



Stable profits and increased value added. Continued progress towards ISO 14001 certification and overall improved environmental performance. Increased training and development hours for employees.



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During the summer of 2001, managers in the Atlas Copco Group participated in a training program called Circles. The objective was to increase the knowledge about the Group—its vision, strategy and values—in order to achieve alignment.



Three key publications

Atlas Copco will for 2001 release three separate publications to better serve its main stakeholders with information.

The **Annual Report** fulfills all the legal requirements on information. It also includes information of specific interest to the investor community.

The **Operational Report**, called **Achieve**, presents how Atlas Copco works to reach its vision and highlights strategic moves in a more detailed way. In this publication, the Group

communicates what Atlas Copco stands for and what it is focusing on. The President and CEO, Giulio Mazzalupi, will here describe the Group in-depth in his own words.

The **Sustainability Report** is brand new and will be published for the first time in May 2002. The report is Atlas Copco's first official report on environmental and social issues.

All reports are available in pdf format on the Group's Web site at www.atlascopco-group.com. There you can also order printed copies of the reports.

The Operational Report, Achieve, and the Sustainability Report are not part of the Annual Report and are not audited.

Atlas Copco AB and its subsidiaries are sometimes referred to as the Atlas Copco Group, the Group or Atlas Copco. Atlas Copco AB is also sometimes referred to as Atlas Copco. Any mention of the Board of Directors or the Directors refers to the Board of Directors of Atlas Copco AB.

To the Reader

I am pleased to present Atlas Copco's first sustainability report, with its main focus on environmental issues.

In 2001, the Group continued to develop and launch products with less environmental impact than the previous generations. Our recently revised Group environmental policy is in place, and almost all major manufacturing facilities have implemented and certified environmental management systems.

We have enhanced our efforts to be an employer of choice. Atlas Copco continues to prioritize competence development of employees, exemplified by our well-established Circles training program in which all employees will participate. The employer brand of the Group, which manifests what we stand for, has been reconfirmed to facilitate communication.

In economic terms, Atlas Copco has performed well, despite the weakening demand in the global economy, and the value added generated by the Group has increased.



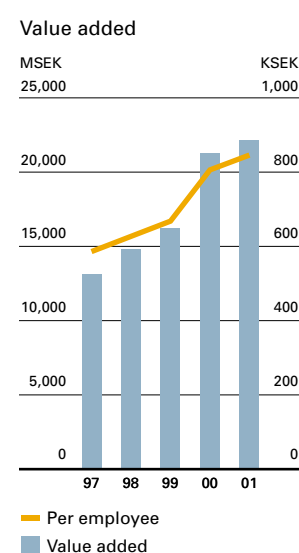
Giulio Mazzalupi
President and Chief Executive Officer

Executive summary

During 2001, Atlas Copco made progress in a number of important areas. A selection of key economic, environmental, and social performance indicators is shown in the tables and diagrams.

Economic performance

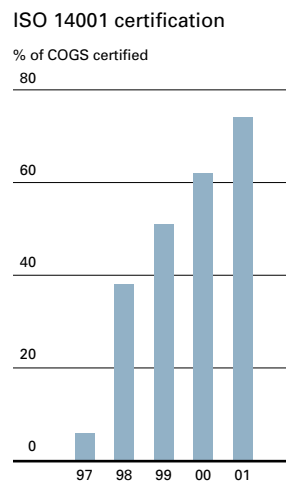
The Atlas Copco Group has continued to perform well on the economic bottom line in 2001. The operating profit decreased marginally, but the value added generated by the Group increased and was distributed to stakeholders.



| Economic performance indicators | 2001 | 2000 |
|---------------------------------|--------|--------|
| Operating profit, MSEK | 6,130 | 6,392 |
| Return on capital employed, % | 12.6 | 14.5 |
| Value added, MSEK | 22,164 | 21,279 |

Environmental performance

In the environmental area, several noteworthy improvements have been made. The implementation of divisional environmental management systems is proceeding with good speed, and the environmental impact of Atlas Copco's manufacturing facilities is continually being reduced. A number of new products with improved environmental characteristics were also introduced during the year.



| Environmental performance indicators | 2001 | 2000 |
|---|------|------|
| ISO 14001 certification, % of COGS* | 74 | 62 |
| Energy use, MWh per MSEK COGS | 16.6 | 17.2 |
| Water use, m ³ per MSEK COGS | 21.6 | 26.1 |
| Packaging materials, tonnes per MSEK COGS | 0.89 | 0.92 |

*) Cost of goods sold

Social performance

Atlas Copco's workplace performance has improved to some extent. In particular, the number of work-related accidents per million working hours has been reduced, although the number of days lost per accident is unchanged. The average number of training hours per employee has increased substantially, although the Group target of 40 hours has not yet been reached.

| Social performance indicators | 2001 | 2000 |
|--|------|------|
| Number of accidents per million hours worked | 24.7 | 29.6 |
| Number of days lost per accident | 12.6 | 12.4 |
| Average training hours per employee | 35.2 | 24.8 |

Profile of Atlas Copco

Atlas Copco is a global industrial group headquartered in Stockholm, Sweden. The Group employs close to 26,000 people and manufactures products in 13 countries on four continents.

Atlas Copco companies develop and manufacture electric and pneumatic tools and assembly systems, compressed air equipment, construction and mining equipment, and offer related service and equipment rental. The products are sold and rented under different brands through a worldwide sales and service network reaching 150 countries, half of which are served by wholly or partly owned sales companies.

Atlas Copco began its operations in 1873. The Group owns famous brands such as Atlas Copco, RSC, Milwaukee, Chicago Pneumatic and AEG Power Tools.

