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In the next few years we will launch a constant flow of new, innovative products which, combined with low production costs, will enable us to grow faster and raise margins.

*Statement by the CEO, page 2*



The Electrolux Group's operations are divided into Consumer Products and Professional Products. Consumer Products account for 93 percent of Group sales and comprise appliances for kitchens, fabric care and floor care.

*Electrolux operations, page 4*



Consumer insight is the foundation of all product development at Electrolux. Understanding the needs of consumers as well as how they think, feel and act when they use household appliances enables development work to be more accurate.

*Innovative products and marketing, page 24*



## Contacts

Peter Nyquist  
Vice President, Investor Relations and  
Financial Information

Tel. +46 8 738 67 63

Johan Dahl  
Chief Analyst

Tel. +46 8 738 62 69

Investor Relations

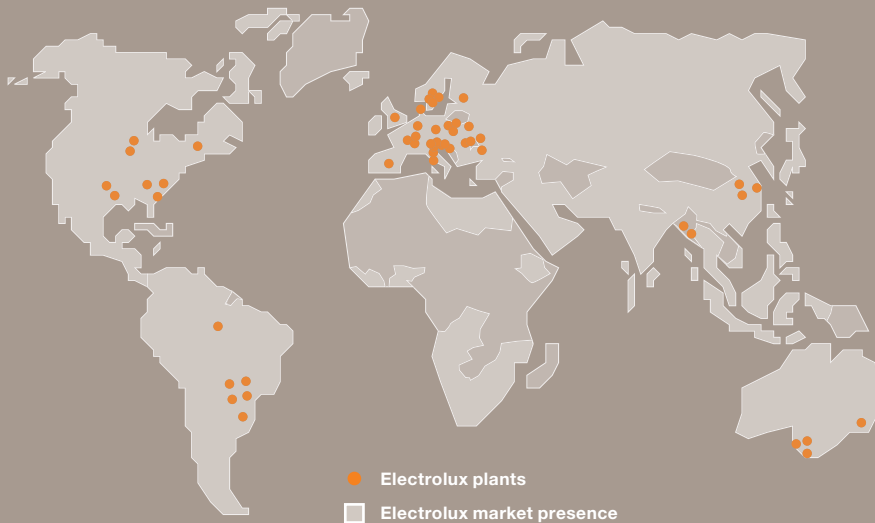
Tel. +46 8 738 60 03

Fax +46 8 738 74 61

E-mail [ir@electrolux.se](mailto:ir@electrolux.se)

The cover was created by Frank Bruzelius, Art Director with Electrolux since 1989. Concept, text and production by Electrolux Investor Relations and Solberg Kommunikation.

# Electrolux – a global leader with a customer focus



Electrolux is a global leader in home appliances and appliances for professional use, selling more than 40 million products to customers in 150 countries every year.

The company focuses on innovations that are thoughtfully designed, based on extensive consumer insight, to meet the real needs of consumers and professionals. Electrolux products include refrigerators, dishwashers, washing machines, vacuum cleaners and cookers sold under esteemed brands such as Electrolux, AEG-Electrolux, Zanussi, Eureka and Frigidaire.

In 2006, Electrolux had sales of SEK 104 billion and 59,500 employees.

## Electrolux product offering

### » Category

#### » CONSUMER DURABLES

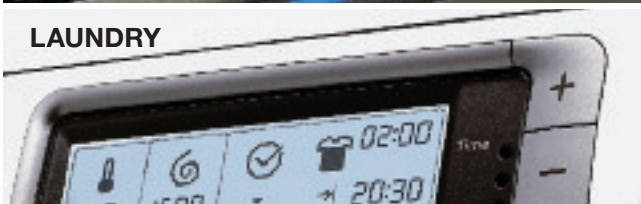
##### KITCHEN



### » Products

For household kitchens throughout the world Electrolux sells cookers, refrigerators, freezers, dishwashers, hoods and small appliances. The increasing role of the kitchen as a meeting place for family and friends gives Electrolux a unique display area for consumers.

##### LAUNDRY



Washing machines and tumble dryers are the core of the Electrolux product offering for cleaning and care of textiles. Innovations and growing preference for higher capacity and user-friendliness are driving demand for Electrolux products.

##### FLOOR-CARE



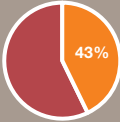
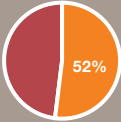
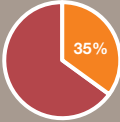
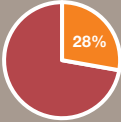






Electrolux vacuum cleaners and accessories are sold to consumers worldwide. A strong global distribution network and an attractive product offering have enabled Electrolux to increase its market share. Production is located exclusively in low-cost countries.

#### » PROFESSIONAL PRODUCTS



Electrolux sells a range of products for professional kitchens and laundries. High productivity, maximum utilization of resources and an extensive service network are key factors for purchases by professionals. Electrolux has a global presence, but is largest in Europe.

# Electrolux business areas

	Share of sales	Share of result	Position	Development 2006
<b>Consumer Durables Europe</b>	 43%	 52%	<ul style="list-style-type: none"> <li>Market leader in core appliances, strong presence in both Western and Eastern Europe.</li> <li>Leading producer of vacuum cleaners and accessories.</li> </ul>	Strong market growth, operating income at same level as in 2005. Costly production stoppages related to accelerated restructuring limited income growth.
<b>Consumer Durables North America</b>	 35%	 28%	<ul style="list-style-type: none"> <li>Third largest producer of core appliances.</li> <li>A leader in vacuum cleaners and accessories.</li> </ul>	Declining demand at the close of the year and strong increases in prices of raw materials impacted operating income, which was in line with 2005. Relocation of refrigerator production to a new plant in Mexico was an important milestone.
<b>Consumer Durables Latin America</b>	 7%	 7%	<ul style="list-style-type: none"> <li>Market leader in both core appliances and vacuum cleaners in Brazil, Latin America's biggest market. Smaller presence in other countries.</li> </ul>	Industry shipments in Brazil showed strong growth. Operating income rose substantially on the basis of higher volume and positive market acceptance of new products.
<b>Consumer Durables Asia/Pacific and Rest of world</b>	 8%	 3%	<ul style="list-style-type: none"> <li>Market leader in Australia, additional presence in New Zealand, China and Southeast Asia.</li> <li>Full ranges of core appliances and vacuum cleaners are offered in all markets.</li> </ul>	Good market growth. Restructuring and an improved product mix contributed to higher income. Profitability in China remained weak.
<b>Professional Products</b>	 7%	 10%	<ul style="list-style-type: none"> <li>Market leader in Europe within the professional food-service and laundry equipment area, and one of the leaders globally.</li> </ul>	Demand increased during the year. Operating income rose on the basis of higher volume and greater efficiency. Production of professional laundry machines was moved from Denmark to Thailand.

## Electrolux strategy

The Group's current restructuring program will generate annual savings of approximately SEK 3 billion from 2010 onward. The number of new products created through consumer-focused product development is increasing rapidly. Work on building the Electrolux brand into a strong global leader is continuing.

Low costs, innovative products and a strong and global brand enable Electrolux to create a foundation for higher profitability and growth.



# Highlights of the year

- Net sales totalled SEK 103.8 billion (100.7)
- Operating income for the year, exclusive of items affecting comparability, was SEK 4.6 billion (4.0)
- Earnings per share amounted to SEK 9.17 (-0.49)
- Improvement in operating income across all business areas
- The restructuring program is developing according to plan
- Increased investments in product development and brand building
- Against the background of the strong balance sheet following the distribution of Husqvarna to Electrolux shareholders, the Group implemented a significant redemption program and repurchased own shares on the stock market
- Proposed dividend is SEK 4.00 (7.50) per share

## Key data, continuing operations

SEKm, EURm, USDm, unless otherwise stated	2006 SEK	2005 SEK	2006 EUR	2006 USD
Net sales	103,848	100,701	11,212	14,070
Operating income	4,033	1,044	435	546
Margin, %	3.9	1.0		
Income after financial items	3,825	494	413	518
Earnings per share, SEK, EUR, USD	9.17	-0.49	0.99	1.24
Dividend per share, SEK, EUR, USD	4.00 <sup>1)</sup>	7.50	0.43	0.54
Average number of employees	55,471	57,842		
Return on net assets, %	23.2	5.4		
Value creation	2,202	1,305	199	242
Net debt/equity ratio <sup>2)</sup>	-0.02	0.11		
Return on equity, % <sup>2)</sup>	18.7	7.0		

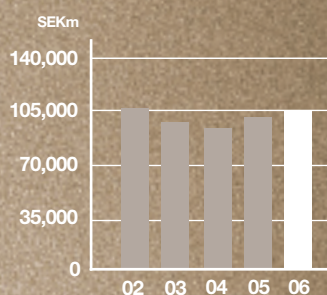
1) Proposed by the Board of Directors.

2) Including discontinued operations.

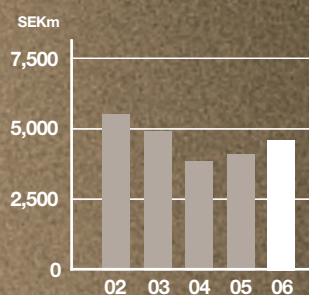
## Net sales and employees in 10 largest countries

	SEKm	Employees
USA	31,704	10,552
Germany	7,610	2,274
Brazil	5,969	6,465
UK	5,157	1,177
France	5,081	1,479
Italy	5,011	8,417
Canada	4,724	1,474
Australia	4,319	2,351
Sweden	3,680	3,021
Spain	2,742	911
Other	27,851	21,370

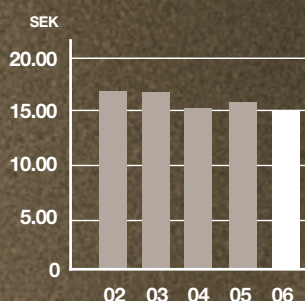
» Net sales<sup>1)</sup>



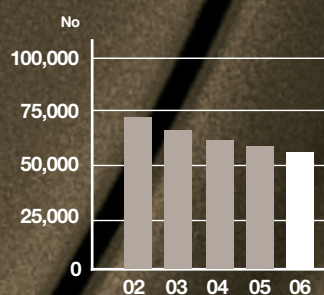
» Operating income<sup>1)</sup>



» Earning per share<sup>1)</sup>



» Number of employees<sup>2)</sup>



1) Continuing operations, excluding items affecting comparability.

2) Average employees for continuing operations.

# Electrolux on the **right track**

Electrolux is changing. Driving this process is the development and introduction of new, innovative products based on our model for customer insight, marketing focus and effective use of different sales channels. In the next few years we will launch a constant flow of new, innovative products which, combined with low production costs, will enable us to grow faster and raise margins.

The spin-off of Husqvarna in June 2006 marked the start of a period in which we face major new challenges as an innovative and market-driven consumer goods company focused exclusively on indoor products for consumers and professional users. Electrolux today is a group with sales of more than SEK 100 billion, a presence in over 150 countries and with 59,500 employees. Sales of indoor products in 2006 were the highest in the company's history. Earnings continued to improve thanks to improved margins in all business areas – despite higher commodity prices, a slowdown in the US economy and lower volumes in Europe due to the strike at Nuremberg, Germany. During the year, we also took steps to adjust our capital structure to our operational needs by buying back our own shares and making a capital distribution via a share redemption procedure.

## **New modern facilities**

The transformation of the household appliance market is especially visible in the speed with which major Western manufacturers have shifted production capacity to new markets. The restructuring program which Electrolux launched in late 2004 has now reached more than the halfway point. When complete in 2009, more than half of our manufacturing will be in low-cost countries. Shifting production to these locations will not only reduce costs but also give us access to new, modern and efficient production facilities. 2006 saw intensive work on this front, and we moved 20 percent of our European manufacturing to low-cost countries. As a result, we can look forward to a clear improvement in productivity in the years ahead. However, relocating production capacity is not a trouble-free process. Suppliers must often move with us and this may sometimes disrupt the supply chain, as happened in Juarez, Mexico. The strike in Nuremberg lasted longer than expected and slowed deliveries, causing us to lose market share. However, we are closing the factory one year ahead of schedule and the planned cost savings will therefore materialize earlier than expected.

Across the Group, efforts in 2006 focused on applying the rationalization and restructuring plan. Implementation of the remaining part of the restructuring program and new decisions are next on the agenda as we move forward.

## **Efficient purchasing structure**

Rising commodity prices added some SEK 6 billion to Group costs from 2004 to 2006. Since 2004, we have introduced various measures in our purchasing organization to reduce raw material costs. Initiatives include making global purchasing more efficient and working more closely with selected suppliers. We have also increased the proportion of goods purchased from low-cost countries from 25 percent to 40 percent in 2006 and we are working constantly to reduce the overall supplier base. These measures have enabled us to offset much of the commodity price increase, and we will continue to devote time and effort to achieving greater purchasing efficiencies.

## **Vacuum cleaner at the forefront**

Let's turn the clock back for a moment to the late 1990s, when I took over as head of the floor-care operations. At that time, the vacuum-cleaner market was undergoing radical change. Globalization and low barriers to entry had led to price pressure and stiff competition, while retailers were growing ever larger and stronger. We needed to take tough actions to remain a major market player – and we did. In four years we have moved all vacuum-cleaner manufacturing to low-cost countries, we have developed and continue to develop innovative products in tune with consumer demands and we focus our marketing on the Electrolux global brand. In 2006, close to 50 percent of our floor-care sales were of models less than two years old, and profits are now back at healthy levels. We are drawing on this experience to transform our other businesses.

## **More innovations in appliances**

Developing new product ranges takes longer for appliances than for floor-care products. However, the second half of 2006 saw the first launches of products developed under our new product development process. The response to products like Electrolux Source and Celebration refrigerators and our Glacier freezer exceeded all expectations. A large number of development projects are in progress across the Group and these will generate a constant flow of new kitchen and laundry appliances. The response from consumers will be vital to our drive to transform Electrolux market position.



Hans Stråberg was appointed President and Chief Executive Officer of Electrolux in 2002. After some tough years, he sees a bright future for Electrolux.

### **New products give higher margins**

Low costs and efficient production processes are crucial to our continued competitiveness, but developing new innovative products is the key to higher earnings and growth. In Europe, we will be launching an entirely new range of innovative products in 2007. In the US, our long-term aim is to introduce new product ranges in appliances to strengthen our modest position in this profitable and fast-growing premium segment. Electrolux US business has undergone dramatic change in the last decade and our market share has grown from 13 percent to around 23 percent. Profits have increased, too. Becoming a major player in the premium segment is the next big step.

### **Profitable brand**

Brand is a vital asset for a consumer products company like Electrolux. We will continue to focus a large share of our marketing resources on developing Electrolux as a strong and global brand. Consumers in our markets should always regard Electrolux as their first choice when buying new household appliances. A well-known brand commands a higher price, encourages repeat purchases and is important for raising profitability.

Our new global communications platform – “Thinking of you” – highlights the strong focus on consumer insight that guides our product development and helps create a positive view of the company.

### **On the right track**

It is worth repeating: Electrolux is on the right track, as our results for 2006 clearly demonstrate. By developing new, innovative products and building a strong and global brand, we will have in the space of a couple of years achieved margins on a par with the industry average. But this is not enough. I am convinced that the organization we have today is capable of making Electrolux one of the most profitable companies in the industry. I can therefore promise that we have an exciting period ahead of us.

Stockholm, March 2007

A handwritten signature in black ink that reads "Hans Stråberg". The signature is written in a cursive, flowing style.

Hans Stråberg  
President and Chief Executive Officer

# Electrolux operations

The Electrolux Group's operations are divided into Consumer Durables and Professional Products. Consumer Durables account for 93 percent of Group sales and comprise appliances for kitchens, fabric care and floor care. **In 2006, Electrolux sold approximately 40 million products in 150 countries.** The products are sold under several brands and some 50 percent are sold under the global brand Electrolux. The Group's largest markets are in Europe and North America. Professional Products account for approximately 7 percent of Group sales and comprise products for professional users in, e.g., industrial kitchens, restaurants and laundries. The strongest market positions are in Europe, and the major share of products are sold under the Electrolux brand.





# Electrolux in the kitchen

Refrigerators, freezers, cookers, hobs, dishwashers, hoods and small appliances are products for the kitchen. Electrolux range of kitchen products is extensive with a strong position in most markets in the world.

## Market

The rate of growth in demand for kitchen appliances in Western Europe and North America has been relatively stable for many years, independently of the business cycle. An important factor is that these appliances are replaced immediately when they break down. Despite continuous improvements in the quality and thus the life cycle of these products, the rate of replacement is accelerating. One reason is that consumers often prefer the new and more innovative products that are being continuously launched. In growth countries, demand is increasing as more people can afford modern kitchen appliances.

In recent years, growth has been in the premium and low-price market segments. Increased global competition between both appliance producers and retail chains has generated a growing customer base for low-price products. Demand for premium products has risen as the kitchen has come to play a more important role in the home.

Most kitchen appliances can be categorized as either free-standing or built-in. The popularity of having built-in products is increasing, particularly in Europe and Australia. Producers of kitchen furnishings often sell complete kitchens inclusive of appliances. Sales of built-in appliances often involve higher prices and improved profitability for producers of household appliances.

## Trends

Perceptions of the kitchen are changing. Instead of being a place for preparing food, the kitchen has become the part of the home where the most time is spent. The kitchen is where family, friends

and guests meet and socialize. It has also become a room that is shown to visitors. The kitchen normally contains a number of different products, which makes it a unique area for displaying brands. With reference to smaller appliances such as toasters, coffee-makers and mixers, the display area is even greater.

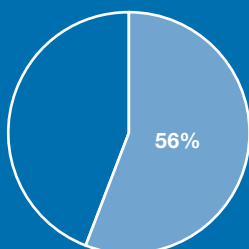
Preparing food is no longer simply a daily chore, but a hobby that calls for special equipment. This has involved greater consumer emphasis on design, user-friendliness and flexibility. Consumers also want to be able to use appliances logically and intuitively, without having to consult a manual. Not least, kitchen appliances must have a capability for preparing traditional foods as well as more advanced and international cuisine.

Strong world-wide trends for health and wellness have affected demand for modern kitchens. The kitchen has to be easy to clean and ergonomically designed. Vegetables and other perishables have to be kept fresh, and prepared so that they preserve their nutritional value, using as little fat as possible. Consumers are demanding features such as ice-cube makers and dispensers for carbonated water, and are willing to pay for them.

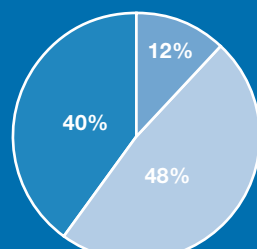
## Brands

Approximately 50 percent of Group sales of kitchen appliances are sold under the Electrolux brand. In the North American market, most of these appliances are sold under the Frigidaire brand. Electrolux also manufactures products which are sold by retail chains under own brands.

» Kitchen appliances, share of total Group sales

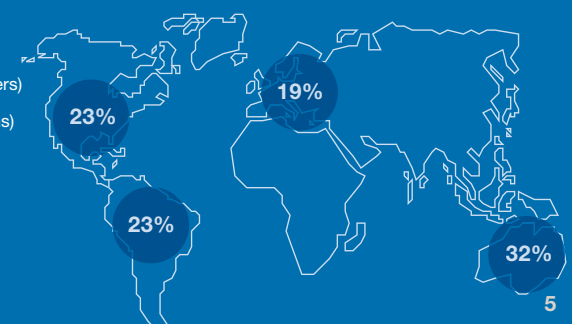


» Product categories, share of total sales in kitchen



- Dish
- Cold (refrigerators, freezers)
- Hot (cookers, hobs, ovens)

» Market shares of core appliances



### Market position and competitors

Electrolux has a substantial market share for all types of core appliances. The Group's strongest global positions are for cookers and hobs. Whirlpool, Bosch-Siemens, General Electric and Indesit are the major competitors in the global market. The market positions of Asian producers in the European and North American markets are still limited, but they have made gains in certain product categories over the past few years.

### Products

A large share of Electrolux sales in both North America and Europe comes from refrigerators and freezers. These product categories are subject to severe competition, and profitability is generally lower than for other categories. The products are relatively large and heavy and are not suitable for long-distance transportation, so that they are often produced near the end-market.

Consumers are willing to spend more money on the kitchen and perceive it as becoming a more important part of the home.

Today, virtually every household in the Western world has a refrigerator, while only about half of them owns a freezer. In certain segments, refrigerators and freezers show high sales growth even in mature markets. Innovative products such as frost-free freezers and Side by Side refrigerators have shown strong growth.

Virtually all households have cookers and ovens today, in mature Western markets as well as growth countries. Electrolux has strong market positions for free-standing cookers and ovens, and for both electric and gas hobs. These product categories are among the most profitable of the Group's kitchen appliances.

Such products are relatively advanced technologically, which provides greater opportunities for differentiation. Innovations such as induction hobs are driving strong growth in certain market segments. Simpler menu-systems with built-in instructions for cooking are one of the innovations that consumers are demanding for cookers.

Electrolux produces dishwashers that are designed and adapted for all types of kitchens and households. Consumers value features such as low noise levels, tailored washing programs, automatic sensing of the required washing cycle, and low energy consumption. There is still a great deal of growth potential in this segment. For example, only one-third of the households in Western Europe own a dishwasher.

## » Manufacturing of kitchen appliances

### Cold

Mariestad	Sweden
Susegana	Italy
Florence	Italy
Jaszbereny	Hungary
Nyíregyháza	Hungary
St Cloud	USA
Anderson	USA
Juarez	Mexico
Changsa	China
Orange	Australia
Curitiba	Brazil

### Hot

Motala	Sweden
Fredericia	Denmark
Rothenburg	Germany
Schwanden	Switzerland
Forli	Italy
Spennymore	UK
Satu Mare	Romania
Swidnica	Poland
Springfield	USA
L'Assomption	Canada
Hang Zhou	China
Dudley	Australia
Sao Carlos	Brazil
Manaus	Brazil

### Dish

Solaro	Italy
Zarow	Poland
Kinston	USA
Regency Park	Australia

We were thinking,  
it doesn't just take a great chef to  
get great results – it takes steam.



**The Electrolux Combi Steam Oven.** Chefs have a secret that helps them create food that's crisp and golden while at the same time being delicious and succulent. It's called combination cooking. Hot air and steam combine to deliver extraordinary results – in both taste and presentation. Restaurants have had this advantage for years. Now it's your turn.

Share more of our thinking at [www.electrolux.com](http://www.electrolux.com)

*Thinking of you*  
**Electrolux**

The “Thinking of you” campaign was rolled out across Europe in the beginning of 2006. Every advertisement communicates Electrolux as the Thoughtful Design Innovator. The Electrolux Combination Oven combines hot air and steam for the best possible result.

# Electrolux in the laundry room

Electrolux produces washing machines and tumble dryers for cleaning and care of clothing. The Group has substantial shares of most markets, and is the world leader in front-loaded washers and the leader in products that feature low consumption of energy and water.

## Market

The pattern of demand for laundry appliances is similar to that for kitchen appliances. Virtually every household in the West now has access to a washing machine, but only 30 percent own a tumble-dryer. Dryers are rare in growth countries.

Washing machines are either top- or front-loaded. Top-loaded machines have traditionally dominated markets in North America and Australia, but are being increasingly displaced by front-loaded machines. Sales of front-loaders in the US are currently growing at an annual rate of about 30 percent. In Europe, front-loaded washers are dominant.

## Trends

Consumers are showing definite preferences for practical, user-friendly washers and tumble dryers. There is also a clear trend to demand for greater capacity. Consumers want washers with more flexible washing programs that can be matched to the available time. They also want machines that can clean sports shoes and dry sensitive garments, and feature low noise levels.

Design is an important sales factor for washers and tumble dryers, although it is not as decisive as for kitchen appliances. Washers and dryers are often purchased together in order to provide a uniform appearance in the laundry room. Energy-efficiency is also becoming more important for consumers. Environmental considerations help to explain why demand for front-loaded washers is growing considerably faster than for top-loaded machines. Front-loaders require less energy and water, and offer better cleaning performance. They also generate less wear on garments.

Depending on the household's circumstances, cleaning appliances are positioned in the laundry room, the bathroom or the kitchen. Electrolux therefore develops a range of solutions, such as compact units for bathrooms or built-in models for the kitchen.

## Brands

In Europe, the Group's laundry products are sold mainly under the Electrolux, AEG-Electrolux and Zanussi brands. In Asia and Latin America, they are sold exclusively under the Electrolux brand. In North America, Frigidaire is the leading brand.

## Market position and competitors

Electrolux is the leader in both washing machines and tumble dryers. The Group's biggest market share is in front-loaded washers. The main competitors in North/South America and Europe are Indesit, Bosch-Siemens, Whirlpool and General Electric. In Australia, the main competitors are Fischer & Paykel and LG.

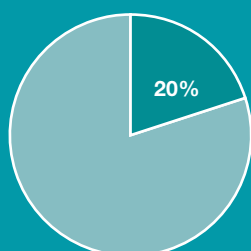
## Products

Electrolux has developed and launched a range of innovative washing machines and tumble dryers that simplify and improve the cleaning process. The Time manager washing machine that was launched in the European market in 2006 enables setting a timer that starts the washing cycle, in order to make the best use of available time.

The Electrolux Sensidry tumble dryer meets consumer preferences for drying sensitive garments of, e.g., wool or silk. Sensidry is the first dryer to satisfy criteria for energy class A.

Electrolux has also launched Iron Aid, a dryer that reduces the need for ironing after the garment is dried. The steam function in Iron Aid can be used to freshen garments such as suits and jackets which otherwise would have to be sent to the cleaner's.

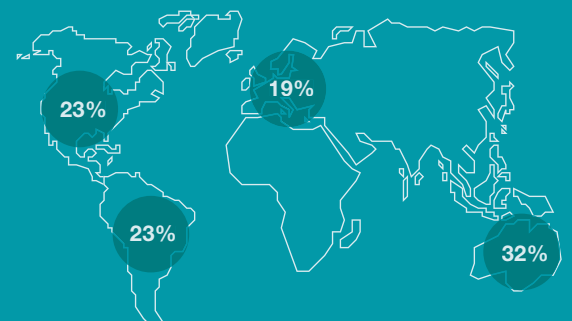
» Laundry products, share of total Group sales



» Manufacturing of laundry products

- Porcia
- Alcala
- Revin
- Siewierz
- Olawa
- St Petersburg
- Webster City
- Changsa
- Beverley
- Rayong
- Italy
- Spain
- France
- Poland
- Poland
- Russia
- USA
- China
- Australia
- Thailand

» Market shares of core appliances



We were thinking,  
why not let the dryer help  
with the ironing?



**The Iron Aid dryer.** Iron Aid uses steam to de-wrinkle shirts and lighten your ironing work. Its refresh cycle enables you to quickly freshen up clothes anytime, removing odours and creases in sweaters, wool jackets, as well as "Dry clean only" and delicate garments. And while Iron Aid helps with the ironing, it's also an exceptional dryer, with special gentle programmes for wool and silk.

Share more of our thinking at [www.electrolux.com](http://www.electrolux.com)

*Thinking of you*  
**Electrolux**

The message in the "Thinking of you" advertisements is universal, even though they are translated into different languages. The Electrolux Iron Aid dryer uses steam to reduce the need for ironing.

# Electrolux and floor-care

Electrolux is the only global supplier of vacuum cleaners and accessories. The Group is one of the world's largest producers, with a significant global market share. All production is located in low-cost countries, and products are developed and sold globally.

## Market

Vacuum cleaners are suitable for long-distance transportation, since the transportation cost per unit is relatively low. The floor care sector has therefore become more globalized than, e.g., appliances for kit-chens and laundries.

Vacuum cleaners are fast-moving consumer items and are sold almost exclusively through retailer chains. Production is based to a great extent on global product platforms. The global market for vacuum cleaners has grown by 2–3 percent annually over the past five years.

## Trends

In recent years, market growth has featured declining prices and an increasing range of low-price products from Asia. This trend has now been reversed, and growth is being driven mainly by innovations and greater concern for health. Consumers are willing to pay more for a product with improved cleaning performance. More and more households are purchasing multiple vacuum cleaners, e.g., one cordless unit for quick cleaning and a wheeled model with higher performance for cleaning the entire home. This reflects a trend for vacuum-cleaning daily instead of once a week.

Despite globalization, there are differences between regional markets. In North America, upright cleaners are most popular, in contrast to Europe and Asia, where wheeled models are the rule.

The market is also divided among cleaners with or without dust bags. In Europe, the share of bagless models is growing. They are usually more expensive, which generates sales growth. In North America, bagless models are already dominant.

## Brands

In Asia and Latin America, the Group sells vacuum cleaners under the Electrolux brand. In Europe, the Electrolux brand accounts for 70 percent of sales, complemented by the Volta, Tornado and Progress brands. Eureka, the Group's largest brand, accounts for 90 percent of sales in North America, but sales under the Electrolux brand are growing.

## Market position and competitors

Electrolux is one of the world's largest producers of vacuum cleaners, with a 14 percent share of a global market valued at approximately SEK 60 billion annually. The main competitors are Dyson, Miele, Hoover, Bosch-Siemens, LG, Bissel, Royal, Samsung and Haier. Electrolux also sells vacuum cleaners and other floor-care equipment for professional users.

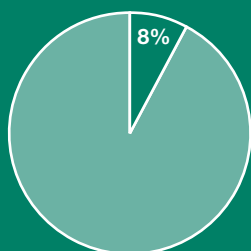
## Products

Electrolux sells vacuum cleaners and accessories such as filters and dust bags on a world-wide basis. Moreover, Electrolux is market leader within the central vacuum system segment. Consumers are demanding ongoing improvements in filtering, noise levels and ergonomics. The Group focuses on continuous development of innovations that consumers are willing to pay for.

A new business model for sales of dust bags and other accessories in the North American market was launched in 2006.

All production is in low-cost countries. About two-thirds of production is outsourced to companies in China.

» Cleaning products, share of total Group sales

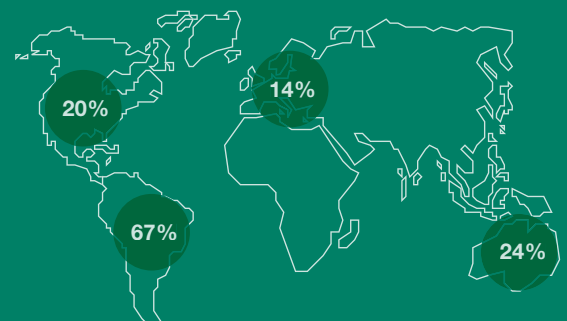


» Manufacturing of vacuum cleaners

Jaszbereny  
Juarez  
Curitiba

Hungary  
Mexico  
Brazil

» Vacuum cleaners, market shares



We were thinking,  
the only bag you need for  
your vacuum cleaner is the  
one you carry it home in.



**TwinClean.** Now introducing  
the bagless vacuum cleaner.

twinClean

Share more of our thinking at [www.electrolux.com](http://www.electrolux.com)

*Thinking of you*  
**Electrolux**

**Being a thoughtful company** means that Electrolux has a responsibility for developing sustainable products in a sustainable way. TwinClean is a bagless vacuum cleaner that also cleans its own filters.

# Consumer Durables in Europe

The European market for household appliances is fragmented both among producers and retailers. Strong growth in Eastern Europe and the increasing importance of kitchen specialists in Western Europe are two important trends.

## Market

The European market for household appliances amounts to approximately SEK 240 billion annually, of which Eastern Europe accounts for about 20 percent. Market growth in Western Europe is being driven by innovation, design, and an increase in the number of households due to demographic changes. In Eastern Europe the main driver for growth is the improvement in living standards.

Virtually all European households have a refrigerator, a washing machine and a cooker. The penetration of freezers, dishwashers and tumble dryers is considerably lower in Eastern Europe than in the West. Demand in Europe for core appliances and vacuum cleaners rose by 4 percent and 5 percent, respectively, in 2006.

## Retailers

There has not yet been a clear consolidation of retailers across Europe. However, consolidation is in progress in specific countries, such as France, the UK and The Netherlands. In general, the European market is dominated by a large number of small, local and independent chains focused on electrical and electronic products as well as home furnishings. The greater share of Electrolux products are sold through retail chains, but sales through kitchen specialists are showing strong growth. In Western Europe, the share of sales by kitchen specialists has risen rapidly over the past decade and is now approximately 24 percent. In Germany and Italy, the figure is approximately 42 percent.

## Market position

Electrolux has strong positions for core appliances throughout Europe. In terms of sales, the Nordic countries, the UK and Germany are the largest markets. Eastern Europe accounts for about 20 percent of the Group's European sales. This share is growing, on the basis of rapid market growth as well as the strong positions in production and distribution that Electrolux has achieved in this region.

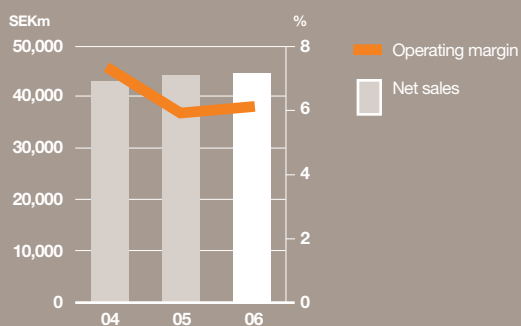
## Competitors

The fragmented structure of producers in Europe has led to a weak trend for price increases despite rising costs for raw materials. In addition, competition from producers in low-cost countries is growing. The major producers in high-cost countries are moving an increasing share of their production to low-cost countries in order to maintain competitiveness.

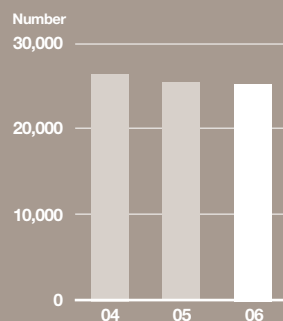
<b>FACTS</b>	<b>CORE APPLIANCES</b>	<b>VACUUM CLEANERS</b>
	<b>Major markets</b>	<b>Major markets</b>
	<ul style="list-style-type: none"> <li>• Italy</li> <li>• France</li> <li>• UK</li> <li>• Germany</li> </ul>	<ul style="list-style-type: none"> <li>• The Nordic countries</li> <li>• France</li> <li>• UK</li> <li>• Germany</li> <li>• Russia</li> </ul>
	<b>Major competitors</b>	<b>Major competitors</b>
	<ul style="list-style-type: none"> <li>• Bosch-Siemens</li> <li>• Indesit</li> <li>• Whirlpool</li> </ul>	<ul style="list-style-type: none"> <li>• Bosch-Siemens</li> <li>• Miele</li> <li>• Dyson</li> <li>• Hoover</li> </ul>



>> Net sales and operating margin



>> Number of employees





# Consumer Durables in North America

The US market for household appliances is the world's most consolidated. The three largest producers have a combined market share of 94 percent, and the four largest retail chains account for approximately two thirds of sales.

## Market

The market for core appliances amounts to approximately SEK 160 billion annually. Virtually every household has a refrigerator, a freezer, a cooker and a washing machine. Penetration of tumble dryers and dishwashers is lower. Growth is driven by replacement buying as well as a growing interest in design, innovation and the environment. Another driver is a trend towards household appliances that have a professional look. The US market comprises many different segments. The largest is the mass market where Electrolux is present under the Frigidaire brand. The premium segment is dominated by General Electric and Whirlpool. The volume of deliveries of core appliances from producers to retailers in 2006 decreased by one percent, after a weak period at the end of the year.

## Retailers

In the US, almost two thirds of sales are accounted for by the four largest retail chains, i.e., Lowe's, Sears, Home Depot and Best Buy. Sears also has a strong position in Canada. Vacuum cleaners are

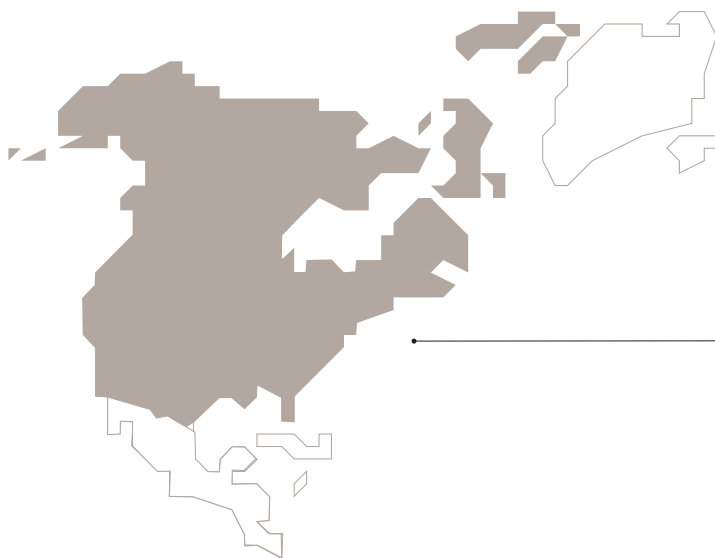
sold mostly through supermarkets such as Wal-Mart. Consolidation of retailers has been in progress for many years. On the basis of large volumes and efficient logistics, the cost of delivery to the retail chains is often lower than to traditional dealers. A large share of sales by retailers is driven by campaigns. In the US, there are few kitchen specialists resembling those in Europe. Instead, kitchens are often built by construction companies that also purchase appliances.

## Market position

The Group has a leading position in core appliances and vacuum cleaners in both the US and Canada. The Electrolux brand is relatively new in the US within core appliances, having been launched in 2004 on a limited scale in the premium segment through the Electrolux ICON product series. The Group's core appliances are currently sold for the most part under the Frigidaire brand, and vacuum cleaners mostly under the Eureka brand. The Group is planning extensive investments in new products and the Electrolux brand in the US market. The goal is to increase the Electrolux brand's share of sales, and to improve the product mix.

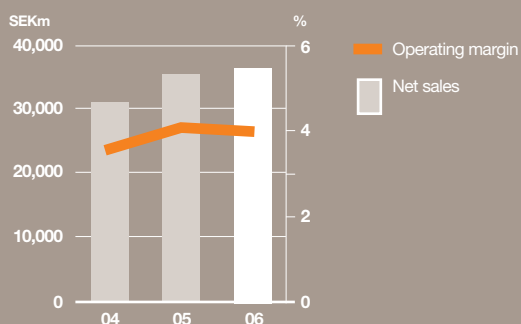
## Competitors

The three largest producers of core appliances in the US account for 94 percent of the market. Whirlpool has a 50 percent share following the acquisition of Maytag in 2006. Consolidation among producers facilitated increasing prices in 2005 in order to offset higher costs for raw materials. The major producers are increasingly relocating production to low-cost countries such as Mexico.

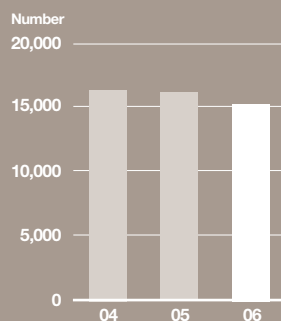


<b>FACTS</b>	<b>CORE APPLIANCES</b>	<b>VACUUM CLEANERS</b>
	<b>Major markets</b>	<b>Major market</b>
	<ul style="list-style-type: none"> <li>• USA</li> <li>• Canada</li> </ul>	<ul style="list-style-type: none"> <li>• USA</li> </ul>
	<b>Major competitors</b>	<b>Major competitors</b>
	<ul style="list-style-type: none"> <li>• Whirlpool</li> <li>• General Electric</li> </ul>	<ul style="list-style-type: none"> <li>• Hoover</li> <li>• Dyson</li> <li>• Bissel</li> <li>• Royal</li> </ul>

### >> Net sales and operating margin



### >> Number of employees



# Consumer Durables in Latin America

Demand for household appliances in Latin America is being driven by strong economic growth. Brazil and Mexico are the largest markets. The level of consolidation among producers is high, with the four largest accounting for approximately 70 percent of sales.

## Market

The Latin American market for core appliances amounts to approximately SEK 43 billion annually. Brazil and Mexico account for 40 percent and 30 percent of this market, respectively, while Argentina, the third largest market, accounts for less than 10 percent. In recent years, Latin America has shown high economic growth and the purchasing power of households has risen. Growth in Latin America was particularly strong in 2006. In Brazil, demand rose by 18 percent. The penetration of core appliances in households is still low, which means that demand is increasing within all product categories. Sales of washing machines have shown the fastest growth rates in recent years.

## Retailers

Appliances are sold directly in shops. Consolidation of regional and local retailers is increasing rapidly. Casas Bahia, the leading retail chain in Brazil, has increased its share of appliance sales from approximately 13 percent in 2003 to almost 30 percent in 2006.

## Market position

The Brazilian market accounts for approximately 70 percent of the Group's sales in Latin America. Sales in Brazil have risen rapidly over the past few years on the basis of successful launches of innovative products under the Electrolux brand. Today, Electrolux is one of the largest producers, and the brand is positioned in the

premium segment. In other major markets, i.e. Mexico and Argentina, Electrolux sales are relatively low. The Group produces core appliances and vacuum cleaners at four plants in Brazil.

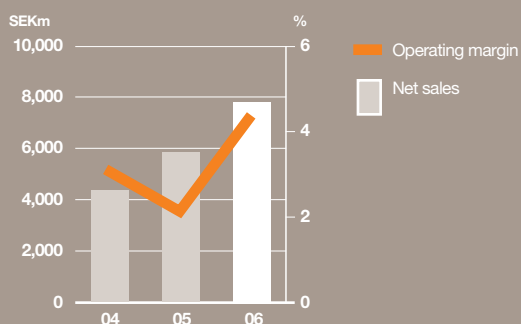
## Competitors

The Latin American market is relatively consolidated, with the four largest manufacturers accounting for approximately 70 percent of production. Whirlpool is the overall leader in this region on the basis of strong positions in the three largest markets. The concentration of producers along with rapid growth has facilitated price increases in recent years in order to offset higher costs for raw materials.

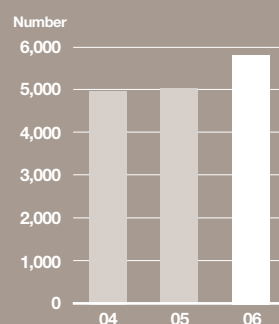


FACTS	<b>CORE APPLIANCES</b>	<b>VACUUM CLEANERS</b>
	<b>Major market</b>	<b>Major market</b>
	<ul style="list-style-type: none"> <li>• Brazil</li> </ul>	<ul style="list-style-type: none"> <li>• Brazil</li> </ul>
	<b>Major competitors</b>	<b>Major competitor</b>
	<ul style="list-style-type: none"> <li>• Whirlpool</li> <li>• General Electric</li> <li>• Mabe</li> </ul>	<ul style="list-style-type: none"> <li>• SEB Group</li> </ul>

## >> Net sales and operating margin



## >> Number of employees



# Consumer Durables in Asia/Pacific

Many markets in Asia show rapid economic growth. Local, low-cost producers have strong positions. Trends in Australia resemble those in Europe, and include increased sales by kitchen specialists.

## Market

The market for household appliances in the Asia/Pacific region amounted to approximately SEK 165 billion in 2006. There are three types of markets: Large and mature, such as Japan, South Korea and Australia, large and rapidly growing, such as China and India, and small and rapidly growing, such as Vietnam and Thailand. The Japanese market is the largest, with sales of more than SEK 80 billion annually. In 2006, the Australian market for core appliances amounted to SEK 11 billion and showed high penetration for most core appliances. Growth in Australia is driven by replacement buying as well as growing interest in innovation, design and the environment.

## Retailers

There are no region-wide retailers. However, there is a trend towards increased consolidation among retailers in specific countries. The Chinese market is currently dominated by three large domestic specialists in electronics, who have shown rapid growth in the coastal areas during the past few years. The presence of inter-

national retail chains in the Chinese market remains low. In Australia, five large chains account for about 70 percent of the market, but their combined share is declining steadily to the advantage of specialists in electronics.

