprehensive income defined as the total of net income and all other non-owner changes in equity. SFAS No. 130 requires disclosure only; therefore, its adoption had no impact on the Company's financial position or results of operations.

2. Acquisitions and Dispositions

Acquisitions

The Company completed several acquisitions in 1998, 1997 and 1996 which were primarily financed with borrowings under the Company's revolving credit facility (Note 6). In most cases, the Company acquired assets and assumed liabilities consisting primarily of accounts receivable, inventories, property, plant and equipment, trademarks, trade names and technology, accounts payable and accrued liabilities. The results of operations for the Company's acquisitions are included in the Company's consolidated financial statements as of and from the respective dates of acquisition.

Effective October 1, 1998, the Company acquired the net assets of the Willmar product line, a brand of agricultural self-propelled sprayers, spreaders and loaders, sold primarily in North America (the "Willmar Acquisition"). The purchase price, which is subject to change, was for \$32.5 million.

Effective July 1, 1998, the Company acquired certain assets related to the Spra-Coupe product line, a brand of agricultural self-propelled sprayers sold primarily in North America, for approximately \$37.2 million (the "Spra-Coupe Acquisition").

On December 4, 1997, the Company acquired the remaining 68% of Dronningborg Industries a/s ("Dronningborg") for approximately \$22.0 million (the "Dronningborg Acquisition"). Prior to the acquisition, the Company owned 32% of Dronningborg which manufactures combine harvesters sold exclusively to the Company for sale under the Massey Ferguson brand name.

Effective January 1, 1997, the Company acquired Xaver Fendt GmbH & Co. KG ("Fendt") for approximately \$283.5 million plus approximately \$38.3 million of assumed working capital debt

(the "Fendt Acquisition"). Fendt's primary business is the manufacture and distribution of tractors through a network of independent agricultural cooperatives, dealers and distributors in Germany and throughout Europe and Australia. Effective December 31, 1997, the Company sold Fendt's caravan and motor home business for approximately \$10.0 million.

On December 27, 1996, the Company acquired Deutz Argentina S.A. ("Deutz Argentina") for approximately \$62.5 million (the "Deutz Argentina Acquisition"). Deutz Argentina is a manufacturer and distributor of a broad range of agricultural equipment, engines and light trucks in Argentina and other South American markets. Effective January 5, 1998, the Company sold 50% of its Deutz Argentina engine business in a joint venture to produce engines for its equipment for approximately \$7.6 million.

Effective July 8, 1996, the Company acquired certain assets of Western Combine Corporation and Portage Manufacturing, Inc., the Company's suppliers of Massey Ferguson combines and certain other harvesting equipment sold in North America (the "Western Combine Acquisition") for approximately \$19.4 million.

Effective June 28, 1996, the Company acquired certain assets and liabilities of the agricultural and industrial equipment business of Iochpe-Maxion S.A. (the "Maxion Agricultural Equipment Business") for approximately \$260.0 million (the "Maxion Acquisition"). Prior to the acquisition, the Maxion Agricultural Equipment Business was AGCO's Massey Ferguson licensee in Brazil, manufacturing and distributing agricultural and industrial equipment in Brazil and other South American markets.

The above acquisitions were accounted for as purchases in accordance with Accounting Principles Board Opinion No. 16, and accordingly, each purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values as of the acquisition dates. The purchase price allocations for the Fendt, Dronningborg, Willmar and Spra-Coupe Acquisitions resulted in a decrease in goodwill of \$47.6 million from the amounts originally recorded. These adjustments were a result of the completion of certain asset and liability valuations related primarily to property, plant and equipment and certain allowance and reserve accounts. The purchase price allocations for the Willmar and Spra-Coupe Acquisitions are preliminary and will be completed in 1999.

In addition, the purchase price allocations for the Deutz Argentina, Fendt, Western Combine, Spra-Coupe and Willmar Acquisitions included liabilities associated with certain costs to integrate the acquired businesses into the Company's operations. These costs related to the consolidation of certain acquired manufacturing operations into existing Company facilities and the integration of certain sales and marketing functions. As of December 31, 1998, the Company had established liabilities totaling \$13.0 million for employee severance and relocation and other integration costs and had incurred \$6.5 million of expenses charged against these liabilities.

Notes to Consolidated Financial Statements (continued)

Dispositions

Effective November 1, 1996, the Company entered into an agreement with De Lage Landen International, B.V., a wholly-owned subsidiary of Rabobank Nederland, to be its joint venture partner in Agricredit-North America, the Company's wholly-owned retail finance subsidiary in North America (the "Agricredit-North America Joint Venture"). As a result of the agreement, the Company sold a 51% interest in Agricredit-North America to Rabobank Nederland. The Company received total consideration of approximately \$44.3 million in the transaction and recorded a gain, before taxes, of approximately \$4.7 million. Under the Agricredit-North America Joint Venture, Rabobank Nederland has a 51% interest and the Company retained a 49% interest in the finance company. Substantially all of the net assets of Agricredit-North America were transferred to the Agricredit-North America Joint Venture. Proceeds from the transaction were used to repay outstanding borrowings under the Company's revolving credit facility.