Revenues for 2001 totaled MSEK 51,139, COGS amounted to MSEK 35,134, and the operating profit was MSEK 6,130. Atlas Copco's largest shareholder is the Investor Group, which controls about 21% of the votes. Atlas Copco shares are listed on the Stockholm, London, and Frankfurt stock exchanges with American Depository Receipts (ADR) available in the United States.

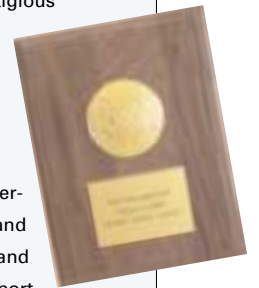
Scope of the report

This is the first sustainability report for the Atlas Copco Group.

The report addresses all three sustainability performance dimensions (economic, environment, and social), with an

Atlas Copco wins prestigious brand award

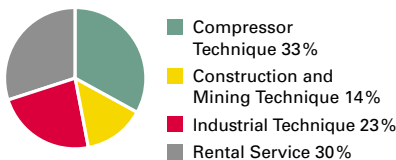
Atlas Copco has been recognized with the prestigious Nordic Signum® brand award for having the strongest brand in the region. Atlas Copco has a multibrand strategy and owns a number of different brands, each with a defined role. The Group has a family branding structure, which means that each of these brands signals membership to the Atlas Copco Group. A user-friendly and thorough brand identity manual, brand audits, and a worldwide network of people help guide, support and follow-up that the Atlas Copco brand is treated in the right way.



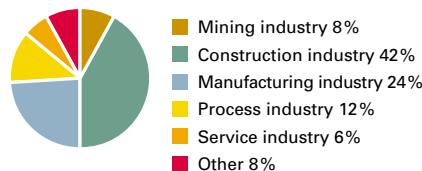
emphasis on environmental performance. Atlas Copco traditionally has had extensive financial reporting, and will gradually increase reporting of broader economic and social performance in future sustainability reports and on the web site www.atlascopco-group.com.

The scope of this report is the Atlas Copco Group of companies, and all policy documents and performance data reported covers the entire Group, unless otherwise noted. In particular, environmental performance data is at this time only available from the major manufacturing facilities (covering approximately 58% of COGS). As the Group environmental and human resource information systems are comparatively new, historical data is only available for the year 2000.

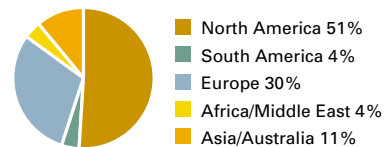
Revenues by business area



Revenues by customer category



Geographic distribution of revenues



Vision and Strategy

Over the years, Atlas Copco has focused on developing products with less environmental impact and to be a good corporate citizen in the countries where we operate.

economy, whilst also contributing to social cohesion. The downside of this is that infrastructure projects frequently have significant environmental impacts, unless they are undertaken with considerable care.

The Atlas Copco vision is to be a leader in each of the Group's four business areas, which means being first in mind and the first choice of customers. Such a vision requires a commitment to giving customers good value, which involves providing high quality, innovative products and services that allow customers to improve their productivity. For Atlas Copco it is a basic requirement, but increasingly also a competitive advantage that products are safe, environmentally friendly, ergonomic and functional in design.

Atlas Copco's vision is traditionally customer focused, but it is clear that in order to achieve this vision it is not enough to satisfy only the needs of customers whilst ignoring the legitimate concerns of the Group's other stakeholders. As described elsewhere in this report, Atlas Copco's basic beliefs include a commitment to customers, employees, shareholders, the environment and the societies in which the Group's companies operate.

In a sustainable society

In approaching a vision of how sustainable development affects the Atlas Copco Group, it is worth asking the question: how do Atlas Copco products contribute to a sustainable society? It is clear that by developing, manufacturing, and selling or renting products, Atlas Copco creates employment and contributes to economic development. It is also clear that Atlas Copco consumes various resources when producing products, and that these products have environmental impacts when they are used. By treating stakeholders fairly and respecting international human rights, Atlas Copco lays a foundation for more equitable and sustainable economic development.

Atlas Copco companies develop and manufacture a variety of industrial, construction, and mining machinery which is sold and rented all over the world. Customers in the construction and mining industries, which are important catalysts to economic growth in many developing economies, account for a significant portion (about 50%) of Atlas Copco revenues. A good infrastructure forms the backbone of any well-developed

Continuous improvements

Atlas Copco believes that the Group's products and services do not conflict with the ultimate goal of sustainable development, but rather they are important parts of the global sustainability effort. This does not mean that the products and processes cannot be improved to be even more in line with sustainable development. The Group believes that this should be done in a series of steps, as all improvements involve balancing a number of important economic, environmental, and social issues.

As part of Atlas Copco's strategy the Group is continually working to improve existing operations and in the development of innovative and more eco-efficient products. Furthermore, the Group is expanding revenues related to "use of products," including the sale of accessories and consumables, service and maintenance, and equipment rental. By offering a broader range of options, prolonging the useful life of Atlas Copco products and renting as well as selling equipment, customer value is enhanced while the environmental impact is reduced.

Atlas Copco named to Dow Jones Sustainability Indexes

For the second consecutive year, Atlas Copco has earned a place in the Dow Jones Sustainability World Index (DJSI World), which consists of more than 300 companies which represent the top 10% of the leading global sustainability companies. Atlas Copco was also included as one of 150 European companies in the launch of the Dow Jones STOXX Sustainability Index in October 2001. The DJSI methodology involves a comprehensive assessment of the three sustainability dimensions, considering factors such as company strategy, quality management, environmental responsibility and performance, and employee relations.



Policies, Organization and Management Systems

The Atlas Copco divisions are responsible for operating their respective businesses in an environmentally and socially responsible manner. At a Group level, necessary policies and guidelines are established to support and monitor divisional progress.