## Market position

Australia accounts for approximately half of Electrolux sales in the region, and the Group now has a leading position for core appliances in this market. The Electrolux brand is becoming the leader in the premium segment in Australia, while the Group's other three brands Westinghouse, Kelvinator and Simpson are maintaining their positions. In Southeast Asia, Electrolux is the market leader for front-loaded washing machines. This position is being leveraged to expand the operation for kitchen appliances. In China, Electrolux is one of a group of international brands in the intermediate and premium segments for core appliances and vacuum cleaners, while the low-price segment is dominated by domestic manufacturers.

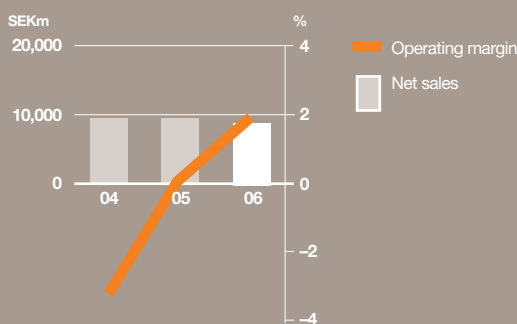
## Competitors

There is no definitive market leader in the Asia/Pacific region. In China, the domestic producer Haier has a market share of approximately 20 percent, followed by a number of local and international producers with relatively small market shares. The South Korean producers LG and Samsung are strong in Australia, where they share third place after Electrolux and Fischer & Paykel each with a share of about 10 percent.

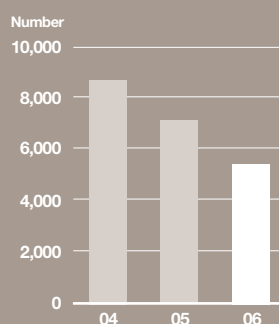


<b>FACTS</b>	<b>CORE APPLIANCES</b>	<b>VACUUM CLEANERS</b>
	<b>Major market</b>	<b>Major market</b>
	• Australia	• Australia
	<b>Major competitors</b>	<b>Major competitors</b>
	• Fischer & Paykel	• Samsung
	• Samsung	• LG
	• LG	• Dyson

## >> Net sales and operating margin



## >> Number of employees



# Professional Products

Electrolux manufactures and sells products for professional kitchens and laundries. The Group has a strong position in Europe. In the US, there is a large potential for growth through increased sales to large restaurant chains and institutions.

## Markets and trends

The market for food-service and laundry equipment is growing by 2–3 percent annually. Structurally, demand is driven by national or regional trends such as an increasing number of diners in restaurants.

Sales of food-service equipment by producers are giving way to sales through dealers and external consultants.

In both the food-service and laundry sectors, customers are demanding products that feature higher productivity and enable maximum utilization of resources. Customers also have stricter criteria for hygiene and energy-efficiency, and they want access to large service networks. At the same time, the customer base is very diversified, which involves many different needs.

## Inspiring consumers

The Group's extensive experience and expertise in food-service and professional laundry equipment also benefits operations in consumer products. Visits by customers to restaurants with open kitchens inspire them to give a professional appearance to their own kitchens.

## Brands

Food-service equipment is sold mainly under the Electrolux and Zanussi Professional brands. Molteni is a niche brand for highly-specialized cookers. Professional laundry equipment is sold exclusively under the Electrolux brand. The number of brands has been purposely reduced in recent years in accordance with the Group's strategy for more effective utilization of benefits of scale in production and marketing.

## Market positions and competitors

The market for food-service equipment amounts to approximately SEK 125 billion annually and for laundry equipment to approximately SEK 20 billion annually. Electrolux is one of the leaders in the global market for this equipment. The Group is active in the global market and has a particularly strong position in Europe. The Group has a large potential for growth in both the US and in emerging markets through increased sales to large restaurant chains and institutions. Electrolux has recently established an operation for food-service equipment in the US market.

The major competitors in food-service equipment are Enodis, ITW-Hobart and the Ali Group. In laundry equipment, the major competitors are Alliance, Miele, Girbau and Primus.

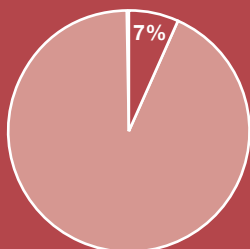
## Products

Electrolux supplies restaurants and industrial kitchens with total solutions for food preparation that include cookers, ovens, dish-washers, refrigerators, freezers and machines for preparation of food. The product range also includes storage systems, food trolleys and ventilation. Electrolux supplies commercial laundries, hotels and hospitals with a range that includes washing machines, tumble dryers and equipment for ironing and finishing. Electrolux has the widest service network in the sector.

Production is located close to the end-user market. A plant in Thailand for professional laundry equipment went into operation in 2006.

The Group has outsourced much of the production of components and focuses on assembly. The share of own-manufactured products in Group sales has increased.

» Professional products, share of total Group sales



» Manufacturing of professional products

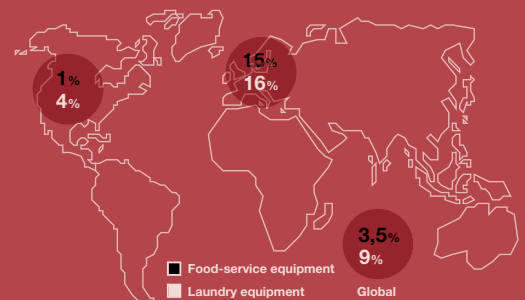
### Laundry service

Ljungby Sweden  
Troyes France  
Rayong Thailand

### Food service

Pordenone Italy  
Vilotta Italy  
Sursee Switzerland  
S. Vallier France  
Aubusson France

» Professional Products market share



Electrolux. An essential ingredient in the world's best kitchens.



Tetsuya Wakuda, Tetsuya's, Sydney

When you're consistently voted one of the best chefs in the world by your peers, you want cooking appliances that can live up to your reputation.

That's why Tetsuya Wakuda relies on Electrolux to help him turn out dishes to perfection every time.

Share more of our thinking at [www.electrolux.com.au](http://www.electrolux.com.au)

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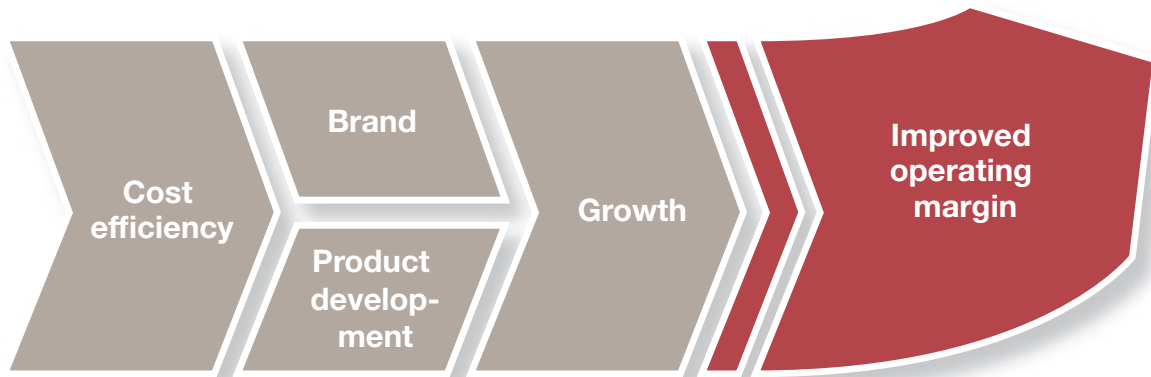
*Thinking of you*

**Electrolux**

**The world-famous chef Tetsuya Wakuda** uses Electrolux products in his restaurant Tetsuya's and at home. This was seen in an Australian advertising campaign which strongly emphasized the advantages of Electrolux being a producer of kitchen appliances for both consumers and professional users.

# A strategy for higher **profitability**

Electrolux is working intensively to improve profitability. Competitive production, new products based on consumer insight, and a strong and global brand are components in a strategy which in coming years would generate profit margins on a level with the best in the industry.



Over the past ten years, the market for household appliances has developed from production and sale of simple basic products to a market driven by innovation and design. Electrolux has been transformed from a production-focused industrial company to an innovative, market-driven company that builds on consumer insight.

The Group's current restructuring program, which involves moving half of production to low-cost countries, will generate annual savings of approximately SEK 3 billion from 2010 and onward.

The number of new products created through consumer-focused product development is increasing rapidly and leading to a better product offering, and thus to an increasing number of more successful launches. Work on building the Electrolux brand into a strong global leader is continuing through large investments in, e.g., the US and Europe. Low costs, innovative products and a strong brand enable Electrolux to create a foundation for higher profitability and growth.

Every year Electrolux is in touch with tens of thousands of users world-wide through surveys, evaluations and tests. "Thinking of you" sums up the Electrolux offering – always put the user first and foremost, whether it's a question of product development, marketing, design, production, logistics or service. By offering products and services that consumers prefer and for which they are willing to pay a higher price, Electrolux can achieve profitable growth.

*Thinking of you*

 **Electrolux**

# Thoughtful product development

In 2006, products that had been launched during the two previous years accounted for more than 40 percent of Electrolux sales. The increased investment in product development based on consumer insight is definitely generating effects.

## Vital consumer insight

Consumer insight is the foundation of all product development at Electrolux. Understanding the needs of consumers as well as how they think, feel and act when they use household appliances enables development work to be more accurate. Even better products are developed, and sales rise for products that consumers are willing to pay a higher price for. Resources for product development are in turn increased, and a positive spiral is created.

## Global product development

Electrolux household appliances and equipment are sold in about 150 countries, and are used in more households than those of competitors. The Group has a global Product Council, and the product development process is also global. Identifying global consumer trends and segmenting customers as well as consumers enables Electrolux to offer products with

Consumer insight is the foundation for all product development at Electrolux. Products must meet identified consumer needs and be easy to use.

more relevant and attractive design, on the basis of fewer product platforms. The goal of Electrolux product development is to create products that are adapted to local needs together with products that can be sold world-wide on the basis of common global needs.

## Consumer trends

On the basis of a large number of interviews and visits to households over the past few years, Electrolux has identified global social trends and consumer needs for which new products can be tailored. The common denominators for all the products developed by Electrolux are ease of use, high quality and exciting design, as well as user and environmental friendliness.



**Thoughtful design**

Consumer interest in design is increasing continuously, which also increases the importance of design as a competitive tool. More and more people are willing to pay for good design. The Group's investments in design, which is a part of the product-development process, help to strengthen the brand and contribute to greater demand as well as higher margins.

**High rate of investment**

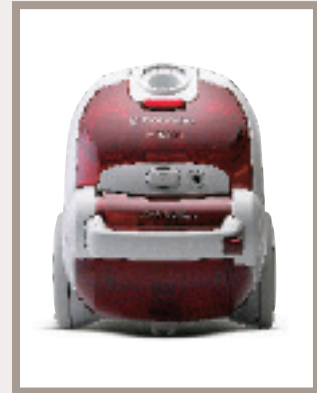
Since 2002, investments in product development have increased from approximately 1 percent of sales to 1.8 percent in 2006. At the same time, development has become more efficient through global cooperation and coordination of launches between different product categories. Investment as a percentage of sales is expected to increase somewhat in coming years. The focus is on developing products in profitable segments and high-growth areas, simultaneously making launches more accurate.

Focus is on developing products in profitable segments

**Unique process for product development**

The Electrolux process for consumer-focused product development, "Thinking of our users", was introduced in 2004 and is unique within the industry. A considerable share of investment is devoted to the early phases of the process, prior to large investments in production, in order to ensure that the product is successful.

**Floor care** – Demand for bag-less vacuum cleaners is growing continuously. Consumers appreciate not having to buy or change dust bags, but they also feel that cleaning a vacuum cleaner filter can be difficult. Electrolux TwinClean solves the problem by cleaning its own filter.



Product development based on consumer insight was initially introduced for floor care products. In combination with short product life-cycles, this means that a great part of the Electrolux vacuum cleaners on the market today has been developed on the basis of consumer insight.

**Kitchen** – Electrolux Glacier is the freezer that provides ice-cubes without requiring the user to fill a container with water. Glacier is the market's first freezer to combine European standard dimensions with a built-in icemaker.



Electrolux is now launching kitchen appliances that have been developed on the basis of consumer insight. New products generated by this process will be launched continuously in the future.

» Electrolux process for consumer-focused product development – "Thinking of our users"

**Strategic market plan**

On which areas should we focus our innovation work? Which changes in consumer behavior can create business opportunities? Where are the growth markets? What can we do that our competitors have not done?

**Identification of consumer opportunities**

In line with our global method, consumers are grouped according to their different needs. Each new product is developed to meet needs that we have identified within a specific target group. What kind of problems and needs do these consumers have? How important are they?

**Primary development**

What technology is needed to meet consumer needs?

**Concept development**

Development of the product concept through interviews, focus groups and surveys.

**Product development**

Definition of functions, features, color and form. At the same time, we investigate how to best produce and sell the new product. We construct prototypes of the product and determine how it will be distributed.





Annika Kühner

## A new innovative product

The Iron Aid dryer was launched in the Swedish market in the autumn of 2006. Annika Kühner was responsible for the launch.

### What sort of market acceptance has the product received?

It surpassed our expectations! It's especially gratifying that the dryer meets a need for many people who have previously not purchased this type of machine because they were afraid it might harm their clothes. Iron Aid is gentle and at the same time substantially reduces the need

for ironing. Although it's priced higher than other dryers, we expect continued strong sales growth in Sweden. We're now launching this product in the rest of Europe as well as Asia and the Pacific. My own Iron Aid gets a lot of use!



**Professional Products** – In general, professional users have similar needs to consumers and are demanding products that are easy on the user and the environment. Advanced technology enables Electrolux to offer CO<sub>2</sub> dry cleaners that utilize the carbon dioxide in the atmosphere and thus minimize the need for hazardous additives.

Product development within Professional Products has been based on user needs and preferences for many years.

range of energy-efficient refrigerators which will be produced at Sharp's plant in Thailand. The goal of this cooperation is to offer consumers innovative products and reduce time-to-market. A number of projects are in progress within other product categories.



### Development with external partners

Cooperating with external partners to develop new products is part of the Electrolux innovation strategy.

In June 2006, the first such project was presented within the framework of a cooperative agreement with Sharp of Japan. Electrolux and Sharp have developed a

**Laundry** – Consumer surveys show that ironing is the household chore that is disliked by the most people. This insight enabled Electrolux to develop the tumble dryer Iron Aid, which dramatically reduces the need for ironing and also removes unpleasant odors from garments.

Over the next few years, a range of laundry appliances will be launched with a strong focus on efficiency and good environmental features.

### Commercial launch preparation

In parallel with product development, we develop marketing based on the consumer insight that the process has generated.

### Launch execution

Efficient, focused marketing enables us to rapidly achieve market acceptance, high volume and profitability.

### Range management

Monitoring and optimizing of our range of products and models.

### Phase-out

Planned phase-out of older products and models to make room for new ones.

A considerable share of investment is devoted to the early phases of the process, prior to large investments in production, in order to ensure that the product is successful.

# A global brand

Electrolux has only one promise and one language. Consumers must always recognize the values that Electrolux stands for, irrespective of which product or service they buy. Electrolux is a strong, global and leading brand for both consumers and professionals.

## A strong brand in the lead

For a consumer-goods company like Electrolux, the brand is one of the most important assets. Since a household does not buy appliances often, consumers have only limited knowledge of what the market has to offer since their last purchase. A strong brand with a leading position that stands for quality and innovative products is attractive to both consumers and retailers. The brand can justify a higher price and provide a stimulus for repeat buying, and also contribute to higher profitability and additional resources for investing in development of new products. It is therefore of great importance to maintain the Electrolux brand as strong, global and in the lead.

## “Thinking of you” – the global message

All Group market communication shall create a uniform image of Electrolux, in every product category and in every geographical market. In 2006, the new global communication platform was launched — “Thinking of you”. It highlights Electrolux strong focus on consumer insight for development of new products, and profiles Electrolux as a “Thoughtful Design Innovator”.

The Group has developed a market-planning process in order to improve coordination of product development and marketing. Activities have been centralized at the regional level to generate stronger impact. The focus is on countries with the biggest potential, and on greater use of cost effective media channels such as PR and the Internet.

## Investing in the brand

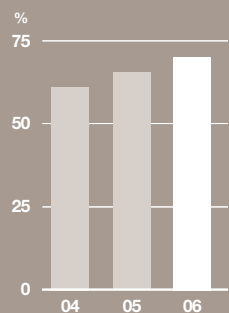
Investments in market communications in 2006 amounted to 1.5 percent of net sales. Over the next few years this figure will rise to more than 2 percent.

Investment in the Electrolux brand accounted for approximately 70 percent of resources for market communication process in 2006. Strong local brands are combined with the Electrolux brand in order to reinforce the link to Electrolux and make marketing more powerful. The share of Group products sold under the Electrolux brand, inclusive of double-branded products, rose from 18 percent in 2000 to approximately 45 percent in 2006. Concentrating on the Electrolux brand enables resources to be used more efficiently. Electrolux is now established as the Group’s largest brand, and its share of Group sales is increasing in Europe, Latin America and Asia. In the US, the Electrolux brand was not launched for household appliances until 2004.

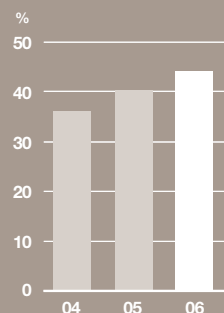
## A strong product portfolio is ready for launch

In terms of the Group’s double-brands, AEG-Electrolux in Europe accounts for most brand investment. This strong brand is clearly positioned on the market for products with premium prices. Other investments refer to local brands such as Zanussi, Eureka and Frigidaire.

» Electrolux brand’s share of total marketing budget



» Electrolux brand’s share of total sales



An important reason for the Electrolux brand’s relatively low share of sales is that it is a new brand in the US. Most of the Group’s sales in the US are under the Frigidaire brand.



### Focus on the US

The Electrolux brand currently accounts for approximately 2 percent of Group sales in the US, and refers to innovative vacuum cleaners as well as core appliances in the premium-price segment. Launches of new series of appliances in the mass-premium segment are planned for the next few years. This segment is showing strong growth and profitability, and is currently valued at approximately USD 10 billion annually. The goal is to increase the Electrolux brand's share of sales in the US, primarily through sales of products in the premium segment.

At present, the Group sells mostly in the medium-price segment, under the local brand Frigidaire. In 2004, the Electrolux ICON brand was launched in the exclusive part of the premium segment.

### Focus on Europe

It is important to strengthen the Electrolux brand in Europe in order to improve the product mix. In addition to investing in the "Thinking of you" campaign, the Group is redistributing marketing resources from the local to the central level. Strategic plans are being developed at the European level and include a number of activities, such as product launches. The plan covers several years and will make an important contribution to higher sales.

### Electrolux and professional users

Both consumers and professional users perceive Electrolux as a strong brand. Consumers benefit from the Group's development of products for the world's most demanding professional users, who in turn benefit from investing in products with a strong, well-known brand.

## Stronger Electrolux brand in the UK

The Electrolux Global Brand Award is given annually to a team within the Group for outstanding and creative strengthening of the Electrolux brand in a specific market. The team that launched the Insight cooker in the UK, led by Andrew Mackay, was named the winner for 2006 in the face of tough competition.

### Why was the launch of the Insight cooker so important?

Electrolux already has high brand awareness in the UK, and has been on the market for many years. It has stood for quality and trust, in the mid-price market segment.

We needed to establish a brand presence in the high-end premium-price segment, and the innovative Insight cooker was a perfect solution.

The launch in 2006 was very successful. It contributed to strong growth in market share as well as profitability. Effective marketing and a well-executed launch enabled us to establish this product in the premium-price segment. Measurements show that the Electrolux brand values have been lifted up and strengthened, as British consumers are willing to pay a premium for this innovative inspirational cooking range.



Andrew Mackay

# Innovative products and marketing



## Steam oven with cookbook

Electrolux was the first to launch a steam oven on the consumer market. Few consumers were aware of how to use it.

A steam oven preserves vitamins, minerals and colors much better than a conventional oven, and less fat is needed. Electrolux in Switzerland produced the first cookbook for steam-oven cooking in order to publicize the technology and its benefits. The recipes were developed in-house, and the cookbook was sold through a publisher.

Both the steam-oven and the cookbook have sold very well. The working group that created the book were awarded second prize for their creative thinking in the Electrolux Global Brand Award 2005.

## Launch of induction hobs in the US

Experience of development of induction hobs for the European market played an important role when this product was launched in 2006 in the US premium segment as Electrolux ICON.

Electrolux is a pioneer in the US, where induction hobs are seldom used. Marketing was therefore aimed primarily at demonstrating the advantages of the product by preparing food in retail outlets. This method was previously unknown in the US market.

A cookbook with recipes tailored for cooking on induction hobs and utensils are included in the purchase price.

## Handheld vacuum cleaner on wheels

Electrolux Rapido is the market's first handheld vacuum cleaner with wheels. Eight models, including one for liquids, will be launched in Europe in 2007.

An increasing number of consumers are altering their cleaning routines, vacuum-cleaning crumbs and dirt every day instead of the entire home once a week. Electrolux Rapido has been developed for ease of use, and is so attractive that it can be left in view.

The wheels help to minimize damage to floors and furniture, and also make the unit more ergonomic. Rapido is easy to empty and can be cleaned under running water or with a large vacuum cleaner.



**Design awards**  
Electrolux has received several awards for its design. Products are perceived as having new and good design.



## New refrigerator with four doors

The new four-door Electrolux Quattro refrigerator was launched in the premium segment of the Asian/Pacific region in the end of 2006. It was developed in cooperation with Sharp and is a forerunner of the new E:Line series of refrigerators now being launched in the region.

## SMART for professionals

Pots in the SMART range for professionals can be tailored in the kitchen with a number of accessories.

## Electrolux Design Lab

The fourth edition of the Electrolux Design Lab Competition challenged participants to create solutions that promote healthier food habits by making healthy food more accessible in the home. The competition

attracted design students from 37 countries, and the jury selected nine finalists.

The winning product – Nevale – was inspired by the pots that have traditionally been used in the Middle East.

Nevale is easily transportable. It consists of three parts that can be used to keep food warm or cold for some time, which makes visits to fast-food restaurants less attractive.

# Profitable growth

Electrolux will achieve profitable growth through competitive production, innovative product development and a strong global brand that is in the lead. The focus is on improving the product offering and identifying areas – product categories, regions and sales channels – that can drive growth.

## An exciting market

The total market for household appliances is growing at about the same rate as the global economy, i.e., 3–5 percent in the course of a business cycle. Although growth measured in value is limited, the market clearly shows a number of strong trends that are driving growth in specific product categories, regions and sales channels.

## Greater penetration and faster replacement of products

Sales of household appliances are growing rapidly in Eastern Europe, Latin America and Asia. As household purchasing power increases, demand grows for products such as cookers, refrigerators and washing machines. In Western Europe and North America, appliances are being replaced at a faster rate despite improvements in product quality. This trend is being driven by new, innovative products with good design, practical functions and good environmental properties.

## More households in Europe and the US

Although population growth is close to zero in Europe and the US, the number of households is increasing. In Western Europe alone, the number of households has grown by approximately 1.5 million annually over the past ten years. More one-adult households and longer life expectancy have contributed to this trend. Sales of household appliances are closely linked to the number of households.

## Growth rates vary between segments

A strong interest in the home and in design together with rising incomes is generating more demand for sophisticated products.

New producers from low-cost countries and an increasing number of large global retail chains offering low prices are generating growth in demand for basic products. In the market for household appliances, growth is currently strong in the low- and high-end segments. Electrolux products are sold to a great extent in the medium-price segment, but the goal is to increase the share in the other segments. In all segments, the Group's efforts are driven by innovation, design and a strong brand.

## Electrolux growth strategies

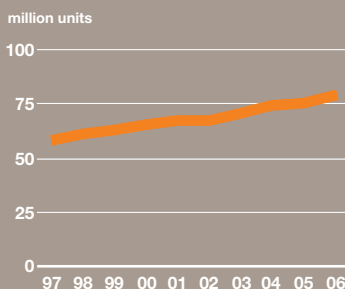
### Products

All the new products that Electrolux launches are created by the Group's process for development based on consumer insight. This increases the probability that the products will be successful. Within vacuum cleaners, where consumer insight has guided development for some years, the share of successful launches has increased dramatically. The Group aims to achieve similar results in other product categories.

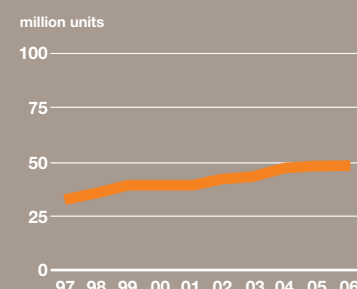
Identifying product areas with a potential for rapid growth is a continuous priority. Electrolux understood the potential for induction hobs in Europe at an early stage, and now has a leading position in this product area in the European market. The Group's induction hobs were launched in the US at the start of 2006 under the Electrolux ICON brand as well as Sears' own brand Kenmore. This product is relatively new on the US market, but demand shows strong growth. Electrolux has a head start on many other producers, thanks to its strong position in Europe.

Other product areas which currently are small can generate strong growth. For example, small innovative household appliances can lead to higher total sales for the Group and at the same time strengthen the brand.

» Shipments of core appliances in Europe, excl. Turkey



» Shipments of core appliances in the US



The market for core appliances in Europe showed stable growth. The US market weakened somewhat.



Important input for initial discussions of a new Electrolux product includes Post-it stickers with comments and requests, photographs of consumers doing housework, and a large amount of creativity and empathy.

#### *Regions*

The Group's strategy is aimed at profitable growth. As a leading player in the market, this means that Electrolux has to follow market growth in developing countries and selectively expand operations in specific product categories. The Group has a strong presence in growth regions such as Eastern Europe, Latin America and parts of Asia in terms of both production and the market. Demand for modern household appliances is increasing strongly in developing countries. Local presence and the broad experience of growth markets that Electrolux has acquired create opportunities for continued expansion.

#### *Sales channels*

The share of kitchen specialists in the network of Electrolux dealers is growing rapidly in Europe and Australia. A strong and stable brand together with new and innovative products will enable Electrolux to increase sales through these specialists.

Prior to a purchase, the Internet is often a consumer's first contact with household appliances. Electrolux has a strong position on the web, and substantial investments will be made to further increase it. New products are displayed on the campaign pages, and detailed information is also available at the web site.

#### *Acquisitions*

In addition to organic growth, Electrolux has opportunities for growth through acquisitions. The top priority is given to technology, products and brands that can help the Group increase its market share in the premium segment.

## Program for improved consumer insight

**Electrolux Consumer Innovation Program (CIP) enables all Group product development to be based on consumer insight. Girish Pimpuktar works on developing refrigerators at the Electrolux plant in Susegana, Italy, and is one of 1,000 employees who have participated in the CIP to date.**

#### **How is the CIP helpful to you in your daily work?**

The CIP has given me new insights and helped me think in new ways. There are always a number of different solutions for meeting consumer needs. For example, a consumer who wants to have cold water may ask for more refrigerator space to store bulky bottles of water but in reality would benefit more by being able to tap carbonated water directly from the fridge door.

The CIP also provides us with a common language and working method. This is very important, as all product creation within the Group is achieved through global multi-functional teams.



**Girish Pimpuktar**

# Made by Electrolux

In an industry featuring tough global competition, maintaining low cost levels and efficient production is a prerequisite for success. Electrolux is achieving savings in production and purchasing, chiefly by moving production to low-cost countries and increasing purchasing there. This is part of a proactive program for creating long-term competitiveness.

## A changing industry

The household appliance sector is experiencing large changes. An entire industry, which was previously located close to end-users in Europe and North America, is moving parts of production to low-cost countries. This change is being driven essentially by consumer demands for better products at lower prices.

The Group started a restructuring program in 2004 aimed at creating a competitive production structure in the long term. The costs of this program are estimated at approximately SEK 8 billion. When it is completed in 2010, more than half of the Group's products will be originated in low-cost countries, and savings will amount to approximately SEK 3 billion annually from 2010.

For the Group's production, personnel costs are second only to the costs of materials. Moving production to low-cost countries substantially reduces the Group's labor costs. On the other hand, transportation costs normally increase, as products must be shipped over longer distances to reach consumers.

Every decision regarding relocation of production is based on careful analysis of a number of factors, such as current and future cost levels, conditions for transportation, access to suppliers and closeness to future growth markets. These analyses have resulted in decisions to open new plants in such countries as Poland, Hungary, Mexico, China and Thailand.

## Restructuring program in an intensive phase

Electrolux has reached more than the half-way mark of the comprehensive restructuring program. The share of production in low-cost countries will reach 40 percent after the decisions made in 2006 are implemented in 2007. The costs of the program to date amount to more than half of the expected total costs. Savings realized according to plan in 2006 amounted to approximately SEK 1 billion.

In 2006, Electrolux took new initiatives for the future production structure. At the end of 2005, it was decided that the plant in Nuremberg, Germany, would be closed. A long strike at the plant early in 2006 meant that products could not be delivered as planned, which led to loss of market share. On the whole, the problems at Nuremberg in 2006 generated an extra cost of approximately SEK 500 million for the Group. This extra cost has been offset by rescheduling the closure of the plant to an earlier date, in the first quarter of 2007. New investments in Poland were made in 2006, and three new plants were opened. A new plant for professional washing machines was opened in Thailand. The new plants feature modern design as well as a production flow with very good productivity and performance.

In the US, the Group closed the world's largest refrigerator plant in Greenville, Michigan. Production has been moved to a new facility in Juarez, Mexico. Despite some temporary supplier problems, the shutdown of the Greenville plant and the start-up in Juarez have proceeded according to plan.

### » Restructuring 2006

#### Plant closures and cutbacks

Mariestad	Sweden	Refrigerators
Tommerup	Denmark	Professional washing machines
Florence	Italy	Refrigerators
Greenville	USA	Refrigerators
Webster	USA	Washing machines

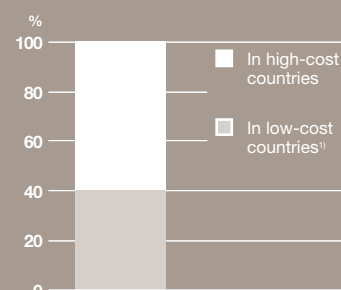
#### New plants

Olawa	Poland	Washing machines
Swidnica	Poland	Cookers
Zarow	Poland	Dishwashers
Rayong	Thailand	Professional washing machines

#### Authorized restructuring

Torsvik	Sweden	Washing machines
Beverley	Australia	Washing machines
Regency Park	Australia	Dishwashers

### » Manufacturing of core appliances



Following completion of restructuring in 2009, 60 percent of the Group's core appliances will be produced in low-cost countries. Many appliances are too heavy and bulky for production to be profitably relocated.

1) Including restructuring authorized in 2006 but not yet implemented.



### Leading production structure in 2009

After the ongoing restructuring program is completed in 2009, the majority of Electrolux appliances will be produced in low-cost countries in Eastern Europe, Asia and Latin America. This transformation has already been implemented for floor-care products. Electrolux will maintain continuous efforts to increase efficiency, but a program on the scale of the one that is currently being implemented will not be required again in the foreseeable future.

### More efficient production with EMS

In parallel with the relocation of production, the Group is implementing a global program for more efficient production, the Electrolux Manufacturing System (EMS). It is based on proven methods for improving production that have been developed both in-house and externally. Safety and the working environment for personnel are improved, as well as product quality. EMS has been implemented with great success in plants that manufacture kitchen and laundry products. In 2007, it will be implemented in facilities for production of vacuum cleaners and professional products.

### Savings in purchasing

The largest cost for production refers to raw materials, which account for more than half of total Group costs. Materials and components from more than 4,000 suppliers are delivered annually to the global network of Group plants. Electrolux has succeeded in making this complex flow of goods more efficient.

The Group's purchasing function works actively to reduce the costs of materials. Better global coordination of purchasing and close cooperation with selected suppliers generate results. This cooperation includes requiring suppliers to comply with the Electrolux Code of Conduct at workplaces.

All purchasing decisions involving amounts in excess of pre-defined levels are made by the global Purchasing Council. Electrolux is purchasing more materials from suppliers in low-cost countries in order to additionally reduce costs. The share of purchases from these countries has risen from approximately 30 percent in 2004 to 40 percent in 2006. The figure for 2008 is expected to be approximately 50 percent. Another priority is to engage the purchasing function at an earlier phase of product development. In 2006, the Group achieved savings in purchasing of approximately SEK 1.9 billion.



Krzysztof Spiehs

## New plant started in Poland

The new Electrolux plant for dishwashers in Zarow, Poland, started up at the end of 2005. Krzysztof Spiehs is plant manager at the new state-of-the-art facility.

### What are the advantages of manufacturing dishwashers in the Zarow plant?

We can supply dishwashers to the rapidly growing Eastern European market at the same time that we can deliver products to other markets at competitive prices. Like the other new Group plants, this one is built on the basis of the Electrolux Manufacturing Sys-

tem (EMS). This means that our plant features high productivity and the quality of our products is very high. The number of complaints is on a very low level.

One year after start-up we are producing 10 percent of Electrolux European dishwashers, and this will climb to 25 percent in 2007.

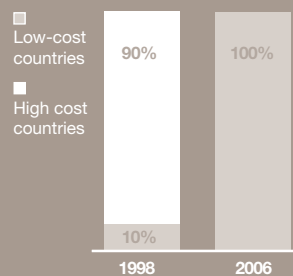
# We have transformed the floor-care business...

The market for floor-care products went through rapid changes at the end of the 1990s. Severe competition, low profitability and the growing strength of dealers generated intensive pressure for change. This led to a vigorous transformation of the Group's operations in this product category.

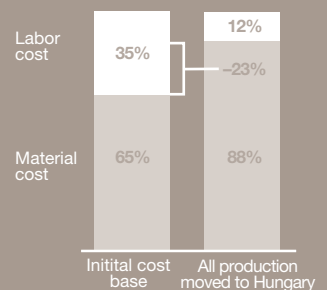
## A changing market

Globalization had dramatic consequences in the market for floor-care products at the end of the 1990s. Low entry barriers, limited transportation costs and relatively simple production resulted in a strong increase in competition from producers in low-cost countries. This in turn led to comprehensive downward pressure on prices and rapidly declining profits for producers in the West. Production was either discontinued or moved to Eastern Europe, Asia or Latin America. Electrolux, with production at own plants in Europe and the US, was hard hit. A vigorous transformation of operations was needed. In 1998-2004, Electrolux decided that plants in the US, Italy, Germany and Sweden would be closed. Today, about 75 percent of the industry's production of vacuum cleaners for consumers is in low-cost countries, while the corresponding figure for Electrolux is 100 percent. The Group operates plants in Mexico, Brazil and

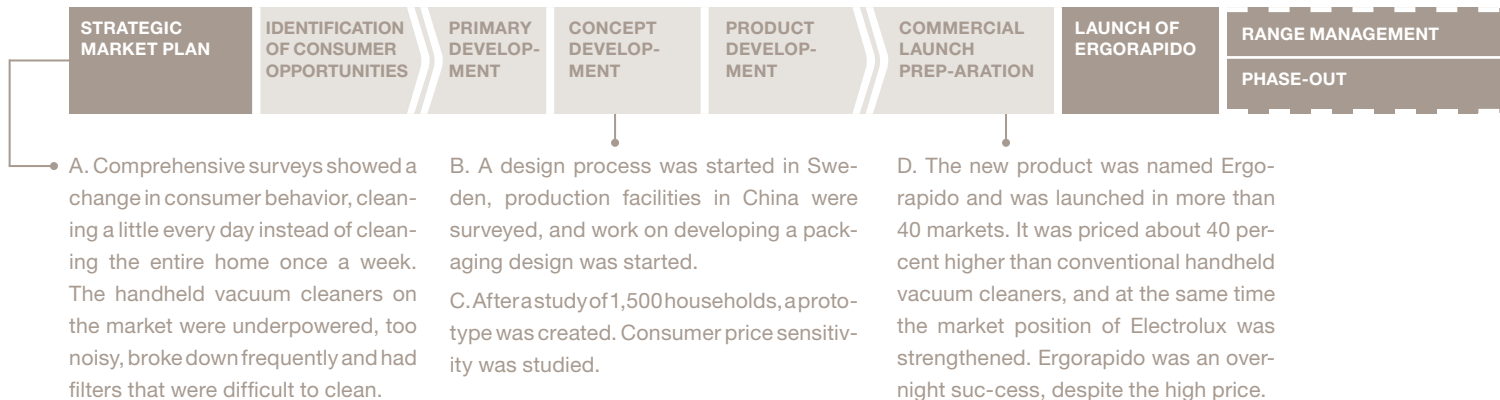
Transfer of Electrolux production



Cost structure



## Focus on product development and marketing – Ergorapido



## ...now we continue with core appliances

In recent years there has been a strong increase in the proportion of successful launches of Electrolux vacuum cleaners. Half of the cleaners sold today were launched during the past two years, and more than 40 percent are sold under the Electrolux brand, including double-branding.

In the second half of 2006, profitability rose to the same level as before the

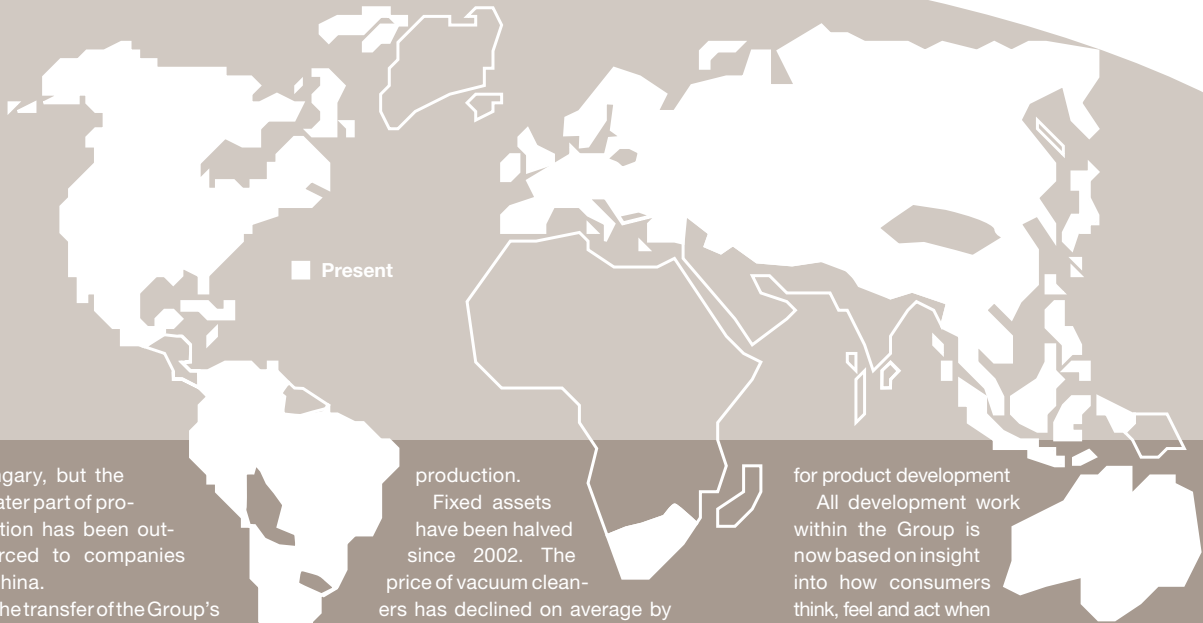
slump in 2002. Lower production costs, a global process for both product development and marketing, and investments in the Electrolux brand have paid off.

On the basis of the successful transformation of the floor-care operation, the Group is now implementing a similar strategy for core appliances.

Production is being moved to low-cost countries. The current restructuring pro-

gram involves moving half of production in high-cost countries.

When this program is completed in 2009, about 60 percent of the Group's production will be located in low-cost countries. Manufacture of large, complex products will remain close to consumers in order to avoid excessive transportation costs. On the other hand, the share of components purchased



Hungary, but the greater part of production has been outsourced to companies in China.

The transfer of the Group's production to low-cost countries has reduced both costs and tied-up capital. Moving production from Germany to Hungary has cut costs in Europe by more than 20 percent. Labor costs have been drastically reduced, while transportation costs have increased somewhat. The capital tied up in the floor-care product operation has been reduced on the basis of fewer own plants and a greater share of outsourced

production.

Fixed assets have been halved since 2002. The price of vacuum cleaners has declined on average by approximately 20 percent since 2002. Price levels have stabilized in recent years and a slow upturn in prices has begun. In Europe, the average price is rising as demand for bagless vacuum cleaners increases and consumers tend to prioritize quality over low price.

In order to shorten the time required to develop new products that respond to consumer needs, Electrolux has invested heavily in improving the internal process

for product development

All development work within the Group is now based on insight into how consumers think, feel and act when they use the products. Developing a new vacuum cleaner takes about 18 months. All the Group's new vacuum cleaners are developed through the new consumer-focused product development process, which is global from start to finish.

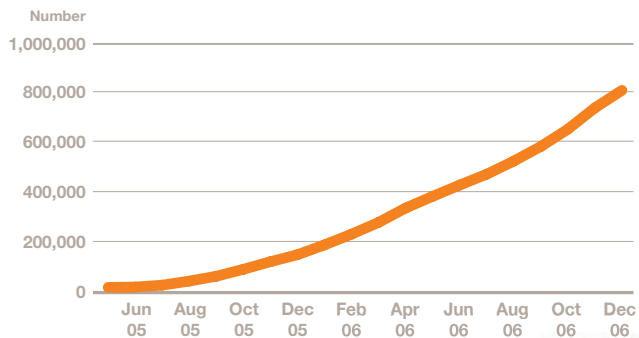
Electrolux is one of the world's largest producers of vacuum cleaners, and the only one with a strong global distribution network.



Coordinated global marketing has been implemented in order to sell the Ergorapido vacuum cleaner on more markets. Sales have risen in every quarter since the launch.

Ergorapido is not a substitute, but is often purchased as a second vacuum cleaner mainly for use in the kitchen. The attractive design means that the user can leave it in view. Successful launches of innovative products also included the TwinClean and Ultra Silencer vacuum cleaners.

#### Accumulated sales volumes of Ergorapido



from low-cost countries will increase for all product categories.

A process for consumer-focused product development has been introduced for core appliances. These take longer time to develop than vacuum cleaners, and the Group is now launching the first new and innovative appliances based on consumer insight.

The next few years will see a continuous flow of new products. Manufacture will be based on global product platforms, and the goal is to reach the same share of successful launches as for vacuum cleaners.

The profitable transformation of the operation in floor-care products points the way for Electrolux in other areas. A new Electrolux has taken shape.

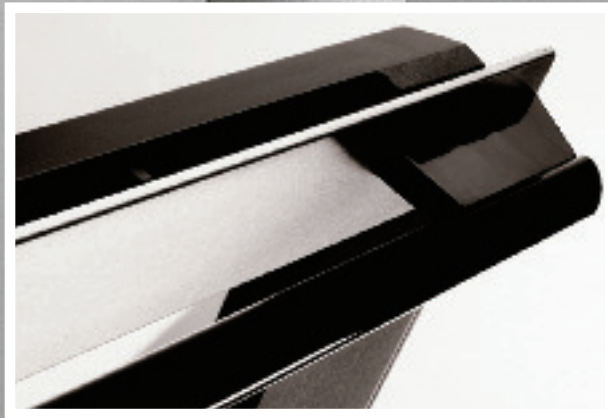


The refrigerator Source and the fridge Glacier.