Effective February 5, 1999, the Company sold its manufacturing plant in Haedo, Argentina (the "Haedo Sale") for approximately \$19.0 million. The Company received \$12.3 million of the purchase price in December 1998 in the form of a deposit and will receive the remaining balance in December 1999. The Haedo Sale included property, plant and equipment at the plant in addition to the transfer of manufacturing hourly and salaried employees. The Haedo Sale is not expected to have a material impact on the Company's financial position or results of operations.

3. Charges for Nonrecurring Expenses

The results of operations for 1998 included nonrecurring expenses of \$40.0 million, or \$0.41 per common share on a diluted basis. The nonrecurring expenses primarily related to severance, pension and postretirement benefit expense and related costs associated with reductions in the Company's worldwide permanent workforce. Approximately 1,225 of the 1,400 employees identified for termination were terminated as of December 31, 1998. Of the \$40.0 million total expense, \$9.1 million had been incurred as of December 31, 1998.

The results of operations for 1997 included nonrecurring expenses of \$18.2 million, or \$0.19 per common share on a diluted basis. These nonrecurring expenses included \$15.0 million related to the restructuring of the Company's European operations and certain costs associated with the integration of the Deutz Argentina and Fendt operations. The nonrecurring expenses for 1997 also included \$3.2 million related to executive severance costs. The costs included for these restructuring and integration activities in 1997 primarily related to the centralization and rationalization of certain manufacturing, selling and administrative functions in addition to the rationalization of a certain portion of the Company's European dealer network. Excluding the executive severance costs, the nonrecurring expenses for 1997 included \$9.2 million for employee related costs, consisting of employee severance, and \$4.7 million of payroll costs incurred through

December 31, 1997 for employees that were subsequently terminated. Of the \$18.2 million total expense, \$13.4 million had been incurred as of December 31, 1998.

The results of operations for 1996 included expenses for nonrecurring expenses of \$22.3 million, or \$0.25 per common share on a diluted basis. This nonrecurring expenses included \$15.0 million related to the restructuring of the Company's European operations and the integration and restructuring of the Company's Brazilian operations, acquired in the Maxion Acquisition (Note 2) in June 1996. In addition, the nonrecurring expenses included \$7.3 million related to executive severance costs. The nonrecurring expenses for the integration and restructuring activities in 1996 included costs associated with the rationalization and centralization of certain manufacturing, parts warehousing, sales, and administrative functions. The \$15.0 million recorded in 1996 included \$9.0 million for employee related costs, including severance costs, and \$6.0 million for other nonrecurring costs. Included in the \$9.0 million of employee related costs was \$1.3 million of payroll costs incurred through December 31, 1996 for personnel that were subsequently terminated. All costs associated with the 1996 nonrecurring expenses have been incurred.

4. Investments in Affiliates

At December 31, 1998 and 1997, the Company's investments in affiliates primarily consisted of (i) the Retail Finance Joint Ventures which includes the Agricredit-North America Joint Venture (Note 2), (ii) the Company's 50% investments in manufacturing joint ventures with various unrelated manufacturers to produce hay and forage equipment in North America, driveline assemblies in Europe, and engines in South America and (iii) certain other minority investments in farm equipment manufacturers and licensees.

Investments in affiliates as of December 31, 1998 and 1997 were as follows (in millions):

	1998	1997
Retail Finance Joint Ventures	\$61.2	\$55.6
Manufacturing joint ventures	24.2	23.4
Other	9.8	8.6
	\$95.2	\$87.6

The Company's equity in net earnings of affiliates for 1998, 1997, and 1996 were as follows (in millions):

	1998	1997	1996
Retail Finance Joint Ventures	\$11.4	\$10.9	\$14.8
Other	2.4	1.7	2.9
	\$13.8	\$12.6	\$17.7

The manufacturing joint ventures of the Company primarily sell their products to the joint venture partners at prices which result in operating at or near breakeven on an annual basis.

Summarized combined financial information of the Retail Finance Joint Ventures as of and for the years ended December 31, 1998 and 1997 were as follows (in millions):

December 31,	1998	1997
Total assets	\$1,340.2	\$1,239.2
Total liabilities	1,220.8	1,128.9
Partner's equity	119.4	110.3
For the Year Ended December 31,	1998	1997
Revenues	\$ 136.6	\$ 126.8
Costs	102.2	94.6
Income before income taxes	\$ 34.4	\$ 32.2

5. Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The sources of income before income taxes, equity in net earnings of affiliates and extraordinary loss were as follows for the years ended December 31, 1998, 1997 and 1996 (in millions):

	1998	1997	1996
United States	\$ (9.4)	\$ 51.7	\$ 31.9
Foreign	83.7	194.0	139.7
Income before income taxes, equity in net earnings of affiliates and extraordinary loss	\$74.3	\$245.7	\$171.6

The provision (benefit) for income taxes by location of the taxing jurisdiction for the years ended December 31, 1998, 1997 and 1996 consisted of the following (in millions):

	1998	1997	1996
Current:			
United States:			
Federal	\$ 0.6	\$ (2.6)	\$ 9.7
State	0.2	(0.8)	0.5
Foreign	49.1	37.5	29.6
	49.9	34.1	39.8
Deferred:			
United States:			
Federal	(6.1)	19.0	(1.1)
State	(0.8)	2.6	0.1
Foreign	(15.5)	31.8	21.1
	(22.4)	53.4	20.1
Provision for income taxes	\$ 27.5	\$87.5	\$59.9

Certain foreign operations of the Company are subject to United States as well as foreign income tax regulations. Therefore, the preceding sources of income before income taxes by location and the provision (benefit) for income taxes by taxing jurisdiction are not directly related.