Environmental management systems

The divisions have the operational responsibility for environmental management and performance. This includes a responsibility for implementing an EMS in accordance with the Group Environmental Policy, which states that such systems shall be implemented in all divisions

Environmental policy

The Atlas Copco Group Environmental Policy expresses a commitment to conduct business in an environmentally responsible fashion, and a vision that the Group's products and services should be in the forefront when it comes to environmental performance.

The Group Environmental Policy also addresses a number of strategic issues that need to be considered in reducing our environmental impact, including implementing environmental management systems (EMS), giving advice to customers, and assessing suppliers and business partners from an environmental perspective.

Within the framework of the Group Environmental Policy, each division has established working procedures, including divisional environmental policies attuned to the divisions' specific environmental and business issues.

The Atlas Copco Group Environmental Policy was last updated in August 2000 and applies to the entire Atlas Copco Group. The full text of the Environmental Policy can be downloaded at www.atlascopco-group.com.

Organizational structure and responsibilities

Atlas Copco is a highly decentralized group of companies, and the operational responsibility for environmental and workplace issues is delegated to the divisions and their presidents. Each business area has an environmental coordinator, who in most cases also has other responsibilities in one or more of the divisions. Sometimes this person is also responsible for health and safety or quality issues.

At Group level, there is a Sustainability Communications Manager whose primary responsibility is to communicate with internal and external stakeholders on environmental and other sustainability issues, but also to support the business area environmental coordinators. The Group Environmental Council, consisting of the Sustainability Communications Manager and the business area environmental coordinators, meets periodically to discuss common environmental management problems and share possible solutions. Group Management is responsible for updating the Group Environmental Policy.

and that all major manufacturing facilities (product companies) shall certify their systems according to the international standard ISO 14001.

Implementation of EMS is progressing very well and a majority of the major manufacturing facilities in the Construction and Mining Technique, Compressor Technique, and Industrial Technique business areas have certified their systems according to ISO 14001. Per year-end 2001, ISO certified management systems have been implemented in facilities representing 74% COGS, which is a significant increase from 62% in 2000. It is expected that certifying all major manufacturing sites, accounting for about 87% of COGS, will be done by the end of 2002.

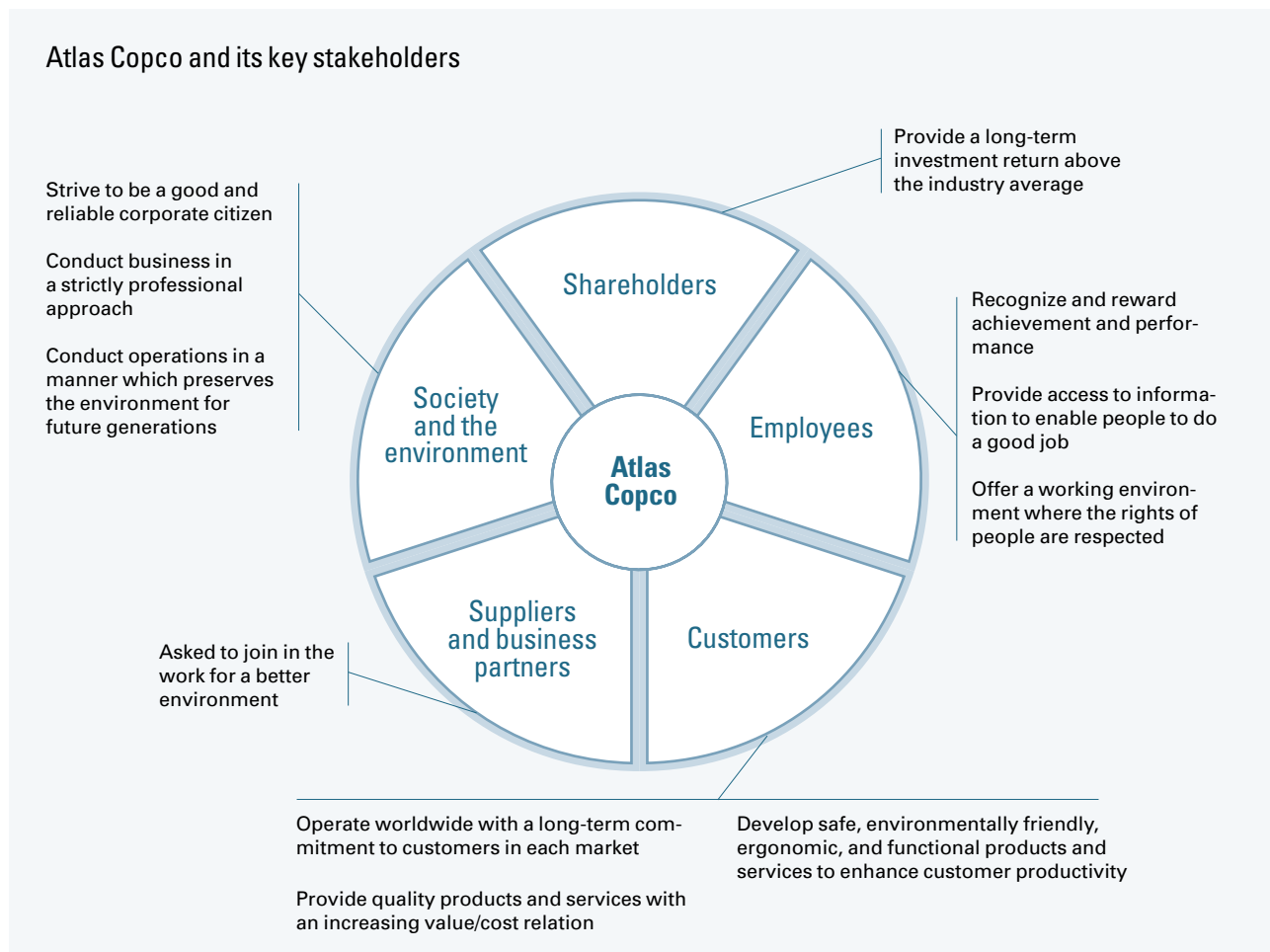
The Rental Service business area has developed and implemented an EMS, which includes an environmental manual for store operations and a proactive remediation plan for dealing with contaminated sites. Altogether this means that Atlas Copco activities representing more than 84% of total Group COGS were covered by environmental management systems at year-end 2001.