**The Electrolux Built-In Kitchen** is part of the Group's most extensive product launch ever. It aims to strengthen, lift up and "premiumize" the Electrolux brand on the European market.

One of the most striking elements on the built-in appliances is the thin, white, illuminated line across the products. The line personalizes the kitchens, extensive consumer studies revealed, and is something consumers are proud to have. As consumers are prepared to pay a higher price for appliances, Electrolux margin improves.



# Managing risk to maximize returns

Electrolux is exposed to risks in the course of daily operations. Limiting and controlling risks enable business opportunities to be realized in the interest of maximizing returns. The Group is exposed to two main types of risks, related to either business operations or financial operations. Operational risks are normally managed by the Group's operative units, and financial risks by the central Treasury Department.



For additional information on the risks mentioned above, and certain other risks faced by the Group, see Risk factors on page 129.

## » Sensitivity analysis

Risk	Change		Pre-tax earnings impact, SEKm
<b>Raw material</b>			
Steel	10%	+/-	1000
Plastics	10%	+/-	500
<b>Currencies<sup>1)</sup> and interest rates</b>			
GBP/SEK	-10%	-	354
CAD/SEK	-10%	-	222
USD/SEK	-10%	+	389
EUR/SEK	-10%	+	260
Interest rate	1 percentage point	+/-	40

1) Includes both translation and transaction effects.

## » Cost structure 2006

Cost item	% of total cost
Personell	19
Depreciation	3
<b>Fixed costs</b>	<b>22</b>
Raw materials and components	48
Product development	2
Transport	5
Brand investment	2
<b>Variable costs</b>	<b>57</b>
Other	21
<b>Total</b>	<b>100</b>

Raw materials and components account for almost half of total Group costs.

## Operational risks

The ability of Electrolux to increase both profitability and dividends to shareholders is largely dependent on how well the Group succeeds in developing new and innovative products and in maintaining cost-efficient production. Management of changes in commodity prices and components as well as managing restructuring are also vital factors for achieving and maintaining profitability.

### *A highly competitive market*

Electrolux operates in competitive markets, most of which are relatively mature. This means that demand is relatively stable, but price competition is strong in most product categories. In 2006, price competition was most apparent in the European market, largely because it is fragmented and features a large number of competitors. Price competition was also present in the North American market despite the much more consolidated structure of the market. The Group's strategy is based on product innovation and brand-building, and one of its goals is to minimize and counteract price competition for the products it sells.

### *Customer exposure*

Consolidation among the Group's major customers, e.g., home-electronics chains, has given retailers a stronger negotiating position, at the same time creating opportunities for higher growth. Sales to global and national retail chains have made a strong contribution to the growth of Electrolux, especially in the North American market. Consolidation of retailers has led to greater dependence on individual customers, leading to greater risk in terms of accounts receivable and customer credit.

Electrolux has enough flexibility to meet variations in demand, as the proportion of fixed costs is relatively low, accounting for around 22 percent of total costs. The largest single cost item is purchases of materials and components.

### *An intensive phase of restructuring*

A large share of the Group's production is being relocated from high-cost countries to countries with lower cost levels. This is a complex process that requires managing a number of different activities and risks. Higher costs in connection with relocation may

affect the income trend in a specific quarter. During relocation, Electrolux is also dependent on cost-efficient deliveries of components and half-finished goods from suppliers.

### *Commodities and components comprise the biggest cost*

In 2006, Electrolux purchased components and raw materials for approximately SEK 48 billion, of which direct costs of raw materials amounted to approximately SEK 23 billion. The Group's raw materials exposure refers mainly to steel, plastics, copper and aluminum.

Electrolux does not use financial instruments to hedge the purchase prices of raw materials. However, bilateral agreements with suppliers are utilized for that purpose. Only a minor part of raw material purchases are done at spot prices. The costs of raw materials rose by a total of approximately SEK 900 million in 2006. The Group has experienced significant increases in raw materials costs over the last three years. Those increases have mainly been compensated for through savings but also through higher sales prices.

## Financial risks and commitments

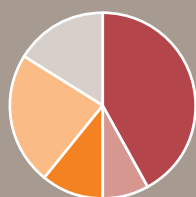
The Group's financial risks are managed within the framework of the financial and credit policies determined by the Board of Directors. Management of these risks is largely centralized to the Group's Treasury Department and is based to a great extent on financial instruments. Accounting principles, risk management and risk exposure are described in greater detail in Notes 1, 2 and 17.

### *Exchange-rate exposure*

Operations in a number of different countries throughout the world expose Electrolux to the effects of changes in exchange rates. These affect Group income through translation of income statements in foreign subsidiaries to SEK, i.e., translation exposure, as well as through exports of products and sales outside the country of manufacture, i.e., transaction exposure.

Translation exposure is related mainly to EUR and USD. Transaction exposure is greatest in EUR, USD, GBP and HUF. The Group's global presence and widespread production and sales enable exchange-rate effects to be balanced.

## » Raw material exposure



- Carbon steel, 42%
- Stainless steel, 8%
- Copper and aluminum, 11%
- Plastics, 23%
- Other, 16%

In 2006, Electrolux purchased raw materials for approximately SEK 23 billion. Purchases of steel accounted for the largest cost.

## » Price trend for steel



Changes in exchange rates also affect Group equity. The difference between assets and liabilities in foreign countries is subject to these exchange-rate changes and comprises a net foreign investment. At year-end 2006, the largest foreign net assets were in USD, EUR and HUF.

#### *Foreign-exchange hedging*

The Group uses currency derivatives to hedge the exchange-rate exposure that arises. The estimated exchange-rate exposure is normally hedged for a period of six to twelve months. Exchange-rate exposure arising from translation of results in foreign subsidiaries is not hedged. At year-end 2006, the market value of the Group's exchange-rate hedges related to transaction exposure amounted to SEK 23 million.

In accordance with the Group's financial policy, a portion of foreign assets is hedged through borrowings in the currencies of the countries concerned, and through the use of currency derivatives. Exchange-rate profits and losses on net assets and hedges are taken directly to equity. Costs related to hedging are reported under net financial income. In 2006, costs for hedging foreign net assets amounted to SEK 236 million.

#### *Interest-rate risks*

At year-end 2006, external borrowings by Electrolux amounted to SEK 6,118 million. The majority of these borrowings were in EUR and SEK. The average rate of interest on external borrowings at year-end was 6.0 percent. The interest-fixing period at year-end was 0.5 months. On the basis of the volume of borrowings and the interest-fixing period in 2006, a change of one percentage point in interest rates would have an impact of +/- SEK 40 million on Group income.

#### *Pension commitments*

At year-end 2006, the Group's commitments for pensions and employee benefits amounted to approximately SEK 23 billion. The Group manages pension funds in the amount of approximately

SEK 14 billion. At year-end 2006, 40 percent of these funds were placed in shares, 50 percent in bonds and 10 percent in other assets. Changes in the value of assets and commitments year-on-year depend primarily on trends in the interest rates and stock markets. Changes in assumptions regarding average life expectancy and the costs of health care are also factors that affect pension commitments. Costs reported in the income statement for pensions and benefits amounted to approximately SEK 800 million in 2006. During the year, approximately SEK 1.5 billion was paid in to the Group's pension funds.

Management of the Group's pension commitments is centralized to the Treasury Department in the interest of adequate control and cost-efficient management. The Group uses interest-rate derivatives to hedge a portion of risks related to pensions.

#### **Other risks**

##### *Changes in regulations and directives*

The EU directive effective from 2005 regarding electrical and electronic waste (WEEE) makes producers and importers responsible for recycling and treatment of such waste in connection with disposal.

Annual costs related to WEEE when the directive is fully implemented in 2008 are estimated at approximately SEK 600 million. This estimate is based on the Group's commitment to implementation of the directive and on the share of recycling in individual countries. A higher degree of recycling entails higher costs for WEEE, and vice versa. Electrolux has compensated for a large share of the costs by visibly including a surcharge in the price of the products concerned. In most European countries a surcharge is permissible until 2011 for small appliances and until 2013 for large appliances. Surcharges will not be permitted after these dates.

For additional information on certain other risks, including those relating to regulations, environment, pending litigation, warranties, product liability, insurance and the distribution of Husqvarna, see Risk factors on page 129.

#### » Foreign-exchange transaction exposure, forecast 2007

SEKm	Net flow	Hedges	Net
EUR	-4,980	2,630	-2,350
USD	-3,620	1,280	-2,340
GBP	3,460	-2,620	840
HUF	-2,250	1,250	-1,000
CAD	1,480	-530	950
AUD	1,020	-690	330
Other	4,890	-1,320	3,570





# Strong market performance by Electrolux shares

2006 was a good year on the stock market, not least for Electrolux. After adjustment for the distribution of the Outdoor Products operations, Husqvarna, the trading price of Electrolux B-shares rose by 11 percent and at year-end was SEK 137.00. This represents a total market capitalization of SEK 39 billion, corresponding to approximately 1 percent of the Stockholm Stock Exchange. Total return in 2006 amounted to 16 percent. The total average return on Electrolux shares over the past ten years is 22 percent.

The business magazine Affärsvärlden's General Index for the Stockholm Stock Exchange rose by approximately 24 percent in 2006, and the European indexes for shares in consumer-goods companies rose by 19 percent.

The market capitalization of Electrolux shares at year-end 2006 was SEK 39 billion (SEK 64 billion including Husqvarna), which corresponded to 0.9 (1.8) percent of the total market capitalization of the Stockholm Stock Exchange.

The highest closing price for Electrolux B-shares during the year was SEK 140.50 on December 14, and the lowest SEK 92.00 on June 13.

## Trading volume

In 2006, 679.1 (556.6) million Electrolux shares were traded on the Stockholm Stock Exchange at a value of SEK 82.7 (92.4) billion. Electrolux shares thus accounted for 1.5 (2.5) percent of the total yearly trading volume of SEK 5,521 (3,764) billion on the Stockholm Stock Exchange.

The average value of the A- and B-shares traded daily was SEK 334 (365) million, corresponding to 2.7 million shares.

A total of 120.2 (117.7) million Electrolux shares were traded on the London Stock Exchange, while 1.9 (2.9) million American Depository Receipts (ADRs) were traded. At year-end, 810,048 (1,405,855) depository receipts were outstanding.

## Effective yield

The effective yield indicates the actual profitability of an investment in shares, and comprises dividends received plus the change in trading price.

The average annual effective yield on an investment in Electrolux shares was 22.3 percent over the past ten years. The corresponding figure for the Stockholm Stock Exchange was 16.9 percent.

### Key facts

Share listings: <sup>1)</sup>	Stockholm, London
Number of shares:	308,920,308
Number of shares after repurchase:	278,933,552
High and low for B-shares, 2006:	SEK 140.50–92.00
Market capitalization at year-end 2006:	SEK 39 billion
Beta value: <sup>2)</sup>	1.02
GICS code: <sup>3)</sup>	25201040
Ticker codes:	Reuters ELUXb.ST Bloomberg ELUXB SS

1) The trading of the Group's ADRs was transferred from NASDAQ to the US Over-the-Counter market as of March 31, 2005. One ADR corresponds to two B-shares.

2) The beta value indicates the volatility of the trading price of a share relative to the general market trend, measured against the Stockholm All Share Index for the last four years.

3) MSCI's Global Industry Classification Standard (used for securities).

## » Trading volume of Electrolux shares

Thousands	2006	2005	2004	2003	2002
Stockholm, A- and B-shares (ELUXa and ELUXb)	679,133	556,568	542,304	480,415	504,394
London, B-shares (ELXB)	120,153	117,726	122,777	128,303	259,231
ADRs (ELUX)	1,928	2,926	5,767	4,460	6,890

The Bank of New York is the depository bank for ADRs.

## » Average daily trading volume of Electrolux shares on the Stockholm Stock Exchange

SEK thousand	2006	2005	2004	2003	2002
A-shares	259	59	34	33	72
B-shares	333,658	365,074	316,424	299,139	327,294
<b>Total</b>	<b>333,917</b>	<b>365,133</b>	<b>316,458</b>	<b>299,172</b>	<b>327,366</b>

## Repurchase of shares

	2006	2005	2004	2003	2002
Number of shares as of January 1	308,920,308	308,920,308	324,100,000	338,712,580	366,169,580
Redemption/cancellation of shares	—	—	-15,179,692 <sup>1)</sup>	-14,612,580	-27,457,000
Number of shares as of December 31	308,920,308	308,920,308	308,920,308	324,100,000	338,712,580
Number of shares bought back	19,400,000	—	750,000	11,331,828	11,246,052
Total amount paid, SEKm	2,193	—	114	1,688	1,703
Price per share, SEK	113	—	152	149	151
Number of shares sold under the terms of the employee stock option programs	5,234,483	1,918,161	10,600	113,300	—
Number of shares held by Electrolux, at year-end	29,986,756	15,821,239	17,739,400	17,000,000 <sup>2)</sup>	20,394,052 <sup>2)</sup>
% of outstanding shares	9.7	5.1	5.7	5.2	6.0

1) Redemption of shares.

2) After cancellation of shares.

### Structural measures contribute to market interest

In 2006, Electrolux implemented a number of structural measures which contributed to stimulating strong market interest in both the company and its shares.

#### Distribution of Husqvarna

The Group's Outdoor Products operations was distributed to Electrolux shareholders and listed as Husqvarna AB on the O-list of the Stockholm Stock Exchange. As of June 8, 2006, the Electrolux share price was adjusted for the Husqvarna spinoff.

#### Distribution of capital through redemption of shares

In July 2006, the Board of Directors announced that it would review the company's over-capitalized balance sheet. The review led to a proposal at an Extraordinary General Meeting to redeem Electrolux shares in the amount of approximately SEK 5.6 billion, or SEK 20 per share. The redemption was implemented in January, 2007.

#### Repurchase of own shares

During the year, Electrolux utilized the mandate for repurchase of shares that was authorized by the Annual General Meeting in the spring of 2006. A total of 19.4 million shares were repurchased on the market at an average price of SEK 113 per share.

After adjustment for purchases by senior management, the repurchase of shares represents a transfer of SEK 1.5 billion to the shareholders. Over the past five years, Electrolux has repurchased shares in the amount of SEK 5.7 billion.

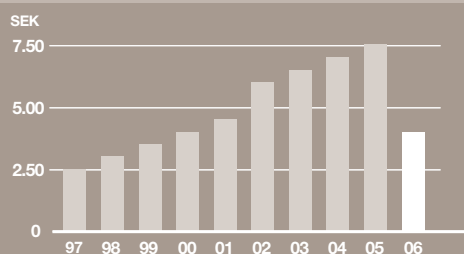
At year-end 2006, the company owned a total of 29,986,756 B-shares, corresponding to 9.7 percent of the total number of outstanding shares.

### Dividends and dividend policy

The Board of Directors has decided to propose a dividend for 2006 of SEK 4.00 (7.50) per share at the AGM, corresponding to 35 (48) percent of income per share, excluding items affecting comparability. The level of the dividend reflects the fact that Husqvarna AB is no longer part of the Group and that SEK 5.6 billion has been distributed to shareholders through a redemption procedure.

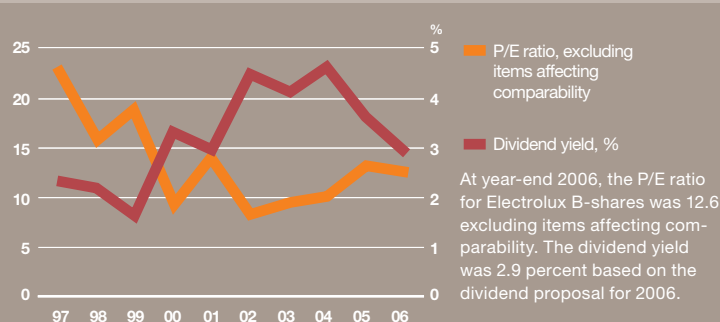
The Group's goal is for the dividend to correspond to at least 30 percent of income for the year, excluding items affecting comparability.

#### » Dividend per share



The Board of Directors proposes a dividend of SEK 4.00 per share for 2006. The level of the dividend reflects the fact that Husqvarna AB is no longer part of the Group and that SEK 5.6 billion has been distributed to shareholders through a redemption procedure.

#### » P/E ratio and dividend yield



At year-end 2006, the P/E ratio for Electrolux B-shares was 12.6 excluding items affecting comparability. The dividend yield was 2.9 percent based on the dividend proposal for 2006.

**Major shareholders in AB Electrolux**

	Number of A-shares	Number of B-shares	Total number of shares	Share capital, %	Voting rights, % <sup>1)</sup>
Investor AB	8,270,771	26,094,300	34,365,071	11.1	27.6
Alecta Pension Insurance	500,000	23,225,000	23,725,000	7.7	7.2
Fourth Swedish National Pension Fund	—	8,612,840	8,612,840	2.8	2.2
Swedbank Robur Funds	—	7,142,001	7,142,001	2.3	1.8
SHB/SPP Investment Funds	—	6,456,465	6,456,465	2.1	1.6
SEB Funds	—	4,793,557	4,793,557	1.6	1.2
Second Swedish National Pension Fund	—	3,509,959	3,509,959	1.1	0.9
Skandia Life Insurance	139,111	3,139,164	3,278,275	1.1	1.1
IndustriTjänstemannaförbundet, Sif	—	3,145,400	3,145,400	1.0	0.8
Third Swedish National Pension Fund	—	2,613,104	2,613,104	0.8	0.7
Other shareholders	592,393	180,699,487	181,291,880	68.4	54.9
<b>External shareholders</b>	<b>9,502,275</b>	<b>269,431,277</b>	<b>278,933,552</b>	<b>90.3</b>	<b>100.0</b>
AB Electrolux	—	29,986,756	29,986,756	9.7	0.0
<b>Total</b>	<b>9,502,275</b>	<b>299,418,033</b>	<b>308,920,308</b>	<b>100.0</b>	<b>100.0</b>

1) Adjusted for repurchase of shares as of December 31, 2006.  
Source: SIS Ägarservice as of December 31, 2006.

**Share capital**

The share capital of AB Electrolux as of December 31, 2006 consisted of 9,502,275 A-shares and 299,418,033 B-shares, totaling 308,920,308 shares. A-shares carry one vote and B-shares one-tenth of a vote. Each share has a quota value of SEK 5.00. In general, 100 percent of the shares are considered to be free-floating.

**Shareholders and changes in ownership structure**

At year-end 2006, about 54 percent of the total share capital was owned by Swedish institutions and mutual funds, about 38 percent by foreign investors, and about 8 percent by private Swedish investors. Most of the shares owned by foreign investors are registered through banks and other trustees, so that the actual shareholders are not officially registered.

In 2006, Alecta Pension Insurance and the Fourth Swedish National Pension Fund increased their holdings in Electrolux, while the Second Swedish National Pension Fund sold a large portion of its holding. The percentage of shares owned by foreign investors declined somewhat from early 2006.

**Incentive programs**

Electrolux has implemented several long-term incentive programs for senior managers. Since 2004, performance-related share programs have been introduced, based on targets for value creation within the Group over a three-year period. Under these programs, Electrolux B-shares will be distributed to the participants after the end of the period on the basis of the targets achieved. The Board of Directors will present a proposal at the Annual General Meeting for a share program in 2007 corresponding to the previous share programs.

Previous programs entitled an allotment of options that can be redeemed for shares at a fixed price. The value of the options is linked to the trading price of the Electrolux B-share.

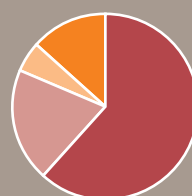
During 2006, senior managers in Electrolux purchased 5,234,483 B-shares under the terms of the employee stock option programs. The incentive programs corresponded at year-end 2006 to a maximum dilution of 1.6 percent of the number of shares, or 4,948,346 B-shares.

For additional information on the incentive programs, see Note 22 on page 92.

**» Distribution of shareholdings**

Shareholding	Ownership, %	Number of shareholders	As % of shareholders
1–1,000	4.4	52,471	88.2
1,001–10,000	5.3	6,218	10.4
10,001–20,000	1.3	281	0.5
20,001–	89	569	0.9
<b>Total</b>	<b>100</b>	<b>59,539</b>	<b>100</b>

Source: SIS Ägarservice as of December 31, 2006.

**» Shareholders by country**

■ Sweden, 62%  
■ USA, 20%  
■ UK, 5%  
■ Other, 13%

As of December 31, 2006, approximately 38 percent of the total share capital was owned by foreign investors.

Source: SIS Ägarservice as of December 31, 2006.

### Per-share data<sup>1)</sup>

	2006 <sup>10)</sup>	2005	2004	2003	2002	2001	2000	1999	1998	1997
Year-end trading price, SEK <sup>2)</sup>	137.00	206.50	152.00	158.00	137.50	156.50	122.50	214.00	139.50	110.20
Highest trading price, B-shares, SEK	140.50	210.00	174.50	191.00	197.00	171.00	230.00	222.00	161.00	139.80
Lowest trading price, B-shares, SEK	92.00	141.00	126.50	125.50	119.50	92.00	110.00	118.00	87.50	77.70
Change in price during the year, %	11	36	-4	15	-12	28	-43	53	27	39
Equity, SEK	48	88	81	89	87	88	77	70	67	56
Trading price/equity, %	287	234	187	178	158	178	159	304	209	196
Dividend, SEK	4.00 <sup>3)</sup>	7.50	7.00	6.50	6.00	4.50	4.00	3.50	3.00	2.50
Dividend, % <sup>4)5)</sup>	35 <sup>3)</sup>	48	46	39	36	41	30	31	34	52
Dividend yield, % <sup>6)</sup>	2.9	3.6	4.6	4.1	4.4	2.9	3.3	1.6	2.2	2.3
Earnings per share, SEK	9.17	6.05	10.92	15.25	15.58	11.35	12.40	11.40	10.85	0.95
Earnings per share, SEK <sup>5)</sup>	10.89	15.82	15.24	16.73	16.90	11.10	13.25	11.45	8.85	4.85
Cash flow, SEK <sup>7)</sup>	7.53	2.45	10.81	9.15	23.14	15.55	4.67	11.53	2.57	2.66
EBIT multiple <sup>8)</sup>	9.4	16.1	9.5	6.8	5.9	10.0	8.1	12.9	10.0	4.6
EBIT multiple <sup>5)8)</sup>	8.3	9.1	6.7	6.3	5.6	9.8	7.7	12.5	11.5	2.6
P/E ratio <sup>5)9)</sup>	12.6	13.1	10.0	9.4	8.1	14.1	9.2	18.7	15.8	22.7
P/E ratio <sup>9)</sup>	14.9	34.4	14.4	10.4	8.8	13.8	9.9	18.8	12.9	116.0
Number of shareholders	59,500	60,900	63,800	60,400	59,300	58,600	61,400	52,600	50,500	45,660

1) The figures for 1997 have been adjusted for the 5:1 stock split in 1998.

2) Last price paid for B-shares.

3) Proposed by the Board.

4) As percent of income for the period.

5) Excluding items affecting comparability.

6) Dividend per share divided by trading price at year-end.

7) Cash flow from operations less capital expenditures, divided by the average number of shares after buy-backs.

8) Market capitalization excluding buy-backs, plus net borrowings and minority interests, divided by operating income.

9) Trading price in relation to earnings per share after full dilution.

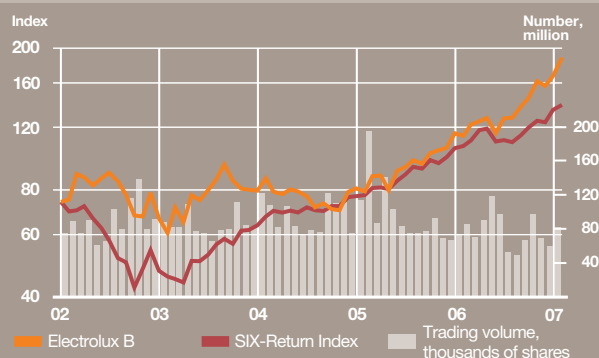
10) For continuing operations.

### In recognition of performance

Several socially responsible investment indices rank the Electrolux Group highly, including:

- Dow Jones STOXX Index, USA
- FTSE4Good Series, UK
- Oekom Research, Germany
- Vigeo, Corporate Responsibility Rating, France
- Global Climate 100 Index, KLD Research and Analytics, USA.

### » Total return of Electrolux B-shares on the Stockholm Stock Exchange, 2002 - January 2007



# Managing talent for transformation

Talent management is a strategic priority for Electrolux, especially at a time when the company is rapidly transforming from a traditional manufacturing and engineering company to a marketing and consumer-oriented company. The Group needs to have the right people with the right competencies, in the right positions to lead the company through this evolution.

Making sure that happens is the objective of the annual Electrolux Talent Review process, in which more than 3,000 employees are reviewed each year. The process includes appraisal talks between the managers and their employees. This approach allows Electrolux to continually assess that its talent pool matches the company's strategic challenges. In addition, managers at Electrolux go through different levels of leadership training. These courses, which foster a common approach to business and leadership, are intended to take Electrolux forward and improve overall business results through accelerated development of the leadership capabilities of managers. Between 2003 and 2005, 1,240 managers participated in the courses. Now that the programs are established, 251 managers attended in 2006, as new managers come aboard or existing managers complete their training.

## Internal recruitment

In 2006, Electrolux continued to recruit the overwhelming majority of its talent internally, with 84 percent of the top 200 vacancies recruited from the Group's internal talent pool, compared to 56 percent in 2004. The Open Labor Market, the company's major job posting and recruitment tool that advertises available jobs, has helped enhance this trend.

## Injecting new skills

In the transition towards becoming a more consumer insight-driven company, Electrolux has also needed to inject external competencies and skills, particularly in areas such as Brand and Marketing, Product Development, and Design. Over time, the Talent Review process will also contribute to providing and extending these necessary skills within the company.

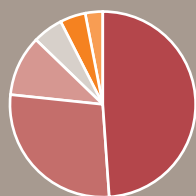
## Diversity

Electrolux is a global company and management recognizes the importance of having a diverse workforce to better serve a wide range of markets and consumers.

Driving greater cultural and gender diversity has been an added benefit of Electrolux strategic partnership with AIESEC, a leading global student organization for development of youth leadership, as the AIESEC interns come from many different countries and the organization has a good gender diversity mix.

While the primary goal is to increase the number of young potentials in the Group and to develop the Electrolux employer brand, the partnership serves other strategic purposes. For instance, the Group's focus on building up operations in Central and Eastern Europe has been supported by the presence of a number of trainees from the region. Electrolux in 2006 retained 70 percent of its AIESEC interns.

## » Employees, by geographical areas



Europe	49%
North America	28%
Latin America	10%
Asia	5%
Pacific	5%
Rest of the world	3%

## » Gender distribution

### Group-wide

Share of women	35%
Share of men	65%

### Senior managers

Share of women	9%
Share of men	91%

### Group Management

Share of women	11%
Share of men	89%

### Board of Directors

Share of women	43%
Share of men	57%

# Remuneration to Senior Management

The text below is part of Board Chairman Michael Treschow's speech at the Electrolux AGM in 2006, where he discussed the company's approach to remuneration for senior management.

"Offering competitive salaries to senior management is a prerequisite for attracting personnel and stimulating them to make the strong commitment that is required in the tough international competition that Electrolux faces. The Group also aims at offering competitive total remuneration, based on performance.

## Advice from independent consultants

In order to determine appropriate total remuneration in connection with recruiting someone for a specific position and retaining him/her, Electrolux requests advice from external consultants. They evaluate the leading management positions and compare remuneration with other Swedish and European companies, including Electrolux leading competitors.

## More than fixed salary

Remuneration to management in Electrolux consists of a fixed salary, a variable salary based on annual targets, a long-term share-related salary, and pension benefits. Remuneration other than fixed salary has symbolic importance. If the company does not perform well, the shareholders are not the only ones affected. And since many others in the company have performance-based salaries, it would be inappropriate for senior management to receive only a fixed salary.

## Important variable component

The variable salary is based on clearly defined targets for each member of senior management. The Board devotes a good deal of time to defining these targets, since they are an important part of

the work of running the company. The targets include financial goals for value creation as well as non-financial goals. Variable salary is paid only if the targets are reached, and maximum as well as minimum levels are defined for each position. The maximum level may not be exceeded.

## Performance share program

In addition to fixed and variable remuneration, there is a long-term share-related component. For a large listed company like Electrolux, with tens of thousands of shareholders, it is important that in their daily activities the President and senior management are moving in the same direction as the owners, who do not participate in daily operations. The Electrolux incentive program is linked to the long-term value creation within the Group, is maximized at a defined level, and covers about 160 persons.

Over time, the fixed component corresponds to about half of total remuneration, and the variable and share-based components each correspond to about 25 percent.

## Pension benefits

Pension benefits are based on allocations during the period in which the individual is employed by the company. This premium-based system enables the Group to have continuous control of costs."

Value creation is the Group's primary financial performance indicator for measuring and evaluating financial performance, for more information, see page 107.

For the Board's proposal on remuneration guidelines to the Annual General Meeting 2007, see page 67. For additional information on remuneration guidelines and processes for senior management, see Note 22 on page 92 and Note 27 on page 101.

## Seeking talent in new markets

Attracting and developing the best talent is essential to business success, particularly in the fast-growing markets of Asia. Manusrudee Suwannarat has overall responsibility for recruitment and training in Thailand and East Asia.

### How does Electrolux recruit, train and develop talent in Asia?

There is a lot of competition for talent in our region but Electrolux is in a very strong position to attract top people both externally and internally due to the strength of its brand and its positive reputation as an employer.

We use the Open Labor Market, the Group's internal posting and recruitment tool, to attract internal talent to our region. We offer a variety of training courses at all levels to ensure high quality in manufacturing, expertise in a variety of business skills and a clear understanding of the Electrolux Code of Conduct.



Manusrudee Suwannarat



**Electrolux ICON™** introduced Electrolux as a core appliance company to the US market in 2004. The product lines are positioned in the exclusive part of the premium segment. In 2006, the product lines were also launched in Latin America.







# Sustainability—creating opportunities & managing risks

Sustainability is woven into the Group's overall strategy. Meeting and exceeding environmental and social expectations and maintaining high standards of ethical conduct are integrated in all operations, including product development, manufacturing, consumer communication and dialog with stakeholders.

A proactive strategy in this context is an integral part of creating value. It generates business opportunities, enhances positive brand awareness, strengthens employee satisfaction and competence levels and ensures good relations with local communities. It is also central to managing potential non-financial risks.

Priorities include energy efficiency and material use, both in operations and products, as well as ensuring a responsible approach to restructuring and maintaining Electrolux environmental and social standards throughout the supply chain.

## Policies and organization

The Electrolux Code of Ethics encompasses rules of conduct for the Group's relations with employees, shareholders, business partners and other stakeholders.

The Workplace Code of Conduct, the Policy on Countering Corruption and Bribery and the Electrolux Environmental Policy are included in the Electrolux Code of Ethics and are more specific. They are based on universal standards of business practice including the International Labor Organization and the OECD Guidelines for Multinational Enterprises. They also reflect the Electrolux commitment to the ten principles of the United Nations Global Compact. All of the above policies have been endorsed by Group management.

Each business sector is responsible for the implementation of Group policies. Suppliers are expected to comply with the Environmental Policy and Workplace Code of Conduct. Electrolux applies a risk-based approach to the assessment of the Group's own operations and suppliers. The overall objective is to ensure that Electrolux products are manufactured under acceptable working conditions, both within and outside the Group.

Group Environmental and Sustainability Affairs supports business sectors with expertise, training, issue identification and monitoring. It is organized under Group Staff Communications and Branding.

The data published in this section were collected between January 1 and December 31, 2006. To compensate for the change in structure resulting from the spin-off of Husqvarna during 2006, and to enable comparisons over time, data from previous years have been revised to reflect the current structure of the Electrolux Group.

## United Nations Global Compact

Electrolux supports the United Nations Global Compact and its ten principles, which cover human rights, labor standards, business ethics and the environment.



## » Distribution of value added, by stakeholder

Stakeholders		2006	2005
Customers	Revenues	103,848	100,701
Suppliers	Cost of goods and services	-77,142	-73,577
	Value added	26,706	27,124
	Capital expenditure, R&D, marketing, etc.	-6,175	-5,512
<b>Distributed to stakeholders</b>		<b>20,531</b>	<b>21,612</b>
Employees	Salaries	12,849	13,987
	Employer contributions	4,075	4,401
Public sector	Taxes	1,177	636
Credit institutions	Interest payments	208	550
Shareholders	Dividend payments	2,222	2,038

## » Distribution of Group revenue



In 2006, value added distributed to stakeholders amounted to SEK 20,531 million.

## Environmental activities

Electrolux environmental strategies are based on a life-cycle approach. Three core drivers influence the Group's commitment. Electrolux develops and markets products with outstanding environmental performance in response to consumer demand. The Group focuses on resource efficiency in manufacturing and also responds promptly to proposed legislation as well as changes in existing laws.

### Environmental policy

The Electrolux Environmental Policy outlines the Group's commitment to improve environmental performance in production, product use and disposal. The policy prescribes a proactive approach to legislation.

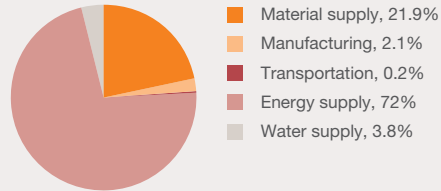
### Environmental performance of products

Electrolux has a long tradition of continuously reducing water and energy consumption, and designing products for more efficient recycling. Improved environmental performance also means lower lifetime operating costs for consumers and thus plays a role in marketing and product development, see graphs "Life-cycle impact" and "Life-cycle cost". Offering products with outstanding environmental performance therefore provides competitive benefits.

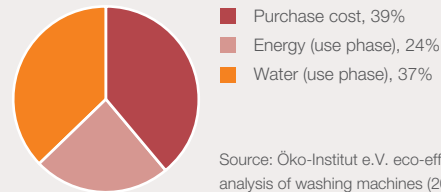
Today, a typical new washing machine uses 40 percent less energy and 60 percent less water than the 1990 models. A refrigerator uses 60 percent less energy. The German research organization Öko Institut contends that it is environmentally advantageous to replace an old refrigerator with a more efficient alternative.

One of the Group's objectives is to accelerate the replacement of old products. Due to long product life-cycles, there is a gap between the energy efficiency of appliances currently used by households and those that are available on the market. Together with a responsible recycling program, the Electrolux approach benefits the environment and also generates value for the Group. As shown in the graph "Green range" below, the most efficient products account for a higher share of gross profit. This reflects growing consumer awareness that life-cycle savings from lower electricity costs offset higher purchase prices.

### » Life-cycle impact



### » Life-cycle cost



Source: Öko-Institut e.V. eco-efficiency analysis of washing machines (2004).

Fleet average energy-efficiency for various categories of appliances sold by Electrolux in Europe also showed continued improvement in 2006, see below. The energy efficiency of Electrolux products is improving at an average annual rate of between three and four percent.

### Materials restricted for use in products

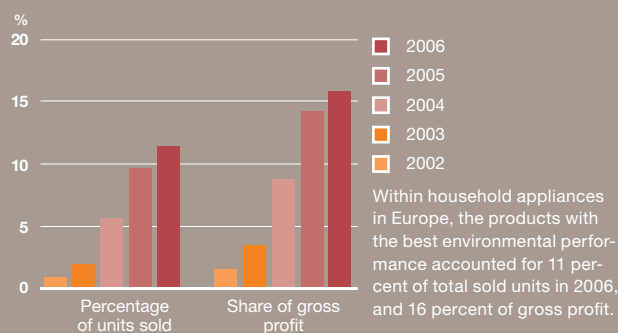
Substances used in Electrolux products shall not be hazardous to employees in production nor to end-users, and shall not harm the environment. Products must be in line with market expectations and shall not adversely affect "end-of-life" properties.

The purpose of the Electrolux Restricted Materials List (RML) is to avoid materials that do not comply with the above criteria. The requirements outlined in the RML apply to both suppliers and Group production facilities.

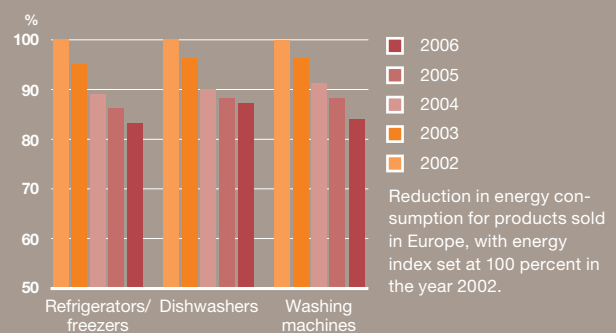
The RML is designed to accommodate the trend toward increased regulation of chemicals in markets world-wide, such as the EU Directive on the Restriction of the use of certain Hazardous Substances in electrical and electronic equipment (RoHS) and the forthcoming EU REACH Directive.

Tracking applications of substances considered potentially hazardous enables the Group to respond to new scientific findings or regulations.

### » Green range



### » Fleet average



**Environment in operations**

The Group works continuously to reduce consumption of energy and water at production sites, and to achieve high rates of utilization of purchased material and components.

Group Management has stipulated that an environment management system is to be implemented for each business sector's entire operation. All manufacturing units with at least 50 employees are mandated to be certified according to ISO 14001. Newly acquired units must complete the certification process within three years after acquisition.

**Environmental legislation**

Environmental legislation in Europe often sets precedents for other markets, especially regarding the use of hazardous substances and producer responsibility.

*RoHS Directive*

The EU RoHS Directive has been transposed into national legislation in EU member states. As of July 2006 the Directive bans placement on the market of electrical or electronic equipment containing lead, mercury, cadmium, hexavalent chromium or two groups of brominated flame retardants (PBB and PBDE), with a limited number of exceptions. The Directive has been introduced at the national level by EU member states as well as by Norway and Iceland.

Electrolux has adopted a stringent interpretation of the Directive. A comprehensive Group-wide program has been in place since 2003 to identify cost-effective alternative components and manufacturing methods. A monitoring program also helps ensure supplier compliance.

Electrolux does not anticipate additional costs for the implementation of RoHS in Europe.

*Producer responsibility (WEEE Directive)*

The EU WEEE Directive (Waste Electrical and Electronic Equipment) defines producer responsibility for collection, treatment and disposal of electrical and electronic products.

The Directive stipulates that as of 2005 producers and importers have producer responsibility for products put on the market. The target for material recovery is 80 percent for large household appliances and 70 percent for small appliances.

By year-end 2006, almost all EU member states, with the exception of Malta, had transposed the Directive into national legislation. Norway has implemented it in Norway. Malta is expected to transpose the Directive in 2007.

Electrolux is compliant in all countries where laws have been implemented. In most states, management of producer responsibility is organized through national recycling schemes initiated by industry associations.

In order to meet the need for a cost-efficient recycling system in large volume countries, Electrolux, Braun (Procter & Gamble), Hewlett-Packard and Sony have set up a jointly owned company, European Recycling Platform (ERP), to manage a pan-European recycling scheme. During 2006 the ERP handled waste in seven EU member states, and in 2007 two more countries will be added to the ERP's list. These nine states will account for 50 percent of the Electrolux obligation for recycling in Europe. Through investment in this scheme, competence built in one market will benefit the others.

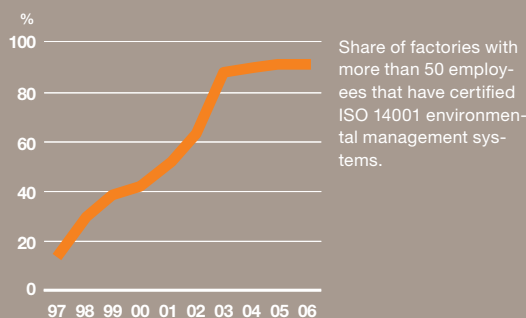
Producer responsibility for Electrolux currently covers products representing a volume of 650,000 tons. The cost for compliance fluctuates, depending on a number of cost drivers including administration, collection and treatment costs; the market price of scrap metal; disposal costs for non-recyclable material and components of equipment; as well as collection costs per unit and collection rates, which may vary between countries.

The volume of returned products will increase in 2007 as a result of WEEE implementation in Italy and the UK. Implementation in Eastern and Southern European countries is also expected to increase return volumes in the long term.

The cost of waste for Electrolux in 2006 was almost entirely recovered through visible fees that have been added to the price of products. According to the Directive, the cost for recycling products sold before August 2005 will be divided among producers and calculated according to their respective market share each year. Based on current national laws this applies for products sold after August 2005 in most countries. Provisions for future recycling of products sold after August 2005 are required in only a few EU member states.

The estimated annual cost of handling waste for Electrolux when the WEEE Directive is fully implemented is approximately SEK 600 million. Visible fees will be phased out by 2013.

» ISO 14001 certification



» Direct material balance

Data from 54 manufacturing units, %.	2006	2005	2004	2003	2002
Finished products (incl. packaging)	91.74	92.28	91.41	90.89	90.12
External material and energy recycling	7.24	6.54	7.25	7.91	8.53
Waste to landfill (non-hazardous)	0.83	0.97	1.10	0.95	1.08
Hazardous waste	0.17	0.19	0.20	0.19	0.24
Emission to air	0.025	0.020	0.034	0.046	0.020
Emission to water	0.003	0.003	0.003	0.006	0.009
<b>Total incoming material</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Utilization of material in production decreased in 2006, while hazardous waste and waste to landfill were reduced.

### Energy directives and product labeling

Energy efficiency and product labeling are core issues for the Group, and for the appliance industry as a whole. In the Group's major markets, Europe and North America, regulations require that most products in the Electrolux portfolio bear a label indicating the product's energy efficiency and consumption levels. By communicating this to the consumer, it becomes a relevant factor in purchasing decisions. Similar labeling regulations exist in Australia, Brazil, China, India, Japan and Mexico.

The Group's products are within all regulatory limits and are represented in the highest energy efficiency classes. Electrolux is prepared for upcoming, more stringent Energy Star and energy efficiency standards in the EU and the US.

Electrolux expects to qualify for recently enacted US energy tax credits for the sale of Energy Star appliances. The credits are available for Energy Star appliances made in the US in 2006 and 2007.

Electrolux and other leading manufacturers have agreed on unilateral industry commitments to improve energy efficiency for most large household appliances. The European Commission has endorsed these agreements.

#### Sustainable Energy Europe Award

The European Commission has bestowed Electrolux with its Sustainable Energy Europe Award, in the Corporate Commitment Category. The award recognizes the Group's ongoing efforts to reduce energy consumption of products, factories and services.



### Social responsibility

Electrolux is committed to conducting operations in a manner that is in accordance with the evolving role of business in society.

#### Workplace Code of Conduct

The Group has established policies and guidelines as well as management procedures aimed at guaranteeing fair business practices and consistent monitoring of related performance.

#### Workplace Code of Conduct

The Electrolux Workplace Code of Conduct defines high employment standards for all Electrolux employees in all countries and business sectors as well as for all subcontractors. The Code incorporates issues such as child and forced labor, health and safety, workers rights and environmental compliance.

#### Internal communication and monitoring

The Group has developed an electronic assessment tool, ALFA (Awareness-Learning-Feedback-Assessment) in order to support internal implementation of the Workplace Code of Conduct and to continuously monitor Electrolux units regarding compliance.

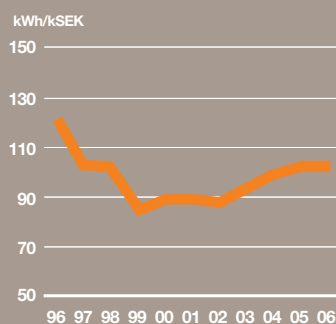
In 2006, ALFA was deployed in all Electrolux business sectors to measure how units have progressed in their work with the Code. Business sectors receive feedback as well as suggestions for areas of improvement.