A reconciliation of income taxes computed at the United States federal statutory income tax rate (35%) to the provision for income taxes reflected in the consolidated statements of income for the years ended December 31, 1998, 1997 and 1996 is as follows (in millions):

	1998	1997	1996
Provision for income taxes at United States federal statutory rate of 35%	\$26.0	\$86.0	\$60.1
State and local income taxes, net of federal income tax benefit	(0.4)	1.8	0.3
Taxes on foreign income which differ from the United States statutory rate	(0.3)	(0.5)	(0.8)
Foreign losses with no tax benefit	4.3	1.8	-
Benefit of foreign sales corporation	(1.3)	(1.0)	(0.9)
Other	(0.8)	(0.6)	1.2
	\$27.5	\$87.5	\$59.9

The significant components of the net deferred tax assets at December 31, 1998 and 1997 were as follows (in millions):

	1998	1997
Deferred Tax Assets:		
Net operating loss carryforwards	\$ 63.6	\$56.7
Sales incentive discounts	15.5	5.4
Inventory valuation reserves	13.1	11.5
Postretirement benefits	7.2	10.3
Other	77.3	47.5
Valuation allowance	(75.0)	(66.4)
Total deferred tax assets	101.7	65.0
Deferred Tax Liabilities:		
Tax over book depreciation	35.9	28.4
Tax over book amortization of goodwill	21.9	7.1
Other	11.8	10.0
Total deferred tax liabilities	69.6	45.5
Net deferred tax assets	32.1	19.5
Less: Current portion of deferred tax liability (asset)	(22.9)	1.6
Noncurrent net deferred tax assets	\$ 9.2	\$21.1

Notes to Consolidated Financial Statements (continued)

At December 31, 1998, the Company has recorded a net deferred tax asset of \$32.1 million. Realization of the asset is dependent on generating sufficient taxable income in future periods. Management believes that it is more likely than not that the deferred tax asset will be realized. As reflected in the preceding table, the Company established a valuation allowance of \$75.0 million and \$66.4 million as of December 31, 1998 and 1997, respectively. The majority of the valuation allowance relates to net operating loss carryforwards in certain foreign entities where there is an uncertainty regarding their realizability.

The Company has net operating loss carryforwards of \$163.5 million as of December 31, 1998, with expiration dates as follows: 1999 - \$12.0 million, 2000 - \$29.7 million, 2001 - \$26.0 million, 2002 - \$14.9 million, 2003 - \$11.7 million, thereafter and unlimited - \$69.2 million. The Company paid income taxes of \$87.8 million, \$42.0 million and \$23.1 million for the years ended December 31, 1998, 1997, and 1996, respectively.

6. Long-Term Debt

Long-term debt consisted of the following at December 31, 1998 and 1997 (in millions):

	1998	1997
Revolving credit facility	\$661.2	\$460.7
Senior Subordinated Notes	248.3	248.1
Other long-term debt	14.7	18.6
Total long-term debt	\$924.2	\$727.4

In January 1997, the Company replaced its \$650.0 million unsecured revolving credit facility (the "March 1996 Credit Facility") with a new credit facility (the "January 1997 Credit Facility"), which allowed for borrowings up to \$1.2 billion. In March 1997, the lending commitment for the January 1997 Credit Facility was reduced by \$141.2 million which represented the proceeds to the Company, net of underwriting discounts, from the Company's common stock offering (Note 9). Effective January 1, 1999, the lending commitment under the January 1997 Credit Facility reduced to \$1.0 billion. Aggregate borrowings outstanding under the January 1997 Credit Facility are subject to a borrowing base limitation and may not at any time exceed the sum of 90% of eligible accounts receivable and 60% of eligible inventory. Interest accrues on borrowings outstanding under the January 1997 Credit Facility primarily at LIBOR plus an applicable margin, as defined. At December 31, 1998, interest rates on the outstanding borrowings ranged from 3.8% to 6.1%, and the weighted average interest rate during 1998 was 6.3%. The January 1997 Credit Facility contains certain covenants, including covenants restricting the incurrence of indebtedness and the making of certain restric-

tive payments, including dividends. In addition, the Company must maintain certain financial covenants including, among others, a debt to capitalization ratio, a fixed charge coverage ratio and a ratio of debt to cash flow, as defined. At December 31, 1998, \$661.2 million was outstanding under the January 1997 Credit Facility and available borrowings, based on the lending commitment of \$1.0 billion, were \$338.6 million.