"The Way We Do Things"

One of the most important management tools within Atlas Copco is the central database of Group principles and guidelines, policies and instructions, known collectively as "The Way We Do Things." This database contains standards relating to communications and marketing, environmental management, finance and administration, information technology, insurance, legal issues, and people management.

The environmental management section contains instructions and forms for Group environmental reporting as well as Group standards on the use of chemical substances—the so-called black, gray, and white lists, detailing which substances are restricted, limited, and recommended, respectively.

Apart from the standards in the environmental management section, there are important environmental-related issues also in other sections of "The Way We Do Things." In particular, it is worth noting that there are requirements to conduct both Phase I and Phase II environmental site assessments for all acquisitions and divestments. Furthermore, assessments of environmental



compliance, will be part of the internal audit procedures, which are conducted as required, but always when there is a change of General Manager in a company.

Stakeholder relationships

A stakeholder may be defined as someone who can affect or is affected by an organization's activities. A large multinational company like Atlas Copco has many individual stakeholders, all of which cannot be taken into account all of the time. For this reason, Atlas Copco has prioritized those stakeholders that are crucial for the Group as a business enterprise.

In defining the Atlas Copco Group's core values and basic beliefs, five key stakeholder groups have been identified—shareholders, employees, customers, suppliers and business partners, and society and the environment—and guidelines have been established on how Atlas Copco should behave towards these groups. While there has been no organized Group level consultation process with key stakeholders on sustainability issues, there is an ongoing and informal dialogue with these stakeholders. In this way stakeholder views and expected reactions are constantly being considered in business decisions.

Economic Performance

Atlas Copco is a substantial economic contributor to the countries in which the Group operates. By providing jobs and paying fair wages, offering quality products that increase customer productivity, paying duties and taxes, and giving a good return on investments, Atlas Copco has a significant impact on several stakeholder groups.

Sustainable development implies that economic development should not take place at the expense of environmental and social degradation. At the same time, the interconnected nature of the economic, environmental, and social dimensions of sustainability indicates that economic growth is also a prerequisite for sustainable development. The economic impact of companies actually goes far beyond what is traditionally measured and disclosed by conventional financial accounting and reporting, although financial performance indicators are still considered the basic measures of business success.

Profit

In terms of traditional financial measures of profit, the Atlas Copco Group has performed well over a number of years. In 2001, the operating profit declined 4% to MSEK 6,130, and the operating profit margin decreased to 12.0% (from 13.7% in 2000). Profit was affected by restructuring costs of MSEK –260 (–26). Excluding these costs, operating profit declined marginally by MSEK 28, and the operating profit margin was 12.5% (13.8%). For comparable units, operating profit decreased mainly because of lower volumes, particularly lower rental revenues, but was to a large extent offset by favorable fluctuations in exchange rates. Group profit after financial items rose to MSEK 4,700 (4,689). Further information on Atlas Copco's financial performance is available in the Annual Report.

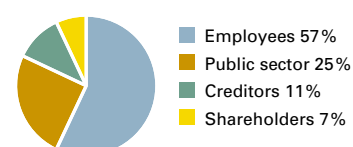
Profit indicators

| | 2001 | 2000 |
|------------------------------------|-------|-------|
| Operating profit, MSEK | 6,130 | 6,392 |
| Operating profit margin, % | 12.0 | 13.7 |
| Profit after financial items, MSEK | 4,700 | 4,689 |
| Profit margin, % | 9.2 | 10.1 |
| Return on capital employed, % | 12.6 | 14.5 |

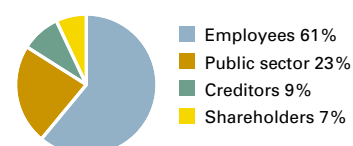
Value added

Atlas Copco is first and foremost a business enterprise whose primary purpose is to create value for its various stakeholders. The focus has been on generating a good long-term investment return for shareholders, but achieving this goal of course depends on the

Distribution of value added 2000



Distribution of value added 2001



Group's ability to also satisfy other stakeholders. This includes providing customers with quality products and services at reasonable prices, offering employees relevant compensation and working conditions, and contributing to the economic development of the communities in which the Group operates by paying taxes.

One way of expressing economic performance is by tracing the direct economic impacts on various stakeholders as in the statement of value added below. This statement shows the source and monetary amount of value added by the Atlas Copco Group, and how this value is distributed among the various stakeholders. The balance is reinvested in the Group to finance further growth and value creation for the benefit of all stakeholders.

Statement of value added

| MSEK | 2001 | 2000 | |
|-------------------------------------|-------------------------------|---------|---------|
| <i>Generation of value added:</i> | | | |
| Customers | Revenues | 51,139 | 46,527 |
| Suppliers | Costs for goods and services | –28,975 | –25,248 |
| | <i>Value added</i> | 22,164 | 21,279 |
| | Of which retained in business | –6,509 | –5,941 |
| | Distributed to stakeholders | 15,655 | 15,338 |
| <i>Distribution of value added:</i> | | | |
| Employees | Wages and salaries | 9,541 | 8,792 |
| Public sector | Taxes and social costs | 3,559 | 3,836 |
| Creditors | Interest payments | 1,430 | 1,703 |
| Shareholders | Dividend payments | 1,125 | 1,007 |

Customers

The source of the value added by Atlas Copco activities is the ability to satisfy the needs of customers, providing them with high quality innovative products and services. The products and services contribute to customers' productivity by providing them with the right tools for the job.