#### ALFA Group-wide evaluations

	Sent to	Responses	Response rate
Production units	55	55	100%
Offices/warehouses	81	81	100%
<b>Total</b>	<b>136</b>	<b>136</b>	<b>100%</b>

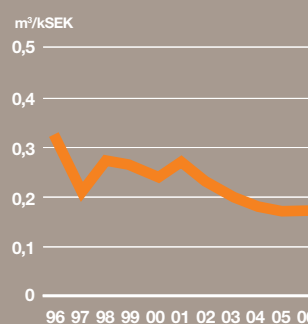
Facilities excluded: Fuenmayor, Spain, Tommerup, Denmark, Greenville, USA, Swidnica, Poland, Nuremberg, Germany, and Torsvik, Sweden.

#### » Total energy/added value



Manufacturing data covers 90 percent of the majority-owned production facilities world-wide, unless otherwise indicated. Since the degree of environmental impact is dependent on the volume of production, some indicators are calculated in relation to added value, which is defined as the difference between total production cost and the cost of direct material.

#### » Treated water/added value



### Health and safety

Individual business sectors are responsible for ensuring that health and safety are effectively managed. Local units are responsible for taking action and reporting data in accordance with local regulations and laws.

The performance of individual units is monitored and evaluated at Group level in several ways. ALFA is used to assess the current status of health and safety as well as related management practices. Information on health and safety in manufacturing can be found at Electrolux Manufacturing System (EMS) on page 29. Information regarding employees can be found on page 42 and page 67.

#### Health and safety

	2006	2005
Number of work-related injuries <sup>1)</sup>	13.9	18.1
Number of workdays lost due to occupational injuries <sup>1)</sup>	275	277
Number of work-related fatalities	0	0

1) Per million hours worked.

The table illustrates key health and safety data for the Group's operations. In 2006, data was collected covering 52 production facilities and 25 warehouses corresponding to approximately 45,900 employees. The total number of work-related injuries was 1,170 during 2006.

### Responsible restructuring

To stay competitive, meet challenges from competitors and at the same time access new markets, Electrolux is shifting production from countries with a higher cost base to those offering lower costs. A decision to close factories or downsize production affects individuals and communities. Responsibly managing the consequences of these decisions is an Electrolux priority.

When a factory restructuring is under evaluation, a procedure is followed, adapted to local needs and priorities. A wide range of stakeholders are consulted, including labor union representatives, local, national and regional politicians and government authorities.

During 2006, factory closures were announced for Regency Park and Beverley in Australia, and closures and downsizings were under way in Torsvik (Sweden), Florence (Italy), Fuenmayor (Spain) and Nuremberg (Germany). A total of 2,389 employees were affected by restructuring in 2006. The restructuring procedure was applied at all decisions. Employees were offered pre-retirement schemes, training programs and career coaching that were tailored to their situations. More information on restructuring decisions can be found on page 54.

In December 2005, the decision to close the factory in Nuremberg, Germany, was announced. Following the decision, a workers' strike was staged. The agreement that ended the strike on March 7, 2006, featured a social tariff contract including the severance payment of 1.8 monthly salaries per year of employment. Employees were also offered temporary employment in a training company while older employees were offered pre-retirement schemes.

Setting up operations in emerging economies brings positive changes to local communities. It creates indirect impacts by prioritizing local suppliers, encouraging global suppliers to establish a presence, and by transferring cutting edge technologies to new markets. As an example, the refrigerator plant in Juarez, Mexico, is one of the most environmentally advanced refrigerator plants within Electrolux.

### Consumer safety and quality

Both consumer safety and quality assurance are included in procedures for evaluating suppliers, product design, selecting materials, testing finished products and monitoring product performance.

The Group has a comprehensive system for collecting information on all safety-related incidents and analyzing it to identify root causes and effects. The majority of these incidents do not represent any risk for the consumer.

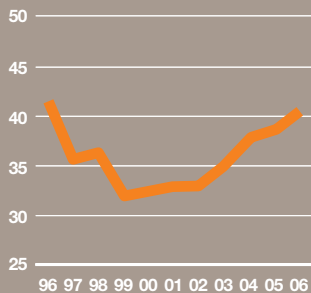
Analyses of safety-related incidents have provided the Group with an understanding of how accidents occur. This expertise is integrated in all product development. If analysis reveals a potential problem, the matter is brought to a Sector Product Safety Advisory Committee for evaluation and advice on corrective measures, if needed.

In order to qualify for use, products and components sourced from external suppliers are subject to a 20 step procedure.

Before a product designed by Electrolux goes into production it is subject to a number of qualification tests and quality assurance activities. It is systematically tested throughout production to ensure that it complies with safety and quality criteria. The customer's experience with the product is followed up through the Electrolux Quality Evaluation System. Knowledge gained is fed back into design and production processes.

#### » CO<sub>2</sub> added value

kg/kSEK



The Group's CO<sub>2</sub> emissions per added value increased slightly between 2005 and 2006 due to the fact that CO<sub>2</sub> emissions increased marginally while the added value in SEK was reduced.

#### » Sustainability on the web

- Electrolux 2006 Sustainability Report
- Complete formulations of Electrolux codes and policies
- Communication on Progress, a report on how Electrolux applies the UN Global Compact ten principles
- Global Reporting Initiative (GRI) cross-reference
- Environmental and social responsibility performance indicators
- Restricted Materials List (RML)
- Environmental legislation affecting the Group's operations

Sustainability information available at [www.electrolux.com/sustainability](http://www.electrolux.com/sustainability)

# Report by the Board of Directors for 2006

- Net sales for continuing operations increased by 3.1% to SEK 103,848m (100,701) and income for the period amounted to SEK 2,648m (-142), corresponding to SEK 9.17 (-0.49) per share
- Net sales increased due to strong volume growth and mix improvements
- Operating income for continuing operations amounted to SEK 4,033m (1,044). Excluding items affecting comparability, operating income increased by 13.7% to SEK 4,575m (4,024)
- Operating income improved due to higher sales volumes, savings from restructuring and mix improvements
- Improvement in operating income across all business areas
- Increased investments in product development and brand building
- The Board proposes a dividend of SEK 4.00 (7.50) per share. The level of the dividend reflects the fact that Husqvarna is no longer part of the Group and that SEK 5.6 billion has been distributed to shareholders through a redemption procedure

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## Key data <sup>1)</sup>

SEKm	2006	Change	2005
<b>Continuing operations</b>			
Net sales	103,848	3,147	100,701
Operating income	4,033	2,989	1,044
Margin, %	3.9		1.0
Operating income, excluding items affecting comparability	4,575	551	4,024
Margin, %	4.4		4.0
Income after financial items	3,825	3,331	494
Income for the period	2,648	2,790	-142
Earnings per share, SEK <sup>2)</sup>	9.17		-0.49
Value creation	2,202	897	1,305
Return on net assets, %	23.2		5.4
Operating cash flow	1,110	1,763	-653
Capital expenditure	3,152	-502	3,654
Average number of employees	55,471	-2,371	57,842
<b>Total, including discontinued operations <sup>3)</sup></b>			
Income for the period	3,847	2,084	1,763
Earnings per share, SEK <sup>2)</sup>	13.32		6.05
Dividend per share, SEK <sup>4)</sup>	4.00		7.50
Return on equity, %	18.7		7.0
Net debt/equity ratio	-0.02		0.11

1) Including items affecting comparability, unless otherwise stated. For key data, excluding items affecting comparability, see page 55.

2) Basic. For information on earnings per share after dilution, see page 53.

3) Discontinued operations refer to the former Outdoor Products operations and include the period January–May for 2006 and January–December for 2005.

4) Proposed by the Board of Directors.

For definitions, see Note 31 on page 107.

## Outlook for the full year 2007

Market demand for appliances in 2007 is expected to show continued growth in Europe, while the North American market is expected to decline as compared to 2006. Raw material costs are expected to have an adverse effect on the Group's operating income.

Operating income in 2007 is expected to be somewhat higher than in 2006, excluding items affecting comparability.

# Net sales and income

The Group's Outdoor Products operations were distributed under the name of Husqvarna to the Electrolux shareholders in June 2006. As of June 2006, Husqvarna is reported as discontinued operations in the income and cash flow statements for 2006 and 2005. The Husqvarna results are excluded from the sales and expense lines of the income statement and reported as a single net in the item "Income for the period from discontinued operations". The cash flow is reported separately under the item "Cash flow from discontinued operations". Discontinued operations in 2006 include the period January–May and in 2005 the period January–December.

Assets and liabilities for Husqvarna were excluded from the balance sheet as of May 31, 2006. The balance sheet items for the previous year are the historical financial statements in accordance with IFRS. In addition to this working capital and net assets for 2005, exclusive of outdoor operations, are presented on page 56.

For information on accounting principles for discontinued operations and financial statements for the former Outdoor Products operations, see Note 1 on page 72 and Note 30 on page 105.

The comments below regarding net sales and income refer to continuing operations and are exclusive of Outdoor Products operations, Husqvarna. For information on income for the period and earnings per share including discontinued operations, see page 55.

## CONTINUING OPERATIONS

### Net sales

Net sales for the Electrolux Group in 2006 amounted to SEK 103,848m, as against SEK 100,701m in the previous year. Sales were affected mainly by an improved volume/price/mix.

#### Change in net sales

%	2006
Changes in Group structure	-0.4
Changes in exchange rates	0.1
Changes in volume/price/mix	3.4
<b>Total</b>	<b>3,1</b>

Sales of appliances in Latin America and North America were particularly strong as were floor-care products and professional laundry equipment.

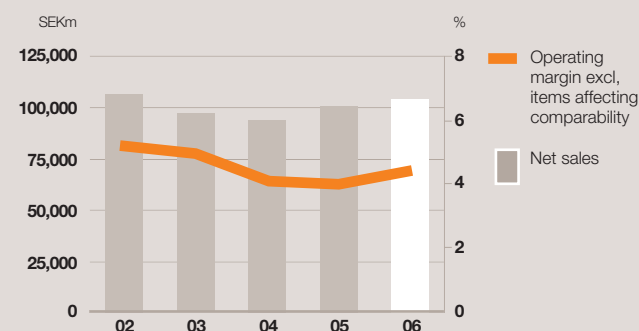
### Operating income

The Group's operating income for 2006 improved significantly to SEK 4,033m (1,044), corresponding to 3.9% (1.0) of net sales. Operating income increased across all business areas mainly as a result of higher sales volumes, savings from restructuring and improvements in mix.

Operating income exclusive of items affecting comparability, improved by 13.7% to SEK 4,575m (4,024). Items affecting comparability amounted to SEK -542m (-2,980) in 2006, see page 54.

- Net sales for continuing operations rose by 3.1%
- Operating income for continuing operations increased by 13.7% to SEK 4,575m (4,024), excluding items affecting comparability
- Operating margin rose to 4.4% (4.0), excluding items affecting comparability, due to an improved mix and restructuring
- Income for the period from continuing operations increased to SEK 2,648m (-142)
- Earnings per share for continuing operations amounted to SEK 9.17 (-0.49)

#### Net sales and operating margin for continuing operations



Net sales for continuing operations in 2006 increased by 3.1% compared to the previous year and margin rose to 4.4%, excluding items affecting comparability.

#### Depreciation and amortization

Depreciation and amortization in 2006 amounted to SEK 2,758m (2,583).

#### Financial net

Net financial items improved to SEK -208m (-550). The improvement is traceable mainly to the reduction in net borrowings following the allocation of debt to the Outdoor Products operations.

For more information regarding financial items, see Note 9 on page 83.

#### Income after financial items

Income after financial items increased to SEK 3,825m (494) corresponding to 3.7% (0.5) of net sales.

#### Taxes

Total taxes in 2006 amounted to SEK -1,177m (-636), corresponding to 30.8% (128.7) of income after financial items.

For additional information concerning taxes, see Note 10 on page 83.



# Consolidated income statement

SEKm	Note	2006	2005
<b>Net sales</b>	3, 4	<b>103,848</b>	<b>100,701</b>
Cost of goods sold		-79,664	-77,270
<b>Gross operating income</b>		<b>24,184</b>	<b>23,431</b>
Selling expenses		-15,294	-14,635
Administrative expenses		-4,467	-4,945
Other operating income	5	185	230
Other operating expenses	6	-33	-57
Items affecting comparability	7	-542	-2,980
<b>Operating income</b>	3, 4, 8	<b>4,033</b>	<b>1,044</b>
Financial income	9	538	225
Financial expenses	9	-746	-775
<b>Financial items, net</b>		<b>-208</b>	<b>-550</b>
<b>Income after financial items</b>		<b>3,825</b>	<b>494</b>
Taxes	10	-1,177	-636
<b>Income for the period from continuing operations</b>		<b>2,648</b>	<b>-142</b>
<b>Income for the period from discontinued operations</b>	30	<b>1,199</b>	<b>1,905</b>
<b>Income for the period</b>		<b>3,847</b>	<b>1,763</b>
Attributable to:			
Equity holders of the Parent Company		3,847	1,763
Minority interests in income for the period		0	0
		<b>3,847</b>	<b>1,763</b>
<b>Earnings per share for continuing operations, SEK</b>	20		
Basic		9.17	-0.49
Diluted		9.14	-0.49
<b>Average number of shares, million</b>	20		
Basic		288.8	291.4
Diluted		289.8	293.2

### Effects of changes in exchange rates

Changes in exchange rates in comparison with the previous year, including both translation and transaction effects, had a positive effect of SEK 96m on operating income.

Transaction effects net of hedging contracts amounted to SEK 109m, mainly due to the strengthening of the euro against several other currencies and the strengthening of the Canadian dollar against the US dollar. Translation of income statements in subsidiaries had an effect of SEK -13m.

The effect of changes in exchange rates on income after financial items amounted to SEK 67m.

For additional information on effects of changes in exchange rates, see the section on foreign exchange risk in Note 2 Financial risk management, on page 79.

### Share of expenses by currency

	Share of expenses, %	Average exchange rate 2006	Average exchange rate 2005
USD	34	7.38	7.46
EUR	32	9.26	9.28
CAD	5	6.52	6.17
GBP	5	13.58	13.54
SEK	4	—	—
Other	20	—	—
<b>Total</b>	<b>100</b>		

### Income for the period and earnings per share

Income for the period amounted to SEK 2,648m (-142), corresponding to SEK 9.17 (-0.49) in earnings per share before dilution.

### Value created

Value creation is the primary financial performance indicator for measuring and evaluating financial performance within the Group. The model links operating income and asset efficiency with the cost of the capital employed in operations. The model measures and evaluates profitability, by business area, product line, region or operation.

Total value created in 2006 improved over the previous year to SEK 2,202m (1,305). The capital-turnover rate was 4.81, as against 4.44 in 2005.

The WACC rate for 2006 was computed at 11% (12).

For definition of value created, see Note 31 on page 107.

### Items affecting comparability

Operating income for 2006 includes items affecting comparability in the amount of SEK -542m (-2,980). These items include charges for restructuring, mainly involving plant closures and capital gains and losses on divestments. See table and structural changes below.

### Items affecting comparability

SEKm	2006	2005
<b>Restructuring provisions and write-downs <sup>1)</sup></b>		
Appliance plant in Adelaide, Australia	-302	—
Appliance plant in Torsvik, Sweden	-43	—
Appliance plant in Nuremberg, Germany	-145	-2,098
Appliances, Europe	—	-495
Reversal of unused restructuring provisions	60	32
<b>Capital gains/losses on divestments <sup>2)</sup></b>		
Divestment of 50% stake in Nordwaggon AB, Sweden	-173	—
Divestment of Electrolux Financial Corp., USA	61	—
Divestment of Indian operation	—	-419
<b>Total</b>	<b>-542</b>	<b>-2,980</b>

1) Deducted from cost of goods sold.

2) Deducted from other operating income and expenses.

### Structural changes

At the Board meeting in February 2007, a decision was made to evaluate a potential closure of the cooker plant in Fredericia, Denmark, currently employing approximately 150 persons.

In September 2006, it was decided to scale back production in Australia, including closing the washer/dryer and dishwasher plants in Adelaide over the next 18 months. Production will be moved gradually to other Electrolux factories. The dishwasher plant will close at the end of April 2007, and the washer/dryer plant by the end of the first quarter of 2008. Approximately 500 employees will be affected. The closures involve a total cost of SEK 302m, which was taken as a charge against operating income in the third quarter of 2006, within items affecting comparability.

In July 2006, Electrolux signed an agreement to divest its 50% stake in Nordwaggon AB to Transwaggon AB. The transaction involved a capital loss of SEK 173m, which was taken as a charge against operating income in the third quarter of 2006, within items affecting comparability. Nordwaggon is a Swedish-based railcar operator that was owned 50% by Electrolux and 50% by the Swedish state-owned Swedcarrier. Electrolux entered into this partnership in 1984 in order to fill a need for special-purpose railcars. Swedcarrier was part of the transaction and divested its 50% stake in Nordwaggon to Transwaggon. The transaction released Electrolux from letters of support, issued jointly with Swedcarrier, for loans and leasing agreements totaling SEK 1,400m.

The previous inventory-financing business of Electrolux Financial Corporation, which provided wholesale and consumer financial services in the US, was divested to Textron Financial Corporation in June, 2006. The new owner gives the Group's customers in the US access to a broader offering of wholesale inventory financing and other financial services. The capital gain on the proceeds amounted to SEK 61m and was reported within items affecting comparability in the second quarter of 2006. The effect on cash flow amounted to SEK 1,218m.

In April 2006, the Board decided to close the compact appliances factory in Torsvik, Sweden, and transfer production to

existing facilities in Poland. The transfer is scheduled for completion in the first quarter of 2007. The closure will affect approximately 160 employees. Restructuring cost for this measure amounts to SEK 43m, which was taken as a charge against operating income in the second quarter of 2006, within items affecting comparability.

In December 2005, it was decided that the appliances factory in Nuremberg, Germany, would be closed. The total cost for the closure of the factory was estimated at approximately SEK 2,300m, of which SEK 2,098m was taken as a charge against operating income within items affecting comparability in the fourth quarter of 2005 and SEK 145m in the first quarter of 2006. The factory in Nuremberg had approximately 1,750 employees. Closure of the factory is expected to be completed by the end of the first quarter of 2007.

#### Key data excluding items affecting comparability

Excluding the above items affecting comparability, the Group's operating income for 2006 rose by 13.7% to SEK 4,575m (4,024), which corresponds to 4.4% (4.0) of net sales. Income after financial items improved by 25.7% to SEK 4,367m (3,474), which corresponds to 4.2% (3.4) of net sales. The tax rate was 28.0% (22.9). Income for the period increased by 17.5% to SEK 3,145m (2,677), corresponding to earnings per share of SEK 10.89 (9.19). Return on net assets was 21.2% (17.8).

#### Key data excluding items affecting comparability

SEKm	2006	Change	2005
<b>Continuing operations</b>			
Net sales	103,848	3,147	100,701
Operating income	4,575	551	4,024
Margin, %	4.4		4.0
Income after financial items	4,367	893	3,474
Income for the period	3,145	468	2,677
Earnings per share, SEK <sup>1)</sup>	10.89		9.19
Value creation	2,202	897	1,305
Return on net assets, %	21.2		17.8
Operating cash flow	1,110	1,763	-653
Capital expenditure	3,152	-502	3,654

1) Basic. For information on earnings per share, see Note 20 on page 91.

#### New definition of gross operating income as of 2007

Costs for inventories and transport to customers of finished products will be reported as of 2007 under cost of goods sold within gross operating income in the consolidated income statement. These costs were previously reported under selling expenses.

The reason for the change is that these costs are to a great extent related to sales volume and net sales, and that selling expenses in many cases are interpreted as overhead costs. The estimated effect of a restatement of 2006 is a reduction in gross operating income of SEK 4,339m, and in gross margin by approximately 4%. Selling expenses is estimated to decline by SEK 4,339m. Operating income and margin are unchanged, as shown in the table below.

#### Effects of new definition of gross operating income

SEKm	2006	Adjusted 2006	Change
<b>Net sales</b>	<b>103,848</b>	<b>103,848</b>	<b>—</b>
Cost of goods sold	-79,664	-84,003	-4,339
<b>Gross operating income</b>	<b>24,184</b>	<b>19,845</b>	<b>-4,339</b>
Margin, %	23.3	19.1	-4.2
Selling expenses	-15,294	-10,955	4,339
Administrative expenses	-4,467	-4,467	—
Other operating income	185	185	—
Other operating expenses	-33	-33	—
Items affecting comparability	-542	-542	—
<b>Operating income</b>	<b>4,033</b>	<b>4,033</b>	<b>—</b>
Margin, %	3.9	3.9	—

#### DISCONTINUED OPERATIONS

Discontinued operations refers to the former Outdoor Products operations, Husqvarna, which was distributed to shareholders in June 2006. Discontinued operations in 2006 include the period January–May and in 2005 the period January–December. Income for the period for discontinued operations amounted to SEK 1,199m (1,905).

#### Income for the period and earnings per share including discontinued operations

Income for the period including discontinued operations amounted to SEK 3,847m (1,763), corresponding to SEK 13.32 (6.05) in earnings per share before dilution. Return on equity was 18.7% (7.0).

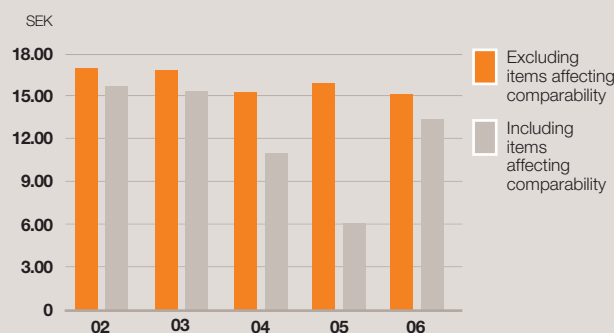
#### Key data excluding items affecting comparability

SEKm	2006	Change	2005
<b>Total, including discontinued operations <sup>1)</sup></b>			
Income for the period	4,344	-266	4,610
Earnings per share, SEK <sup>2)</sup>	15.04		15.82
Return on equity, %	21.1		18.3

1) Discontinued operations refer to the former Outdoor Products operations and includes the period January–May 2006 and January–December 2005.

2) Basic. For information on earnings per share, see Note 20 on page 91.

#### Earnings per share



Earnings per share including discontinued operations increased to SEK 13.32 (6.05) in 2006.

# Financial position

The items in the consolidated balance sheet as per December 31, 2005 are in accordance with the historical financial statements including the distributed outdoor operations. In accordance with International Financial Reporting Standards, IFRS, previous periods have not been adjusted for discontinued operations. In the table below, working capital and net assets for the Group's current operations are presented also exclusive of the Outdoor Products operations.

In order to adapt the Group's capital structure and thus contribute to an increase in shareholder value, an Extraordinary General Meeting in December 2006 decided on a mandatory redemption of shares totaling approximately SEK 5,600m as a distribution of capital to Electrolux shareholders. The redemption procedure was implemented at the end of January 2007. The payment of the redemption in the amount of SEK 5,579m is recognized as a current liability in the balance sheet as of December 31, 2006. The liability has not been included in the net assets or the net borrowings below.

The comments below concerning working capital and net assets refers to continuing operations and are exclusive of Outdoor Products operations, Husqvarna.

## Working capital and net assets

SEKm	December 31, 2006	excl. Husqvarna December 31, 2005	December 31, 2005
Inventories	12,041	12,342	18,606
Trade receivables	20,905	20,944	24,269
Accounts payable	-15,320	-14,576	-18,798
Provisions	-12,476	-14,945	-15,609
Prepaid and accrued income and expenses	-6,020	-6,971	-7,762
Taxes and other assets and liabilities	-1,743	-593	-737
<b>Working capital</b>	<b>-2,613</b>	<b>-3,799</b>	<b>-31</b>
% of annualized net sales	-2.4	-3.3	0.0
Property, plant and equipment	14,209	14,776	18,622
Goodwill	1,981	2,144	3,872
Other non-current assets	3,552	3,540	4,169
Deferred tax assets and liabilities	1,011	1,281	1,533
<b>Net assets</b>	<b>18,140</b>	<b>17,942</b>	<b>28,165</b>
Return on net assets, %	23.2	5.4	13.0
Return on net assets, excluding items affecting comparability, %	21.2	17.8	20.6
Value creation	2,202	1,305	2,913

## Net assets and return on net assets

Net assets as of December 31, 2006, amounted to SEK 18,140m (17,942). Average net assets for the year decreased to SEK 17,352m (19,196), mainly as a result of lower inventory levels and higher accounts payable. The reduction in extra inventory following the closure of the American Greenville plant was an important factor. Adjusted for items affecting comparability, net assets amounted

- Equity/assets ratio was 22.7% (33.6)
- Return on equity was 18.7% (7.0)
- Average net assets for continuing operations declined to SEK 17,352m (19,196)

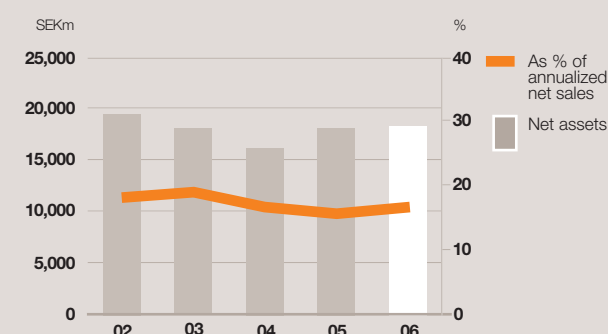
to SEK 21,527m (22,792) and average net assets amounted to SEK 21,571m (22,658), corresponding to 20.8% (22.5) of net sales. Items affecting comparability refers to restructuring provisions and provision for post-employment benefits due to the IFRS transition.

The return on net assets was 23.2% (5.4), and 21.2% (17.8), excluding items affecting comparability.

## Change in net assets

SEKm	Net assets
<b>January 1, 2006</b>	<b>17,942</b>
Change in restructuring provisions	715
Write-down of assets	-133
Other items affecting comparability	351
Changes in exchange rates	-1,476
Capital expenditure	3,152
Depreciation	-2,758
Changes in working capital, etc.	347
<b>December 31, 2006</b>	<b>18,140</b>

## Net assets



Net assets as of December 31, 2006, amounted to SEK 18,140m, corresponding to 16.5% of annualized net sales.

## Working capital

Working capital at year-end amounted to SEK -2,613m (-3,799), corresponding to -2.4% (-3.3) of annualized net sales. Inventories amounted to SEK 12,041m (12,342) at year-end, and trade receivables to SEK 20,905m (20,944), corresponding to 11.0% (10.8) and 19.1% (18.3) of annualized net sales, respectively. Accounts payable amounted to SEK 15,320m (14,576), corresponding to 14.0% (12.7) of annualized net sales.

# Consolidated balance sheet

SEKm	Note	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	14,209	18,622
Goodwill	11	1,981	3,872
Other intangible assets	11	1,780	2,228
Investments in associates	29	80	124
Deferred tax assets	10	2,216	2,950
Derivatives	17	—	118
Financial assets	13	1,692	1,817
<b>Total non-current assets</b>		<b>21,958</b>	<b>29,731</b>
<b>Current assets</b>			
Inventories	14	12,041	18,606
Trade receivables	16	20,905	24,269
Tax assets		461	637
Derivatives	17	318	421
Other current assets	15	3,248	3,851
Short-term investments	17	1,643	623
Cash and cash equivalents	17	5,475	4,420
<b>Total current assets</b>		<b>44,091</b>	<b>52,827</b>
<b>Total assets</b>		<b>66,049</b>	<b>82,558</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Parent Company</b>			
Share capital	20	1,545	1,545
Other paid-in capital		2,905	2,905
Other reserves	18	-11	1,653
Retained earnings		8,754	19,784
		<b>13,193</b>	<b>25,887</b>
Minority interests		1	1
<b>Total equity</b>		<b>13,194</b>	<b>25,888</b>
<b>Non-current liabilities</b>			
Long-term borrowings	17	4,502	5,257
Derivatives	17	—	6
Deferred tax liabilities	10	1,205	1,417
Provisions for post-employment benefits	22	6,586	8,226
Other provisions	23	4,258	4,377
<b>Total non-current liabilities</b>		<b>16,551</b>	<b>19,283</b>
<b>Current liabilities</b>			
Accounts payable		15,320	18,798
Tax liabilities		1,651	1,123
Share redemption		5,579	—
Other liabilities	24	9,293	11,006
Short-term borrowings	17	2,582	3,076
Derivatives	17	247	378
Other provisions	23	1,632	3,006
<b>Total current liabilities</b>		<b>36,304</b>	<b>37,387</b>
<b>Total liabilities</b>		<b>52,855</b>	<b>56,670</b>
<b>Total equity and liabilities</b>		<b>66,049</b>	<b>82,558</b>
<b>Assets pledged</b>	19	<b>93</b>	<b>118</b>
<b>Contingent liabilities</b>	25	<b>1,022</b>	<b>1,302</b>

### Net borrowings

Net borrowings at year-end decreased to SEK –304m (2,974) as a result of the allocation of debt to the Outdoor Products operations and the strong cash flow from operations during the year.

#### Net borrowings

SEKm	December 31, 2006	December 31, 2005
Borrowings	7,495	8,914
Liquid funds	7,799	5,940
<b>Net borrowings</b>	<b>–304</b>	<b>2,974</b>

### Liquid funds

Liquid funds at year-end amounted to SEK 7,799m (5,940). This corresponds to 7.1% (4.4) of annualized net sales.

#### Liquidity profile

SEKm	December 31, 2006	December 31, 2005
Liquid funds	7,799	5,940
% of annualized net sales	7.1	4.4
Net liquidity	4,805	2,283
Fixed interest term, days	39	43
Effective annual yield, %	3.7	2.4

For more information on the liquidity profile, see Note 17 on page 88.

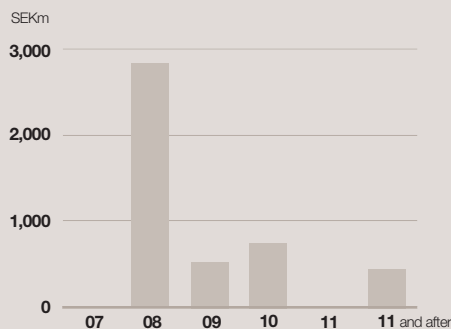
### Borrowings

At year-end, the Group's borrowings amounted to SEK 7,495m (8,914), of which SEK 4,502m (5,257) referred to long-term borrowings with average maturities of 1.7 years (2.8). A significant portion of long-term borrowings is raised in the euro and Swedish bond market.

The Group's goal for long-term borrowings includes an average time to maturity of at least two years, an even spread of maturities, and an average interest-fixing period of six months. At year-end, the average interest-fixing period for long-term borrowings was 0.5 years (1.4).

At year-end, the average interest rate for the Group's total interest-bearing borrowings was 6.0% (5.1).

#### Long-term borrowings by maturity



In 2006, a net total of SEK 1,469m in borrowings matured or was amortized. For more information on borrowings, see Note 17 on page 88.

### Rating

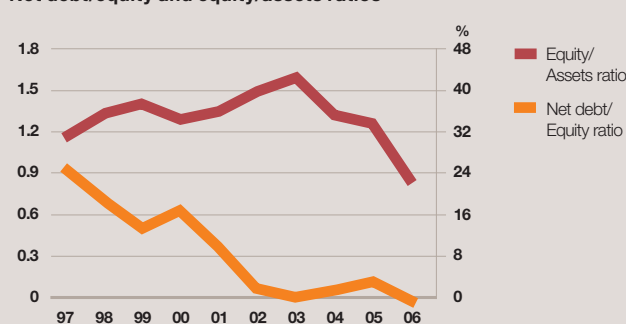
Electrolux has investment-grade ratings from Standard & Poor's. During the year, it was decided that Standard & Poor's would be the sole rating agency. Electrolux previously had investment-grade ratings from both Standard & Poor's and Moody's.

Rating	Long-term debt	Outlook	Short-term debt	Short-term debt, Sweden
Standard & Poor's	BBB+	Stable	A-2	K-1

### Net debt/equity and equity/assets ratios

The net debt/equity ratio declined to –0.02 (0.11). If the liability for share redemption had been included in net borrowings as of December 31, 2006, the net debt/equity ratio would have been 0.40. The equity/assets ratio declined to 22.7% (33.6).

#### Net debt/equity and equity/assets ratios



Net debt/equity ratio declined during the year mainly as a result of allocation of debt to the distributed outdoor operations.

### Equity and return on equity

Group equity as of December 31, 2006, amounted to SEK 13,194m (25,888), which corresponds to SEK 47.30 (88.32) per share. The return on equity was 18.7% (7.0). Excluding items affecting comparability, the return on equity was 21.1% (18.3).

# Change in consolidated equity

SEKm	Attributable to equity holders of the company					Minority interest	Total equity
	Share capital	Other paid-in capital	Other reserves	Retained earnings	Total		
<b>Closing balance, December 31, 2004</b>	<b>1,545</b>	<b>2,905</b>	<b>-489</b>	<b>19,665</b>	<b>23,626</b>	<b>10</b>	<b>23,636</b>
Effects of changes in accounting principles	—	—	7	-9	-2	—	-2
<b>Opening balance, January 1, 2005, after changes in accounting principles</b>	<b>1,545</b>	<b>2,905</b>	<b>-482</b>	<b>19,656</b>	<b>23,624</b>	<b>10</b>	<b>23,634</b>
<b>Available for sale instruments</b>							
Gain/loss taken to equity	—	—	24	—	24	—	24
Transferred to income statement on sale	—	—	—	—	—	—	—
<b>Cash-flow hedges</b>							
Gain/loss taken to equity	—	—	16	—	16	—	16
Transferred to income statement on sale	—	—	-7	—	-7	—	-7
<b>Exchange differences on translation of foreign operations</b>							
Net-investment hedge	—	—	-615	—	-615	—	-615
Translation differences	—	—	2,717	—	2,717	—	2,717
<b>Share-based payment</b>							
Share-based payment	—	—	—	72	72	—	72
<b>Income for the period recognized directly in equity</b>	<b>—</b>	<b>—</b>	<b>2,135</b>	<b>72</b>	<b>2,207</b>	<b>—</b>	<b>2,207</b>
<b>Income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,763</b>	<b>1,763</b>	<b>—</b>	<b>1,763</b>
<b>Total recognized income and expenses for the period</b>	<b>—</b>	<b>—</b>	<b>2,135</b>	<b>1,835</b>	<b>3,970</b>	<b>—</b>	<b>3,970</b>
Divestment of minority	—	—	—	—	—	-9	-9
Repurchase and sale of shares	—	—	—	331	331	—	331
Dividend SEK 7.00 per share	—	—	—	-2,038	-2,038	—	-2,038
<b>Total transactions with equity holders</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>-1,707</b>	<b>-1,707</b>	<b>-9</b>	<b>-1,716</b>
<b>Closing balance, December 31, 2005</b>	<b>1,545</b>	<b>2,905</b>	<b>1,653</b>	<b>19,784</b>	<b>25,887</b>	<b>1</b>	<b>25,888</b>
<b>Available for sale instruments</b>							
Gain/loss taken to equity	—	—	30	—	30	—	30
Transferred to income statement on sale	—	—	—	—	—	—	—
<b>Cash-flow hedges</b>							
Gain/loss taken to equity	—	—	-34	—	-34	—	-34
Transferred to income statement on sale	—	—	—	—	—	—	—
<b>Exchange differences on translation of foreign operations</b>							
Equity hedge	—	—	421	—	421	—	421
Translation differences	—	—	-2,081	—	-2,081	—	-2,081
<b>Share-based payment</b>							
Share-based payment	—	—	—	86	86	—	86
<b>Income for the period recognized directly in equity</b>	<b>—</b>	<b>—</b>	<b>-1,664</b>	<b>86</b>	<b>-1,578</b>	<b>—</b>	<b>-1,578</b>
<b>Income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,847</b>	<b>3,847</b>	<b>—</b>	<b>3,847</b>
<b>Total recognized income and expenses for the period</b>	<b>—</b>	<b>—</b>	<b>-1,664</b>	<b>3,933</b>	<b>2,269</b>	<b>—</b>	<b>2,269</b>
Repurchase and sale of shares	—	—	—	-1,463	-1,463	—	-1,463
Dividend SEK 7.50 per share	—	—	—	-2,222	-2,222	—	-2,222
Distribution of Husqvarna shares	—	—	—	-5,696	-5,696	—	-5,696
Redemption of shares	—	—	—	-5,582	-5,582	—	-5,582
<b>Total transactions with equity holders</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>-14,963</b>	<b>-14,963</b>	<b>—</b>	<b>-14,963</b>
<b>Closing balance, December 31, 2006</b>	<b>1,545</b>	<b>2,905</b>	<b>-11</b>	<b>8,754</b>	<b>13,193</b>	<b>1</b>	<b>13,194</b>

For more information about share capital, number of shares and earnings per share, see Note 20 on page 91.

For more information about other reserves in equity, see Note 18 on page 91.

# Cash flow

## Operating cash flow from continuing operations

Cash flow from operations and investments increased significantly in 2006 over the previous year. The increase reflects improvements related to accounts payable and trade receivables. The increase in accounts payable during 2006 is a result of higher production, due to strong market demand and product launches.

The improvement in cash flow also reflects decreased capital expenditures in property, plant and equipment as well as the proceeds of the divestment of the operations of Electrolux Financial Corporation in the US in the second quarter.

### Cash flow from continuing operations

SEKm	2006	2005
Cash flow from operations, excluding change in operating assets and liabilities	5,263	5,266
Change in operating assets and liabilities	-703	-1,804
Capital expenditure	-3,152	-3,654
Other	-298	-461
<b>Operating cash flow</b>	<b>1,110</b>	<b>-653</b>
Divestment of operations	1,064	-370
<b>Cash flow from operations and investments</b>	<b>2,174</b>	<b>-1,023</b>

## Capital expenditure

Capital expenditure in property, plant and equipment in 2006 decreased to SEK 3,152m (3,654), of which SEK 129m (108) referred to Sweden. Capital expenditure corresponded to 3.0% (3.6) of net sales. The decrease from the previous year referred mainly to lower investments in new plants within appliances in Europe and North America.

Approximately 30% of total capital expenditure referred to expansion of capacity and new plants, mainly in connection with relocation. Most of this referred to investments in new plants in Eastern Europe, where three Polish plants were inaugurated in 2006, and in Mexico, where the Juarez plant started production of refrigerators at the beginning of the year.

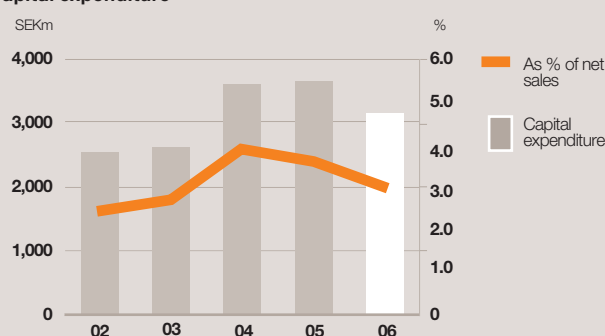
A large part of total capital expenditure in 2006 referred to new products. Major projects included development of new products within the washing and cooking products in North America and a full range of built-in products in Europe.

### Capital expenditure by business area

SEKm	2006	2005
<b>Consumer Durables</b>		
Europe	1,698	1,872
% of net sales	3.8	4.3
North America	922	1,108
% of net sales	2.5	3.2
Latin America	170	167
% of net sales	2.2	2.9
Asia/Pacific and Rest of world	184	328
% of net sales	2.1	3.5
<b>Professional Products</b>	151	156
% of net sales	2.2	2.3
Other	27	23
<b>Total</b>	<b>3,152</b>	<b>3,654</b>
% of net sales	3.0	3.6

- Operating cash flow increased to SEK 1,110m (-653), mainly due to improvements in cash flow from working capital
- Capital expenditure declined to SEK 3,152m, as against SEK 3,654m in 2005
- R&D costs increased by 5.1% to SEK 1,832m (1,743)

### Capital expenditure



Capital expenditure from continuing operations decreased during 2006 compared to 2005 as a result of lower investments in new plants.

### Costs for research and development

Costs for R&D in 2006, including capitalization of SEK 439m (350), amounted to SEK 1,832m (1,743), corresponding to 1.8% (1.7) of net sales. R&D projects during the year referred mainly to new products and design projects within appliances, including development of new platforms. Major projects included new cookers and washing machines in North America and a harmonizing of design for built-in products in Europe.

For definitions, see Note 31 on page 107.



# Consolidated cash flow statement

SEKm	Note	2006	2005
<b>Operations</b>			
Income after financial items		3,825	494
Depreciation and amortization		2,758	2,583
Capital gain/loss included in operating income		112	419
Restructuring provisions		-737	2,164
Share-based compensation		86	88
Change in accrued and prepaid interest		-38	58
Taxes paid		-743	-540
<b>Cash flow from operations, excluding change in operating assets and liabilities</b>		<b>5,263</b>	<b>5,266</b>
<b>Change in operating assets and liabilities</b>			
Change in inventories		-748	-935
Change in trade receivables		-856	-1,749
Change in other current assets		-354	253
Change in accounts payable		1,779	190
Change in operating liabilities and provisions		-524	437
<b>Cash flow from change in operating assets and liabilities</b>		<b>-703</b>	<b>-1,804</b>
<b>Cash flow from operations</b>		<b>4,560</b>	<b>3,462</b>
<b>Investments</b>			
Divestment of operations	26	1,064	-370
Capital expenditure in property, plant and equipment	12	-3,152	-3,654
Capitalization of product development and software	11	-515	-405
Other		217	-56
<b>Cash flow from investments</b>		<b>-2,386</b>	<b>-4,485</b>
<b>Cash flow from operations and investments</b>		<b>2,174</b>	<b>-1,023</b>
<b>Financing</b>			
Change in short-term investments		-805	-122
Change in short-term borrowings		-356	-943
New long-term borrowings		583	2,344
Amortization of long-term borrowings		-1,635	-2,334
Dividend		-2,222	-2,038
Repurchase and sale of shares		-1,463	355
<b>Cash flow from financing</b>		<b>-5,898</b>	<b>-2,738</b>
<b>Cash flow from continuing operations</b>		<b>-3,724</b>	<b>-3,761</b>
<b>Cash flow from discontinued operations</b>			
Cash flow from operations		-2,446	3,078
Cash flow from investments		-727	-1,342
Cash flow from financing		8,504	-1,597
<b>Cash flow from discontinued operations</b>		<b>5,331</b>	<b>139</b>
Total cash flow		1,607	-3,622
Cash and cash equivalents at beginning of year		4,420	7,675
Exchange-rate differences referring to cash and cash equivalents		-552	367
Cash and cash equivalents at year-end		5,475	4,420
<b>Change in net borrowings</b>			
<b>Total cash flow, excluding change in loans and other short-term investments</b>		<b>3,820</b>	<b>-970</b>
<b>Net borrowings at beginning of year</b>		<b>-2,974</b>	<b>-1,141</b>
<b>Exchange-rate differences referring to net borrowings</b>		<b>-542</b>	<b>-863</b>
<b>Net borrowings at year-end</b>		<b>304</b>	<b>-2,974</b>

## Operations by business area

The Group's continuing operations include products for consumers as well as professional users. Products for consumers comprise major appliances, i.e., refrigerators, freezers, cookers, dryers, washing machines, dishwashers, room air-conditioners and microwave ovens, as well as floor-care products. Professional products comprise food-service equipment for hotels, restaurants and institutions, as well as laundry equipment for apartment-house laundry rooms, laundrettes, hotels and other professional users.

In 2006, appliances accounted for 85% (86) of sales, professional products for 7% (7) and floor-care products for 8% (7).