In March 1996, the Company issued \$250.0 million of 8 1/2% Senior Subordinated Notes due 2006 (the "Notes") at 99.139% of their principal amount. The Notes are unsecured obligations of the Company and are redeemable at the option of the Company, in whole or in part, at any time on or after March 15, 2001 initially at 104.25% of their principal amount, plus accrued interest, declining ratably to 100% of their principal amount plus accrued interest, on or after March 15, 2003. The Notes include certain covenants, including covenants restricting the incurrence of indebtedness and the making of certain restrictive payments, including dividends. The net proceeds from the sale of the Notes were used to repay outstanding indebtedness.

At December 31, 1998, the aggregate scheduled maturities of long-term debt are primarily in the year 2002 and thereafter. The scheduled maturities in years 1999 through 2001 are not material. Cash payments for interest were \$79.0 million, \$70.9 million and \$54.1 million for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company has arrangements with various banks to issue letters of credit or similar instruments which guarantee the Company's obligations for the purchase or sale of certain inventories and for potential claims exposure for insurance coverage. At December 31, 1998, outstanding letters of credit totaled \$22.2 million, of which \$0.3 million was issued under the January 1997 Credit Facility. At December 31, 1997, outstanding letters of credit totaled \$28.9 million, of which \$1.8 million was issued under the January 1997 Credit Facility.

7. Convertible Subordinated Debentures

In June 1995, the Company exchanged all outstanding Convertible Preferred Stock into \$66.8 million of 6.5% Convertible Subordinated Debentures due 2008 (the "Convertible Subordinated Debentures"). The Convertible Subordinated Debentures were convertible at any time at the option of the holder into shares of the Company's common stock at a conversion rate of 157.85 shares of common stock for each \$1,000 principal amount of the debentures. All the remaining outstanding Convertible Subordinated Debentures were converted into common stock during 1996.

8. Employee Benefit Plans

The Company has defined benefit pension plans covering certain employees principally in the United States, the United Kingdom and Germany. The Company also provides certain postretirement health care and life insurance benefits for certain employees principally in the United States.

Net annual pension and postretirement cost and the measurement assumptions for the plans for the years ended December 31, 1998, 1997 and 1996 are set forth below (in millions):

	Pension Benefits		
	1998	1997	1996
Service cost	\$ 8.4	\$ 6.5	\$ 5.2
Interest cost	25.1	24.4	22.3
Expected return on plan assets	(29.7)	(27.2)	(25.5)
Amortization of prior service cost	0.5	0.5	0.5
Special termination benefits	6.7	-	-
Net annual pension costs	\$11.0	\$ 4.2	\$ 2.5
Weighted average discount rate	6.1%	7.0%	8.4%
Weighted average expected long-term rate of return on plan assets	7.6%	8.0%	9.5%
Rate of increase in future compensation	4.0%	4.0%	5.0%

	Postretirement Benefits		
	1998	1997	1996
Service cost	\$0.9	\$0.8	\$0.9
Interest cost	1.3	1.2	1.3
Amortization of transition and prior service cost	(0.6)	(0.6)	(0.7)
Amortization of unrecognized net gain	(0.8)	(0.7)	(0.4)
Special termination benefits	0.5	-	-
Net annual postretirement costs	\$1.3	\$0.7	\$1.1
Weighted average discount rate	7.0%	7.3%	7.5%

The following tables set forth reconciliations of the changes in benefit obligations, plan assets and funded status as of December 31, 1998 and 1997 (in millions):

	Pension Benefits		Postretirement Benefits	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year	\$364.0	\$299.5	\$18.9	\$18.6
Service cost	8.4	6.5	0.9	0.8
Interest cost	25.1	24.4	1.3	1.3
Plan participant contributions	3.0	2.7	-	-
Actuarial (gain) loss	50.6	46.3	1.3	(1.1)
Acquisitions	-	17.0	-	-
Amendments	-	-	0.5	-
Curtailements	-	-	0.2	-
Special termination benefits	6.7	-	0.5	-
Benefits paid	(18.6)	(19.7)	(1.3)	(0.7)
Foreign currency exchange rate changes	4.2	(12.7)	-	-
Benefit obligation at end of year	\$443.4	\$364.0	\$22.3	\$18.9

	Pension Benefits		Postretirement Benefits	
	1998	1997	1998	1997
Change in plan assets				
Fair value of plan assets at beginning of year	\$352.5	\$302.3	\$ -	\$ -
Actual return of plan assets	33.3	68.2	-	-
Employer contributions	11.6	9.5	1.3	0.7
Plan participant contributions	3.0	2.7	-	-
Benefits paid	(18.6)	(19.7)	(1.3)	(0.7)
Foreign currency exchange rate changes	2.9	(10.5)	-	-
Fair value of plan assets at end of year	\$384.7	\$352.5	\$ -	\$ -
Funded status	\$(58.7)	\$(11.5)	\$(22.3)	\$(18.9)
Unrecognized net obligation	0.9	0.9	0.4	0.4
Unrecognized net loss (gain)	58.0	10.0	(2.8)	(5.2)
Unrecognized prior service cost	2.2	2.6	0.2	(0.8)
Net amount recognized	\$ 2.4	\$ 2.0	\$(24.5)	\$(24.5)
Amounts recognized in Consolidated Balance Sheet:				
Prepaid benefit cost	\$ 20.5	\$ 19.0	\$ -	\$ -
Accrued benefit liability	(19.4)	(17.0)	(24.5)	(24.5)
Intangible asset	1.3	-	-	-
Net amount recognized	\$ 2.4	\$ 2.0	\$(24.5)	\$(24.5)

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$433.8 million, \$420.5 million and \$374.3 million, respectively, as of December 31, 1998 and \$48.1 million, \$48.1 million and \$30.7 million, respectively, as of December 31, 1997.