Atlas Copco has been in business for almost 130 years, which in itself is testament to the long-term commitment to customers and the Group's ability to adapt to their requirements. Over this time, Atlas Copco has grown from a small local supplier to a multinational corporation with 98% of revenues originating from outside Sweden. In the past five years, compound annual growth of revenues averaged 15.3%, mainly due to acquisitions. This is well above the Group target of 8% annual revenue growth over a business cycle.

Suppliers

Atlas Copco's suppliers are an integral part of the offer made to customers. The Group's companies depend on suppliers, business partners, and the quality of their work to continue providing high quality products and services to customers. Most suppliers of core assembly components are based within an average radius of about 400 km from Atlas Copco manufacturing plants. This helps reduce the delivery time and creates local employment.

Employees

Close to 26,000 people worldwide are employees of the Atlas Copco Group, and the economic activity generated by the Group's business sustains with thousands of additional jobs suppliers and business partners. This is, of course, a huge responsibility. It is critical for Atlas Copco to be considered an attractive employer and thus be able to employ competent people. Treating employees fairly and paying them reasonable wages is fundamental to being a good employer. A number of indicators showing various aspects of the employer-employee relationship are reported in the section on social performance.

Public sector

A portion of revenues generated by Atlas Copco is paid to governments around the world through various duties and taxes. These duties and taxes contribute to economic development as they are used to finance various social and other institutions that are necessary for a well-functioning society, and thus a prerequisite for economic growth. Taxes in 2001 amounted to MSEK 1,622 or about 35% of profit after financial items. Taxes in Sweden amounted to MSEK 379.

The social costs for employees that Atlas Copco pays in most countries contribute to the funding of pensions, unemployment and other social benefits that provide security and improve the quality of life for the employees and their families. These social costs amounted to MSEK 1,937 or an average of SEK 74,000 per employee in 2001.

Creditors and shareholders

Atlas Copco depends on its creditors and shareholders for funds to finance the asset base that is employed to create added value. Creditors are compensated with regular interest payments for the funding they provide and will eventually be repaid the full value of the amounts borrowed from them. Shareholders receive annual dividends from Atlas Copco, and also have the opportunity to make capital gains by selling their shares on the stock exchange.

Atlas Copco has provided increasing dividend payments to shareholders for several years, and the target is to annually distribute 30–40% of earnings per share as dividends. If the



Integrated rental management enhances customer productivity

Through a strategic alliance with Shell, Rental Service is on site at Shell refineries and chemical plants throughout the United States, servicing the majority of Shell's equipment needs. With the Integrated Rental Management program, equipment not being used on a project is taken off rent, thereby eliminating idle time with the meter running. A mechanic is always available to handle problems, and a preventive maintenance program ensures that equipment is always reliable. Shell has discovered that by using an equipment rental specialist to take care of its equipment needs, it can save money and increase efficiency.

More ergonomic and user-friendly power tools

Atlas Copco has always given high priority to the ergonomic design of its products, and has developed a method to compare and evaluate ergonomic features on power tools. The launch of the AEG ErgoMax design by Atlas Copco Electric Tools is a good example of a recently developed percussion drill that incorporates good ergonomics. The greatest innovation of the ErgoMax design is the detachable handle, making the tool approximately 30% shorter than comparable drills. This enables the user to guide the ErgoMax along the spindle axis when drilling to put pressure on the bit, giving a better grip and greater precision in cramped spaces.



shareholders approve the Board of Directors' proposal for a dividend of SEK 5.50 per share for 2001, the average dividend growth for the five-year period 1996–2001 will equal 8.8%. During that period, the Atlas Copco share price (in SEK) has increased by 48%. The total annual shareholder return (annual dividend plus the appreciation of the share price) has averaged 10.4% per year in the past five years. This compares with the corresponding total return for the Stockholm stock exchange, which amounted to 13.3%.

Environmental Performance

The environmental impact from manufacturing facilities is relatively minor compared to the impact from the use and end-of-life disposal of Atlas Copco products. The focus is therefore on designing products with good environmental performance over the entire life cycle.

At a Group level it is a challenge to identify and measure relevant indicators for the environmental performance of products. Consequently, the Group environmental information system, which was developed and implemented during 2000, does not include product indicators at this time. Instead, a number of environmental product improvements are reported as case studies below.

The Group environmental information system presently encompasses major manufacturing sites in the Compressor Technique, Construction and Mining Technique, and Industrial Technique business areas (covering approximately 58% of Group COGS). The measurement and reporting procedures will continue to be refined and updated, and the system will eventually also cover the environmental performance of the Rental Service business area.

The single most important environmental objective is to ensure that EMS's are implemented in all divisions, and that all major product companies are certified according to the international standard ISO 14001. Remarkable progress has been made in the past couple of years, and per year-end 2001, 74% of the Group's manufacturing and logistics capacity was ISO certified.

Environmental performance indicators

| | 2001 | 2000 |
|--|---------|---------|
| Energy use, MWh | 308,319 | 291,045 |
| — <i>in relation to COGS</i> | 16.6 | 17.2 |
| Water use, m ³ | 401,583 | 441,817 |
| — <i>in relation to COGS</i> | 21.6 | 26.1 |
| Packaging materials, tonnes | 16,467 | 15,568 |
| — <i>in relation to COGS</i> | 0.89 | 0.92 |
| CO ₂ emissions (energy), tonnes | 65,891 | 63,889 |
| — <i>in relation to COGS</i> | 3.6 | 3.8 |

Energy use

Using energy does not in itself have an environmental impact. It is the production of energy that affects the environment, most notably by contributing to air pollution and global climate change through the burning of fossil fuels. By demanding more energy, Atlas Copco therefore indirectly impacts the environment.