### Consumer Durables, Europe

#### Key data <sup>1)</sup>

Consumer Durables, Europe SEKm	2006	2005
Net sales	44,233	43,755
Operating income	2,678	2,602
Operating margin, %	6.1	5.9
Net assets	7,075	6,062
Return on net assets, %	41.6	39.0
Capital expenditure	1,698	1,872
Average number of employees	25,029	25,250

1) Excluding items affecting comparability.

#### Core appliances

Total industry shipments of core appliances in Europe in 2006 increased in volume by 3.6% over 2005. Shipments rose by 2.8% in Western Europe and 6.1% in Eastern Europe. A total of 78.1 (75.4) million units (excluding microwave ovens) were estimated to have been shipped in the European market during 2006, of which 58.7 (57.1) million units in Western Europe.

Group sales of core appliances in Europe increased slightly over the previous year due to higher sales volumes. Operating income rose on the basis of higher volumes and savings from restructuring, which proceeded according to plan during the year. Production was moved rapidly to the Group's factories in low-cost countries. Increased costs for raw materials were offset through more efficient purchasing. Brand investments increased following extensive launches of new, innovative products, which will continue in 2007 across all product categories within core appliances. The Group's market share recovered by year-end after a decline due to the strike in Nuremberg in Germany at the beginning of the year.

Industry shipments of core appliances in Europe showed a strong increase in the fourth quarter compared to the previous year. The trend for shipments in the Nordic countries was particularly good. The laundry and cooking product categories showed higher growth than the market average.

Group sales of core appliances in Europe increased in the fourth quarter, due to strong volume growth. Operating income and margin improved as a result of higher volumes, savings from restructuring and an improved product mix. Lower sales prices were offset by the improved mix. Brand investments continued to increase during the quarter.

- Strong market development in all regions except North America
- Improvement in operating income across all business areas
- Operating income and margin up for appliances in Europe
- Stable operating income and margin for appliances in North America
- Substantial increase in sales and operating income for operations in Latin America
- Significant increase in operating income for Professional Products
- Floor-care products up strongly in all regions

#### Floor-care products

Demand for floor-care products in Europe in 2006 showed an increase of 5% compared to the previous year. Average market prices rose after a long period of decline. Group sales and operating income for the year improved due to higher sales volumes and an improved product mix. The Group's market share increased significantly in 2006.

Demand for floor-care products in Europe continued to increase in the fourth quarter, rising by 9%. Group sales and operating income increased due to higher sales volumes for vacuum cleaners.

#### Restructuring and relocation of production

During the year, the Board of Directors decided to close the compact appliances factory in Torsvik, Sweden, and transfer production to existing facilities in Poland. The transfer is scheduled for completion in the first quarter of 2007.

Restructuring within European operations proceeded according to plan. The plant for appliances in Fuenmayor, Spain, was closed and production moved to Hungary. Production at the refrigerator plants in Florence, Italy, and Mariestad, Sweden, was downsized. Production at the appliances plant in Nuremberg, Germany, was gradually moved to Poland. Production at this plant is expected to be discontinued by the end of the first quarter of 2007.

In 2006, a charge of SEK 188m was taken against operating income within items affecting comparability related to the closure of the plants in Torsvik, Sweden, and Nuremberg, Germany.

For more information on restructuring, see page 54.

## Consumer Durables, North America

### Key data <sup>1)</sup>

Consumer Durables, North America SEKm	2006	2005
Net sales	36,171	35,134
Operating income	1,462	1,444
Operating margin, %	4.0	4.1
Net assets	8,187	9,929
Return on net assets, %	19.3	16.6
Capital expenditure	922	1,108
Average number of employees	15,148	16,066

1) Excluding items affecting comparability.

### Major appliances

Industry shipments of core appliances in the US declined in volume by approximately –1.0% compared with the previous year. The US market for core appliances (exclusive of microwave ovens and room air-conditioners) consists of industry shipments from domestic producers plus imports, and amounted to 47.8 million units in 2006. Shipments of major appliances, i.e., including room air-conditioners and microwave ovens, rose by approximately 1.2%.

Group sales of major appliances in North America increased in 2006 due to higher sales volumes and an improved product mix. Operating income improved. Significantly higher costs for materials were offset by the improved product mix and savings from restructuring. Operating margin was in line with the previous year. The Group's position in the market for washing machines has now stabilized, but competition in this market continues to be intense.

Industry shipments of core appliances in the US declined in the third and fourth quarter compared to the previous year, after a long period of strong demand. The decline referred to all categories within core appliances.

Group sales of appliances in North America in the fourth quarter declined somewhat due to lower volumes. Operating income was lower mainly as a result of significantly higher costs for raw materials. These were partly offset by gains in production efficiency, an improved product mix, and savings from restructuring. Margin was in line with the previous year. Savings are starting to materialize at the new plant in Juarez, Mexico, after a period of temporary disturbances resulting from problems with supplies of components.

### Floor-care products

Demand for floor-care products in the US was slightly lower than in the previous year. Both sales and operating income for the Group's US operation increased on the basis of a strong improvement in product mix, higher volumes, lower costs for materials and increased sourcing from low-cost countries.

Demand for floor-care products was unchanged in the fourth quarter compared to the same period in 2005. Group sales of floor-care products declined due to lower sales volumes for low-price products, which were traceable to the decision not to participate in a seasonal discount sale in November. This resulted in an improved product mix. Both operating income and margin increased.

## Relocation of production

Production at the refrigerator plant in Greenville, USA, was moved to the new plant in Juarez, Mexico, during the year. The Greenville plant was closed in the first quarter of 2006. The plant in Juarez produces high-capacity Side by Side and top mounted refrigerators under the Electrolux and Frigidaire brands.

For more information on restructuring, see page 54.

## Consumer Durables, Latin America

### Key data <sup>1)</sup>

Consumer Durables, Latin America SEKm	2006	2005
Net sales	7,766	5,819
Operating income	339	123
Operating margin, %	4.4	2.1
Net assets	3,565	2,305
Return on net assets, %	13.3	6.0
Capital expenditure	170	167
Average number of employees	5,770	5,023

1) Excluding items affecting comparability.

Unit shipments of major appliances in Brazil showed a strong increase over 2005, rising by 23%. Brazil is the Group's major market in Latin America.

Group sales in Latin America improved substantially and market shares increased. Operating income reached the highest level in ten years, driven mainly by higher volumes, a positive product-mix trend and lower costs for materials.

Unit shipments of major appliances in Brazil rose by 28% in the fourth quarter over the same period in 2005. Group sales and volumes increased substantially. Operating income was in line with the previous year but margin declined, mainly due to higher brand investments and sales costs.

## Consumer Durables, Asia/Pacific and Rest of world

### Key data <sup>1)</sup>

Consumer Durables, Asia/Pacific and Rest of world SEKm	2006	2005
Net sales	8,636	9,276
Operating income	163	13
Operating margin, %	1.9	0.1
Net assets	2,740	3,616
Return on net assets, %	6.0	0.4
Capital expenditure	184	328
Average number of employees	5,346	7,077

1) Excluding items affecting comparability.

### Australia and New Zealand

Market demand for major appliances in Australia rose in 2006 compared to the previous year. Group sales in the region declined slightly in local currency. Operating income improved as a result of an improved product mix and savings resulting from previous restructuring.

Demand in Australia showed continued growth in the fourth quarter and increased over the same period last year. The Group's sales volumes were unchanged, however, partly due to greater competition in the top-load washing machine category. Sales were in line with the previous year in local currency. Operating income rose on the basis of an improved product mix and savings from restructuring.

#### China

Market statistics for shipments of major appliances in China indicate strong growth in 2006 for both the full year and the fourth quarter. Group sales of major appliances declined significantly for the year as a whole and in the last quarter, reflecting the strategy that includes exiting from unprofitable retail outlets. This strategy has now been largely implemented. Operating income showed a greater loss for both the full year and the fourth quarter in comparison with 2005, mainly due to lower volumes and higher outlays for sales promotion in connection with product launches.

#### Restructuring and relocation of production

During the year, the Board of Directors decided to scale back production in Australia, including closure of the washer/dryer and dishwasher plants in Adelaide. Production will be moved gradually to other Electrolux factories. The dishwasher plant will close at the end of April, 2007, and the washer/dryer plant by the end of the first quarter of 2008.

The closures involve a total cost of SEK 302m, which was taken as a charge against operating income in the third quarter of 2006, within items affecting comparability.

For more information on restructuring, see page 54.

#### Professional Products

##### Key data <sup>1)</sup>

Professional Products SEKm	2006	2005
Net sales	6,941	6,686
Operating income	535	463
Operating margin, %	7.7	6.9
Net assets	1,394	1,290
Return on net assets, %	40.2	40.1
Capital expenditure	151	156
Average number of employees	3,316	3,401

<sup>1)</sup> Excluding items affecting comparability.

Demand in Europe for both food-service equipment and laundry equipment is estimated to have increased for the full year as well as the fourth quarter of 2006 in comparison with the previous year.

#### Food-service equipment

Group sales of food-service equipment increased in 2006 for both the full year and the fourth quarter. Operating income and margin improved significantly, mainly due to higher volumes of own-manufactured products and lower costs for marketing and administration. Higher prices for raw materials, mainly referring to stainless steel, were offset by higher sales prices.

#### Laundry equipment

The Group's sales of laundry equipment increased for both the full year and the fourth quarter due to higher volumes. Operating income was in line with the previous year despite weak shipments into the US market. The inflow of orders remained strong. The transfer of production from Denmark to Thailand was completed in the third quarter.

#### Relocation of production

Production at the plant for tumble-dryers in Tommerup, Denmark, was discontinued during the year and transferred to a new plant in Thailand.

#### Operations by business area <sup>1)</sup>

SEKm	2006	2005
<b>Consumer Durables, Europe</b>		
Net sales	44,233	43,755
Operating income	2,678	2,602
Margin, %	6.1	5.9
<b>Consumer Durables, North America</b>		
Net sales	36,171	35,134
Operating income	1,462	1,444
Margin, %	4.0	4.1
<b>Consumer Durables, Latin America</b>		
Net sales	7,766	5,819
Operating income	339	123
Margin, %	4.4	2.1
<b>Consumer Durables, Asia/Pacific and Rest of world</b>		
Net sales	8,636	9,276
Operating income	163	13
Margin, %	1.9	0.1
<b>Professional Products</b>		
Net sales	6,941	6,686
Operating income	535	463
Margin, %	7.7	6.9
<b>Other</b>		
Net sales	101	31
Operating income, common group costs, etc.	-602	-621
<b>Total</b>		
<b>Net sales</b>	<b>103,848</b>	<b>100,701</b>
<b>Operating income, excluding items affecting comparability</b>	<b>4,575</b>	<b>4,024</b>
<b>Margin, %</b>	<b>4.4</b>	<b>4.0</b>

<sup>1)</sup> Excluding items affecting comparability.

#### Change in net sales and operating income 2006 compared to 2005 <sup>1)</sup>

Change year-over-year, %	Net sales	Net sales in comparable currency	Operating income	Operating income in comparable currency
<b>Consumer Durables</b>				
Europe	1.1	1.2	2.9	-1.0
North America	3.0	4.0	1.2	8.0
Latin America	33.5	19.6	175.6	130.6
Asia/Pacific, Rest of world	-6.9	-5.4	N/A	N/A
<b>Professional Products</b>	3.8	4.2	15.6	15.8
<b>Total</b>	<b>3.1</b>	<b>3.0</b>	<b>13.7</b>	<b>14.1</b>

<sup>1)</sup> Excluding items affecting comparability.

# Risk management

Risks in connection with the Group's operations can in general be divided into operational risks related to business operations and those related to financial operations. Operational risks are normally managed by the operative units within the Group, and financial risks by the Group's treasury department.

## Operational risks

Electrolux is exposed to risks in connection with its business operations. The Group's ability to improve profitability and increase shareholder value is largely dependent on success in development of new, innovative products and in maintaining cost-efficient production. Managing fluctuations in the prices of raw materials and components and restructuring are vital for maintaining and increasing the Group's competitiveness.

## Financial risk management

The Group is exposed to a number of risks related to for example liquid funds, trade receivables, customer financing receivables, payables, borrowings, commodities and derivative instruments. The risks are, primarily:

- Interest-rate risks on liquid funds and borrowings
- Financing risks related to the Group's capital requirements
- Foreign-exchange risks on earnings and net investments in foreign subsidiaries
- Commodity-price risks affecting expenditure on raw materials and components to be used in production
- Credit risks related to financial and commercial activities

The Board of Directors of Electrolux has approved a financial policy and a credit policy for the Group in order to manage and con-

trol these risks. Each business sector has specific financial and credit policies approved by the sector board. The above-mentioned risks are, amongst others, managed by the use of derivative financial instruments according to the limitations stated in the Financial Policy. The Financial Policy also describes management of risks related to pension-fund assets.

Management of financial risks has largely been centralized to Group Treasury in Stockholm, Sweden. Measurement of risk in Group Treasury is performed by a separate risk controlling function on a daily basis. Furthermore, the Group's policies and procedures include guidelines for managing operating risks related to financial instruments through, e.g., segregation of duties and power of attorney.

Proprietary trading in currencies, commodities and interest-bearing instruments is permitted within the framework of the Financial Policy. This trading is aimed primarily at maintaining a high quality of information flow and market knowledge in order to contribute to proactive management of the Group's financial risks.

The Group's Credit Policy ensures that the management process for customer credits includes customer ratings, credit limits, decision levels and management of bad debts.

For more detailed information on:

- Accounting principles for financial instruments, see Note 1 on page 72.
- Financial risk management, see Note 2 on page 79.
- Financial instruments, see Note 17 on page 88.

For more information, see section on Risk factors on page 129.

# Distribution of funds to shareholders

## Distribution of Outdoor Products to shareholders

In June 2006, the Group's Outdoor Products operation was spun off as a separate company and distributed to Electrolux shareholders in accordance with the decision at the Annual General Meeting of 2006. One A-share in Husqvarna was received for each A-share in Electrolux, and one B-share in Husqvarna for each B-share in Electrolux.

The new company, Husqvarna AB, which was listed on the O-list of the Stockholm Stock Exchange in June is one of the world leaders in outdoor products both for the consumer market and for professional users.

## Redemption of shares

On the basis of the strong balance sheet after the spin-off of Husqvarna AB and the strong cash-flow, an Extraordinary General Meeting in December 2006 resolved upon a mandatory redemption of shares at SEK 20 per share in accordance with the proposal by the Board of Directors. This corresponded to a capital distribution of SEK 5,579m to Electrolux shareholders. The redemption amount was paid to the shareholders at the end of January 2007.

The purpose of the redemption procedure was to adjust the Group's capital structure and thereby contribute to increased shareholder value. After the capital distribution, the Group has a capital structure that will provide the flexibility that is necessary for the Group to implement its strategy, which includes investments in product development, building the Electrolux brand and conducting restructuring measures as well as growth through possible acquisitions.

## Proposed dividend

The Board of Directors proposes a dividend for 2006 amounting to SEK 4.00 (7.50) per share, for a total dividend payment of SEK 1,120m (2,222). The proposed cash dividend corresponds to 36% of income for the period for continuing operations, excluding items affecting comparability. The level of the dividend reflects the fact that Husqvarna AB is no longer part of the Group and that SEK 5,579m has been distributed to shareholders through a redemption procedure.

The Group's goal is for the dividend to correspond to at least 30% of income for the period, excluding items affecting comparability. For more information on dividend payment, see page 110.

## Repurchase of shares

As in previous years, the Annual General Meeting 2006 authorized the Board of Directors to acquire and transfer own shares. The purpose of the repurchase program is to continuously enable adapting of the Group's capital structure, thus contributing to increased shareholder value. Shares may be acquired on the condition that, following each repurchase transaction, the company holds a maximum of 10% of the total number of shares.

In 2006, 19,400,000 shares were repurchased for a total amount of SEK 2,194m, corresponding to an average price of SEK 113 per share. Senior managers purchased 5,234,483 B-shares from Electrolux under the terms of the employee stock option programs. As of December 31, 2006, Electrolux held 29,986,756 B-shares, corresponding to 9.7% of the total number of outstanding shares. As of February 28, 2007, the Group owned a total of 28,956,923 B-shares, corresponding to 9.4% of the total number of outstanding shares, which amounts to 308,920,308.

## Repurchase of own shares 2003–2006

	2006	2005	2004	2003
Number of shares repurchased	19,400,000	—	750,000	11,331,828
Total amount paid, SEKm	2,194	—	114	1,688
Price per share, SEK	113	—	152	149
Number of shares held by Electrolux at year-end	29,986,756	15,821,239	17,739,400	17,000,000 <sup>1)</sup>
% of outstanding shares	9.7	5.1	5.7	5.2

1) After cancellation of shares.

## Number of shares

	Outstanding A-shares	Outstanding B-shares	Shares held by Electrolux	Shares held by other shareholders
<b>Number of shares as of January 1, 2006</b>	<b>9,502,275</b>	<b>299,418,033</b>	<b>15,821,239</b>	<b>293,099,069</b>
Repurchase of shares	—	—	19,400,000	–19,400,000
Shares sold under the terms of the employee stock option programs	—	—	–5,234,483	5,234,483
<b>Total number of shares as of December 31, 2006</b>	<b>9,502,275</b>	<b>299,418,033</b>	<b>29,986,756</b>	<b>278,933,552</b>
Shares sold under the terms of the employee stock option programs January 1 – February 28, 2007	—	—	–1,029,833	1,029,833
<b>Total number of shares as of February 28, 2007</b>	<b>9,502,275</b>	<b>299,418,033</b>	<b>28,956,923</b>	<b>279,963,385</b>

# Employees

## Talent management

Talent management is a strategic priority for Electrolux, especially at a time when the Group is rapidly being transformed to a more market- and consumer-oriented company. Over the past years, Electrolux has established processes and tools that develop and ensure the Group of access to competence. Active leadership development, international career opportunities and a result-oriented corporate culture are vital for successful development of human resources within the Group. Talent management, which comprises processes and tools for attracting, developing and securing access to future leaders, plays a central role. This process reviews more than 3,000 employees each year and is designed to identify internal competence within the Group's global operations.

## Electrolux People Process

The Group has established the Electrolux People Process, which provides support at Group level for managers with regard to recruitment and development of employees. The process also aims at ensuring that individuals are treated fairly by the company.

The Group has a robust Code of Conduct that defines high employment standards for all Electrolux employees in all countries and business sectors. It incorporates issues such as child and forced labor, health and safety, workers' rights and environmental compliance.

## Number of employees

The average number of employees for continuing operations in 2006 was 55,471 (57,842), of whom 3,080 (3,451) were in Sweden. At year-end, the total number of employees was 59,491 (59,743).

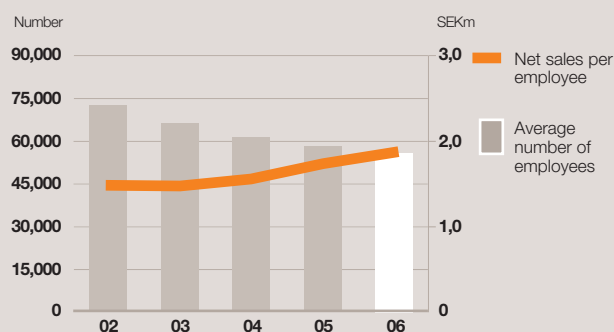
In 2005, average number of employees amounted to 69,523.

The decline in the work force is due mainly to the spin-off of Husqvarna in June 2006.

### Number of employees

<b>Average number of employees in 2005</b>	<b>69,523</b>
Number of employees in discontinued operations	-11,681
Restructuring programs	-1,537
Other changes	-834
<b>Average number of employees in 2006</b>	<b>55,471</b>

### Employees



The average number of employees in 2006, decreased to 55,471 (57,842) mainly as a result of restructuring programs.

Salaries and remuneration in 2006 amounted to SEK 12,849m (13,987), of which SEK 1,146m (1,144) referred to Sweden.

## Proposal for remuneration guidelines for Group Management

The Board of Directors will present a proposal for remuneration guidelines for Group Management at the Annual General Meeting, AGM, in 2007. These guidelines are described in all essential parts below.

Electrolux shall strive to offer total remuneration that is fair and competitive in relation to the home country or region of each Group Management member. The remuneration terms shall emphasize "pay for performance", and vary with the performance of the individual and the Group. The total remuneration for Group Management can comprise the components as are set forth here-after.

The guidelines shall apply to the remuneration and other terms of employment for the President and CEO and other members of Group Management.

The entire remuneration guidelines will be included in the information for the Annual General Meeting 2007.

Remuneration for Group Management is resolved upon by AB Electrolux Board of Directors, based on the recommendation of the Remuneration Committee. The Remuneration Committee makes proposals to the Board of Directors regarding targets for variable compensation, the relationship between fixed and variable compensation, changes in fixed or variable compensation, criteria for assessment of variable compensation, long-term incentives, pension terms and other benefits.

For a detailed description on remuneration to Group Management and related costs, see Note 27 on page 101.

## Fixed compensation

Annual Base Salary, ABS, shall be the foundation of the overall remuneration package of Group Management. The salary shall be competitive relative to the relevant country market and reflect the scope of the job responsibilities. Salary levels shall be reviewed periodically to ensure continued competitiveness and to recognize individual performance.

## Variable compensation

Following the "pay for performance" principle, variable compensation shall represent a significant portion of the total compensation opportunity for Group Management. Variable compensation can be offered both with short-term performance targets up to one year and long-term performance targets up to three years or longer.

Performance may be measured against both financial and non-financial targets. The financial targets shall comprise value creation on Group level and may comprise other financial measures such as the EBIT margin. Non-financial targets shall focus on elements in line with Electrolux strategic plans. The targets shall be specific, clear, measurable and time bound and be determined by the Board of Directors from year to year.

For details on the value creation concept, see Note 31 on page 107.

### Short Term Variable

Group Management members shall participate in a short term incentive plan, STI, under which they may receive variable compensation in addition to the fixed salary. The main objectives in the STI shall be on financial targets. These shall be set based on annual financial performance of the Group and, for the sector heads, of the sector for which the Group Management member is responsible. In addition, non-financial targets in line with Electrolux strategic plans may be used to create focus on issues of particular interest at Group, sector or the individual functional level.

### Long Term Variable

Each year, the Board of Directors will evaluate whether or not a long-term incentive program, LTI, shall be proposed to the Annual General Meeting and, if affirmative, whether the proposed long-term incentive program shall involve the transfer of company shares.

In 2006, the Annual General Meeting of Electrolux approved a performance-share program based on value creation targets for the Group as established by the Board of Directors. The program involves an allocation of shares if these targets have been reached or exceeded after a three-year period. Allocation of shares under the program is determined on the basis of three levels of value creation; entry, target and stretch. Stretch is the maximum level for allocation and may not be exceeded regardless of the value creation created during the period. The number of shares allocated at stretch is 50% higher than target. The estimated value at target performance for the 2006 program is SEK 96m (120).

For a detailed description of all programs and related costs, see Note 22 on page 92 and Note 27 on page 101.

### Proposal for a performance-based share program in 2007

The Board of Directors will present a proposal at the Annual General Meeting 2007 for a performance-based share program in 2007, corresponding to the share program described above. The proposal for 2007 include a maximum of 160 senior managers.

The estimated total value of the program over a three-year period at "target level" amounts to approximately SEK 96m. More details will be included in the information for the Annual General Meeting 2007.

### Insurable Benefits

Old age pension, disability benefits and medical benefits shall be designed to reflect home-country practices and requirements. When possible, pension plans shall be based on defined contribution. In individual cases, depending on tax and/or social security legislation to which the individual is subject, other schemes and mechanisms for pension benefits may be approved by the Board of Directors.

### Notice of Termination and Severance Pay

The notice period shall be twelve months if the company takes the initiative and six months if the Group Management member takes the initiative.

In individual cases, the Board of Directors may approve severance arrangements in addition to the notice periods.

Severance arrangements may only be payable upon Electrolux termination of the employment arrangement or when a Group Management member gives notice as the result of an important change in his or her working situation, because of which he or she can no longer perform to standard. This may be the case in,

e.g., the event of a substantial change in ownership of Electrolux in combination with a change in reporting line and/or job scope.

Severance arrangements may provide as a benefit to the individual the continuation of the ABS for a period of up to twelve months following termination of the employment agreement; no other benefits shall be included. These payments shall be reduced with the equivalent value of any income that the individual earns during that period of up to twelve months from other sources, whether from employment or independent activities.

## Other facts

### Asbestos litigation in the US

Litigation and claims related to asbestos are pending against the Group in the US. Almost all of the cases refer to externally supplied components used in industrial products manufactured by discontinued operations prior to the early 1970s. Many of the cases involve multiple plaintiffs who have made identical allegations against many other defendants who are not part of the Electrolux Group.

As of December 31, 2006, the Group had a total of 1,688 (1,082) cases pending, representing approximately 7,700 (approximately 8,400) plaintiffs. During 2006, 986 new cases with approximately 1,300 plaintiffs were filed and 380 pending cases with approximately 2,000 plaintiffs were resolved. Approximately 5,650 of the plaintiffs relate to cases pending in the state of Mississippi.

Electrolux believes its predecessor companies may have had insurance coverage applicable to some of the cases during some of the relevant years. Electrolux is currently in discussions with those insurance carriers.

Additional lawsuits may be filed against Electrolux in the future. It is not possible to predict either the number of future claims or the number of plaintiffs that any future claims may represent. In addition, the outcome of asbestos claims is inherently uncertain and always difficult to predict and Electrolux cannot provide any assurances that the resolution of these types of claims will not have a material adverse effect on its business or on results of operations in the future.

### The WEEE directive

The WEEE directive (Waste Electrical and Electronic Equipment) issued by the EU defines producer responsibility for collection, treatment, recycling and disposal of electrical and electronic products.

The directive stipulates that as of 2005 producers and importers have producer responsibility for products put on the market. The target for material recovery is 80% for large household appliances and 70% for small appliances. By year-end 2006, all EU member states, with the exception of Malta had transposed the directive into national legislation. Nor has it been implemented in Norway. Malta is expected to transpose the directive in 2007. The interpretation varies, between countries, however.

Electrolux is compliant with the WEEE directive in all countries where the law has been implemented. In most states, the management of producer responsibility is organized through national recycling schemes initiated by industry associations. In order to meet the need for a cost-efficient recycling system in countries with large volumes of products, a jointly-owned company, European Recycling Platform (ERP), has been established by Electrolux, Braun, Procter & Gamble, Hewlett-Packard and Sony



in order to manage a pan-European recycling scheme. During 2006, ERP handled waste in seven EU member states, and in 2007, two more countries will be added to the ERP's list. These nine states will account for 50% of the Electrolux obligation for recycling in Europe. Through investment in this scheme, competence built in one market will benefit another.

### Cost of compliance

Producer responsibility for Electrolux currently covers products corresponding to 650,000 tons. The cost of compliance fluctuates, depending on a number of cost drivers that include administration, collection and treatment costs, the market price of scrap metal, disposal costs of non-recyclable material and components of equipment and collection costs per unit and collection rates, which may vary between countries.

The volume of products returned will increase in 2007 as a result of WEEE implementation in Italy and the UK. Implementation in Eastern and Southern European countries is also expected to increase the volume in the long term. The cost of handling waste for Electrolux in 2006 was almost entirely offset through visible fees that were added to the price of products. According to the directive, the cost of recycling products sold before August 2005 will be divided among producers and calculated according to their respective market share each year. On the basis of current national legislation this also applies to products sold after August 2005 in most countries. Making provisions for future recycling of products sold after August 2005 is required by only a few EU member states.

The estimated annual cost of handling waste for Electrolux when the WEEE directive is fully implemented is approximately SEK 600m. Visible fees will be phased out by 2013.

### Environmental activities

Electrolux operates 56 manufacturing facilities in 19 countries. Manufacturing comprises mainly assembly of components made by suppliers. Other processes include metalworking, molding of plastics, painting, enameling and to some extent casting of parts.

Chemicals such as lubricants and cleaning fluids are used as process aids and chemicals used in Group products include insulation materials, paint and enamel. Production processes generate an environmental impact in the form of water and airborne emissions, solid waste and noise.

Studies of the total environmental effect of the Group's products during their entire lifetime, i.e., from production and use to recycling, indicate that the greatest environmental impact is generated when the products are used. The stated Electrolux strategy is to develop and actively promote increased sales of products with lower environmental impact.

### Mandatory permits and notification in Sweden and elsewhere

Electrolux operates five plants in Sweden. Permits are required by Swedish authorities for all of these plants, which account for approximately 4% of the total value of the Group's production. Two of these plants are required to submit notification only. The permits cover, e.g., thresholds or maximum permissible values for air and waterborne emissions and noise. No significant non-compliance with Swedish environmental legislation was reported in 2006.

Manufacturing units in other countries adjust their operations, apply for necessary permits and report to the authorities in accordance with local legislation. The Group follows a precautionary policy with reference to both acquisitions of new plants

and ongoing operations. Potential non-compliance, disputes or items that pose a material financial risk are reported to the Group in accordance with Group policy. No such significant item was reported in 2006.

Electrolux products are affected by legislation in various markets, principally involving limits for energy consumption. Electrolux continuously monitors changes in legislation, and both product development and manufacturing are adjusted well in advance to reflect these changes.

## Parent Company

The Parent Company comprises the functions of the Group's head office, as well as five companies operating on a commission basis for AB Electrolux.

Net sales for the Parent Company in 2006 amounted to SEK 6,204m (6,392), of which SEK 3,248m (3,558) referred to sales to Group companies and SEK 2,956m (2,834) to external customers. After appropriations of SEK 14m (12) and taxes of SEK 58m (303), income for the period amounted to SEK 10,768m (1,997).

Non-restricted equity in the Parent Company at year-end amounted to SEK 8,668m.

Net financial exchange-rate differences during the year amounted to SEK 294m (-546), of which SEK -2m (-62) comprised realized exchange-rate gains on loans intended as hedges for foreign net investments, while SEK 582m (-461) comprised exchange-rate losses on derivative contracts for the same purpose.

These differences in Group income do not normally generate any effect, as exchange-rate differences are offset against translation differences, i.e., the change in equity arising from the translation of net assets in foreign subsidiaries to SEK at year-end rates.

Group contributions in 2006 amounted to SEK 224m (1,590). Group contributions net of taxes amounted to SEK 162m (1,145) and are reported in retained earnings. See "Change in equity" on the next page.

For information on the number of employees as well as salaries and remuneration, see Note 22 on page 92.

For information on shareholdings, net and participations, see Note 29 on page 104.

### INCOME STATEMENT

SEKm	Note	2006	2005
<b>Net sales</b>		<b>6,204</b>	<b>6,392</b>
Cost of goods sold		-5,428	-5,692
<b>Gross operating income</b>		<b>776</b>	<b>700</b>
Selling expenses		-693	-627
Administrative expenses		-558	-790
Other operating income	5	171	2,190
Other operating expenses	6	-704	-945
<b>Operating income</b>		<b>-1,008</b>	<b>528</b>
Financial income	9	12,867	2,783
Financial expenses	9	-1,163	-1,629
<b>Financial items, net</b>		<b>11,704</b>	<b>1,154</b>
<b>Income after financial items</b>		<b>10,696</b>	<b>1,682</b>
Appropriations	21	14	12
<b>Income before taxes</b>		<b>10,710</b>	<b>1,694</b>
Taxes	10	58	303
<b>Income for the period</b>		<b>10,768</b>	<b>1,997</b>

**BALANCE SHEET**

SEKm	Note	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11	594	640
Property, plant and equipment	12	459	478
Financial assets	13	23,080	25,758
<b>Total non-current assets</b>		<b>24,133</b>	<b>26,876</b>
<b>Current assets</b>			
Inventories	14	417	389
Trade receivables		470	345
Receivables from subsidiaries		7,426	10,958
Tax-refund claim		66	66
Other receivables		338	26
Prepaid expenses and accrued income		105	83
Short-term investments		4,211	807
Cash and cash equivalents		69	1,715
<b>Total current assets</b>		<b>13,102</b>	<b>14,389</b>
<b>Total assets</b>		<b>37,235</b>	<b>41,265</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital	20	1,545	1,545
Statutory reserve		3,017	3,017
		<b>4,562</b>	<b>4,562</b>
<b>Non-restricted equity</b>			
Retained earnings		-2,100	12,498
Income for the period		10,768	1,997
		<b>8,668</b>	<b>14,495</b>
<b>Total equity</b>		<b>13,230</b>	<b>19,057</b>
<b>Untaxed reserves</b>	21	<b>742</b>	<b>756</b>
<b>Provisions</b>			
Provisions for pensions and similar commitments	22	311	292
Other provisions	23	284	245
<b>Total provisions</b>		<b>595</b>	<b>537</b>
<b>Financial liabilities</b>			
Payable to subsidiaries		10,459	12,936
Bond loans		3,823	4,001
Mortgages, promissory notes, etc.		185	370
Short-term borrowings		241	1,663
<b>Total financial liabilities</b>		<b>14,708</b>	<b>18,970</b>
<b>Operating liabilities</b>			
Accounts payable		411	447
Payable to subsidiaries		1,061	530
Share redemption		5,579	—
Other liabilities		79	70
Accrued expenses and prepaid income	24	830	898
<b>Total operating liabilities</b>		<b>7,960</b>	<b>1,945</b>
<b>Total equity and liabilities</b>		<b>37,235</b>	<b>41,265</b>
<b>Assets pledged</b>	19	<b>5</b>	<b>5</b>
<b>Contingent liabilities</b>	25	<b>1,341</b>	<b>1,308</b>

**CHANGE IN EQUITY**

SEKm	Share capital	Restricted reserves	Non-restricted equity	Total
<b>Closing balance, December 31, 2004</b>				
	<b>1,545</b>	<b>3,017</b>	<b>13,162</b>	<b>17,724</b>
Restatement of IAS 39			-148	-148
<b>Restated opening balance, January 1, 2005</b>				
	<b>1,545</b>	<b>3,017</b>	<b>13,014</b>	<b>17,576</b>
Share-based payments	—	—	21	21
Revaluation of external shares	—	—	24	24
Income for the period	—	—	1,997	1,997
Dividend payment	—	—	-2,038	-2,038
Repurchase and sale of shares	—	—	332	332
Group contribution	—	—	1,145	1,145
<b>Closing balance, December 31, 2005</b>				
	<b>1,545</b>	<b>3,017</b>	<b>14,495</b>	<b>19,057</b>
Share-based payments	—	—	20	20
Revaluation of external shares	—	—	30	30
Income for the period	—	—	10,768	10,768
Dividend payment	—	—	-2,222	-2,222
Dividend of Husqvarna AB	—	—	-7,540	-7,540
Redemption of shares, including costs	—	—	-5,582	-5,582
Repurchase and sale of shares	—	—	-1,463	-1,463
Group contribution	—	—	162	162
<b>Closing balance, December 31, 2006</b>				
	<b>1,545</b>	<b>3,017</b>	<b>8,668</b>	<b>13,230</b>

**CASH FLOW STATEMENT**

SEKm	2006	2005
<b>Operations</b>		
Income after financial items	10,696	1,682
Non-cash dividend	-2,681	—
Depreciation and amortization	153	140
Capital gain/loss included in operating income	648	-1,320
Taxes paid	-3	17
<b>Cash flow from operations, excluding change in operating assets and liabilities</b>	<b>8,813</b>	<b>519</b>
<b>Change in operating assets and liabilities</b>		
Change in inventories	-28	73
Change in accounts receivable	-125	18
Change in current intra-Group balances	4,287	-5,150
Change in other current assets	-334	105
Change in other current liabilities and provisions	-41	-10
<b>Cash flow from operating assets and liabilities</b>	<b>3,759</b>	<b>-4,964</b>
<b>Cash flow from operations</b>	<b>12,572</b>	<b>-4,445</b>
<b>Investments</b>		
Change in shares and participations	-4,610	-109
Capital expenditure in property, plant and equipment	-93	-158
Divestment of brands	—	1,416
Other	1,836	2,420
<b>Cash flow from investments</b>	<b>-2,867</b>	<b>3,569</b>
<b>Total cash flow from operations and investments</b>		
	<b>9,705</b>	<b>-876</b>
<b>Financing</b>		
Change in short-term borrowings	-1,422	-2,628
Change in long-term borrowings	-2,840	3,026
Dividend	-2,222	-2,038
Repurchase and sale of shares	-1,463	332
<b>Cash flow from financing</b>	<b>-7,947</b>	<b>-1,308</b>
Total cash flow	1,758	-2,184
Liquid funds at beginning of year	2,522	4,706
Liquid funds at year-end	4,280	2,522
<b>Change in net borrowings</b>		
<b>Total cash flow, excluding change in loans</b>	<b>6,020</b>	<b>-2,582</b>
<b>Net borrowings at beginning of year</b>	<b>-16,448</b>	<b>-13,866</b>
<b>Net borrowings at year-end</b>	<b>-10,428</b>	<b>-16,448</b>

# Notes

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# Notes

## Note 1 Accounting and valuation principles

### Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Some additional information is disclosed based on the standard RR 30:05 from the Swedish Financial Accounting Standards Council. As required by IAS 1, Electrolux companies apply uniform accounting rules, irrespective of national legislation, as defined in the Electrolux Accounting Manual, which is fully compliant with IFRS. The policies set out below have been consistently applied to all years presented.

The Parent Company's financial statements are prepared in accordance with the Swedish Annual Accounts Act and the standard RR 32:05 from the Swedish Financial Accounting Standards Council.

### Principles applied for consolidation

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, whereby the assets and liabilities in a subsidiary on the date of acquisition are recognized and measured to determine the acquisition value to the Group.

If the cost of the business combination exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized as goodwill.

If the fair value of the acquired net assets exceeds the cost of the business combination, the acquirer must reassess the identification and measurement of the acquired assets. Any excess remaining after that reassessment must be recognized immediately in profit or loss. The consolidated income for the Group includes the income statements for the Parent Company and the direct and indirect owned subsidiaries after:

- elimination of intra-group transactions, balances and unrealized intra-group profits
- depreciation and amortization of acquired surplus values.

### Definition of Group companies

The consolidated financial statements include AB Electrolux and all companies in which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights referring to all shares and participations.

The following applies to acquisitions and divestments during the year:

- Companies acquired during the year have been included in the consolidated income statement as of the date when Electrolux gains control
- Companies divested during the year have been included in the consolidated income statement up to and including the date when Electrolux loses control

At year-end 2006, the Group comprised 257 (355) operating units, and 209 (281) companies.

### Associated companies

Associates are all companies over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies have been reported according to the equity method. This means that the Group's share of income after taxes in an associated company is reported as part of the Group's income. Investments in such a company are reported initially at cost, increased, or decreased to recognize the Group's share of the profit or loss of the associated company after the date of acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains or losses on transactions with associated companies, if any, have been recognized to the extent of unrelated investors' interests in the associate.

### Related party transactions

All transactions with related parties are carried out on an arm's-length basis.

### Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

The consolidated financial statements are presented in SEK, which is the Parent Company's functional and presentation currency.

The balance sheets of foreign subsidiaries have been translated into SEK at year-end rates. The income statements have been translated at the average rates for the year. Translation differences thus arising have been taken directly to equity.

Prior to consolidation, the financial statements of subsidiaries in countries with highly inflationary economies and whose functional currency is other than the local currency have been remeasured into their functional currency and the exchange-rate differences arising from that remeasurement have been charged to income. When the functional currency is the local currency, the financial statements have been restated in accordance with IAS 29.

The Group uses foreign-exchange derivative contracts and loans in foreign currencies in hedging certain net-foreign investments. Exchange-rate differences related to these contracts and loans have been charged to Group equity, to the extent to which there are corresponding translation differences.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sales.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Segment reporting

The Group's primary segments, business areas, follow the internal management of the Group, which are the basis for identifying the predominant source and nature of risks and differing rates of return facing the entity, and are based on the different business

models for end-customers and indoor users. The secondary segments are based on the Group's consolidated sales per geographical market, geographical areas.

The segments are responsible for the operating result and the net assets used in their businesses, whereas finance net and taxes as well as net borrowings and equity are not reported per segment. The operating results and net assets of the segments are consolidated using the same principles as for the total Group. The segments consist of separate legal units as well as divisions in multi-segment legal units where some allocations of costs and net assets are made. Operating costs not included in the segments are shown under Group common costs which refer to common Group services including corporate functions.

Sales between segments are made on market conditions with arms-length principles.

### Revenue recognition

Sales are recorded net of value-added tax, specific sales taxes, returns, and trade discounts. Revenues arise from sales of finished products and services. Sales are recognized when the significant risks and rewards connected with ownership of the goods have been transferred to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods and when the amount of revenue can be measured reliably. This means that sales are recorded when goods have been put at the disposal of the customers in accordance with agreed terms of delivery. Revenues from services are recorded when the service, such as installation or repair of products, has been performed.

### Items-affecting comparability

This item includes events and transactions with significant effects, which are relevant for understanding the financial performance when comparing income for the current period with previous periods, including:

- Capital gains and losses from divestments of product groups or major units
- Close-down or significant down-sizing of major units or activities
- Restructuring initiatives with a set of activities aimed at reshaping a major structure or process
- Significant impairment
- Other major non-recurring costs or income

### Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

### Taxes

Taxes include current and deferred taxes applying the liability method, which is sometimes known as the balance sheet liability method. Deferred taxes are calculated using enacted or substantially enacted tax rates by the balance sheet date. Taxes incurred by the Electrolux Group are affected by appropriations and other taxable or tax-related transactions in the individual Group companies. They are also affected by utilization of tax losses carried forward referring to previous years or to acquired companies. This applies to both Swedish and foreign Group companies. Deferred tax assets on tax losses and temporary differences are recognized to the extent it is probable that they will be utilized in future periods. Deferred tax assets and deferred tax liabilities are shown net when they refer to the same taxation authority and when a com-

pany or a group of companies, through tax consolidation schemes, etc., have a legally enforceable right to set off tax assets against tax liabilities.

### Monetary assets and liabilities in foreign currency

Monetary assets and liabilities denominated in foreign currency are valued at year-end exchange rates and the exchange-rate differences are included in the income statement, except when deferred in equity for the effective part of qualifying net-investment hedges.

### Intangible fixed assets

#### Goodwill

Goodwill is reported as an indefinite life intangible asset at cost less accumulated impairment losses.

The value of goodwill is continuously monitored, and is tested for yearly impairment or more often if there is indication that the asset might be impaired. Goodwill is allocated to the cash generating units that are expected to benefit from the combination.

#### Trademarks

Trademarks are shown at historical cost. The Electrolux trademark in North America, acquired in May 2000, is regarded as an indefinite life intangible asset and is not amortized but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. One of the Group's key strategies is to develop Electrolux into the leading global brand within the Group's product categories. This acquisition has given Electrolux the right to use the Electrolux brand worldwide, whereas it previously could be used only outside of North America. All other trademarks are amortized over their useful lives, estimated to 10 years, using the straight-line method.

#### Product development expenses

Electrolux capitalizes certain development expenses for new products provided that the level of certainty of their future economic benefits and useful life is high. The intangible asset is only recognized if the product is sellable on existing markets and that resources exist to complete the development. Only expenditures, which are directly attributable to the new product's development, are recognized. Capitalized development costs are amortized over their useful lives, between 3 and 5 years, using the straight-line method. The assets are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

#### Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over useful lives, between 3 and 5 years, using the straight-line method. Computer software is tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

### Property, plant and equipment

Property, plant, and equipment are stated at historical cost less straight-line accumulated depreciation, adjusted for any impairment charges. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and are of material value. All other repairs

and maintenance are charged to the income statement during the period in which they are incurred. Land is not depreciated as it is considered to have an endless useful period, but otherwise depreciation is calculated using the straight-line method and is based on the following estimated useful lives:

Buildings and land improvements	10–40 years
Machinery and technical installations	3–15 years
Other equipment	3–10 years

The Parent Company reports additional fiscal depreciation, permitted by Swedish tax law, as appropriations in the income statement. In the balance sheet, these are included in untaxed reserves. See Note 21 on page 92.