For measuring the expected postretirement benefit obligation, a 9.0% health care cost trend rate was assumed for 1998, decreasing 0.75% per year to 6% and remaining at that level thereafter. For 1997, a 9.75% health care cost trend rate was assumed. Changing the assumed health care cost trend rates by one percentage point each year and holding all other assumptions constant would have the following effect to service and interest

Notes to Consolidated Financial Statements (continued)

cost and the accumulated postretirement benefit obligation at December 31, 1998 (in millions):

	One percentage point increase	One percentage point decrease
Effect on service and interest cost	\$0.3	\$(0.2)
Effect on accumulated benefit obligation	\$2.1	\$(1.8)

The Company maintains a separate defined contribution 401(k) savings plan covering certain salaried employees in the United States. Under the plan, the Company contributes a specified percentage of each eligible employee's compensation. The Company contributed \$1.6 million, \$1.7 million and \$1.6 million for the years ended December 31, 1998, 1997 and 1996, respectively.

9. Common Stock

At December 31, 1998, the Company had 150.0 million authorized shares of common stock with a par value of \$0.01, with 59.5 million shares of common stock outstanding, 1.4 million shares reserved for issuance under the Company's 1991 Stock Option Plan (Note 10), 0.1 million shares reserved for issuance under the Company's Nonemployee Director Stock Incentive Plan (Note 10) and 2.3 million shares reserved for issuance under the Company's Long-Term Incentive Plan (Note 10).

In December 1997, the Company's Board of Directors authorized the repurchase of up to \$150.0 million of its outstanding common stock. As of December 31, 1998, the Company repurchased approximately 3.5 million shares of its common stock at a cost of approximately \$88.1 million. The purchases are made through open market transactions, and the timing and number of shares purchased depend on various factors, such as price and other market conditions.

In March 1997, the Company completed a public offering of 5.2 million shares of its common stock (the "Offering"). The net proceeds to the Company from the Offering were approximately \$140.4 million, after deduction of underwriting discounts and commissions and other expenses. The Company used the proceeds from the Offering to reduce a portion of the borrowings outstanding under the Company's revolving credit facility.

In April, 1994, the Company designated 300,000 shares of Junior Cumulative Preferred Stock ("Junior Preferred Stock") in connection with the adoption of a Stockholders' Rights Plan (the "Rights Plan"). Under the terms of the Rights Plan, one-third of a preferred stock purchase right (a "Right") is attached to each outstanding share of the Company's common stock. The Rights Plan

contains provisions that are designed to protect stockholders in the event of certain unsolicited attempts to acquire the Company. Under the terms of the Rights Plan, each Right entitles the holder to purchase one one-hundredth of a share of Junior Preferred Stock, par value of \$0.01 per share, at an exercise price of \$200 per share. The Rights are exercisable a specified number of days following (i) the acquisition by a person or group of persons of 20% or more of the Company's common stock or (ii) the commencement of a tender or exchange offer for 20% or more of the Company's common stock. In the event the Company is the surviving company in a merger with a person or group of persons that owns 20% or more of the Company's outstanding stock, each Right will entitle the holder (other than such 20% stockholder) to receive, upon exercise, common stock of the Company having a value equal to two times the Right's exercise price. In addition, in the event the Company sells or transfers 50% or more of its assets or earning power, each Right will entitle the holder to receive, upon exercise, common stock of the acquiring company having a value equal to two times the Right's exercise price. The Rights may be redeemed by the Company at \$0.01 per Right prior to their expiration on April 27, 2004.

10. Stock Plans

The Company's Nonemployee Director Stock Incentive Plan (the "Director Plan") provides for restricted stock awards to nonemployee directors based on increases in the price of the Company's common stock. The awarded shares are earned in specified increments for each 15% increase in the average market value of the Company's common stock over the initial base price established under the plan. When an increment of the awarded shares is earned, the shares are issued to the participant in the form of restricted stock which vests at the earlier of 12 months after the specified performance period or upon departure from the board of directors. When the restricted shares are earned, a cash bonus equal to 40% of the value of the shares on the date the restricted stock award is earned is paid by the Company to satisfy a portion of the estimated income tax liability to be incurred by the participant. At December 31, 1998, 68,500 shares have been contingently awarded to plan participants, 29,500 shares awarded under the Director Plan had been earned and 16,500 shares have vested.

The Company's Long-Term Incentive Plan (the "LTIP") provides for restricted stock awards to executives based on increases in the price of the Company's common stock. The awarded shares are earned in specified increments for each 20% increase in the average market value of the Company's common stock over the initial base price established under the plan. When an increment of the awarded shares is earned, the shares are issued to the participant in the form of restricted stock which generally carries a five

year vesting period with one-third of each award vesting on the last day of the 36th, 48th and 60th month, respectively, after each award is earned. When the restricted shares are vested, a cash bonus equal to 40% of the value of the vested shares on the date the restricted stock award is earned is paid by the Company to satisfy a portion of the estimated income tax liability to be incurred by the participant.