The use of energy has been identified as a significant environmental aspect in several production facilities, and objectives and programs for reducing energy use by 5–10% have been introduced at Atlas Copco Secoroc in Sweden, Atlas Copco Electric Tools in Germany, and Milwaukee Electric Tool in the United States.

The energy indicators in the table and graph show that the Group's energy usage has increased from 291,045 MWh to 308,319 MWh in absolute terms, but decreased by 3% (from 17.2 to 16.6) when adjusted for increased production, as expressed by COGS.

Most of the energy used is purchased from utility companies, but a fair amount of energy (heat) is also generated on site using various fuels, mainly natural gas. The purchased electricity is mostly generated using nuclear and hydropower (approximately 45% and 15%, respectively), and only about 35% is generated using fossil fuels (oil, coal, gas). Bio-fuel accounts for the remaining 5%.

Water use

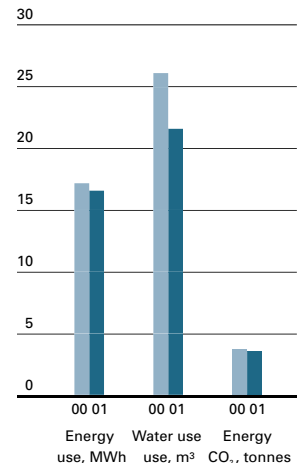
Water is a scarce resource in many parts of the world. Atlas Copco's manufacturing sites are mainly located in Europe and North America, where water is generally quite abundant. However, the demand for water is also high in this part of the world, and several countries have a fresh water supply per person of less than 1,700 m³ per year, which is sometimes an indicator of so-called "water stress."

Atlas Copco used 401,583 m³ of water in the Group's production processes in 2001, a decrease of 9% from 2000.

More than 75% of this water was used in countries suffering from water stress, including Belgium, Germany, and the United States. Since the Group's production has also increased in 2001, the average amount of water used per MSEK COGS has decreased significantly from 26.1 m³ in 2000 to 21.6 m³ in 2001. This is partly due to some problems with leakages in 2000, but also to the implementation of water conservation programs

Eco-efficiency indicators

Energy, water and CO₂ per MSEK COGS



e.g. at Georges Renault in France and Milwaukee Electric Tool in the United States.

Materials use

The Group's production processes mostly involve machining and assembly of prefabricated components manufactured by suppliers in accordance with Atlas Copco specifications. As such, there is only a limited consumption of materials in Atlas Copco operations, although when seen in a life cycle perspective, materials used is certainly an issue taken into consideration when designing Atlas Copco products.

Presently, the Group's environmental information system does not consistently track materials used in the production process, apart from selected chemical substances. However, the use of packaging materials is a significant part of the Group's total environmental impact, and a number of manufacturing sites have programs in place to reduce this consumption, e.g. at Compressor Technique's Antwerp facility and at Milwaukee Electric Tool's facilities involving the use of returnable wooden pallets.

In 2001, 16,437 tonnes of materials was used for packing products or parts leaving the manufacturing sites. This amounts to approximately 887 kg per MSEK COGS, down from 920 kg in 2000. The most common packaging materials are wood, paper, and cardboard, accounting for almost 70% of the total mass. The remaining 30% are evenly divided between various plastic materials and steel carrying cases used for electric tools.

CO₂ emissions

Carbon dioxide (CO₂) contributes to global warming and can therefore potentially affect the Earth's climate. CO₂ is produced when fossil fuels are burned either in the course of energy production or for transportation purposes. Additionally, CFC compounds ("freons") have global warming potential, as they gradually evaporate and emit greenhouse gases to the atmosphere.

At this time, only CO₂ emissions resulting from energy production can be measured reliably. The aim is to improve the Group's environmental information system so that accurate CO₂ emissions from transports can also be measured and reported in the future.

The total calculated CO₂ emissions from energy production (both on and off site) was close to 66,000 tonnes in 2001, which is an increase from 64,000 tonnes in 2000, but a decrease of 6% (from 3.77 to 3.55) when adjusted for changes in production volume (in terms of COGS). The CO₂ emissions from energy production are only indirectly within the Group's



Industrial Technique ISO 14001 pioneers

The main Group environmental objective is to have all major product companies achieve ISO 14001 certification. The Industrial Technique business area has made good progress towards this goal, and moreover, the divisions are setting the pace for the industry. In 1997, Atlas Copco Electric Tools was the first division in the Group—and the first electric tool company in Europe—to receive an ISO 14001 certificate. In 1999, Milwaukee Electric Tool Corporation became the first United States power tool company to achieve ISO 14001 certification of its environmental management system.

Dust-free drilling with new dust suppression system



All rock drilling produces some form of dust. Modern drilling rigs will take care of most of the coarse dust, but frequently leaves behind a finer dust. In many countries, stricter

environmental regulations have imposed limits on dusting, especially when drilling near residential areas. The Dust Suppression Agent (DSA) system from Atlas Copco Construction and Mining Technique uses a biodegradable foam and water mixture to help bind the fine dust and considerably reduces the total amount of dust released to the air to less than 0.1 mg/m³.

control, and more than 60% of these emissions occur at the suppliers' power plants.

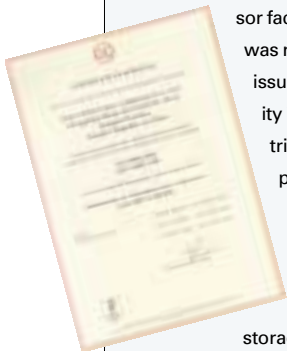
Products and services

With a life cycle perspective it becomes apparent that Atlas Copco also has a significant indirect environmental impact in the supply chain upstream, and especially downstream during the product use phase. A number of environmental reviews and life cycle assessments have shown that energy consumption, oil leakage, noise and dust emissions are the most significant environmental impacts that occur during the useful life of the products. Energy efficiency is also an important aspect of the value/cost relation of many Atlas Copco products, as lower energy consumption means lower operating costs for the customer.