### Impairment of non-current assets

At each balance sheet date, the Group assesses whether there is any indication that any of the company's non-current assets are impaired. If any such indication exists, the company estimates the recoverable amount of the asset. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized by the amount of which the carrying amount of an asset exceeds its recoverable amount. The discount rates used reflect the cost of capital and other financial parameters in the country or region where the asset is in use. For the purposes of assessing impairment, assets are grouped in cash-generating units, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### Classification of financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

#### *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading, presented under derivatives in the balance sheet, unless they are designated as hedges. Assets in this category are classified as current assets if they either are held for trading or are expected to be realized within 12 months of the balance sheet date.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that

management has the positive intention and ability to hold to maturity. During the year and last year, the Group did not hold any investments in this category.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets as financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

### Recognition and measurement of financial assets

Regular purchases and sales of investments, financial assets, are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, receivables, and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise and reported as operating result. Unrealized gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities and reported as operating result.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash-flow analysis, and option-pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement are not reversed through the income statement.

### Assets held for sale and discontinued operations

The Group classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale. For classification as held for sale the asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

Immediately before classification as held for sale, the measurement of the assets and all assets and liabilities in a disposal group is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognized at the lower of carrying amount and fair value less costs to sell.

### Leasing

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. Assets under financial leases in which the Group is a lessee are recognized in the balance sheet and the future leasing payments are recognized as a loan. Expenses for the period correspond to depreciation of the leased asset and interest cost for the loan. The Group's activities as a lessor are not significant.

The Group generally owns its production facilities. The Group rents some warehouse and office premises under leasing agreements and has also leasing contracts for certain office equipment. Most leasing agreements in the Group are operational leases and the costs recognized directly in the income statement in the corresponding period. Financial leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

The leased assets are depreciated over its useful lifetime. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and its useful life.

### Inventories

Inventories and work in progress are valued at the lower of acquisition cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale at market value. The cost of inventories is assigned by using the weighted average cost formula. Appropriate provisions have been made for obsolescence.

### Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in amount of the provision is recognized in the income statement.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and other short-term highly liquid investments with a maturity of three months or less.

### Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized, as a provision is the best estimate of the expenditure required to settle the present obligation at the bal-

ance sheet date. Where the effect of time value of money is material, the amount recognized is the present value of the estimated expenditures.

Provisions for warranty are recognized at the date of sale of the products covered by the warranty and are calculated based on historical data for similar products.

Restructuring provisions are recognized when the Group has both adopted a detailed formal plan for the restructuring and has, either started the plan implementation, or communicated its main features to those affected by the restructuring.

### Post-employment benefits

Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

Under a defined contribution plan, the company pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Contributions are expensed when they are due.

All other post-employment benefit plans are defined benefit plans. The Projected Unit Credit Method is used to measure the present value of the obligations and costs. The calculations are made annually using actuarial assumptions determined at the balance sheet date. Changes in the present value of the obligations due to revised actuarial assumptions are treated as actuarial gains or losses and are amortized over the employees' expected average remaining working lifetime in accordance with the corridor approach. Differences between expected and actual return on plan assets are treated as actuarial gains or losses.

Net provisions for post-employment benefits in the balance sheet represent the present value of the Group's obligations at year-end less market value of plan assets, unrecognized actuarial gains and losses and unrecognized past-service costs.

### Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. After initial recognition, borrowings are valued at amortized cost using the effective interest method.

### Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognized assets or liabilities or a firm commitment (fair-value hedges); hedges of highly probable forecast transactions (cash-flow hedges); or hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 17 on page 88. Movements on the hedging reserve in shareholder's equity are shown in the consolidated statement of changes in equity.

#### *Fair-value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair-value hedges are recorded as financial items in the income statement, together with any changes in the fair-value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair-value hedge accounting only for hedging fixed interest risk on borrowings. The gain or loss relating to changes in the fair value of interest-rate swaps hedging fixed rate borrowings is recognized in the income statement as financial expense. Changes in the fair-value of the hedged fixed rate borrowings attributable to interest rate risk are recognized in the income statement as financial expense.

If the hedge no longer meets the criteria for hedge accounting or are de-designated, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortized in the profit and loss statement as financial expense over the period of maturity.

#### *Cash-flow hedge*

The effective portion of change in the fair-value of derivatives that are designated and qualify as cash-flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as financial items.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss for instance when the forecast sale that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, for example inventory or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised; when the hedge no longer meets the criteria for hedge accounting; when the forecast transaction is no longer expected to occur; or when the entity revokes the designation. When any of these occur, the cumulative gains or losses that had been recognized directly in equity are recognized in profit or loss within financial items.

#### *Net-investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash-flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the income statement as financial items.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of, or when a partial disposal occurs.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement as financial items.

#### **Share-based compensation**

IFRS 2 is applied for share-based compensation programs granted after November 7, 2002, and that had not vested on January 1, 2005. The instruments granted are either share options or shares, depending on the program. An estimated cost

for the granted instruments, based on the instruments' fair value at grant date, and the number of instruments expected to vest is charged to the income statement over the vesting period. The fair value of share options is calculated using a valuation technique, which is consistent with generally accepted valuation methodologies for pricing financial instruments and takes into consideration factors that knowledgeable, willing market participants would consider in setting the price. The fair-value of shares is the market value at grant date, adjusted for the discounted value of future dividends which employees will not receive. For Electrolux, the share-based compensation programs are classified as equity-settled transactions, which means that the cost of the granted instrument's fair-value at grant date is recognized over the vesting period 3 years.

In addition, the Group provides for employer contributions expected to be paid in connection with the share-based compensation programs. The costs are charged to the income statement over the vesting period. The provision is periodically revalued based on the fair-value of the instruments at each closing date. For details of the share-based compensation programs, please refer to Note 22 on page 92.

#### **Government grants**

Government grants relate to financial grants from governments, public authorities, and similar local, national, or international bodies. These are recognized when there is a reasonable assurance that the Group will comply with the conditions attaching to them, and that the grants will be received. Government grants related to assets are included in the balance sheet as deferred income and recognized as income over the useful life of the assets. In 2006, Government grants recognized in the balance sheet amounted to SEK 11m (40). Government grants that relate to expenses are recognized in the income statement as a deduction of the related expense. In 2006, these grants amounted to SEK 116m (16).

#### **New accounting principles applicable for Electrolux as from 2006**

The IASB has issued a number of new standards and interpretations as well as amendments to standards and interpretations that have affected the Group in different degrees.

**Amendment to IAS 19** Option to recognize actuarial gains and losses in full, outside profit or loss, in a statement of changes in equity and added disclosures. Electrolux has chosen not to use the allowed option and continues to amortize actuarial gains and losses according to the corridor method.

**Amendment to IAS 21** Net Investment in a Foreign Operation, which specifies the treatment of certain exchange differences. This amendment has not had any effect on the consolidated figures.

**Amendment to IAS 39** Hedges of forecast intragroup transactions which state that the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. This amendment has been applied as from 2005.



**Amendment to IAS 39** The Fair Value Option which permits, under certain conditions, an entity to designate certain instruments upon initial recognition as at fair value through profit or loss. The implementation of this option has not had any effect on the consolidated figures.

**Amendment to IAS 39** Financial guarantee contracts. This amendment defines financial guarantee contracts and states that financial guarantee contracts issued are under the scope of IAS 39 and shall be initially recognized at fair-value and subsequently measured at the higher of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18. This amendment has been applied as from January 1, 2006.

**IFRIC 4** Determining whether an Arrangement contains a Lease. It requires an assessment of whether (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets, and (b) the arrangement conveys a right to use the asset. IFRIC 4 is effective from January 1, 2006. IFRIC 4 has not had any effect on the consolidated figures.

**IFRIC 6** Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment. IFRIC 6 has been applied as from 2005.

#### **New Accounting principles applicable for Electrolux as from 2007**

The IASB has issued a number of new standards and interpretations as well as amendments to standards and interpretations that are applicable for Electrolux as from January 1, 2007. While the Group has not yet evaluated the complete effect of the implementation of the new and amended standards and interpretations, it does not expect them to have any material impact on the Group's financial position.

**IFRS 7** Financial Instruments: Disclosures. This standard supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and states principles for presenting financial assets and liabilities that complement those included in IAS 32, Financial Instruments: Presentation and IAS 39, Financial Instruments: Recognition and Measurement. IFRS 7 is effective for annual periods beginning on or after January 1, 2007.

**Amendment to IAS 1** Capital Disclosures requires that an entity shall disclose information that enables users of its financial statement to evaluate the entity's objectives, policies, and processes for managing capital. This amendment is effective for annual periods beginning on or after January 1, 2007.

**IFRIC 7** Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, which provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. This Interpretation is effective for annual periods beginning on or after March 1, 2006.

**IFRIC 8** Scope of IFRS 2 which states that the entity shall measure unidentifiable goods or services received as consideration for equity instruments of the entity as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received. This interpretation is effective for annual periods beginning on or after May 1, 2006.

**IFRIC 9** Reassessment of Embedded Derivatives which states that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract and that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly moves the cash flows that otherwise would be required under the contract, in which case reassessment is required. This interpretation is effective for annual periods beginning on or after June 1, 2006.

**IFRIC 10** Interim financial reporting and Impairment. This Interpretation states that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This interpretation is effective for annual periods beginning on or after November 1, 2006.

#### **Critical accounting policies and key sources of estimation uncertainty**

##### *Use of estimates*

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

The discussion and analysis of our results of operations and financial condition are based on our consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The preparation of these financial statements requires management to apply certain accounting methods and policies that may be based on difficult, complex or subjective judgments by management or on estimates based on experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of net sales and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. Electrolux has summarized below the accounting policies that require more subjective judgment of the management in making assumptions or estimates regarding the effects of matters that are inherently uncertain.

##### *Asset impairment*

All non-current assets, including goodwill, are evaluated for impairment yearly or whenever events or changes in circumstances indicate that, the carrying amount of an asset may not be recoverable. An impaired asset is written down to its recoverable amount based on the best information available. Different methods have been used for this evaluation, depending on the availability of information. When available, market value has been used

and impairment charges have been recorded when this information indicated that the carrying amount of an asset was not recoverable. In the majority of cases, however, market value has not been available, and the fair value has been estimated by using the discounted cash-flow method based on expected future results. Differences in the estimation of expected future results and the discount rates used could have resulted in different asset valuations.

Non-current assets excluding goodwill and intangible assets with indefinite lives are depreciated on a straight-line basis over their estimated useful lives. Useful lives for property, plant, and equipment are estimated between 10 and 40 years for buildings and land improvements, 3 and 15 years for machinery and technical installations and 3 and 10 years for other equipment. The carrying amount for property, plant, and equipment at year-end 2006 amounted to SEK 14,209m. The carrying amount for goodwill at year-end 2006 amounted to SEK 1,981m. Management regularly reassesses the useful life of all significant assets. Management believes that any reasonably possible change in the key assumptions on which the asset's recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

#### *Deferred taxes*

In the preparation of the financial statements, Electrolux estimates the income taxes in each of the taxing jurisdictions in which the Group operates as well as any deferred taxes based on temporary differences. Deferred tax assets relating mainly to tax loss carry-forwards and temporary differences are recognized in those cases when future taxable income is expected to permit the recovery of those tax assets. Changes in assumptions in the projection of future taxable income as well as changes in tax rates could result in significant differences in the valuation of deferred taxes. As of December 31, 2006, Electrolux had a net amount of SEK 1,011m recognized as deferred tax assets in excess of deferred tax liabilities. As of December 31, 2006, the Group had tax loss carry-forwards and other deductible temporary differences of SEK 4,718m, which have not been included in computation of deferred tax assets.

#### *Trade receivables*

Receivables are reported net of allowances for doubtful receivables. The net value reflects the amounts that are expected to be collected, based on circumstances known at the balance sheet date. Changes in circumstances such as higher than expected defaults or changes in the financial situation of a significant customer could lead to significantly different valuations. At year-end 2006, trade receivables, net of provisions for doubtful accounts, amounted to SEK 20,905m. The total provision for doubtful accounts at year-end 2006 was SEK 584m.

#### *Post-employment benefits*

Electrolux sponsors defined benefit pension plans for some of its employees in certain countries. The pension calculations are based on assumptions about expected return on assets, discount rates and future salary increases. Changes in assumptions affect directly the service cost, interest cost and expected return on assets components of the expense. Gains and losses which result when actual returns on assets differ from expected returns, and when actuarial liabilities are adjusted due to experienced changes in assumptions, are subject to amortization over the expected average remaining working life of the employees using the corridor approach. Expected return on assets used in 2006 was 6.3% based on historical results. A reduction by one per-

centage point would have increased the net pension cost in 2006 by approximately SEK 140m. The discount rate used to estimate liabilities at the end of 2005 and the calculation of expenses during 2006 was 4.9%. A decrease of such rate by 0.5 percentage point would have increased the service-cost component of expense by approximately SEK 50m.

#### *Restructuring*

Restructuring charges include required write-downs of assets and other non-cash items, as well as estimated costs for personnel reductions. The charges are calculated based on detailed plans for activities that are expected to improve the Group's cost structure and productivity. In general, the outcome of similar historical events in previous plans are used as a guideline to minimize these uncertainties. The restructuring programs announced during 2006 had a total charge against operating income of SEK 490m.

#### *Warranties*

As it is customary in the industry in which Electrolux operates, many of the products sold are covered by an original warranty, which is included in the price and which extends for a predetermined period of time. Reserves for this original warranty are estimated based on historical data regarding service rates, cost of repairs, etc. Additional reserves are created to cover goodwill warranty and extended warranty. While changes in these assumptions would result in different valuations, such changes are unlikely to have a material impact on the Group's results or financial situation. As of December 31, 2006, Electrolux had a provision for warranty commitments amounting to SEK 1,585 m. Revenues from extended warranty is recognized on a linear basis over the contract period unless there is evidence that some other method better represents the stage of completion.

#### *Accrued expenses – Long-term incentive programs*

Electrolux records a provision for the expected employer contributions, social security charges, arising when the employees exercise their options under the 2000–2003 Employee Option Programs or receive shares under the 2004–2006 Performance Share Programs. Employer contributions are paid based on the benefit obtained by the employee when exercising the options or receiving shares. The establishment of the provision requires the estimation of the expected future benefit to the employees. Electrolux bases these calculations on a valuation made using the Black & Scholes model, which requires a number of estimates that are inherently uncertain. The uncertainty is due to the unknown share price at the time when options are exercised and when shares in the performance share programs are distributed and because the liability is marked-to-market it is remeasured every balance sheet day.

#### *Disputes*

Electrolux is involved in disputes in the ordinary course of business. The disputes concern, among other things, product liability, alleged defects in delivery of goods and services, patent rights and other rights and other issues on rights and obligations in connection with Electrolux' operations. Such disputes may prove costly and time consuming and may disrupt normal operations. In addition, the outcome of complicated disputes is difficult to foresee. It cannot be ruled out that a disadvantageous outcome of a dispute may prove to have a material adverse effect on the Group's earnings and financial position.

## Note 2 Financial risk management

### Financial risk management

The Group is exposed to a number of risks relating to, for example, liquid funds, trade receivables, customer financing receivables, payables, borrowings, commodities and derivative instruments. The risks are primarily:

- Interest-rate risk on liquid funds and borrowings
- Financing risks in relation to the Group's capital requirements
- Foreign-exchange risk on earnings and net investments in foreign subsidiaries
- Commodity-price risk affecting the expenditure on raw materials and components for goods produced
- Credit risk relating to financial and commercial activities

The Board of Directors of Electrolux has approved a financial policy as well as a credit policy for the Group to manage and control these risks. Each business sector has specific financial and credit policies approved by each sector-board (hereinafter all policies are referred to as the Financial Policy). These risks are to be managed by, amongst others, the use of derivative financial instruments according to the limitations stated in the Financial Policy. The Financial Policy also describes the management of risks relating to pension fund assets.

The management of financial risks has largely been centralized to Group Treasury in Stockholm. Local financial issues are managed by four regional treasury centers located in Europe, North America, Asia/Pacific and Latin America. Measurement of risk in Group Treasury is performed by a separate risk controlling function on a daily basis. Furthermore, there are guidelines in the Group's policies and procedures for managing operating risk relating to financial instruments by, e.g., segregation of duties and power of attorney.

Proprietary trading in currency, commodities, and interest-bearing instruments is permitted within the framework of the Financial Policy. This trading is primarily aimed at maintaining a high quality of information flow and market knowledge to contribute to the proactive management of the Group's financial risks.

### Interest-rate risk on liquid funds and borrowings

Interest-rate risk refers to the adverse effects of changes in interest rates on the Group's income. The main factors determining this risk include the interest-fixing period.

### Liquid funds

Liquid funds as defined by the Group consist of cash on hand, bank deposits, prepaid interest expenses and accrued interest income and other short-term investments. Electrolux goal is that the level of liquid funds including unutilized committed short-term credit facilities shall correspond to at least 2.5% of annualized net sales. In addition, net liquid funds defined as liquid funds less short-term borrowings shall exceed zero, taking into account fluctuations arising from acquisitions, divestments, and seasonal variations. Investment of liquid funds is mainly made in interest-bearing instruments with high liquidity and with issuers with a long-term rating of at least A- as defined by Standard & Poor's or similar.

### Interest-rate risk in liquid funds

Group Treasury manages the interest-rate risk of the investments in relation to a benchmark position defined as a one-day holding period. Any deviation from the benchmark is limited by a risk mandate. Derivative financial instruments like Futures and Forward-Rate Agreements are used to manage the interest-rate risk. The holding periods of investments are mainly short-term. The major portion of the investments is made with maturities between 0 and 3 months. A downward shift in the yield curves of one-percentage point would reduce the Group's interest income by approximately SEK 60m (40). For more information, see Note 17 on page 88.

### Borrowings

The debt financing of the Group is managed by Group Treasury in order to ensure efficiency and risk control. Debt is primarily taken up at the parent company level and transferred to subsidiaries as internal loans or capital injections. In this process, various swap instruments are used to convert the funds to the required currency. Short-term financing is also undertaken locally in subsidiaries where there are capital restrictions. The Group's borrowings contain no terms, financial triggers, for premature cancellation based on rating. For more information, see Note 17 on page 88.

### Interest-rate risk in long-term borrowings

The Financial Policy stated for the year 2005 that the benchmark for the long-term loan portfolio is an average interest-fixing period of one year. The benchmark was, however, changed by the end of 2005 and as from January 1, 2006, the benchmark for the long-term loan portfolio is an average interest-fixing period of six months. Group Treasury can choose to deviate from this benchmark on the basis of a risk mandate established by the Board of Directors. However, the maximum fixed-rate period is three years. Derivatives, such as interest-rate swap agreements, are used to manage the interest-rate risk by changing the interest from fixed to floating or vice versa. On the basis of 2006 volumes and interest fixing, a one-percentage point shift in interest rates paid would impact the Group's interest expenses by approximately SEK +/-40m (30) in 2006. This calculation is based on a parallel shift of all yield curves simultaneously by one-percentage point. Electrolux acknowledges that the calculation is an approximation and does not take into consideration the fact that the interest rates on different maturities and different currencies might change differently.

### Credit rating

Electrolux has Investment Grade rating from Standard & Poor's which has remained unchanged during the year. The rating agreement with Moody's was terminated in 2006.

Rating	Long-term debt	Outlook	Short-term debt	Short-term debt, Sweden
Standard & Poor's	BBB+	Stable	A-2	K-1

### Financing risk

Financing risk refers to the risk that financing of the Group's capital requirements and refinancing of existing loans could become more difficult or more costly. This risk can be decreased by ensuring that maturity dates are evenly distributed over time, and that total short-term borrowings do not exceed liquidity levels. The net borrowings, i.e., total borrowing less liquid funds,

excluding seasonal variances, shall be long-term according to the Financial Policy. The Group's goals for long-term borrowings include an average time to maturity of at least two years, and an evenly spread of maturities. A maximum of 25% of the borrowings are normally allowed to mature in a 12-month period. Exceptions are made when the net borrowing position of the Group is small. For more information, see Note 17 on page 88.

#### **Foreign-exchange risk**

Foreign-exchange risk refers to the adverse effects of changes in foreign-exchange rates on the Group's income and equity. In order to manage such effects, the Group covers these risks within the framework of the Financial Policy. The Group's overall currency exposure is managed centrally.

#### **Transaction exposure from commercial flows**

The Group's Financial Policy stipulates the hedging of forecasted sales in foreign currencies, taking into consideration the price fixing periods and the competitive environment. The business sectors within Electrolux have varying policies for hedging depending on their commercial circumstances. The sectors define a hedging horizon between 6 up to 12 months of forecasted flows. Hedging horizons outside this period are subject to approval from Group Treasury. The Financial Policy permits the operating units to hedge invoiced and forecasted flows from 75% to 100%. The maximum hedging horizon is up to 18 months. Group subsidiaries cover their risks in commercial currency flows mainly through the Group's four regional treasury centers. Group Treasury thus assumes the currency risks and covers such risks externally by the use of currency derivatives.

The Group's geographically widespread production reduces the effects of changes in exchange rates. The remaining transaction exposure is mainly related to internal sales from producing entities to sales companies. To a lesser extent there are also external exposures from purchasing of components and input material for the production paid in foreign currency. These external imports are often priced in USD. The global presence of the Group, however, leads to a significant netting of the transaction exposures. For more information on exposures and hedging, see Note 17 on page 88.

#### **Translation exposure from consolidation of entities outside Sweden**

Changes in exchange rates also affect the Group's income in connection with translation of income statements of foreign subsidiaries into Swedish krona. Electrolux does not hedge such exposure. The translation exposures arising from income statements of foreign subsidiaries are included in the sensitivity analysis mentioned below.

#### **Foreign-exchange sensitivity from transaction and translation exposure**

The major currencies that Electrolux is exposed to are the US dollar, the euro, the Canadian dollar, and the British pound. Other significant exposures are, for example, the Danish krona, the Australian dollar, the Hungarian forint and the Czech koruna. These currencies represent the majority of the exposures of the Group but are, however, largely offsetting each other as different currencies represent net inflows and outflows. Taking into account all currencies of the Group, a change up or down by 10% in the value of each currency against the SEK would affect

the Group's operating income for one year by approximately SEK +/-375m, as a static calculation. The model assumes the distribution of earnings and costs effective at year-end 2006 and does not include any dynamic effects, such as changes in competitiveness or consumer behavior arising from such changes in exchange rates.

#### **Exposure from net investments (balance sheet exposure)**

The net of assets and liabilities in foreign subsidiaries constitute a net investment in foreign currency, which generates a translation difference in connection with consolidation. This exposure can have an impact on the Group's equity, and on the capital structure, and is hedged according to the Financial Policy. The Financial Policy stipulates the extent to which the net investments can be hedged and also sets the benchmark for risk measurement. The benchmark was changed at the end of 2006 and only investments with an equity capitalization exceeding 60% are hedged unless the exposure is considered too high by the Group. The result of this change is that only a limited number of currencies are hedged on a continuous basis. Group Treasury is allowed to deviate from the benchmark under a given risk mandate. Hedging of the Group's net investments is implemented within the Parent Company in Sweden.

#### **Commodity-price risks**

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is exposed to fluctuations in commodity prices through agreements with suppliers, whereby the price is linked to the raw material price on the world market. This exposure can be divided into direct commodity exposure, which refers to pure commodity exposures, and indirect commodity exposures, which is defined as exposure arising from only part of a component. Commodity-price risk is managed through contracts with the suppliers.

#### **Credit risk**

##### *Credit risk in financial activities*

Exposure to credit risks arises from the investment of liquid funds, and as counterparty risks related to derivatives. In order to limit exposure to credit risk, a counterparty list has been established which specifies the maximum permissible exposure in relation to each counterparty. The Group strives for arranging master netting agreements (ISDA) with the counterparties for derivative transactions and has established such agreements with the majority of the counterparties, i.e., if counterparty will default assets and liabilities will be netted.

##### *Credit risk in trade receivables*

Electrolux sells to a substantial number of customers in the form of large retailers, buying groups, independent stores, and professional users. Sales are made on the basis of normal delivery and payment terms, if they are not included in Customer Financing operations in the Group. Customer Financing solutions are also arranged outside the Group. The Credit Policy of the Group ensures that the management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts. The Board of Directors decides on customer credit limits that exceed SEK 300m. There is a concentration of credit exposures on a number of customers in, primarily, USA and Europe. For more information, see Note 16 on page 87.

## Note 3 Segment information

The segment reporting is divided into primary and secondary segments, where the five business areas serve as primary segments and geographical areas as secondary segments. Financial information for the Parent Company is divided into geographical segments since IAS 14 does not apply.

### Primary reporting format – Business areas

The Group has operations in appliances, floor-care products and professional operations in food-service equipment and laundry equipment. The operations are classified in five business segments. Products for the consumer durables market, i.e., appliances and floor-care products are reported in four geographical segments: Europe; North America; Latin America and Asia/Pacific, while professional products are reported separately. Operations within appliances comprise mainly major appliances, i.e., refrigerators, freezers, cookers, dryers, washing machines, dishwashers, room air-conditioners and microwave ovens. The Outdoor Products operations of the Group including the business areas Consumer products and Professional products were distributed to the Electrolux shareholders in June 2006, under the name of Husqvarna AB, as explained in Note 30 on page 105.

Financial information related to the above business areas is reported below.

	Net sales		Operating income	
	2006	2005	2006	2005
Consumer Durables –				
Europe	44,233	43,755	2,678	2,602
North America	36,171	35,134	1,462	1,444
Latin America	7,766	5,819	339	123
Asia/Pacific	8,636	9,276	163	13
Professional Products	6,941	6,686	535	463
<b>Total</b>	<b>103,747</b>	<b>100,670</b>	<b>5,177</b>	<b>4,645</b>
Other	–	31	–	–
Group common costs	101	–	–602	–621
Items affecting comparability	–	–	–542	–2,980
<b>Total</b>	<b>103,848</b>	<b>100,701</b>	<b>4,033</b>	<b>1,044</b>

In the internal management reporting, items affecting comparability is not included in the segments. The table specifies the segments to which they correspond.

### Items affecting comparability

	Impairment/ restructuring		Other		Total	
	2006	2005	2006	2005	2006	2005
Consumer Durables –						
Europe	–143	–2,523	–173	–	–316	–2,523
North America	10	–38	61	–	71	–38
Latin America	–	–	–	–	–	–
Asia/Pacific	–297	–	–	–419	–297	–419
Professional Products	–	–	–	–	–	–
<b>Total</b>	<b>–430</b>	<b>–2,561</b>	<b>–112</b>	<b>–419</b>	<b>–542</b>	<b>–2,980</b>

Inter-segment sales exist only within consumer durables with the following split:

	2006	2005
Europe	1,161	967
North America	985	825
Latin America	38	25
Asia/Pacific	71	33
<b>Eliminations</b>	<b>–2,255</b>	<b>–1,850</b>

The segments are responsible for the management of the operational assets and their performance is measured at the same level, while the financing is managed by Group Treasury at group or country level. Consequently, liquid funds, interest-bearing receivables, interest-bearing liabilities, liability for share redemption and equity are not allocated to the business segments.

	Assets December 31,		Equity and liabilities December 31,		Net assets December 31,	
	2006	2005	2006	2005	2006	2005
<b>Indoor Products</b>						
Consumer Durables –						
Europe	26,353	24,989	19,278	18,927	7,075	6,062
North America	14,171	16,336	5,984	6,407	8,187	9,929
Latin America	5,562	4,158	1,997	1,853	3,565	2,305
Asia/Pacific	4,667	5,581	1,927	1,965	2,740	3,616
Professional Products	3,672	3,597	2,278	2,307	1,394	1,290
<b>Total Indoor Products</b>	<b>54,425</b>	<b>54,661</b>	<b>31,464</b>	<b>31,459</b>	<b>22,961</b>	<b>23,202</b>
Outdoor Products						
Consumer Products	–	9,626	–	3,907	–	5,719
Professional Products	–	6,642	–	2,016	–	4,626
<b>Total Outdoor Products</b>	<b>–</b>	<b>16,268</b>	<b>–</b>	<b>5,923</b>	<b>–</b>	<b>10,345</b>
Other <sup>1)</sup>	1,956	2,964	3,390	3,497	–1,434	–533
Items affecting comparability	1,540	2,028	4,927	6,877	–3,387	–4,849
<b>Total</b>	<b>57,921</b>	<b>75,921</b>	<b>39,781</b>	<b>47,756</b>	<b>18,140</b>	<b>28,165</b>
Liquid funds	7,799	5,940	–	–	–	–
Interest-bearing receivables	329	697	–	–	–	–
Interest-bearing liabilities	–	–	7,495	8,914	–	–
Share redemption	–	–	5,579	–	–	–
Equity	–	–	13,194	25,888	–	–
<b>Total</b>	<b>66,049</b>	<b>82,558</b>	<b>66,049</b>	<b>82,558</b>	<b>–</b>	<b>–</b>

1) Includes common Group services.

	Capital expenditure		Cash flow <sup>1)</sup>	
	2006	2005	2006	2005
Consumer Durables –				
Europe	1,698	1,872	1,951	2,058
North America	922	1,108	1,850	–453
Latin America	170	167	–160	179
Asia/Pacific	184	328	603	32
Professional Products	151	156	347	237
<b>Total</b>	<b>3,125</b>	<b>3,631</b>	<b>4,591</b>	<b>2,053</b>
Other <sup>2)</sup>	27	23	–1,437	–1,237
Items affecting comparability	–	–	9	–807
Financial items	–	–	–246	–492
Taxes paid	–	–	–743	–540
<b>Total</b>	<b>3,152</b>	<b>3,654</b>	<b>2,174</b>	<b>–1,023</b>

1) Cash flow from operations and investments.

2) Includes common Group services.

### Secondary reporting format – Geographical areas

The Group's business segments operate in four geographical areas of the world: Europe; North America; Latin America; and Asia/Pacific. Net sales by market are presented below and show the Group's consolidated sales by geographical area, regardless of where the goods were produced.

#### Net sales, by geographical area

	2006	2005
Europe	49,576	48,996
North America	36,427	35,163
Latin America	8,355	6,481
Asia/Pacific	9,490	10,061
<b>Total</b>	<b>103,848</b>	<b>100,701</b>

#### Assets, by geographical area

	December 31,	
	2006	2005
Europe	36,040	40,787
North America	15,779	28,692
Latin America	8,738	6,556
Asia/Pacific	5,492	6,523
<b>Total</b>	<b>66,049</b>	<b>82,558</b>

#### Capital expenditure, by geographical area

	2006	2005
Europe	1,809	1,979
North America	626	578
Latin America	478	709
Asia/Pacific	239	388
<b>Total</b>	<b>3,152</b>	<b>3,654</b>

#### Net sales, Parent Company

	2006	2005
Europe	6,204	6,392
North America	—	—
Latin America	—	—
Asia/Pacific	—	—
<b>Total</b>	<b>6,204</b>	<b>6,392</b>

### Note 4 Net sales and operating income

The Group's net sales in Sweden amounted to SEK 3,769m (3,529). Exports from Sweden during the year amounted to SEK 4,700m (3,500), of which SEK 4,121m (3,013) was to Group subsidiaries. The vast majority of the Group's revenues consist of product sales. Revenue from service activities amounted to SEK 1,461m (1,293) for the Group.

The Group's operating income includes net exchange-rate differences in the amount of SEK 76m (11). The Group's Swedish factories accounted for 4.1% (4.1) of the total value of production. Costs for research and development for the Group amounted to SEK 1,393m (1,392) and are included in Cost of goods sold.

The Group's depreciation and amortization charge for the year amounted to SEK 2,758m (2,583). Salaries, remunerations and employer contributions amounted to SEK 16,924m (18,387) and expenses for post-employment benefits amounted to SEK 820m (1,054) for the Group.

### Note 5 Other operating income

	Group		Parent Company	
	2006	2005	2006	2005
Gain on sale of:				
Tangible fixed assets	167	182	—	—
Operations and shares	12	46	171	2,190
Other	6	2	—	—
<b>Total</b>	<b>185</b>	<b>230</b>	<b>171</b>	<b>2,190</b>

### Note 6 Other operating expenses

	Group		Parent Company	
	2006	2005	2006	2005
Loss on sale of:				
Tangible fixed assets	-29	-32	—	—
Operations and shares	-4	-25	-704	-945
<b>Total</b>	<b>-33</b>	<b>-57</b>	<b>-704</b>	<b>-945</b>

### Note 7 Items affecting comparability

	Group	
	2006	2005
Restructuring and impairment	-490	-2,594
Divestment of Electrolux Financial Corp., USA	61	—
Divestment of 50% stake in Nordwaggon AB, Sweden	-173	—
Divestment of Indian operation	—	-419
Unused restructuring provisions reversed	60	33
<b>Total</b>	<b>-542</b>	<b>-2,980</b>

#### Classification by function in the income statement

	Group	
	2006	2005
Cost of goods sold	-430	-2,561
Selling expenses	—	—
Administrative expenses	—	—
Other operating income and other operating expenses	-112	-419
<b>Total</b>	<b>-542</b>	<b>-2,980</b>

Items affecting comparability in 2006 include costs for the closure of the following plants: the compact appliance plant in Torsvik, Sweden, and the washer/dryer and dishwasher plants in Adelaide, Australia. After finalized union negotiations, an additional cost was recognized for the Nuremberg appliance plant in Germany. On June 30, 2006, the customer financing operations in the US was divested to Textron Financial Corporation. On July 17, 2006, the Group divested its 50% stake in Nordwaggon AB, Sweden, to Transwaggon AB. In 2006, unused amounts from previous restructuring programs have been reversed.

Items affecting comparability in 2005 include costs for the closure of the appliance plant in Nuremberg, Germany, and the refrigerator plant in Fuenmayor, Spain. It also contains the downsizing of the refrigerator plants in Florence, Italy, and Mariestad, Sweden. On July 7, 2005, the Group divested its Indian appliance operation, including all three production facilities, to the Indian industrial group Videocon. In 2005, unused amounts from previous restructuring programs have been reversed.

The items are further described in the Report by the Board of Directors on page 54.

## Note 8 Leasing

At December 31, 2006, the Electrolux Group's financial leases, recognized as tangible assets, consist of:

	December 31,	
	2006	2005
<b>Acquisition costs</b>		
Buildings	317	415
Machinery and other equipment	7	6
<b>Closing balance, December 31</b>	<b>324</b>	<b>421</b>
<b>Accumulated depreciation</b>		
Buildings	136	136
Machinery and other equipment	2	2
<b>Closing balance, December 31</b>	<b>138</b>	<b>138</b>
<b>Net carrying amount, December 31</b>	<b>186</b>	<b>283</b>

The future amount of minimum lease payment obligations are distributed as follows:

	Operating leases	Financial leases	Present value of future financial lease payments
2007	654	8	8
2008–2011	1,201	5	3
2012–	426	—	—
<b>Total</b>	<b>2,281</b>	<b>13</b>	<b>11</b>

Expenses in 2006 for rental payments (minimum leasing fees) amounted to SEK 724m (937).

### Operating leases

Among the Group's operating leases there are no material contingent expenses, nor any restrictions.

### Financial leases

Within the Group there are no financial non-cancellable contracts that are being subleased. There are no contingent expenses in the period's results, nor any restrictions in the contracts related to leasing of facilities. The financial leases of facilities contain purchase options by the end of the contractual time. The present value of the future lease payments is SEK 11m.

## Note 9 Financial income and financial expenses

	Group		Parent Company	
	2006	2005	2006	2005
<b>Financial income</b>				
Interest income				
From subsidiaries	—	—	1,125	593
From others	534	219	250	36
Dividends from subsidiaries	—	—	11,486	2,151
Other financial income	4	6	6	3
<b>Total financial income</b>	<b>538</b>	<b>225</b>	<b>12,867</b>	<b>2,783</b>
<b>Financial expenses</b>				
Interest expenses				
To subsidiaries	—	—	–983	–380
To others	–788	–794	–469	–703
Exchange-rate differences				
On loans and forward contracts as hedges for foreign net investments	—	—	421	–615
On other loans and borrowings, net	46	42	–126	69
Other financial expenses	–4	–23	–6	—
<b>Total financial expenses</b>	<b>–746</b>	<b>–775</b>	<b>–1,163</b>	<b>–1,629</b>

The Group's interest income from others includes income from the Group's customer financing operations in the amount of SEK 49m (102). Interest expenses to others, for the Group and the Parent Company, include premiums on forward contracts intended as hedges for foreign net investments in the amount of SEK –236m (–311). Interest expenses to others, for the Group and the Parent Company, also include gains and losses on loans and derivatives of SEK 45m (–17m). The gain in 2006 is mainly explained by an early expiration of a loan.

## Note 10 Taxes

	Group		Parent Company	
	2006	2005	2006	2005
Current taxes	–1,088	–154	58	423
Deferred taxes	–89	–482	—	–120
<b>Total</b>	<b>–1,177</b>	<b>–636</b>	<b>58</b>	<b>303</b>

Current taxes include reduction of costs of SEK 27m (13) related to previous years. Deferred taxes include an effect of SEK –11m (1) due to changes in tax rates.

The deferred tax assets in the Parent Company amounted to SEK 0m (0). The Group accounts include deferred tax liabilities of SEK 222m (227) related to untaxed reserves in the Parent Company.

### Theoretical and actual tax rates

	2006	2005
%		
Theoretical tax rate	33.3	33.5
Losses for which deductions have not been made	8.5	171.6
Utilized tax loss carry-forwards	–2.6	–69.7
Non-taxable income statement items, net	2.8	46.5
Changes in estimates relating to deferred tax	1.7	28.0
Dividend tax	0.3	2.4
Other	–13.2	–71.1
<b>Actual tax rate</b>	<b>30.8</b>	<b>141.2</b>

The decision to close the Nuremberg factory resulted in a tax loss carry-forward of SEK 1,504m, which was not included in the computation of deferred tax assets in 2005.

The theoretical tax rate for the Group is calculated on the basis of the weighted total Group net sales per country, multiplied by the local statutory tax rates. There are no major changes in statutory tax rates during 2006.

#### Changes in deferred tax assets and liabilities

The table below shows net deferred tax assets and liabilities. Deferred tax assets (+/-) and deferred tax liabilities (+/-) amounts to the net deferred tax assets and liabilities in the balance sheet. Deferred tax income (+/-) and deferred tax costs (+/-) recognized in the income statement, in the equity, discontinued operations and exchange differences are also shown net.

#### Tax loss carry-forwards

As of December 31, 2006, the Group had tax loss carry-forwards and other deductible temporary differences of SEK 4,718m (4,854), which have not been included in computation of deferred tax assets. Of those taxes, loss carry-forwards will expire as follows:

	December 31, 2006
2007	126
2008	317
2009	266
2010	275
2011	462
And thereafter	313
Without time limit	2,959
<b>Total</b>	<b>4,718</b>

#### Net deferred tax assets and liabilities

	Excess of depreciation	Provision for warranty	Provision for pension	Provision for restructuring	Obsolescence allowance	Unrealized profit in stock	Recognized unused tax losses	Other	Total deferred tax assets and liabilities	Set-off tax	Net deferred tax assets and liabilities
Recognized in the income statement	-313	196	1,207	105	-291	27	244	178	1,353	—	1,353
Recognized to equity	—	—	—	—	—	—	—	—	—	—	—
Discontinued operations	-330	—	102	—	-78	—	11	175	-120	—	-120
Exchange differences	61	8	98	7	21	6	8	91	300	—	300
<b>Closing balance, December 31, 2005</b>	<b>-582</b>	<b>204</b>	<b>1,407</b>	<b>112</b>	<b>-348</b>	<b>33</b>	<b>263</b>	<b>444</b>	<b>1,533</b>	<b>—</b>	<b>1,533</b>
Recognized in the income statement	-566	180	1,012	135	-264	89	50	363	999	—	999
Recognized to equity	—	—	—	—	—	—	—	—	—	—	—
Discontinued operations	70	—	79	—	-92	—	10	185	252	—	252
Exchange differences	-68	-9	-47	-10	-29	-4	-2	-71	-240	—	-240
<b>Closing balance, December 31, 2006</b>	<b>-564</b>	<b>171</b>	<b>1,044</b>	<b>125</b>	<b>-385</b>	<b>85</b>	<b>58</b>	<b>477</b>	<b>1,011</b>	<b>—</b>	<b>1,011</b>
<b>Shown in the balance sheet, December 31, 2005</b>											
Deferred tax assets	422	229	2,080	149	53	95	263	1,411	4,702	-1,752	2,950
Deferred tax liabilities	-1,004	-25	-673	-37	-401	-62	—	-967	-3,169	1,752	-1,417
<b>Shown in the balance sheet, December 31, 2006</b>											
Deferred tax assets	404	195	1,132	178	90	91	58	1,062	3,210	-994	2,216
Deferred tax liabilities	-968	-24	-88	-53	-475	-6	—	-585	-2,199	994	-1,205

Deferred tax assets amounted to SEK 2,216m (2,950), whereof 966m (717) will be recovered within 12 months. Deferred tax liabilities amounted to SEK 1,205m (1,417), whereof 500m (183) will be recovered within 12 months.



**Note 11** Goodwill and other intangible assets

	Goodwill	Group Other intangible assets			Total other intangible assets	Parent Company
		Product development	Program software	Other		Trade- marks, etc.
<b>Acquisition costs</b>						
<b>Opening balance, January 1, 2005</b>	<b>3,335</b>	<b>969</b>	<b>316</b>	<b>1,093</b>	<b>2,378</b>	<b>837</b>
Acquired during the year	—	—	—	60	60	—
Development	—	466	87	—	553	4
Reclassification	—	—	—	—	—	—
Sold during the year	—	—	—	—	—	-26
Fully amortized	—	-6	-19	-1	-26	—
Exchange-rate differences	537	91	31	82	204	—
<b>Closing balance, December 31, 2005</b>	<b>3,872</b>	<b>1,520</b>	<b>415</b>	<b>1,234</b>	<b>3,169</b>	<b>815</b>
Acquired during the year	—	—	—	42	42	—
Development	—	439	6	—	445	3
Reclassification	—	—	—	—	—	-1
Sold during the year	—	—	—	—	—	—
Discontinued operations	-1,728	-372	-10	-263	-645	—
Fully amortized	—	-4	—	-12	-16	—
Exchange-rate differences	-163	-113	-32	-39	-184	—
<b>Closing balance, December 31, 2006</b>	<b>1,981</b>	<b>1,470</b>	<b>379</b>	<b>962</b>	<b>2,811</b>	<b>817</b>
<b>Accumulated amortization</b>						
<b>Opening balance, January 1, 2005</b>	<b>—</b>	<b>159</b>	<b>39</b>	<b>258</b>	<b>456</b>	<b>131</b>
Amortization for the year	—	241	63	93	397	49
Sold and acquired during the year	—	—	—	—	—	-5
Fully amortized	—	-6	-19	-1	-26	—
Impairment	—	8	22	—	30	—
Exchange-rate differences	—	15	8	61	84	—
<b>Closing balance, December 31, 2005</b>	<b>—</b>	<b>417</b>	<b>113</b>	<b>411</b>	<b>941</b>	<b>175</b>
Amortization for the year	—	263	61	41	365	48
Sold and acquired during the year	—	—	—	—	—	—
Discontinued operations	—	-106	-7	-97	-210	—
Fully amortized	—	-4	—	-12	-16	—
Impairment	—	1	—	15	16	—
Exchange-rate differences	—	-29	-16	-20	-65	—
<b>Closing balance, December 31, 2006</b>	<b>—</b>	<b>542</b>	<b>151</b>	<b>338</b>	<b>1,031</b>	<b>223</b>
<b>Carrying amount, December 31, 2005</b>	<b>3,872</b>	<b>1,103</b>	<b>302</b>	<b>823</b>	<b>2,228</b>	<b>640</b>
<b>Carrying amount, December 31, 2006</b>	<b>1,981</b>	<b>928</b>	<b>228</b>	<b>624</b>	<b>1,780</b>	<b>594</b>

Included in Other are trademarks of SEK 525m (695) and patents, licenses etc. amounting to SEK 99m (128). Amortization of intangible assets are included within Cost of goods sold with SEK 103m, Administrative expenses with SEK 260m and Selling expenses with SEK 2m in the Income statement.