At the time the awarded shares are earned, the market value of the stock is added to common stock and additional paid-in capital and an equal amount is deducted from stockholders' equity as unearned compensation. The LTIP unearned compensation and the amount of cash bonus to be paid when the awarded shares become vested are amortized to expense ratably over the vesting period. The Company recognized compensation expense associated with the LTIP of \$12.0 million, \$14.8 million and \$25.8 million for the years ended December 31, 1998, 1997 and 1996, respectively, consisting of amortization of the stock award and the related cash bonus. The compensation expense in 1996 included \$5.8 million of accelerated vesting related to executive severance.

Additional information regarding the LTIP for the years ended December 31, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
Shares awarded but not earned at January 1	965,000	1,597,500	-
Shares awarded, net of forfeitures	(37,500)	(270,000)	2,070,000
Shares earned	-	(362,500)	(472,500)
Shares awarded but not earned at December 31	927,500	965,000	1,597,500
Shares available for grant	1,367,500	1,330,000	60,000
Total shares reserved for issuance	2,295,000	2,295,000	1,657,500
Shares vested during year	375,833	194,000	792,500

The Company's Stock Option Plan (the "Option Plan") provides for the granting of nonqualified and incentive stock options to officers, employees, directors and others. The stock option exercise price is determined by the board of directors except in the case of an incentive stock option for which the purchase price shall not be less than 100% of the fair market value at the date of grant. Each recipient of stock options is entitled to immediately exercise up to 20% of the options issued to such person, and an additional 20% of such options vest ratably over a four-year period and expire not later than ten years from the date of grant. In 1998, the Option Plan was amended to increase the number of shares authorized for issuance by 1,600,000 shares.

Stock option transactions during the three years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Options outstanding at January 1	797,968	787,250	899,190
Options granted	586,700	193,900	229,720
Options exercised	(50,698)	(164,255)	(312,292)
Options canceled	(95,676)	(18,927)	(29,368)
Options outstanding at December 31	1,238,294	797,968	787,250
Options available for grant at December 31	1,375,481	266,505	441,478
Option price ranges per share:			
Granted	\$8.31-27.00	\$31.25	\$25.50
Exercised	1.52-27.00	1.52-31.25	1.52-25.50
Canceled	11.75-31.25	14.63-31.25	14.63-25.50
Weighted average option prices per share:			
Granted	\$22.08	\$31.25	\$25.50
Exercised	9.52	10.36	5.58
Canceled	23.78	21.68	18.94
Outstanding at December 31	20.39	18.87	14.14

At December 31, 1998, the outstanding options had a weighted average remaining contractual life of approximately 8.3 years and there were 607,946 options currently exercisable with option prices ranging from \$1.52 to \$31.25 and with a weighted average exercise price of \$16.84.

The Company accounts for the Director Plan, the LTIP, and the Option Plan under the provisions of Accounting Principles Board No. 25. The following pro forma information is based on estimating the fair value of grants under the above plans based upon the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." For the Option Plan, the fair value of each option granted since 1995 has been estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5.6% for 1998, 6.1% for 1997 and 5.7% for 1996, expected life for the option plan of 7 years, expected dividend yield of 2.0%, and expected volatility of 46% for 1998 and 35.0% for 1997 and 1996. For the Director Plan and LTIP, the fair value of each award granted since 1995 has been estimated using the Black-Scholes option

Notes to Consolidated Financial Statements (continued)

pricing model with the same assumptions above for the risk free interest rate, expected dividend yield, and expected volatility. Under these assumptions for the Option Plan, the weighted average fair value of options granted in 1998, 1997 and 1996 was \$12.18, \$15.75, and \$12.22, respectively. Under these assumptions for the Director Plan and the LTIP, the weighted average fair value of awards granted in 1998 and 1997 under the Director Plan, including the related cash bonus, was \$43.47 and \$39.96, respectively, and the weighted average fair value of awards granted in 1996 under the LTIP, including the related cash bonus, was \$31.36. There were no awards under the Director Plan in 1996 or under the LTIP in 1998 or 1997. The fair value of the grants and awards would be amortized over the vesting period for stock options and earned awards under the Director Plan and LTIP and over the performance period for unearned awards under the Director Plan and LTIP. Accordingly, the Company's pro forma net income and net income per common share, assuming compensation cost was determined under SFAS No. 123, would have been the following (in millions):

Year Ended December 31,	1998	1997	1996
	(in millions, except per share data)		
Net income	\$57.4	\$166.5	\$123.9
Net income per common share - diluted	\$0.94	\$ 2.60	\$ 2.16

Because the SFAS No. 123 method of accounting has not been applied to grants and awards prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that expected in future years.