All product development takes these and other relevant environmental and ergonomic aspects into consideration in order to minimize future negative impacts. There are numerous examples of environmental improvements being made to products in all business areas. Some examples include the energy-efficient Variable Speed Drive (VSD) compressors and the new DSA dust suppression system for rock drilling rigs.

ISO 14001-certification in China

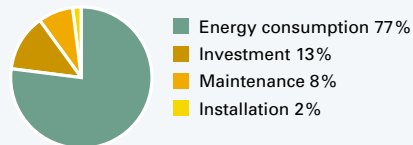
After a three-day audit, Lloyd's Register Quality Assurance recommended certification of the Atlas Copco Compressor facility in Wuxi, China. The ISO 14001 certificate was received in November, 2001. Environmental issues are now generally being given higher priority in China. Atlas Copco is committed to contribute to an improved environment, and some progress has already been made. During the construction of a factory expansion earlier this year, special attention was given to noise reduction, waste water and sewage treatment, materials recycling, and chemicals storage. Steam provided by a central steam plant was chosen for the factory heating system.



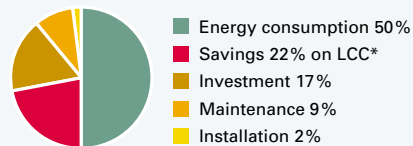
Energy savings with VSD compressors

Conventional compressors provide a constant flow of compressed air and cannot adjust the air supply to a specific need. However, in most production processes, the demand for compressed air is not constant and varies depending on the activity in the factory. The VSD line of compressors from Compressor Technique can vary the speed of their drive motors and thus adjust the air supply to the actual demand. This feature permits a more energy-efficient use of the compressor, and considerably reduces lifetime energy costs compared to a conventional compressor. Energy savings can amount to as much as 22% over a five-year period.

Conventional installation Average cost distribution*



VSD installation Average cost distribution*



*Life-cycle cost comparison over a five-year period.

“Water for All”

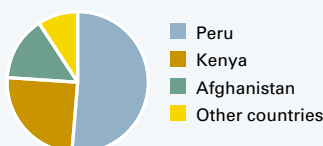
Atlas Copco and its employees sponsor the charity “Water for All.” Since the organization was established in 1984, approximately 1,200 wells have been drilled or dug, supplying fresh water to more than 300,000 people in countries where this life necessity is a scarce resource.

An exclusive Atlas Copco project, “Water for All” was initiated by two employees, Peter Håkansson and Torgny Rogerts. The idea developed in 1984 when Peter and his wife visited Peru to adopt a child. Shocked and terrified by how people suffered from the prevailing drought, Peter was determined to provide some help to the catastrophe area. Torgny instantly joined him. Together they organized ways to collect and offer financial support to water-drilling projects in regions with need. The fact that Atlas Copco produced equipment suitable for this purpose was a clear advantage. The two enthusiasts contacted the board of Atlas Copco AB to ask for their support, and the organization was quickly put in place.

The “Water for All” organization has successfully supported projects to drill or dig for water in countries like Peru, Kenya, Sudan, Burkina Faso and Afghanistan. To safeguard that the new water wells will provide people with fresh drinking water during years and years, the beneficiaries have to commit themselves and contribute money to a small maintenance and repair fund. To ensure success, these water digging and drilling projects are always conducted in co-operation with non-political aid organizations with local experience in the relevant countries.

For the past 17 years, Atlas Copco and its employees have funded “Water for All” with matching contributions. Major donations are also made by international aid organizations, in particular SIDA, the Swedish International Development Cooperation Agency. Currently, “Water for All” is only open to Atlas Copco’s employees in Sweden. The project engages any person who comes across the organization, it bridges different cultures, and make people talk the same language. The reason is simple: it focuses on one of the necessities for life—water.

Distribution of water wells by country



Among the countries where “Water for All” has supported projects is East Africa. More information is found at www.water4all.org.

Social Performance

Atlas Copco strives to be a good corporate citizen wherever the Group carries out business. The values and beliefs include a commitment to the rights of people. In particular, the company endeavors to be—and be recognized as—a good employer.

Whereas there is some international agreement on measures of environmental performance, there is at this time no generally accepted set of social performance indicators. The most well developed social indicators are various measures of workplace performance, including health and safety, workforce diversity, and professional development. In this report the focus is on employees and a selection of workplace performance indicators.



Safety and environmental program in Mexico

The Rental Service business area operations in Mexico invited the ISP (Rental Service's internal service provider) Risk and Safety Department to review its safety and environmental program. The July 2001 visit afforded the ISP team an opportunity to meet and work with local personnel and safety managers. The team visited two of the six Mexico locations, with an actual Safety and Health Assessment performed on the Monterrey location. Though no formal program had been implemented, the location made an above average score and was excited to learn how to improve in the future.

Focusing on workplace performance

To have competent and committed people in order to bring the Group forward in line with its strategy is part of the vision, and the Group therefore places great emphasis on the competence development of employees. People are

encouraged to take responsibility, ask questions, and work in different positions throughout the Atlas Copco Group. To promote job mobility there is a well-functioning International Job Market within the Group where all vacant positions are posted. To support professional development each employee is entitled to an annual performance appraisal and one-on-one discussion with their immediate superior.

The Group human resources department continually tracks a set of employee-related indicators measuring competence, training, job mobility, and other aspects of workplace performance. Information on health and safety performance, employee compensation, and industrial relations is available at divisional or country level, and is not ordinarily monitored at Group level. However, these issues are of course also important aspects of Atlas Copco's social performance.