**Intangible assets with indefinite useful lives**

Electrolux has assigned indefinite useful life to goodwill with a total carrying amount as per December 31, 2006, of SEK 1,981m and to the right to use the Electrolux trademark in North America, which was acquired in May, 2000, with a total carrying amount as per December 31, 2006 of SEK 410m included in Other above. The allocation, for impairment testing purposes, on cash-generating units of the significant amounts is shown in the table below. The carrying amounts of goodwill allocated to Consumer Durables in North America, Europe and Asia/Pacific are significant in comparison with the total carrying amount of goodwill.

All intangible assets with indefinite useful lives are tested for impairment at least once every year and single assets can be tested more often in case there are indications of impairment. The recoverable amounts of the operations have been determined based on value in use calculations.

Value in use is estimated using the discounted cash-flow model on the strategic plans that are established for each cash-generating unit covering the coming three years. For the impairment tests for 2006, the plans for 2007 to 2009 have been used.

The strategic plans are built up from the strategic plans of the units within each business sector. The consolidated strategic plans of the business sectors are reviewed by Group Management and consolidated to a total strategic plan for Electrolux that is finally approved by the Electrolux Board of Directors. The preparation of the strategic plans requires a number of key assumptions such as volume, price, product mix, which will create a basis for future growth and gross margin. These figures are set in relation to historic figures and external reports on market growth. The assumed revenue growth is within a range of 2–8%. The gross margins are assumed to be somewhat higher than reported levels of 2006. The same cash flow as for the third year

is used for the fourth year and onwards in perpetuity. The discount rates used are, amongst other things, based on the individual countries' inflation, interest rates and country risk. The pre-tax discount rates used in 2006 were for the main part within a range of 9–11%. For Latin America, which is included in Other, the average pre-tax discount rate is 25%.

Management believes that any reasonably possible adverse change in the key assumptions would not reduce the recoverable amount below its carrying amount.

	Goodwill	Electrolux trademark	Weighted discount rate, %
Europe	367	—	9.0
North America	378	410	11.0
Asia/Pacific	1,153	—	11.0
Other	83	—	9.0 – 25.0
<b>Total</b>	<b>1,981</b>	<b>410</b>	<b>9.0 – 25.0</b>

## Note 12 Property, plant and equipment

Group	Land and land improvements	Buildings	Machinery and technical installations	Other equipment	Plants under construction	Total
<b>Acquisition costs</b>						
<b>Opening balance, January 1, 2005</b>	<b>1,370</b>	<b>8,408</b>	<b>29,596</b>	<b>2,424</b>	<b>2,189</b>	<b>43,987</b>
Acquired during the year	66	427	1,100	123	3,049	4,765
Corporate acquisitions	—	—	—	—	—	—
Corporate divestments	-14	-117	-352	-35	-4	-522
Transfer of work in progress and advances	134	887	2,364	-43	-3,342	—
Sales, scrapping, etc.	-103	-399	-1,121	-269	24	-1,868
Exchange-rate differences	120	904	3,409	174	478	5,085
<b>Closing balance, December 31, 2005</b>	<b>1,573</b>	<b>10,110</b>	<b>34,996</b>	<b>2,374</b>	<b>2,394</b>	<b>51,447</b>
Acquired during the year	28	283	1,265	152	1,424	3,152
Corporate acquisitions	—	—	—	—	—	—
Corporate divestments	—	—	—	—	—	—
Transfer of work in progress and advances	9	372	1,291	-28	-1,644	—
Sales, scrapping, etc.	-36	-236	-1,109	-188	-17	-1,586
Discontinued operations	-155	-1,810	-6,527	-324	-583	-9,399
Exchange-rate differences	-75	-657	-2,052	-96	-191	-3,071
<b>Closing balance, December 31, 2006</b>	<b>1,344</b>	<b>8,062</b>	<b>27,864</b>	<b>1,890</b>	<b>1,383</b>	<b>40,543</b>
<b>Accumulated depreciation</b>						
<b>Opening balance, January 1, 2005</b>	<b>166</b>	<b>4,512</b>	<b>21,507</b>	<b>1,769</b>	<b>—</b>	<b>27,954</b>
Depreciation for the year	11	333	2,462	207	—	3,013
Corporate divestments	—	-38	-201	-28	—	-267
Sales, scrapping, etc.	-83	-415	-1,156	-246	—	-1,900
Impairment	258	204	401	—	—	863
Exchange-rate differences	18	484	2,535	125	—	3,162
<b>Closing balance, December 31, 2005</b>	<b>370</b>	<b>5,080</b>	<b>25,548</b>	<b>1,827</b>	<b>—</b>	<b>32,825</b>
Depreciation for the year	9	255	1,931	198	—	2,393
Corporate divestments	—	—	—	—	—	—
Sales, scrapping, etc.	-1	-108	-1,046	-227	—	-1,382
Impairment	—	-1	131	—	—	130
Discontinued operations	-23	-654	-4,629	-247	—	-5,553
Exchange-rate differences	-20	-419	-1,561	-79	—	-2,079
<b>Closing balance, December 31, 2006</b>	<b>335</b>	<b>4,153</b>	<b>20,374</b>	<b>1,472</b>	<b>—</b>	<b>26,334</b>
<b>Carrying amount, December 31, 2005</b>	<b>1,203</b>	<b>5,030</b>	<b>9,448</b>	<b>547</b>	<b>2,394</b>	<b>18,622</b>
<b>Carrying amount, December 31, 2006</b>	<b>1,009</b>	<b>3,909</b>	<b>7,490</b>	<b>418</b>	<b>1,383</b>	<b>14,209</b>

In 2006, tangible fixed assets in operations within appliances, Europe were impaired. Accumulated impairments on buildings and land were at year-end SEK 671m (805) and on machinery and other equipment SEK 1,010m (1,035). The carrying amount for land was SEK 892m (1,028).

The tax assessment value for Swedish Group companies for buildings was SEK 108m (330), and land SEK 24m (75). The corresponding carrying amounts for buildings were SEK 38m (183), and land SEK 12m (20).

**Parent Company**

	Land and land improvements	Buildings	Machinery and technical installations	Other equipment	Plants under construction	Total
<b>Acquisition costs</b>						
<b>Opening balance, January 1, 2005</b>	<b>6</b>	<b>58</b>	<b>1,060</b>	<b>339</b>	<b>58</b>	<b>1,521</b>
Acquired during the year	—	—	100	14	40	154
Transfer of work in progress and advances	—	—	2	—	-2	—
Sales, scrapping, etc.	—	—	-52	-11	-34	-97
<b>Closing balance, December 31, 2005</b>	<b>6</b>	<b>58</b>	<b>1,110</b>	<b>342</b>	<b>62</b>	<b>1,578</b>
Acquired during the year	—	—	72	15	3	90
Transfer of work in progress and advances	—	—	29	2	-31	—
Sales, scrapping, etc.	—	-1	-44	-8	—	-53
<b>Closing balance, December 31, 2006</b>	<b>6</b>	<b>57</b>	<b>1,167</b>	<b>351</b>	<b>34</b>	<b>1,615</b>
<b>Accumulated depreciation</b>						
<b>Opening balance, January 1, 2005</b>	<b>2</b>	<b>53</b>	<b>814</b>	<b>179</b>	<b>—</b>	<b>1,048</b>
Depreciation for the year	—	—	58	33	—	91
Sales, scrapping, etc.	—	—	-32	-7	—	-39
<b>Closing balance, December 31, 2005</b>	<b>2</b>	<b>53</b>	<b>840</b>	<b>205</b>	<b>—</b>	<b>1,100</b>
Depreciation for the year	—	1	71	33	—	105
Sales, scrapping, etc.	—	-1	-39	-9	—	-49
<b>Closing balance, December 31, 2006</b>	<b>2</b>	<b>53</b>	<b>872</b>	<b>229</b>	<b>—</b>	<b>1,156</b>
<b>Net carrying amount, December 31, 2005</b>	<b>4</b>	<b>5</b>	<b>270</b>	<b>137</b>	<b>62</b>	<b>478</b>
<b>Net carrying amount, December 31, 2006</b>	<b>4</b>	<b>4</b>	<b>295</b>	<b>122</b>	<b>34</b>	<b>459</b>

Tax assessment value for buildings was SEK 78m (95), and land SEK 12m (20). The corresponding carrying amounts for buildings were SEK 4m (5), and land SEK 4m (4). Undepreciated write-ups on buildings and land were SEK 2m (2).

**Note 13** Financial assets

	Group December 31,		Parent Company December 31,	
	2006	2005	2006	2005
Shares in subsidiaries	—	—	21,357	22,237
Participations in other companies	—	—	293	305
Long-term receivables in subsidiaries	—	—	1,408	3,173
Long-term holdings in securities classified as:				
Available for sale <sup>1)</sup>	239	237	—	—
Financial assets at fair value through profit or loss	162	218	—	—
Other receivables	955	1,009	22	43
Pension assets <sup>2)</sup>	336	353	—	—
<b>Total</b>	<b>1,692</b>	<b>1,817</b>	<b>23,080</b>	<b>25,758</b>

1) Changes in the fair value of financial available-for-sale assets recognized in equity amounts to SEK 30m (24).

2) Pension assets are related to Sweden and Switzerland.

**Note 14** Inventories

	Group December 31,		Parent Company December 31,	
	2006	2005	2006	2005
Raw materials	3,416	4,266	117	108
Products in progress	268	393	91	72
Finished products	8,302	13,880	209	209
Advances to suppliers	55	67	—	—
<b>Total</b>	<b>12,041</b>	<b>18,606</b>	<b>417</b>	<b>389</b>

The cost of inventories recognized as expense and included in cost of goods sold amounted to SEK 79,664m (77,270) for the Group. Provisions for obsolescence are included in the value for inventory.

Write-downs amounted to SEK 112m and previous write-downs have been reversed with SEK 105m for the Group. The amounts have been included in cost of goods sold in the income statement.

**Note 15** Other current assets

	Group December 31,	
	2006	2005
Interest-bearing receivables	328	697
Miscellaneous short-term receivables	1,731	2,074
Provision for doubtful accounts	-36	-63
Prepaid expenses and accrued income	862	785
Prepaid interest expenses and accrued interest income	363	358
<b>Total</b>	<b>3,248</b>	<b>3,851</b>

Miscellaneous short-term receivables include VAT and other items.

**Note 16** Trade receivables

At year-end 2006, the Group's trade receivables, net of provisions for doubtful accounts, amounted to SEK 20,905m (24,269), representing the maximum possible exposure to customer defaults. The fair value of trade receivables equals their carrying amount as the impact of discounting is not significant. The Group's total provisions for doubtful accounts at year-end was SEK 584m (683). The Group has used provisions for doubtful accounts of SEK 56m (189) during the year. The creation and usage of provisions for doubtful accounts have been included in selling expenses in the income statement. Electrolux has a significant concentration on a number of major customers primarily in the US and Europe. Receivables concentrated to customers with credit limits amounting to SEK 300m (300) or more represent 31.0% (32.4) of the total trade receivables.

## Note 17 Financial instruments

Financial instruments are defined in accordance with IAS 32, Financial Instruments: Disclosure and Presentation. Additional and complementary information is presented in the following notes to the Annual Report: Note 1, Accounting and valuation principles, discloses the accounting and valuation policies adopted. Note 2, Financial risk management, describes the Group's risk policies in general and regarding the principal financial instruments of Electrolux in more detail. Note 16, Trade receivables, describes the trade receivables and related credit risks.

The information in this note highlights and describes the principal financial instruments of the Group regarding specific major terms and conditions when applicable, and the exposure to risk and the fair values at year-end.

### Net borrowings

At year-end 2006, the Group's net borrowings amounted to SEK -304m (2,974). The table below presents how the Group calculates net borrowings and what it consists of. As from 2005, liquid funds also include prepaid interest expenses and accrued interest income and total short-term borrowings include accrued interest expenses and prepaid interest income. In 2006, trade receivables with recourse is included in net borrowings and net liquidity. These changes are due to the Group's view in classifying assets and liabilities either as net assets related to operations or net borrowings.

	December 31,	
	2006	2005
Short-term borrowings	1,616	1,784
Short-term part of long-term borrowings	—	1,291
Fair-value derivative, liabilities	247	384
Accrued interest expenses and prepaid interest income	164	198
Trade receivables with recourse	966	—
<b>Total short-term borrowings</b>	<b>2,993</b>	<b>3,657</b>
<b>Long-term borrowings</b>	<b>4,502</b>	<b>5,257</b>
<b>Total borrowings</b>	<b>7,495</b>	<b>8,914</b>
Cash and cash equivalents	5,475	4,420
Investments with maturities over three months	1,643	623
Fair-value derivative, assets	318	539
Prepaid interest expenses and accrued interest income	363	358
<b>Liquid funds</b>	<b>7,799</b>	<b>5,940</b>
<b>Net borrowings</b>	<b>-304</b>	<b>2,974</b>
Revolving credit facility (EUR 500m) <sup>1)</sup>	4,526	4,699

<sup>1)</sup> The revolving credit facility of EUR 500m is not included in net borrowings, but can, however, be used for short-term and long-term funding.

### Liquid funds

Liquid funds as defined by the Group consist of cash on hand, bank deposits, fair-value derivatives, prepaid interest expenses and accrued interest income and other short-term investments, of which the majority has original maturity of three months or less. The table below presents the key data of liquid funds. The carrying amount of liquid funds is approximately equal to fair value.

### Liquidity profile

	December 31,	
	2006	2005
Investments with maturities over three months	1,643	623
Investments and deposits with maturities up to three months	5,475	4,420
Fair-value derivative assets included in short-term investments	318	539
Prepaid interest expenses and accrued interest income	363	358
<b>Liquid funds</b>	<b>7,799</b>	<b>5,940</b>
% of annualized net sales <sup>1)</sup>	11.2	7.9
<b>Net liquidity</b>	<b>4,806</b>	<b>2,283</b>
Fixed-interest term, days	39	43
Effective yield, % (average per annum)	3.7	2.4

<sup>1)</sup> Liquid funds plus an unused revolving credit facility of EUR 500m divided by annualized net sales.

For 2006, liquid funds, including an unused revolving credit facility of EUR 500m, amounted to 11.2% (7.9) of annualized net sales.

The net liquidity is calculated by deducting short-term borrowings from liquid funds. As from 2005, liquid funds also include prepaid interest expenses and accrued interest income and total short-term borrowings include accrued interest expenses and prepaid interest income when calculating net borrowings and net liquidity.

### Interest-bearing liabilities

At year-end 2006, the Group's total interest-bearing liabilities amounted to SEK 6,118m (8,332), of which SEK 4,502m (5,257) referred to long-term borrowings. As of December 31, 2006, there were no long-term borrowings with maturities within 12 months, (SEK 1,291m). A significant portion of the outstanding long-term borrowings has been made under the Electrolux global medium term note program. This program allows for borrowings up to EUR 2,000m. As of December 31, 2006, Electrolux utilized approximately EUR 300m (300) of the capacity of the program.

The majority of total long-term borrowings, SEK 4,008m, are taken up at the parent company level. As from 2005, Electrolux has a negotiated committed credit facility of EUR 500m, which can be used as either a long term or short-term back-up facility. However, Electrolux expects to meet any future requirements for short-term borrowings through bilateral bank facilities and capital-market programs such as commercial-paper programs.

At year-end 2006, the average interest-fixing period for long-term borrowings was 0.5 years (1.4). The calculation of the average interest-fixing period includes the effect of interest-rate derivatives used to manage the interest-rate risk of the debt portfolio. The average interest-rate at year-end for the total borrowings was 6.0% (5.1).

The fair-value of the interest-bearing borrowings was SEK 6,288m. The fair value including swap transactions used to manage the interest fixing was approximately SEK 6,210m. The borrowings and the interest-rate swaps are valued marked-to-market in order to calculate the fair-value. When valuating the borrowings, the Electrolux credit rating is taken into consideration.

The table on the following page sets out the carrying amount of the Group's borrowings.

**Borrowings**

Issue/maturity date	Description of loan	Interest rate, %	Currency	Nominal value (in currency)	2006	Carrying amount, December 31, 2005
<b>Bond loans fixed rate <sup>1)</sup></b>						
2005–2010	SEK MTN Program	3.650	SEK	500	493	499
2005–2009	SEK MTN Program	3.400	SEK	500	495	499
2001–2008	Global MTN Program	6.000	EUR	268	2,460	2,617
2001–2008	Global MTN Program	6.000	EUR	32	290	301
1998–2008	SEK MTN Program	4.600	SEK	85	85	85
<b>Bond loans floating rate</b>						
1997–2027	Industrial Development Revenue Bonds	Floating	USD	10	—	79
<b>Total bond loans</b>				<b>—</b>	<b>3,823</b>	<b>4,080</b>
<b>Other long-term loans</b>						
	Fixed rate loans in Germany	7.800	EUR	44	395	417
1998-2013	Long-term bank loans in Sweden	Floating	SEK	163	—	163
2005-2010	Long-term bank loans in Sweden	Floating	EUR	20	185	192
	Other fixed rate loans			—	—	117
	Other floating rate loans			—	99	288
<b>Total other long-term loans</b>				<b>—</b>	<b>679</b>	<b>1,177</b>
<b>Long-term borrowings</b>				<b>—</b>	<b>4,502</b>	<b>5,257</b>
<b>Short-term part of long-term loans <sup>2)</sup></b>						
2005–2006	SEK MTN Program	1.742	SEK	350	—	350
2005–2006	SEK MTN Program	1.742	SEK	150	—	150
2005–2006	SEK MTN Program	1.908	SEK	400	—	400
2001–2006	Long-term bank loan in Sweden	Floating	USD	46	—	365
	Other long-term loans			—	—	26
<b>Other short-term loans</b>						
	Short-term bank loans in Brazil	Floating	BRL	24	77	415
	Short-term bank loans in Brazil	Fixed/Float	USD	33	230	458
	Short-term bank loan in China	Fixed/Float	CNY	556	490	344
	Short-term bank loan in Thailand	Fixed/Float	THB	1,867	356	—
	Bank borrowings and commercial papers			—	463	567
<b>Short-term borrowings</b>				<b>—</b>	<b>1,616</b>	<b>3,075</b>
<b>Total interest-bearing liabilities</b>				<b>—</b>	<b>6,118</b>	<b>8,332</b>
<b>Fair value of derivative liabilities</b>				<b>—</b>	<b>247</b>	<b>384</b>
<b>Accrued interest expenses and prepaid interest income</b>				<b>—</b>	<b>164</b>	<b>198</b>
<b>Trade receivables with recourse</b>				<b>—</b>	<b>966</b>	<b>—</b>
<b>Total borrowings</b>				<b>—</b>	<b>7,495</b>	<b>8,914</b>

1) The interest-rate fixing profile of the borrowings has been adjusted from fixed to floating with interest-rate swaps.

2) Long-term borrowings with maturities within 12 months are classified as short-term borrowings in the Group's balance sheet.

The average maturity of the Group's long-term borrowings including long-term borrowings with maturities within 12 months was 1.7 years (2.8), at the end of 2006. A net total of SEK 1,469m in borrowings, originating essentially from long-term borrowings,

matured, or were amortized. Short-term borrowings pertain primarily to countries with capital restrictions. The table below presents the repayment schedule of long-term borrowings.

**Repayment schedule of long-term borrowings, December 31**

	2007	2008	2009	2010	2011	2012—	Total
Debenture and bond loans	—	2,835	495	493	—	—	3,823
Bank and other loans	—	—	19	234	—	426	679
Short-term part of long-term loans	—	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>2,835</b>	<b>514</b>	<b>727</b>	<b>—</b>	<b>426</b>	<b>4,502</b>

**Other interest-bearing investments**

Interest-bearing receivables from customer financing amounting to SEK 180m (625) are included in the item Other receivables in the Group's balance sheet. The Group's customer financing activities are performed in order to provide sales support and are directed mainly to independent retailers in Scandinavia after the divestment of the Group's customer financing operations in the

US in June 2006. The majority of the financing is shorter than 12 months. There is no major concentration of credit risk related to customer financing. Collaterals and the right to repossess the inventory also reduce the credit risk in the financing operations. The income from customer financing is subject to interest-rate risk. This risk is immaterial to the Group.

### Commercial flows

The table below shows the forecasted transaction flows, imports and exports, for the 12-month period of 2007 and hedges at year-end 2006.

The hedged amounts during 2007 are dependent on the hedging policy for each flow considering the existing risk exposure.

There were no hedges above 12 months at year-end. The effect of hedging on operating income during 2006 amounted to SEK -100m (-304). At year-end 2006, unrealized exchange-rate gains on forward contracts amounted to SEK 23m (22), all of which will mature in 2007.

	GBP	CAD	AUD	DKK	CZK	CHF	BRL	HUF	USD	EUR	Other	Total
Inflow of currency long position	3,510	2,000	1,370	1,030	900	830	460	1,140	1,440	6,160	6,660	25,500
Outflow of currency short position	-50	-520	-350	-70	—	-20	—	-3,390	-5,060	-11,140	-4,900	-25,500
Gross transaction flow	3,460	1,480	1,020	960	900	810	460	-2,250	-3,620	-4,980	1,760	—
Hedge	-2,620	-530	-690	-370	-360	-310	-10	1,250	1,280	2,630	-270	—
<b>Net transaction flow</b>	<b>840</b>	<b>950</b>	<b>330</b>	<b>590</b>	<b>540</b>	<b>500</b>	<b>450</b>	<b>-1,000</b>	<b>-2,340</b>	<b>-2,350</b>	<b>1,490</b>	<b>—</b>

### Derivative financial instruments

The tables below present the fair value and nominal amounts of the Group's derivative financial instruments for managing of financial risks and proprietary trading.

#### Derivates at market value

	December 31, 2006		December 31, 2005	
	Assets	Liabilities	Assets	Liabilities
<b>Interest-rate swaps</b>	<b>73</b>	<b>3</b>	<b>118</b>	<b>17</b>
Cash-flow hedges	—	—	—	—
Fair-value hedges	59	—	111	—
Held for trading	14	3	7	17
<b>Cross currency interest-rate swaps</b>	<b>7</b>	<b>4</b>	<b>—</b>	<b>11</b>
Cash-flow hedges	—	—	—	—
Fair-value hedges	—	—	—	—
Held for trading	7	4	—	11
<b>Forward-rate agreements and futures</b>	<b>4</b>	<b>—</b>	<b>1</b>	<b>2</b>
Cash-flow hedges	—	—	—	—
Fair-value hedges	—	—	—	—
Held for trading	4	—	1	2
<b>Forward foreign exchange contracts</b>	<b>234</b>	<b>239</b>	<b>361</b>	<b>297</b>
Cash-flow hedges	154	131	168	144
Net-investment hedges	24	63	171	11
Held for trading	56	45	22	142
<b>Commodity derivatives</b>	<b>—</b>	<b>1</b>	<b>59</b>	<b>57</b>
Cash-flow hedges	—	—	—	—
Fair-value hedges	—	—	—	—
Held for trading	—	1	59	57
<b>Total</b>	<b>318</b>	<b>247</b>	<b>539</b>	<b>384</b>

Valuation of derivative financial instruments at market value, presented in the table above, is done at the most accurate market prices available. This means that instruments, which are quoted on the market, such as, for instance, the major bond and interest-rate future markets, are all marked-to-market with the current price. The foreign-exchange spot rate is then used to convert the value into Swedish kronor. For instruments where no reliable price is available on the market, cash flows are discounted using the deposit/swap curve of the cash-flow currency. In the event that no proper cash-flow schedule is available, for instance, as in the case with forward-rate agreements, the underlying schedule is used for valuation purposes. To the extent option instruments are used, the valuation is based on the Black & Scholes formula.

#### Nominal amounts

	December 31,	
	2006	2005
<b>Interest-rate swaps</b>		
Maturity shorter than 1 year	532	2,459
Maturity 2–5 years	3,113	2,329
Maturity 6–10 years	—	94
<b>Total interest-rate swaps</b>	<b>3,645</b>	<b>4,882</b>
Cross currency interest-rate swaps	78	90
Forward-rate agreements	6,064	19,432
Foreign-exchange derivatives (Forwards and Options)	12,472	17,890
Commodity derivatives	23	—
<b>Total</b>	<b>22,282</b>	<b>42,294</b>

**Note 18** Other reserves in equity

	Other reserves			Total other reserves
	Available-for-sale instruments	Hedging reserve	Currency translation reserve	
<b>Opening balance, January 1, 2005</b>	—	—	<b>-489</b>	<b>-489</b>
<b>Effects of changes in accounting principles</b>	—	<b>7</b>	—	<b>7</b>
<b>Opening balance, January 1, 2005, after adoption of IAS 32 and IAS 39</b>	—	<b>7</b>	<b>-489</b>	<b>-482</b>
<b>Available-for-sale instruments</b>				
Gain/loss taken to equity	24	—	—	24
Transferred to profit and loss on sale	—	—	—	—
<b>Cash-flow hedges</b>				
Gain/loss taken to equity	—	16	—	16
Transferred to profit and loss on sale	—	-7	—	-7
<b>Exchange differences on translation of foreign operations</b>				
Equity hedge	—	—	-615	-615
Translation difference	—	—	2,717	2,717
<b>Net income recognized directly in equity</b>	<b>24</b>	<b>9</b>	<b>2,102</b>	<b>2,135</b>
<b>Closing balance, December 31, 2005</b>	<b>24</b>	<b>16</b>	<b>1,613</b>	<b>1,653</b>
<b>Available-for-sale instruments</b>				
Gain/loss taken to equity	30	—	—	30
Transferred to profit and loss on sale	—	—	—	—
<b>Cash-flow hedges</b>				
Gain/loss taken to equity	—	-34	—	-34
Transferred to profit and loss on sale	—	—	—	—
<b>Exchange differences on translation of foreign operations</b>				
Equity hedge	—	—	421	421
Translation difference	—	—	-2,081	-2,081
<b>Net income recognized directly in equity</b>	<b>30</b>	<b>-34</b>	<b>-1,660</b>	<b>-1,664</b>
<b>Closing balance, December 31, 2006</b>	<b>54</b>	<b>-18</b>	<b>-47</b>	<b>-11</b>

**Note 19** Assets pledged for liabilities to credit institutions

	Group December 31,		Parent Company December 31,	
	2006	2005	2006	2005
Real-estate mortgages	82	107	—	—
Other	11	11	5	5
<b>Total</b>	<b>93</b>	<b>118</b>	<b>5</b>	<b>5</b>

**Note 20** Share capital, number of shares and earnings per share

	Quota value
On December 31, 2006, and December 31, 2005, the share capital comprised of:	
9,502,275 A-shares, with a quota value of SEK 5	48
299,418,033 B-shares, with a quota value of SEK 5	1,497
<b>Total</b>	<b>1,545</b>

Number of shares	Owned by Electrolux	Owned by other shareholders	Total
<b>Shares, December 31, 2005</b>			
A-shares	—	9,502,275	9,502,275
B-shares	15,821,239	283,596,794	299,418,033
<b>Repurchased shares</b>			
A-shares	—	—	—
B-shares	19,400,000	-19,400,000	—
<b>Cancelled shares</b>			
A-shares	—	—	—
B-shares	—	—	—
<b>Sold shares</b>			
A-shares	—	—	—
B-shares	-5,234,483	5,234,483	—
<b>Shares, December 31, 2006</b>			
A-shares	—	9,502,275	9,502,275
B-shares	29,986,756	269,431,277	299,418,033

The share capital of AB Electrolux consists of A-shares and B-shares. An A-share entitles the holder to one vote and a B-share to one-tenth of a vote. All shares entitle the holder to the same proportion of assets and earnings, and carry equal rights in terms of dividends.

	Total 2006	Total 2005	Continuing operations 2006	Continuing operations 2005	Discontinued operations 2006	Discontinued operations 2005
Income for the period, SEKm	3,847	1,763	2,648	-142	1,199	1,905
<b>Earnings per share, SEK</b>						
Basic	13.32	6.05	9.17	-0.49	4.15	6.54
Diluted	13.27	6.01	9.14	-0.49	4.13	6.50
<b>Average number of shares</b>						
Basic	288.8	291.4	288.8	291.4	288.8	291.4
Diluted	289.8	293.2	289.8	293.2	289.8	293.2

Basic earnings per share is calculated by dividing the income for the period with the average number of shares. The average number of shares is the weighted average number of shares outstanding during the year, after repurchase of own shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilution for Electrolux refers to the share-based compensation program. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options.

As of December 31, 2006, Electrolux had repurchased 19,400,000 (15,821,239) B-shares, with a total par value of SEK 97m (79). The average number of shares during the year has been 288,790,128 (291,377,974) and the average number of shares diluted has been 289,790,196 (293,239,990).

## Note 21 Untaxed reserves, Parent Company

	December 31, 2006	Appropriations	December 31, 2005
<b>Accumulated depreciation in excess of plan on</b>			
Brands	530	-17	547
Machinery and equipment	205	—	205
Buildings	4	3	1
Other financial reserves	3	—	3
Tax-allocation reserve	—	—	—
<b>Total</b>	<b>742</b>	<b>-14</b>	<b>756</b>

Other financial reserves include fiscally permissible appropriations referring to receivables in subsidiaries in politically and economically unstable countries.

## Note 22 Employees and employee benefits

In 2006, the average number of employees for continuing operations was 55,471 (57,842), of whom 36,041 (37,728) were men and 19,430 (20,114) women. The total average number of employees in 2005 was 69,523 of which 11,681 refer to the discontinued Outdoor Products operations.

A detailed specification of the average number of employees by country has been submitted to the Swedish Companies Registration Office and is available on request from AB Electrolux, Investor Relations and Financial Information. See also Electrolux website [www.electrolux.com/ir](http://www.electrolux.com/ir), Company overview.

### Average number of employees for continuing operations, by geographical area

	Group	
	2006	2005
Europe	28,695	29,223
North America	12,373	14,984
Rest of world	14,403	13,635
<b>Total</b>	<b>55,471</b>	<b>57,842</b>

### Salaries, other remuneration and employer contributions for continuing operations

	2006			2005		
	Salaries and remuneration	Employer contributions	Total	Salaries and remuneration	Employer contributions	Total
Parent Company	971	499	1,470	975	480	1,455
(whereof pension costs)		(198) <sup>1)</sup>	(198) <sup>1)</sup>		(193) <sup>1)</sup>	(193) <sup>1)</sup>
Subsidiaries	11,878	3,576	15,454	13,012	3,921	16,933
(whereof pension costs)		(622)	(622)		(861)	(861)
<b>Group total</b>	<b>12,849</b>	<b>4,075</b>	<b>16,924</b>	<b>13,987</b>	<b>4,401</b>	<b>18,388</b>
<b>(whereof pension costs)</b>		<b>(820)</b>	<b>(820)</b>		<b>(1,054)</b>	<b>(1,054)</b>

<sup>1)</sup> Includes SEK 10m (10), referring to the President and his predecessors.



**Salaries and remuneration for continuing operations by geographical area for Board members, senior managers and other employees**

	2006			2005		
	Board members and senior managers	Other employees	Total	Board members and senior managers	Other employees	Total
<b>Sweden</b>						
Parent Company	46	925	971	39	943	982
Other	4	171	175	7	155	162
<b>Total Sweden</b>	<b>50</b>	<b>1,096</b>	<b>1,146</b>	<b>46</b>	<b>1,098</b>	<b>1,144</b>
EU, excluding Sweden	91	6,093	6,184	88	6,413	6,501
Rest of Europe	19	614	633	10	704	714
North America	17	3,404	3,421	18	3,894	3,912
Latin America	29	634	663	25	409	434
Asia	30	304	334	15	314	329
Pacific	2	445	447	2	920	922
Africa	—	21	21	—	31	31
<b>Total outside Sweden</b>	<b>188</b>	<b>11,515</b>	<b>11,703</b>	<b>158</b>	<b>12,685</b>	<b>12,843</b>
<b>Group total</b>	<b>238</b>	<b>12,611</b>	<b>12,849</b>	<b>204</b>	<b>13,783</b>	<b>13,987</b>

Of the Board members and senior managers in the Group, 176 were men and 23 women, of whom 25 men and 7 women in the Parent Company.

**Employee absence due to illness for continuing operations**

%	2006		2005	
	Employees in the Parent Company	All employees in Sweden	Employees in the Parent Company	All employees in Sweden
<b>Total absence due to illness, as a percentage of total normal working hours</b>	<b>7.5</b>	<b>7.1</b>	<b>7.6</b>	<b>7.2</b>
of which 60 days or more	62.9	68.4	62.7	62.7
<b>Absence due to illness, by category <sup>1)</sup></b>				
Women	11.6	10.9	11.2	9.7
Men	5.3	5.3	5.7	5.6
29 years or younger	4.7	4.6	4.9	4.8
30–49 years	8.1	7.9	8.2	7.7
50 years or older	7.4	7.1	7.9	7.6

1) % of total normal working hours within each category, respectively.

In accordance with the regulations in the Swedish Annual Accounts Act, in effect as of July 1, 2003, absence due to illness for employees in the Parent Company and the Group in Sweden is reported in the table above. The Parent Company comprises the Group's head office as well as a number of units and plants, and employs approximately 85% of the Group's employees in Sweden.

**Post-employment benefits**

The Group sponsors pension plans in many of the countries in which it has significant activities. Pension plans can be defined contribution or defined benefit plans or a combination of both. Under defined benefit pension plans, the company enters into a commitment to provide post-employment benefits based upon one or several parameters for which the outcome is not known at present. For example, benefits can be based on final salary, on career average salary or on a fixed amount of money per year of employment. Under defined contribution plans, the company's commitment is to make periodic payments to independent authorities or investment plans and the level of benefits depends on the actual return on those investments. Some plans combine the promise to make periodic payments with a promise of a guaranteed minimum return on the investments. These plans are also defined benefit plans.

In some countries, the companies make provisions for compulsory severance payments. These provisions cover the Group's commitment to pay employees a lump sum upon reaching retire-

ment age, or upon the employees' dismissal or resignation.

These plans are listed below as Other post-employment benefits.

In addition to providing pension benefits and compulsory severance payments, the Group provides healthcare benefits, for some of its employees in certain countries mainly in the US.

The Group's major defined benefit plans cover employees in the US, UK, Switzerland, Germany and Sweden. The German plan is unfunded and the plans in the US, UK, Switzerland and Sweden are funded.

A small number of the Group's employees in Sweden is covered by a multi-employer defined benefit pension plan administered by Alecta. It has not been possible to obtain the necessary information for the accounting of this plan as a defined benefit plan, and therefore, it has been accounted for as a defined contribution plan.

Below are set out schedules which show the obligations of the plans in the Electrolux Group, the assumptions used to determine these obligations and the assets relating to the benefit plans, as well as the amounts recognized in the income statement and balance sheet. The schedules also include a reconciliation of changes in net provisions during the year, a reconciliation of changes in the present value of the obligation during the year and a reconciliation of the changes in the fair value of plan assets. The Group's policy for recognizing actuarial gains and losses is to recognize in the profit and loss that portion of the cumulative unrecognized gains or losses in each plan that exceeds 10% of the greater of the defined benefit obligation and

the plan assets. This portion of gains or losses in each plan is recognized over the expected average remaining working lifetime of the employees participating in the plans.

The provisions for post-employment benefits amounted to SEK 6,250m (7,873). The major changes were that the present value of the obligation for funded and unfunded plans decreased with SEK 4,850m whereof discontinued operations amounted to SEK 1,933m, that the plan assets decreased with SEK 1,592m whereof discontinued operations amounted to SEK 1,296m, and

that the unrecognized actuarial losses in the plans for post-employment benefits decreased with SEK 1,628m to SEK 1,605m (3,233), whereof discontinued operations amounted to SEK 339m. The decrease in unrecognized actuarial losses is mainly due to higher discount rates which decrease the present value of the future obligations with SEK 786m. This is further enhanced by unrecognized actuarial gains on plan assets with SEK 121m, being the difference between actual return on plan assets of SEK 949m and the expected return on plan assets of SEK 828m.

#### Amounts recognized in the balance sheet

	December 31, 2006				December 31, 2005			
	Pension benefits	Healthcare benefits	Other post-employment benefits	Total	Pension benefits	Healthcare benefits	Other post-employment benefits	Total
Present value of funded obligations	14,960	3	—	14,963	18,535	54	—	18,589
Fair value of plan assets	-14,007	-3	—	-14,010	-15,548	-54	—	-15,602
	<b>953</b>	<b>—</b>	<b>—</b>	<b>953</b>	<b>2,987</b>	<b>—</b>	<b>—</b>	<b>2,987</b>
Present value of unfunded obligations	3,225	2,661	1,034	6,920	3,651	3,415	1,078	8,144
Unrecognized actuarial gains (losses)	-1,248	-169	-188	-1,605	-2,821	-307	-105	-3,233
Unrecognized past-service cost	-56	56	-18	-18	—	—	-25	-25
<b>Net provisions for post-employment benefits</b>	<b>2,874</b>	<b>2,548</b>	<b>828</b>	<b>6,250</b>	<b>3,817</b>	<b>3,108</b>	<b>948</b>	<b>7,873</b>
Whereof reported as								
Prepaid pension cost in financial assets	336	—	—	336	353	—	—	353
Provisions for post-employment benefits	3,210	2,548	828	6,586	4,170	3,108	948	8,226

#### Reconciliation of changes in net provisions for post-employment benefits

	Pension benefits	Healthcare benefits	Other post-employment benefits	Total
<b>Net provision for post-employment benefits, January 1, 2005 <sup>1)</sup></b>	<b>4,219</b>	<b>2,458</b>	<b>926</b>	<b>7,603</b>
Expenses for defined post-employment benefits	597	190	142	929
Contributions by employer	-1,307	-45	-162	-1,514
Exchange differences	308	505	42	855
<b>Net provision for post-employment benefits, December 31, 2005 <sup>1)</sup></b>	<b>3,817</b>	<b>3,108</b>	<b>948</b>	<b>7,873</b>
Expenses for defined post-employment benefits	423	26	170	619
Contributions by employer	-979	-167	-219	-1,365
Discontinued operations	-245	-23	-39	-307
Exchange differences	-142	-396	-32	-570
<b>Net provision for post-employment benefits, December 31, 2006</b>	<b>2,874</b>	<b>2,548</b>	<b>828</b>	<b>6,250</b>

1) Including the Outdoor operations.

#### Amounts recognized in the income statement for continuing operations

	2006				2005			
	Pension benefits	Healthcare benefits	Other post-employment benefits	Total	Pension benefits	Healthcare benefits	Other post-employment benefits	Total
Current service cost	324	1	98	423	331	14	91	436
Interest cost	814	151	39	1,004	968	174	44	1,186
Expected return on plan assets	-828	—	—	-828	-774	—	—	-774
Amortization of actuarial losses (gains)	326	—	—	326	66	—	—	66
Amortization of past-service cost	-174	-62	33	-203	—	—	2	2
Losses (gains) on curtailments and settlements	-39	-64	—	-103	—	—	—	—
Effect of limit on assets	—	—	—	—	-49	—	—	-49
<b>Total expenses for defined post-employment benefits</b>	<b>423</b>	<b>26</b>	<b>170</b>	<b>619</b>	<b>542</b>	<b>188</b>	<b>137</b>	<b>867</b>
Expenses for defined contribution plans				201				187
<b>Total expenses for post-employment benefits</b>				<b>820</b>				<b>1,054</b>
Actual return on plan assets				-949				-1,287

For the Group, total expenses for pensions, healthcare and other post-employment benefits has been recognized as operating expenses and classified as cost of goods sold, selling expenses or administrative expenses depending on the function of the employee. In the Parent Company a similar classification has been made.

**Reconciliation of change in the present value of the defined benefit obligation for funded and unfunded obligations**

	2006				2005			
	Pension benefits	Healthcare benefits	Other post-employment benefits	Total	Pension benefits	Healthcare benefits	Other post-employment benefits	Total
<b>Opening balance, January 1</b>	22,186	3,469	1,078	26,733	17,638	2,948	984	21,570
Current service cost	324	1	98	423	375	15	95	485
Interest cost	814	151	39	1,004	1,043	175	46	1,264
Contributions by plan participants	50	36	—	86	61	6	—	67
Actuarial losses (gains)	-724	-161	99	-786	2,094	-63	72	2,103
Past-service cost	-174	-62	33	-203	—	—	—	—
Curtailments	-47	—	—	-47	—	—	-2	-2
Liabilities extinguished on settlements	—	—	—	—	-1	—	—	-1
Liabilities adhering to discontinued operations	-1,800	-78	-55	-1,933	—	—	—	—
Exchange differences on foreign plans	-1,418	-441	-39	-1,898	1,961	629	45	2,635
Benefits paid	-1,026	-251	-219	-1,496	-985	-241	-162	-1,388
<b>Closing balance, December 31</b>	<b>18,185</b>	<b>2,664</b>	<b>1,034</b>	<b>21,883</b>	<b>22,186</b>	<b>3,469</b>	<b>1,078</b>	<b>26,733</b>

**Reconciliation of change in the fair value of plan assets**

	2006				2005			
	Pension benefits	Healthcare benefits	Other post-employment benefits	Total	Pension benefits	Healthcare benefits	Other post-employment benefits	Total
<b>Opening balance, January 1</b>	15,548	54	—	15,602	12,234	180	—	12,414
Expected return on plan assets	828	—	—	828	840	6	—	846
Actuarial gains (losses)	120	1	—	121	575	-2	—	573
Contributions by employer	979	167	219	1,365	1,307	45	162	1,514
Contributions by plan participants	50	36	—	86	61	6	—	67
Discontinued operations	-1,296	—	—	-1,296	—	—	—	—
Exchange differences on foreign plans	-1,196	-4	—	-1,200	1,516	60	—	1,576
Benefits paid	-1,026	-251	-219	-1,496	-985	-241	-162	-1,388
<b>Closing balance, December 31</b>	<b>14,007</b>	<b>3</b>	<b>—</b>	<b>14,010</b>	<b>15,548</b>	<b>54</b>	<b>—</b>	<b>15,602</b>

The pension plan assets include ordinary shares issued by AB Electrolux with a fair value of SEK 41m (62). In 2007, the Group expects to pay the total of SEK 1,068m in contributions by employer and benefits paid directly by the company. In 2006, this amounted to SEK 1,365m of which SEK 922m were contributions to the Group's pension funds.

**Major categories of plan assets as a percentage of the total plan assets**

%	December 31,	
	2006	2005
European equities	11	11
North American equities	24	28
Other equities	8	6
European bonds	25	26
North American bonds	20	19
Alternative investments <sup>1)</sup>	7	5
Property	3	2
Cash and cash equivalents	2	3
<b>Total</b>	<b>100</b>	<b>100</b>

1) Includes hedge funds and infrastructure investments.