11. Commitments and Contingencies

The Company leases land, buildings, machinery, equipment and furniture under various noncancelable operating lease agreements. At December 31, 1998, future minimum lease payments under non-cancelable operating leases were as follows (in millions):

1999	\$10.6
2000	7.8
2001	5.9
2002	3.8
2003	3.2
Thereafter	12.8
	\$44.1

Total lease expense under noncancelable operating leases was \$15.9 million, \$16.8 million, and \$16.2 million, for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the Company was obligated under certain circumstances to purchase through the year 2001 up to \$79.1 million of equipment upon expiration of certain operating leases between Agrifacit-North America and end users. Purchases to date have been or are expected to be sold to third parties at amounts approximating the purchase price. Management believes that any losses which might be incurred on the resale of this equipment will not be material.

The Company is party to various claims and lawsuits arising in the normal course of business. It is the opinion of management, after consultation with legal counsel, that those claims and lawsuits, when resolved, will not have a material adverse effect on the financial position or results of operations of the Company.

12. Segment Reporting

The Company has four geographic reportable segments: North America; South America; Europe/Africa/Middle East; and Asia/Pacific. Each segment distributes a full range of agricultural equipment and related replacement parts. The accounting policies of the segments are the same as described in the summary of significant accounting policies. The Company evaluates segment performance based on income from operations. Sales for each segment are based on the location of the third-party customer. All intercompany transactions between segments have been eliminated. The Company's selling, general and administrative expenses and engineering expenses are charged to each segment based on the region where the expenses are incurred. As a result, the components of operating income for one segment may not be comparable to another segment. Segment results for 1998, 1997 and 1996 are as follows (in millions):

	North America	South America	Europe/Africa/ Middle East	Asia/ Pacific	Consolidated
1998					
Net Sales	\$940.9	\$315.3	\$1,597.8	\$ 87.4	\$2,941.4
Income from operations	57.0	13.5	136.2	15.8	222.5
Depreciation and amortization	14.3	8.9	32.9	1.5	57.6
Assets	876.7	260.9	922.5	30.2	2,090.3
Capital expenditures	14.5	6.4	40.1	-	61.0
1997					
Net Sales	\$956.6	\$334.3	\$1,781.4	\$152.1	\$3,224.4
Income from operations	108.3	19.3	192.4	32.1	352.1
Depreciation and amortization	11.1	9.4	27.2	1.7	49.4
Assets	799.9	245.2	926.4	33.6	2,005.1
Capital expenditures	20.4	7.2	44.4	0.1	72.1
1996					
Net Sales	\$862.6	\$100.3	\$1,184.9	\$169.7	\$2,317.5
Income from operations	94.1	(0.3)	125.1	35.3	254.2
Depreciation and amortization	9.3	2.9	15.1	1.9	29.2
Assets	715.8	253.4	614.3	39.7	1,623.2
Capital expenditures	12.2	0.8	32.0	0.2	45.2

A reconciliation from the segment information to the consolidated balances for income from operations and assets is set forth below (in millions):

	1998	1997	1996
Segment income from operations	\$ 222.5	\$ 352.1	\$ 254.2
Restricted stock compensation expense	(12.0)	(14.8)	(20.0)
Nonrecurring expenses	(40.0)	(18.2)	(22.3)
Consolidated income from operations	\$ 170.5	\$ 319.1	\$ 211.9
Segment assets	\$2,090.3	\$2,005.1	\$1,623.2
Cash and cash equivalents	15.9	31.2	41.7
Receivables from affiliates	15.2	18.5	12.5
Investments in affiliates	95.2	87.6	80.5
Other current and noncurrent assets	163.3	139.5	153.0
Intangible assets	370.5	339.0	205.6
Consolidated total assets	\$2,750.4	\$2,620.9	\$2,116.5

Notes to Consolidated Financial Statements (continued)

Net sales by customer location for the years ended December 31, 1998, 1997 and 1996 were as follows (in millions):

	1998	1997	1996
Net Sales:			
United States	\$ 759.0	\$ 738.5	\$ 690.0
Canada	142.4	182.6	153.8
Germany	449.3	470.5	141.3
France	321.5	347.8	231.2
United Kingdom and Ireland	122.2	179.5	217.1
Other Europe	540.3	614.6	422.4
South America	315.3	334.3	100.3
Middle East	115.8	105.7	92.3
Asia	36.7	87.8	102.7
Australia	50.7	64.3	67.0
Africa	48.7	63.3	80.6
Mexico, Central America and Caribbean	39.5	35.5	18.8
	\$2,941.4	\$3,224.4	\$2,317.5

Net sales by product for the years ended December 31, 1998, 1997 and 1996 were as follows (in millions):

	1998	1997	1996
Net sales:			
Tractors	\$1,838.8	\$1,990.6	\$1,393.0
Combines	293.5	330.5	262.5
Other machinery	318.5	389.7	258.6
Replacement parts	490.6	513.6	403.4
	\$2,941.4	\$3,224.4	\$2,317.5

Report of Independent Public Accountants

To AGCO Corporation:

We have audited the accompanying consolidated balance sheets of AGCO CORPORATION AND SUBSIDIARIES as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AGCO Corporation and subsidiaries as of December 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.



Atlanta, Georgia
February 3, 1999

Directors and Officers

Directors

Robert J. Ratliff
Executive Chairman of the Board

John M. Shumejda
President and
Chief Executive Officer

Henry J. Claycamp
President, Mosaix Associates

Wolfgang Deml
President and Chief Executive
Officer, BayWa Corporation

William H. Fike
Vice Chairman and
Executive Vice President,
Magna International, Inc.