Workforce structure

It is apparent from the presentation of the workforce structure that there is a majority of male employees, with 18% of the total workforce and 3% of managers being female. This proportion has been fairly consistent over a number of years, and is not uncommon for industrial companies in the engineering

Workplace performance indicators

| | 2001 | 2000 |
|--|--------|--------|
| Average number of employees | 26 201 | 26 392 |
| Workforce structure | | |
| Female employees, % | 18 | 17 |
| Female managers, % | 3 | 3 |
| Employees ¹ : | | |
| Below 30 years, % | 21 | 21 |
| Between 30 and 50 years, % | 59 | 59 |
| Above 50 years, % | 20 | 20 |
| Health & safety ² | | |
| Number of accidents per million hours worked | 24.7 | 29.6 |
| Number of working days lost per accident | 12.6 | 12.4 |
| Competence development | | |
| Average number of training days per employee | 35.2 | 24.8 |

1) Excluding United States

2) Excluding China, East Europe and Rental Service business area

sector. Similarly, the age distribution of employees has remained stable. The majority of (non-United States) employees are in the 30–50 age bracket, with the remaining 41% evenly divided between the below 30 and above 50 age brackets.

Health and safety

The well being of Atlas Copco employees is a key concern. Unfortunately, accidents in the workplace do happen occasionally, but the frequency of such work-related accidents is continually being reduced—from 29.6 per million hours worked in 2000 to 24.7 per million hours worked in 2001. The time lost as a result of these accidents has not been reduced to the same extent, and the number of working days lost per accident has increased marginally.

The Atlas Copco definition of a work-related accident is similar to the definition given by the United States Occupational Safety and Health Administration (OSHA), and includes illness or injury resulting in loss of consciousness, restriction of work or motion, transfer to another job, or requiring medical treatment beyond first aid.

Competence development

Developing employee competence is crucial both to business success and to personal development, and ongoing training activities take place throughout the year. In 2001, employees received an average of 35.2 hours of training, up from 24.8 in 2000. The Atlas Copco Group goal is an average of 40 hours of training and development per employee per year.



Circles in Kenya

The Atlas Copco Circles concept has been used since 1996 as a tool to help employees learn about the Group, its structure, values and vision. As all employees in all positions are involved, the Circles program also presents an opportunity to learn about the local company and fellow employees. Atlas Copco Kenya is a small company within the Group, and the feeling of belonging to the Atlas Copco Group is clearly strengthened through the Circles group sessions. Many employees are not aware of the Group's roots, nor have they realized its size and their own contribution to its success prior to participating in the Circles sessions.

Employer branding to attract and retain great people



To be first in mind, first in choice, Atlas Copco needs great people. To attract prospective employees, an employer branding project was launched in 2001. The project reconfirms what Atlas Copco has to offer, and includes a range of communications materials to position the Group as an employer.

Atlas Copco ranked top in INSEAD survey of global companies

A survey conducted by INSEAD, Europe's leading business school, has ranked Atlas Copco as one of the top 10 best companies in the Western world, and number one in the Engineering and Machinery sector.

The Competitive Fitness of Global Firms 2002 report is based on a survey of the 500 largest companies in Europe and North America, grouped into eight industry sectors. It judges the respondents according to 12 key business capabilities, including: customer orientation; innovation; human resources; corporate culture; mission and vision; planning and intelligence; technical

resources; marketing operations; international effectiveness; performance; market strategy; organization and systems. The report also provides a measure of E-business capability.

A score of 65 or higher puts a company into the world class category. Of the companies surveyed, only 86 made it to this level. Sharing the top spot overall with 82 points were BMW and Nokia. Atlas Copco's 77 points put it on a par with Microsoft and Banco Commercial Portuguese, and ahead of other prestigious companies such as SAP, Diageo and Exxon Mobil. Atlas Copco is far ahead all other companies surveyed in the Engineering and Machinery sector, according to the results.

Glossary

Bio-fuel Renewable fuels usually derived from wood and by-products from logging of wood.

Capital employed Total assets less non-interest-bearing liabilities/provisions.

In calculating capital employed in the business areas, in contrast to the calculation for the Group, deferred tax liabilities are not deducted. Capital employed reported by business area includes an allocation of the total Group cash and financial investments in proportion to average capital employed.

Carbon dioxide (CO₂) The most common greenhouse gas found in the atmosphere.

Cost of Goods Sold (COGS) All costs incurred to manufacture goods (and provide services) to be sold, including costs for material, salaries, and depreciation of equipment, but excluding overhead costs for marketing and administration.

Environmental Management Systems (EMS) The part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy. An EMS involves a systematic and documented approach to environmental management.

Fossil fuels Fuels originating from organisms of an earlier geological age, including coal, oil, natural gas and peat.

Freons (CFCs) A group of chemical compounds, chlorofluorocarbons, previously used as cooling agents. CFCs are considered to be harmful to the ozone layer and contribute to global warming.

ISO 14001 An international standard, developed by the International Organization for Standardization (ISO), for setting up and certifying environmental management systems.

Life Cycle Assessment (LCA) A method for assessing the total environmental impact of a product or service "from cradle to grave," including all phases of production, use and final disposal.

Megawatt hour (MWh) A measure of electrical energy equal to the power provided by one megawatt in one hour. Mega is the metric prefix for one million.

Operating profit Revenues less all costs related to operations, but excluding financial items (income and expenses) and taxes.

Operating profit margin Operating profit as a percentage of revenues.

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

Return on capital employed (ROCE) Profit after financial items plus interest paid and foreign exchange differences as a percentage of average capital employed.

Stakeholder An individual or group concerned with or affected by the activities of an organization.

Sustainability Meeting the needs of the present without compromising the ability of future generations to meet their own needs; improving quality of life for everyone, now and for generations to come. Sustainability has three dimensions: economic, environmental, and social sustainability.

Contacts

This is Atlas Copco's first sustainability report. To help the Group develop future reports so that they are useful and relevant to your needs, we would appreciate your feedback on the contents and format of this report. You can send general comments or questions relating to this report to any of the following people at Atlas Copco Group Center:

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