Gerald B. Johanneson
President and
Chief Executive Officer,
Haworth, Inc.

Richard P. Johnston
Chairman,
Royal Precision Corporation

Anthony D. Loehnis
Director, St. James's Place
Capital plc; Chairman of its
J. Rothschild International
Marketing Limited subsidiary

Alan S. McDowell
Private Investor

Hamilton Robinson, Jr.
Former Managing Director,
Hamilton Robinson &
Company, Inc.

Wolfgang Sauer
Principal, WS Consult-
Wolfgang Sauer & Associates
S/C Ltda.

Board Committees

Audit Committee
Mr. Robinson, Chairman
Mr. Loehnis
Mr. McDowell
Dr. Sauer

Compensation Committee
Mr. Johnston, Chairman
Mr. Fike
Mr. Loehnis
Mr. McDowell

Executive Committee
Mr. Fike, Chairman
Mr. Claycamp
Mr. Johanneson
Mr. Johnston
Mr. Ratliff
Mr. Robinson

Governance Committee
Mr. Claycamp, Chairman
Mr. Fike
Mr. McDowell
Dr. Sauer

**Strategic Planning
Committee**
Mr. Ratliff, Chairman
Mr. Fike
Mr. Johanneson
Dr. Sauer

**Succession Planning
Committee**
Mr. Johanneson, Chairman
Mr. Claycamp
Mr. Johnston
Mr. Robinson

Executive Officers

Robert J. Ratliff
Executive Chairman of the Board

John M. Shumejda
President and
Chief Executive Officer

James M. Seaver
Senior Vice President –
Sales, Worldwide

Edward R. Swingle
Senior Vice President –
Marketing, Worldwide

Norman L. Boyd
Vice President –
Corporate Development

Judith A. Czelusniak
Vice President –
Corporate Relations

Daniel H. Hazelton
Vice President –
Parts, North America

Aaron D. Jones
Vice President –
Manufacturing Operations, Worldwide

Malcolm P. Lines
Vice President – Marketing,
Europe/Africa/Middle East

Stephen D. Lupton
Vice President –
Legal Services, International

John G. Murdoch
Vice President –
Sales, North America

William A. Nix, III
Vice President – Treasurer

Chris E. Perkins
Vice President – Parts, Worldwide

Bruce W. Plagman
Vice President – Manufacturing

Dexter E. Schaible
Vice President – Engineering and
Development, Worldwide

Patrick S. Shannon
Vice President and
Chief Financial Officer

Michael F. Swick
Vice President and General Counsel

Adri Verhagen
Vice President – Sales,
Europe/Africa/Middle East

Gerald A. Weaver
Vice President –
Marketing, North America

John H. Winter
Vice President – Strategic Planning

Stockholder Information

Corporate Headquarters
4205 River Green Parkway
Duluth, Georgia 30096
(770) 813-9200

Annual Meeting
The annual meeting of the
Company's stockholders will be
held at 9:00 a.m. on April 28,
1999 at the offices of
AGCO Corporation,
4205 River Green Parkway,
Duluth, Georgia 30096.

Transfer Agent & Registrar
SunTrust Bank Atlanta
P.O. Box 4625
Mail Code 0258
Atlanta, GA 30302

Stock Exchange
AGCO Corporation common
stock (trading symbol "AG")
is traded on the New York
Stock Exchange.

Form 10-K
The Form 10-K annual report
to the Securities and Exchange
Commission will be available
to the stockholders in April
upon written request to the
Investor Relations Department
at corporate headquarters.

Auditors
Arthur Andersen LLP
Atlanta, Georgia

Note: AGCO®, AGCOSTAR®, Farmhand®, GLEANER®,
Glencoe®, HESSTON®, Massey Ferguson®,
New Idea®, Spra-Coupe®, Tye®, Willmar® are
registered trademarks of AGCO Corporation.

PRIMARY LOCATIONS

AGCO Corporation



Batavia, Illinois, USA

Parts Distribution

Bäumenheim, Germany

Cabs

Beauvais, France

Tractors
Transmissions (Joint Venture)
Rear Axles (Joint Venture)

Canoas, Brazil

Regional Headquarters
Tractors
Parts Distribution

Coldwater, Ohio, USA

Implements
Hay and Forage Equipment
Tractors

Coventry, England

Regional Headquarters
Tractors

Desford, England

Parts Distribution

Duluth, Georgia, USA

Corporate Headquarters

Ennery, France

Parts Distribution

Hesston, Kansas, USA

(Joint Venture)
Hay and Forage Equipment
Implements

Independence, Missouri, USA

Combines

Kempton, Germany

Hydraulic Components

Lockney, Texas, USA

Implements

Marktobersdorf, Germany

Tractors

Melbourne, Australia

Regional Headquarters
Parts Distribution

Nöetinger, Argentina

Implements

Querétaro, Mexico

Tractors

Randers, Denmark

Combines

San Luis, Argentina

Engines (Joint Venture)
Transmissions

Santa Rosa, Brazil

Combines

Willmar, Minnesota, USA

Sprayers
Loaders



AGCO Corporation
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4205 River Green Parkway
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