**Principal actuarial assumptions at the balance sheet date expressed as a weighted average**

%	December 31,	
	2006	2005
Discount rate	4.9	4.6
Expected long-term return on assets	6.3	6.4
Expected salary increases	3.7	3.6
Annual increase of healthcare costs	10.0	10.0

- When determining the discount rate, the Group uses AA rated corporate bonds indexes which match the duration of the pension obligations. If no corporate bond is available, government bonds are used to determine the discount rate.
- Expected long-term return on assets is calculated by assuming that fixed income holdings are expected to have the same return as 10 year government bonds. Equity holdings are assumed to return an equity-risk premium of 5% over 10 year government bonds. Hedge funds are assumed to return 4% over 3 month treasury bills annually. Other alternative asset classes such as infrastructure or real estate are expected to return what could be considered reasonable given historical performance and current market conditions. The benchmark allocation for the assets is used when calculating the expected return, as this represents the long-term actual allocation.
- Expected salary increases are based on local conditions in each country.
- Assumed healthcare costs trend rate has a significant effect on the amounts recognized in the profit or loss. A one percentage point change in the assumed medical cost trend rate would have the following effects:

### Healthcare benefits – sensitivity analysis

	2006		2005	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and the interest cost	15	-13	22	-18
Effect on defined benefit obligation	384	-102	355	-302

### Amounts for the annual periods 2005–2006

	December 31,	
	2006	2005
Defined benefit obligation	-21,883	-26,733
Plan assets	14,010	15,602
Surplus/deficit	-7,873	-11,131
Experience adjustments on plan liabilities	221	-152
Experience adjustments on plan assets	121	513

### Parent Company

According to Swedish accounting principles adopted by the Parent Company, defined benefit liabilities are calculated based upon officially provided assumptions, which differ from the assumptions used in the Group under IFRS. The pension benefits are secured by contributions to a separate fund or recorded as a liability in the balance sheet. The accounting principles used in the Parent Company's separate financial statements differ from the IFRS principles, mainly in the following:

- The pension liability calculated according to Swedish accounting principles does not take into account future salary increases.
- The discount rate used in the Swedish calculations is set by PRI and is the same for all companies in Sweden.
- Changes in the discount rate and other actuarial assumptions are recognized immediately in the profit or loss and the balance sheet.
- Deficit must be either immediately settled in cash or recognized as a liability in the balance sheet.
- Surplus cannot be recognized as an asset but may in some cases be refunded to the company to offset pension costs.

### Change in the present value of the defined benefit pension obligation for funded and unfunded obligations

	Funded	Unfunded	Total
<b>Opening balance, January 1, 2005</b>	<b>942</b>	<b>269</b>	<b>1,211</b>
Current service cost	40	20	60
Interest cost	41	12	53
Benefits paid	-20	-19	-39
Other increase of the present value	—	10	10
<b>Closing balance, December 31, 2005</b>	<b>1,003</b>	<b>292</b>	<b>1,295</b>
Current service cost	37	27	64
Interest cost	43	13	56
Other increase of the present value	—	—	—
Benefits paid	-26	-21	-47
<b>Closing balance, December 31, 2006</b>	<b>1,057</b>	<b>311</b>	<b>1,368</b>

### Change in the fair value of plan assets

	Funded
<b>Opening balance, January 1, 2005</b>	<b>963</b>
Actual return on plan assets	164
Contributions and compensation to/from the fund	64
Effect of redemption and acquired/sold business	—
<b>Closing balance, December 31, 2005</b>	<b>1,191</b>
Actual return on plan assets	41
Contributions and compensation to/from the fund	61
Effect of redemption and acquired/sold business	—
<b>Closing balance, December 31, 2006</b>	<b>1,293</b>

### Amounts recognized in the balance sheet

	December 31,	
	2006	2005
Present value of pension obligations	-1,368	-1,295
Fair value of plan assets	1,293	1,191
<b>Surplus/(deficit)</b>	<b>-75</b>	<b>-104</b>
Limitation on assets in accordance with Swedish accounting principles	-236	-188
<b>Net provisions for pension obligations</b>	<b>-311</b>	<b>-292</b>
Whereof reported as		
provisions for pensions	-311	-292

### Amounts recognized in the income statement

	2006	2005
Current service cost	64	60
Interest cost	56	53
<b>Total expenses for defined benefit pension plans</b>	<b>120</b>	<b>113</b>
Insurance premiums	29	46
<b>Total expenses for defined contribution plans</b>	<b>29</b>	<b>46</b>
Tax on returns from pension fund	—	—
Special employer's contribution tax	42	44
Cost for credit insurance FPG	1	1
<b>Total pension expenses</b>	<b>192</b>	<b>204</b>
Compensation from the pension fund	—	—
<b>Total recognized pension expenses</b>	<b>192</b>	<b>204</b>

The pension plan assets include ordinary shares issued by AB Electrolux with a fair value of SEK 41m (62).

#### Major categories of plan assets as a percentage of the total plan assets and return of these categories as a percentage

%	2006	Return	2005	Return
Fixed income	42	1.4	43	5.2
Equity	45	5.3	47	31.2
Real estate	—	—	—	—
Other asset classes	13	5.0	10	7.2
<b>Total</b>	<b>100</b>	<b>3.5</b>	<b>100</b>	<b>16.4</b>

#### Principal actuarial assumptions at the balance sheet date

%	December 31,	
	2006	2005
Discount rate	4.0	4.0

#### The Swedish pension foundation

The pension liabilities of the Group's Swedish defined benefit pension plan (PRI pensions) are funded through a pension foundation established in 1998. The market value of the assets of the foundation amounted at December 31, 2006 to SEK 1,532m (1,727) and the pension commitments to SEK 1,256m (1,463). The Swedish Group companies recorded a liability to the pension fund as per at December 31, 2006 in the amount of SEK 64m (92) which will be paid to the pension foundation during the first quarter of 2007. Contributions to the pension foundation during 2006 amounted to SEK 92m (100) regarding the pension liability at December 31, 2005 and December 31, 2004, respectively. The decrease in the pension liability and the market value at December 31, 2006 is mainly due to that Husqvarna AB and its subsidiaries in Sweden left the pension fund in connection with distribution of the shares in Husqvarna AB to the shareholders of AB Electrolux. No contributions have been made from the pension foundation to the Swedish Group companies during 2006 or 2005.

#### Share-based compensation

Over the years, Electrolux has implemented several long-term incentive programs (LTI) for senior managers. These programs are intended to attract, motivate, and retain the participating managers by providing long-term incentives through benefits linked to the company's share price. They have been designed to align management incentives with shareholder interests. All programs are equity-settled. A detailed presentation of the different programs is given below.

#### 2000 option program

In 1998, a stock option plan for employee stock options was introduced for approximately 100 senior managers. Options were allotted on the basis of value created according to the Group's model for value creation. If no value was created, no options were issued. The options can be used to purchase Electrolux B-shares at a strike price that is 15% higher than the average closing price of the Electrolux B-shares on the Stockholm Stock Exchange during a limited period prior to allotment. The options were granted free of consideration. The annual program in 2000 was based on this plan.

The 2000 program had a vesting period of one year. If a program participant left his or her employment with the Electrolux Group prior to the vesting time, all options were forfeited. Options which are vested at the time of termination may be exercised, under the general rule of the plans, within three months thereafter. The 2000 program expired on February 26, 2006.

#### 2001, 2002 and 2003 option programs

In 2001, a new stock option plan for employee stock options was introduced for less than 200 senior managers. The options can be used to purchase Electrolux B-shares at an exercise price that is 10% above the average closing price of the Electrolux B-shares on the Stockholm Stock Exchange during a limited period prior to allotment. The options were granted free of consideration. Annual programs based on this plan were also launched in 2002 and 2003.

Each of the 2001–2003 programs has had a vesting period of three years, where one third of the options are vested each year. If a program participant leaves his employment with the Electrolux Group, options may, under the general rule, be exercised within a twelve months' period thereafter. However, if the termination is due to, among other things, the ordinary retirement of the employee or the divestiture of the participant's employing company, the employee will have the opportunity to exercise such options for the remaining duration of the plan.

#### Option programs 2000–2003

Program	Grant date	Total number of options at grant date	Number of options per lot <sup>1) 3)</sup>	Fair value of options at grant date	Exercise price SEK <sup>4)</sup>	Expiration date	Vesting period, year
2000	Feb. 26, 2001	595,800	6,500	35	167.40	Feb. 26, 2006	1
2001	May 10, 2001	2,460,000	15,000	39	96.10 (174.30)	May 10, 2008	3 <sup>2)</sup>
2002	May 6, 2002	2,865,000	15,000	48	103.70 (188.10)	May 6, 2009	3 <sup>2)</sup>
2003	May 8, 2003	2,745,000	15,000	27	89 (161.50)	May 8, 2010	3 <sup>2)</sup>

1) In 2000–2003, the President and CEO was granted 4 lots, Group Management members 2 lots and all other senior managers 1 lot.

2) For the 2001–2003 option programs, one third vests after 12 months, one third after 24 months and the final one third after 36 months.

3) Re-calculation of the stock option programs, in accordance with the stock option plan document due to the spin-off of Husqvarna.

Each stock option entitles the option holder to purchase 1.85 shares.

4) Exercise prices for stock option programs 2001–2003 were re-calculated due to the spin-off of Husqvarna. Pre spin-off exercise prices are presented in parentheses.

### Change in number of options per program

Program	Number of options 2005				Number of options 2006			
	January 1, 2005	Exercised	Forfeited <sup>1)</sup>	December 31, 2005	Exercised <sup>2)</sup>	Forfeited <sup>1)</sup>	Expired	December 31, 2006
2000	426,800	290,300	52,000	84,500	84,500	—	—	—
2001	2,215,000	668,750	110,000	1,436,250	1,223,603 <sup>3)</sup>	—	—	212,647
2002	2,670,000	263,137	210,000	2,196,863	1,557,059 <sup>3)</sup>	15,000	—	624,804
2003	2,670,000	527,971	160,000	1,982,029	1,372,828 <sup>3)</sup>	55,000	150,000 <sup>3)</sup>	404,201

1) Options expire when they are not exercised post vesting period, e.g., due to expiration at the end of the term of the options or earlier, because of termination of employment after vesting.

Forfeiture is when the employees fail to satisfy the vesting condition, e.g., termination of employment before vesting period. Forfeiture is governed by the provisions of the option plan.

2) The weighted average share price for exercised options is SEK 178.

3) All Husqvarna stock option participants exercised their vested stock options before the spin-off was completed. Their rights to the unvested portion of the 2003 stock option program were voluntarily waived in exchange for which the intrinsic value for those stock options was received. This corresponds to now expired 150,000 stock options. The total payment for releasing Husqvarna participants from the option program was SEK 13.5m, excluding cost for social security, whereof SEK 4.6 m was charged to the income statement.

### Performance share program 2004, 2005 and 2006

The Annual General Meeting in 2006 approved an annual long-term incentive program. This program was first introduced after the Annual General Meeting in 2004.

The program is based on value creation targets for the Group that is established by the Board of Directors, and involves an allocation of shares if these targets are achieved or exceeded after a three-year period. The program comprises B-shares.

The program is in line with the Group's principles for remuneration based on performance, and is an integral part of the total compensation for Group Management and other senior managers. Electrolux shareholders benefit from this program since it facilitates recruitment and retention of competent executives and aligns management interest with shareholder interest.

Allocation of shares under the program is determined on the basis of three levels of value creation, calculated according to the Group's previously adopted definition of this concept. The three levels are Entry, Target, and Stretch. Entry is the minimum level

that must be reached to enable allocation. Stretch, is the maximum level for allocation and may not be exceeded regardless of the value created during the period. The number of shares allocated at Stretch, is 50% greater than at Target. The shares will be allocated after the three-year period free of charge. Participants are permitted to sell the allocated shares to cover personal income tax, but the remaining shares must be held for another two years.

If a participant's employment is terminated during the performance period, the right to be received shares will be forfeited in full. In the event of death, divestiture or leave of absence for more than six months, this will result in a reduced award for the affected participant.

The program covers almost 160 senior managers and key employees in more than 20 countries. Participants in the program comprise five groups, i.e., the President, other members of Group Management, and three groups of other senior managers.

### Number of shares distributed per individual performance target

	2006 Target number of B-shares <sup>1)</sup>	2005 Target number of B-shares <sup>1)</sup>	2004 Target number of B-shares <sup>1)</sup>	2006 Target value, SEK <sup>2)</sup>	2005 Target value, SEK <sup>3)</sup>	2004 Target value, SEK <sup>4)</sup>
President and CEO	24,057	32,820	32,993	2,400,000	2,400,000	2,400,000
Other members of Group Management	12,030	16,410	16,497	1,200,000	1,200,000	1,200,000
Other senior managers, cat. C	9,021	12,308	12,374	900,000	900,000	900,000
Other senior managers, cat. B	6,015	8,205	8,249	600,000	600,000	600,000
Other senior managers, cat. A	4,511	6,154	6,187	450,000	450,000	450,000

1) Each target value is subsequently converted into a number of shares. The number of shares is based on a share price of SEK 131.67 for 2004, SEK 132.36 for 2005 and SEK 180.58 for 2006, calculated as the average closing price of the Electrolux B-share on the Stockholm Stock Exchange during a period of ten trading days before the day participants were invited to participate in the program, adjusted for net present value of dividends for the period until shares are allocated. The weighted average fair value of shares for the 2004, 2005 and 2006 programs is SEK 145.00. The target number of B-shares have been adjusted with a multiplier of 1.81 after a re-calculation of the performance share programs in accordance with the plan document due to the spin-off of Husqvarna.

2) Total target value for all participants at grant is SEK 96m.

3) Total target value for all participants at grant is SEK 114m, where value to Husqvarna participants is SEK 17m.

4) Total target value for all participants at grant is SEK 111m, where value to Husqvarna participants is SEK 15m.

If the target level is attained, the total cost for the 2006 performance share program over a three-year period is estimated at SEK 120m, including costs for employer contributions and the financing cost for the repurchased shares. If the maximum level Stretch, is attained, the cost is estimated at a maximum of SEK 180m. If the entry level for the program is not reached, the minimum cost will amount to SEK 11m, i.e., the financing cost for the repurchased shares. The distribution of shares under this program will result in an estimated maximum increase of 0.58% in the number of outstanding shares.

### Accounting principles

According to the transition rules stated in IFRS 2, Share-based compensation, Electrolux applies IFRS 2 for the accounting of share-based compensation programs granted after November 7, 2002, and that had not vested on January 1, 2005. The information below refers therefore to two thirds of the 2003 option program and the share programs granted in 2004, 2005 and 2006.

The Group accounts for the employer contributions that are expected to be paid when the options are exercised or the shares distributed. The total cost charged to the income state-

ment for 2006 amounted to SEK 142m (126), whereof 68m (47) refers to employer contribution. The cost for employer contribution according to IFRS 2 is based on time value of the instrument. The total provision for employer contribution in the balance sheet amounted to 87m (66). The cost charged to the income statement for discontinued operations amounted to 3m (13m).

#### Repurchased shares for the LTI programs

The company uses repurchased Electrolux B-shares to meet the company's obligations under the stock option and share programs. The shares will be sold to option holders who wish to exercise their rights under the option agreement(s) and if performance targets are met, will be distributed to share-program participants. Electrolux intends to sell additional shares on the market in connection with the exercise of options or distribution of shares under the share program in order to cover the payment of employer contributions.

#### Delivery of performance shares to the Husqvarna participants

At the Electrolux Annual General Meeting 2006, the shareholders decided to follow the proposal from the Board of Directors to do a pro rated allotment of the 2004 and 2005 performance share program to the Husqvarna participants. The intention was to completely separate the two companies from each other at spin-off. The allotment was pro rated for two years for the 2004 program and one year for the 2005 program and the performance was calculated slightly below target performance for the 2004 program and somewhat above target performance for the 2005 program. The allotment was financed with repurchased shares.

### Note 23 Other provisions

	Group					Parent Company			
	Provisions for restructuring	Warranty commitments	Claims	Other	Total	Provisions for restructuring	Warranty commitments	Other	Total
<b>Opening balance, January 1, 2005</b>	<b>1,107</b>	<b>1,550</b>	<b>932</b>	<b>1,319</b>	<b>4,908</b>	<b>149</b>	<b>67</b>	<b>32</b>	<b>248</b>
Provisions made	1,861	1,296	11	940	4,108	70	11	5	86
Provisions used	-491	-1,153	-104	-375	-2,123	-80	—	—	-80
Unused amounts reversed	-27	-33	—	-123	-183	-9	—	—	-9
Exchange-rate differences	137	172	148	216	673	—	—	—	—
<b>Closing balance, December 31, 2005</b>	<b>2,587</b>	<b>1,832</b>	<b>987</b>	<b>1,977</b>	<b>7,383</b>	<b>130</b>	<b>78</b>	<b>37</b>	<b>245</b>
Current provisions	1,342	1,000	36	628	3,006	85	78	—	163
Non-current provisions	1,245	832	951	1,349	4,377	45	—	37	82
Provisions made	457	1,029	53	714	2,253	55	95	69	219
Provisions used	-1,237	-1,004	-36	-606	-2,883	-63	-81	-28	-172
Discontinued operations	-31	-152	—	-108	-291	—	—	—	—
Unused amounts reversed	-109	7	—	-25	-127	-5	—	-3	-8
Exchange-rate differences	-106	-127	-110	-102	-445	—	—	—	—
<b>Closing balance, December 31, 2006</b>	<b>1,561</b>	<b>1,585</b>	<b>894</b>	<b>1,850</b>	<b>5,890</b>	<b>117</b>	<b>92</b>	<b>75</b>	<b>284</b>
Current provisions	797	617	85	133	1,632	35	25	—	60
Non-current provisions	764	968	809	1,717	4,258	82	67	75	224

Provisions for restructuring represent the expected costs to be incurred as a consequence of the Group's decision to close some factories, rationalize production and reduce personnel, both for newly acquired and previously owned companies. The provisions for restructuring are only recognized when Electrolux has both a detailed formal plan for restructuring and has made an announcement of the plan to those affected by it at the balance sheet date. The amounts are based on management's best estimates and are adjusted when changes to these estimates are known. The major part of the restructuring provisions as per December 31, 2006 will be used during 2007 and 2008. Provisions for warranty commitments are recognized as a consequence of the Group's policy to cover the cost of repair of defective products. Warranty is normally granted for one to two years after the sale. Provision for claims refer to the Group's captive insurance companies. Other provisions include mainly provisions for tax, environmental or other liabilities, none of which is material to the Group.

### Note 24 Other liabilities

	Group		Parent Company	
	December 31, 2006	2005	December 31, 2006	2005
Accrued holiday pay	861	1,270	151	164
Other accrued payroll costs	1,129	1,429	163	198
Accrued interest expenses	164	199	158	170
Prepaid income	166	489	—	—
Other accrued expenses	4,726	5,360	358	366
Other operating liabilities	2,247	2,259	—	—
<b>Total</b>	<b>9,293</b>	<b>11,006</b>	<b>830</b>	<b>898</b>

Other accrued expenses include accruals for fees, advertising and sales promotion, bonuses, extended warranty, and other items.

## Note 25 Contingent liabilities

	Group December 31,		Parent Company December 31,	
	2006	2005	2006	2005
Trade receivables, with recourse	—	749	—	—
<b>Guarantees and other commitments</b>				
On behalf of subsidiaries	—	—	1,168	1,248
On behalf of external counterparties	1,022	553	157	49
Employee benefits in excess of reported liabilities	—	—	16	11
<b>Total</b>	<b>1,022</b>	<b>1,302</b>	<b>1,341</b>	<b>1,308</b>

As from 2006, trade receivables with recourse are recognized in the balance sheet.

The main part of the total amount of guarantees and other commitments on behalf of external counterparties is related to US sales to dealers financed through external finance companies with a regulated buy-back obligation of the products in case of dealer's bankruptcy. The major part of the increase is related to the divestment of the Group's US based customer financing operation that continues to be used as one of the Group's dealer financing partners.

In addition to the above contingent liabilities, guarantees for fulfillment of contractual undertakings are given as part of the Group's normal course of business. There was no indication at year-end that payment will be required in connection with any contractual guarantees.

### Asbestos litigation in the US

Litigation and claims related to asbestos are pending against the Group in the US. Almost all of the cases refer to externally supplied components used in industrial products manufactured by discontinued operations prior to the early 1970s. Many of the cases involve multiple plaintiffs who have made identical allegations against many other defendants who are not part of the Electrolux Group.

As of December 31, 2006, the Group had a total of 1,688 (1,082) cases pending, representing approximately 7,700 (approximately 8,400) plaintiffs. During 2006, 986 new cases with approximately 1,300 plaintiffs were filed and 380 pending cases with approximately 2,000 plaintiffs were resolved. Approximately 5,650 of the plaintiffs relate to cases pending in the state of Mississippi.

Electrolux believes its predecessor companies may have had insurance coverage applicable to some of the cases during some of the relevant years. Electrolux is currently in discussions with those insurance carriers.

Additional lawsuits may be filed against Electrolux in the future. It is not possible to predict either the number of future claims or the number of plaintiffs that any future claims may represent. In addition, the outcome of asbestos claims is inherently uncertain and always difficult to predict and Electrolux cannot provide any assurances that the resolution of these types of claims will not have a material adverse effect on its business or on results of operations in the future.

### Major agreement with Husqvarna after the spin-off

In June 2006, Electrolux effectuated the spin-off of the Group's Outdoor Products operations, "Outdoor Products", by way of a dividend of all shares in Husqvarna AB, being the parent of the Outdoor Products group, to the shareholders of Electrolux. In order to govern the creation of Outdoor Products operations as a separate legal entity, as well as govern the relationship in certain aspects between Electrolux and Outdoor Products operations following the separation, Electrolux and Husqvarna AB and some of their respective subsidiaries have entered into a Master Separation Agreement and related agreements, the "Separation Agreements".

Under the Separation Agreements, Electrolux has retained certain potential liabilities with respect to the spin-off and Outdoor Products. These potential liabilities include certain liabilities of the Outdoor Products operations which cannot be transferred or which have been considered too difficult to transfer. Losses pursuant to these liabilities are reimbursable pursuant to indemnity undertakings from Husqvarna. In the event that Husqvarna is unable to meet its indemnity obligations should they arise, Electrolux would not be reimbursed for the related loss and this could have a material adverse effect on Electrolux's results of operations and financial condition.

### Tax effects of the distribution

Electrolux has received a private letter ruling from the US Internal Revenue Service (IRS) with regard to the distribution of the shares in Husqvarna and the US corporate restructurings that preceded the distribution. The ruling confirms that these transactions will not entail any US tax consequences for Electrolux, its US subsidiaries or US shareholders of Electrolux. In the event that any facts and circumstances upon which the IRS private ruling has been based is found to be incorrect or incomplete in a material respect or if the facts at the time of separation were, or at any relevant point in time are, materially different from the facts upon which the ruling was based, Electrolux could not rely on the ruling. Additionally, future events that may or may not be within the control of Electrolux or Husqvarna, including purchases by third parties of Husqvarna stock or Electrolux stock, could cause the distribution of Husqvarna stock and the US corporate restructurings that preceded the distribution not to qualify as tax-free to Electrolux and/or US holders of Electrolux stock. An example of such event is if one or more persons were to acquire a 50% or greater interest in Husqvarna stock or Electrolux stock.

Electrolux has – as one of the Separation Agreements – concluded a Tax Sharing and Indemnity Agreement with Husqvarna. Pursuant to the tax sharing agreement, Husqvarna and two of its US subsidiaries have undertaken to indemnify Electrolux and its group companies for US tax cost liabilities in certain circumstances. If the distribution of the shares in Husqvarna or the US corporate restructurings that preceded the distribution would entail US tax cost liabilities, and Husqvarna would not be obliged to indemnify such liabilities or would not be able to meet its indemnity undertakings, this could have a material adverse effect on Electrolux results of operations and financial condition.



## Note 26 Acquired and divested operations

	Divestments	
	2006	2005
Fixed assets	-20	-132
Inventories	—	-173
Receivables	-796	-74
Other current assets	-432	-23
Liquid funds	—	-30
Loans	—	259
Other liabilities and provisions	72	190
<b>Net assets</b>	<b>-1,176</b>	<b>17</b>
Purchase price	1,064	-599
Net borrowings in acquired/divested operations	—	229
<b>Effect on Group cash and cash equivalents</b>	<b>1,064</b>	<b>-370</b>

In 2006, the assets and liabilities of Electrolux Financial Corporation in the US were divested. Also the Group's participation in the associated company Nordwaggon has been sold. The capital loss of the divested operations is SEK 112m. In the previous year, all activity in India was divested with a capital loss of SEK -419m.

## Note 27 Remuneration to the Board of Directors, the President and other members of Group Management

The amounts disclosed in this note have not been adjusted for the distribution of the Outdoor Products operations.

### Compensation to the Board of Directors

The Annual General Meeting (AGM) determines the total compensation to the Board of Directors for a period of one year until the next AGM. The compensation is distributed between the Chairman, Deputy Chairman, other Board Members and remuneration for committee work. The Board decides the distribution of the committee fee between the committee members. Compensation is paid out in advance each quarter in accordance with a new payment model. Compensation paid in 2006 refers to 2/4 of the compensation authorized by the AGM in 2005, and 2/4 of the compensation authorized by the AGM in 2006. Total compensation paid in 2006 amounted to SEK 5,450,000, of which SEK 4,837,500 referred to ordinary compensation and SEK 612,500 to committee work. For distribution of compensation by Board member, see table below.

### Compensation to the Board members 2006

'000 SEK	Ordinary compensation	Compensation for committee work	Total compensation
Michael Treschow, Chairman	1,725	117	1,842
Peggy Bruzelius, Deputy Chairman	575	204	779
Barbara Milian Thoralfsson	503	88	591
Aina Nilsson Ström (up to the AGM)	175	25	200
Karel Vuursteen (up to the AGM)	175	25	200
Caroline Sundewall	503	88	591
Marcus Wallenberg	503	33	536
Louis R. Hughes	503	33	536
Tom Johnstone (up to the AGM)	175	—	175
Hans Stråberg	—	—	—
Ulf Carlsson	—	—	—
Gunilla Brandt	—	—	—
Ola Bertilsson	—	—	—
<b>Total</b>	<b>4,837</b>	<b>613</b>	<b>5,450</b>

### Remuneration Committee

The working procedures of the Board of Directors stipulate that remuneration to Group Management be proposed by a Remuneration Committee. The Committee comprises the Chairman of the Board and two additional Directors. During 2006, the Committee members were Michael Treschow, Chairman, Aina Nilsson Ström and Karel Vuursteen up to the AGM and Michael Treschow, Marcus Wallenberg and Louis R. Hughes after the AGM.

The Remuneration Committee establishes principles for remuneration for the President and the other members of Group Management, subject to subsequent approval by the annual general meeting. Proposals submitted by the Remuneration Committee to the Board of Directors include targets for variable compensation, the relationship between fixed and variable salary, changes in fixed or variable salary, criteria for assessment of long-term variable salary, pensions and other benefits.

A minimum of two meetings is convened each year and additional meetings are held when needed. Eight meetings were held during 2006.

### General guidelines for compensation within Electrolux

The Annual General Meeting in 2006 approved the proposed Remuneration Principles. These principles and the compensation to Group Management during 2006, are described below.

The overall principles for compensation within Electrolux are tied strongly to the position held, individual as well as team performance, and competitive compensation in the country of employment.

The overall compensation package for higher-level management comprises fixed salary, variable salary, based on short-term and long-term performance targets and benefits such as pensions and insurance.

Electrolux strives to offer fair and competitive total compensation with an emphasis on "pay for performance". Variable compensation thus represents a significant proportion of total compensation for higher-level management. Total compensation is lower if targets are not achieved.

In 2003, the Group introduced a uniform program for variable salary for management and other key positions. Variable salary is based on a financial target for value creation as well as non-financial targets. Each job level is linked to a target and a stretch level for variable salary, and the program is capped.

In 2004, Electrolux introduced a new long-term performance share program that replaced the option program for less than 200 senior managers of the Group. The performance share program is linked to targets for the Group's value creation over a three-year period.

The vesting and exercise rights of the option programs launched up till 2003 will continue as scheduled.

### Terms of employment for the President and CEO

The compensation package for the President comprises fixed salary, variable salary based on annual targets, a long-term performance share program and other benefits such as pensions and insurance.

Base salary is revised annually per January 1. The annualized base salary for 2006, was SEK 8,300,000 (7,850,000), corresponding to an increase of 5.73% in 2006. Salary increased with 3.3% in 2005.

The variable salary is based on an annual target for value created within the Group. The variable salary is 70% of the annual base salary at target level, and capped at 110%. Variable salary earned in 2006 was SEK 5,303,490 (6,594,381).

The President participates in the Group's long-term performance programs, that comprise the new performance share program introduced in 2004, as well as previous option programs. For more information on these programs, see Note 22 on page 92.

The notice period for the company is 12 months, and for the President six months. There is no agreement for special severance compensation. The President is not eligible for fringe benefits such as a company car or housing.

### Pensions for the President and CEO

The President is covered by the Group's pension policy. Retirement age for the President is 60.

The President is covered by an alternative ITP plan that is a defined contribution plan in which the contribution increases with age. In addition, he is covered by two supplementary defined contribution plans. Pensionable salary is calculated as the current fixed salary including vacation pay plus the average actual variable salary for the last three years. The pension costs in 2006 amount to SEK 4,989,958 (5,000,801). The cost amounts to 41.1% of pensionable salary.

The retirement benefit in the supplementary plans is payable for life or a shorter period of not less than five years. The President determines the payment period at the time of retirement.

The company will finalize outstanding payments to the alternative ITP plan and one of the supplementary plans, provided that the President retains his position until age 60.

In addition to the retirement contribution, Electrolux provides disability benefits equal to 70% of pensionable salary, including credit for other disability benefits, plus survivor benefits. The survivor benefits equal the accumulated capital for old age or are not less than 250 (250) Swedish income base amounts, as defined by the Swedish National Insurance Act. The survivor benefit is payable over a minimum five-year period.

The capital value of pension commitments for the current President, prior Presidents, and survivors is SEK 131m (126). In addition, there are commitments regarding death and disability benefit of SEK 3m (3).

### Share-based compensation for the President and other members of Group Management

Over the years, Electrolux has implemented several long-term share based programs (LTI) for senior managers. These programs are intended to attract, motivate and retain the participating managers by providing long-term incentives through benefits linked to the company's share price. They have been designed to align management long-term performance programs with shareholder interests. A detailed presentation of the different programs is given in Note 22 on page 92.

### Options provided to Group Management

	Number of options			End of 2006
	Beginning of 2006	Expired <sup>1)</sup>	Exercised	
President and CEO	163,000	—	43,000	120,000
Other members of Group Management	701,000	10,000	415,277	275,723
<b>Total</b>	<b>864,000</b>	<b>10,000</b>	<b>458,277</b>	<b>395,723</b>

1) Options distributed for the 2000 stock option program expired on February 26, 2006.

### Number of shares offered to Group Management on target performance

	2006	2005	2004	2006	2005	2004
	Target number of B-shares <sup>1)</sup>	Target number of B-shares <sup>1)</sup>	Target number of B-shares <sup>1)</sup>	Target value, SEK	Target value, SEK	Target value SEK
President and CEO	24,057	32,820	32,993	2,400,000	2,400,000	2,400,000
Other members of Group Management	12,030	16,410	16,497	1,200,000	1,200,000	1,200,000

1) Each target value is subsequently converted into a number of shares. The number of shares is based on a share price of SEK 131.67 for 2004, SEK 132.36 for 2005 and SEK 180.58 for 2006, calculated as the average closing price of the Electrolux B-share on the Stockholm Stock Exchange during a period of ten trading days before the day participants were invited to participate in the program, adjusted for net present value of dividends for the period until shares are allocated. The weighted average fair value of shares for 2004, 2005 and 2006 programs is SEK 145. The target number of B-shares has been adjusted with a multiplier of 1.81 after a re-calculation of the performance share programs in accordance with the plan document due to the spin-off of Husqvarna.

### Compensation for other members of Group Management

Like the President, other members of Group Management receive a compensation package that comprises fixed salary, variable salary based on annual targets, long-term performance share programs and other benefits such as pensions and insurance.

Base salary is revised annually per January 1. The average base salary increase in 2006 was 5,1% and 13,8% with promotions included.

Variable salary for sector heads in 2006 is based on both financial and non-financial targets. The financial targets comprise the value created on sector and Group level. The non-financial targets are focused on product management, value market share and succession planning.

The target for variable salary for European-based sector heads is 50% of annual base salary. The stretch level is 100%, which is

also the cap. Corresponding figures for the US-based sector head are 100% and 150%.

Group staff heads receive variable salary based on value created for the Group and on performance objectives within their functions. The target variable salary is 40–45% of annual base salary. The stretch level is 80–90%, which is also the cap.

In addition, one of the members of Group Management is covered by contracts that entitles to variable compensation based on achieved financial targets during the years 2005–2007 and 2006–2008. The compensation is paid provided the individual is employed until the end of 2007 and 2008, respectively.

The members of Group Management participate in the Group's long-term performance programs. These programs comprise the new performance share program introduced in 2004 as well as previous option programs. For more information on these programs, see below.

By the end of 2006 there was no agreement for special severance compensation.

The Swedish members of Group Management are not eligible for fringe benefits such as company cars. For members of Group Management employed outside of Sweden, varying fringe benefits and conditions may apply, depending upon the country of employment.

### Pensions for other members of Group Management

The members of Group Management are covered by the Group's pension policy.

The retirement age is 65 for one Swedish member of Group Management, and 60 for the others. Swedish members of Group Management are covered by the ITP plan or the Alternative ITP plan, as well as a supplementary plan.

The retirement benefit from the supplementary plan is payable for life or a shorter period of not less than five years. The participant determines the payment period at the time of retirement.

For members of Group Management employed outside of Sweden, varying pension terms and conditions apply, depending upon the country of employment. The retirement age is 65.

The alternative ITP plan is a defined contribution plan where the contribution increases with age. The contribution is between 20% and 41.1% of pensionable salary, between 7.5 and 30 income base amounts. The pensionable salary is calculated as

the current fixed salary including vacation pay plus the average variable salary for the last three years.

The Swedish members are also covered by a supplementary defined contribution plan. In 2004, the plan was revised retroactively from 2002. Following the revision, the premiums amount to 35% of the pensionable salary. In addition, four members are covered by individual additional contributions as a consequence of the switch of plans in 2001. In addition to the retirement contribution, Electrolux provides disability benefits equal to 70% of pensionable salary including credit for other disability benefits, plus survivor benefits. The survivors benefits equal the accumulated capital for old age or are not less than 250 (250) Swedish income base amounts as defined by the Swedish National Insurance Act. The survivor benefit is payable over a minimum five-year period.

One Swedish member of Group Management has chosen to retain a defined benefit pension plan in addition to the ITP-plan. The retirement age is 65 and the retirement benefit is payable for life. Full retirement benefit equals to 32.5% of the portion of pensionable salary between 20 and 30 income base amounts as defined by the Swedish National Insurance Act, 50% of the portion between 30 and 100 income base amounts, and 32.5% of the portion exceeding 100 income base amounts.

In addition, Electrolux provides disability benefits and survivor benefits.

### Summary of compensation to Group Management

		2006					2005				
		Annual fixed salary	Variable salary earned 2006 <sup>3)</sup>	Total salary	Long-term PSP (value awarded)	Total Pension cost	Annual fixed salary	Variable salary earned 2005 <sup>3)</sup>	Total salary	Long-term PSP (value awarded)	Total Pension cost
'000 SEK unless otherwise stated											
President and CEO	<b>Contractual</b> <sup>1)</sup>	<b>8,300</b>	<b>5,810</b>	<b>14,110</b>	<b>2,400</b>	<b>5,816</b>	<b>7,850</b>	<b>5,495</b>	<b>13,345</b>	<b>2,400</b>	<b>5,617</b>
	Actual <sup>1)</sup>	8,718 <sup>2)</sup>	5,303	14,021	—	4,990	8,447 <sup>2)</sup>	6,594	15,041	—	5,001
Other members of Group Management <sup>4)</sup>	<b>Contractual</b> <sup>1)</sup>	<b>30,193</b>	<b>18,165</b> <sup>5)</sup>	<b>48,358</b>	<b>9,385</b>	<b>20,570</b>	<b>31,062</b>	<b>19,845</b> <sup>5)</sup>	<b>50,907</b>	<b>10,800</b>	<b>20,879</b>
	Actual <sup>1)</sup>	28,723 <sup>2)</sup>	14,932 <sup>5)</sup>	43,655	—	18,539	33,228 <sup>2)</sup>	25,821 <sup>5)</sup>	59,049	—	21,425
<b>Total</b>	<b>Contractual</b> <sup>1)</sup>	<b>38,493</b>	<b>23,975</b>	<b>62,468</b>	<b>11,785</b>	<b>26,386</b>	<b>38,912</b>	<b>25,340</b>	<b>64,252</b>	<b>13,200</b>	<b>26,496</b>
	Actual <sup>1)</sup>	37,441 <sup>2)</sup>	20,235	57,676	—	23,529	41,675 <sup>2)</sup>	32,415	74,090	—	26,426

1) Contractual numbers reflect target performance on variable compensation components.

2) Including vacation salary, paid vacation days and travel allowance.

3) The actual variable salary for 2006 is set in early 2007 and may differ from the expensed amount.

4) In 2006, other members of Group Management comprised of 9 people up to June 13, 8 people up to October 13, 2006 and 7 people up to December 13 when the Group again comprised of 8 members. In 2005, other members of Group Management comprised of 9 people.

5) Includes contractual "sign-on" bonus.

## Note 28 Fees to auditors

PricewaterhouseCoopers (PwC) are appointed auditors for the period until the 2010 Annual General Meeting.

	Group		Parent Company	
	2006	2005 <sup>1)</sup>	2006	2005
<b>PwC</b>				
Audit fees <sup>2)</sup>	86	49	15	6
Audit-related fees <sup>3)</sup>	4	3	4	6
Tax fees <sup>4)</sup>	6	9	2	6
All other fees	—	2	—	—
<b>Total fees to PwC</b>	<b>96</b>	<b>63</b>	<b>21</b>	<b>18</b>
Audit fees to other audit firms	2	7	—	—
<b>Total fees to auditors</b>	<b>98</b>	<b>70</b>	<b>21</b>	<b>18</b>

1) Including audit fees relating to the Outdoor operations.

2) Audit fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditors reasonably can provide, and include the Company audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

3) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditors, and include consultations concerning financial accounting and reporting standards; internal control reviews; and employee benefit plan audits.

4) Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations; tax advice related to mergers and acquisitions; transfer pricing; requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax planning and services.

## Note 29 Shares and participations

### Participation in associated companies

	2006	2005
<b>Opening balance, January 1</b>	<b>124</b>	<b>196</b>
Acquisitions	—	—
Operating result	5	4
Dividend	-13	-3
Tax	—	-1
Divestment	-16	-77
Discontinued operations	-9	—
Other	—	—
Exchange difference	-11	5
<b>Closing balance, December 31</b>	<b>80</b>	<b>124</b>

In the item Participation in associated companies is at December 31, 2006, goodwill included with the amount of SEK 2m (5).

The Group's share of the associated companies, which all, except for Atlas Eléctrica, Costa Rica, are unlisted, were at December 31, 2005, as follows:

### Associated companies

	2005									
	Participation, %	Carrying amount	Relation to the Electrolux Group <sup>1)</sup>				Income statement		Balance sheet	
Receivables			Liabilities	Sales	Purchases	Income	Net results	Total assets	Total liabilities	
Atlas Eléctrica, Costa Rica	18.9	50	—	1	—	6	687	22	589	328
Nordwaggon, Sweden	50.0	22	—	11	—	72	408	-29	1,519	1,475
Sidème, France	39.3	16	—	79	—	207	528	—	215	179
Viking Financial Services, USA	50.0	27	7	—	—	—	33	21	99	45
Other	—	9	4	4	6	34	60	6	27	15
<b>Total</b>	<b>—</b>	<b>124</b>	<b>11</b>	<b>95</b>	<b>6</b>	<b>319</b>	<b>1,716</b>	<b>20</b>	<b>2,449</b>	<b>2,042</b>

1) Seen from Electrolux perspective.

Included in Other are: Diamant Boart, Argentina; A/O Khimki, Russia; Diamant Boart, the Philippines; Manson Tools, Sweden; and e2 Home, Sweden.

The Group's share of the associated companies, which all, except for Atlas Eléctrica, Costa Rica, are unlisted, were at December 31, 2006, as follows:

	2006									
	Participation, %	Carrying amount	Relation to the Electrolux Group <sup>1)</sup>				Income statement		Balance sheet	
Receivables			Liabilities	Sales	Purchases	Income	Net results	Total assets	Total liabilities	
Atlas Eléctrica, Costa Rica	18.9	47	—	2	—	12	826	40	566	367
Sidème, France	39.3	16	75	1	304	2	642	2	200	165
Viking Financial Services, USA	50.0	15	—	—	—	—	6	2	36	6
European Recycling Platform, ERP, France	25.0	2	1	49	—	11	24	8	11	2
e2 Home, Sweden	50.0	—	—	—	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>80</b>	<b>76</b>	<b>52</b>	<b>304</b>	<b>25</b>	<b>1,498</b>	<b>52</b>	<b>813</b>	<b>540</b>

1) Seen from Electrolux perspective.

Market value for Atlas Eléctrica is according to stock-market rate at December 31, 2006, about SEK 57m (28). Although the participation in Atlas Eléctrica is only 18.9% it is still included amongst associated companies since Electrolux has a significant influence in the company by having two members of the Board

### Other companies

	Holding, %	Carrying amount, SEKm
Videcon Industries Ltd., India	4.6	238
Banca Popolare Friuladria S.p.A., Italy	0,0	3
Business Partners B.V., The Netherlands	0.7	3
Other	—	7
<b>Total</b>		<b>251</b>

<b>Subsidiaries</b>		Holding, %
<b>Major Group companies</b>		
Australia	Electrolux Home Products Pty. Ltd	100
Austria	Electrolux Hausgeräte G.m.b.H.	100
	Electrolux Austria G.m.b.H.	100
Belgium	Electrolux Home Products Corp. N.V.	100
	Electrolux Belgium N.V.	100
Brazil	Electrolux do Brasil S.A.	100
Canada	Electrolux Canada Corp.	100
China	Electrolux Home Appliances (Hangzhou) Co. Ltd	100
	Electrolux (China) Home Appliance Co. Ltd	100
	Electrolux (Changsha) Appliance Co. Ltd	100
Denmark	Electrolux Home Products Denmark A/S	100
Finland	Oy Electrolux Ab Electrolux Kotitalouskoneet	100
France	Electrolux France SAS	100
	Electrolux Home Products France SAS	100
	Electrolux Professionnel SAS	100
Germany	Electrolux Deutschland GmbH	100
	AEG Hausgeräte GmbH	100
Hungary	Electrolux Lehel Hűtőgépgyár Kft	100
Italy	Electrolux Zanussi Italia S.p.A.	100
	Electrolux Professional S.p.A.	100
	Electrolux Italia S.p.A.	100
	Electrolux Home Products Italy S.p.A.	100
Luxembourg	Electrolux Luxembourg S.à r.l.	100
Mexico	Electrolux de Mexico, S.A. de CV	100
The Netherlands	Electrolux Associated Company B.V.	100
	Electrolux Home Products (Nederland) B.V.	100
Norway	Electrolux Home Products Norway AS	100
Poland	Electrolux Poland Spolka Z.o.o.	100
Spain	Electrolux Home Products España S.A.	100
	Electrolux Home Products Operations España S.L.	100
Sweden	Electrolux Laundry Systems Sweden AB	100
	Electrolux HemProdukter AB	100
	Electrolux Professional AB	100
	Electrolux Floor Care and Light Appliances AB	100
Switzerland	Electrolux AG	100
United Kingdom	Electrolux Plc	100
	Electrolux Professional Ltd	100
US	Electrolux Home Products Inc.	100
	Electrolux Holdings Inc.	100
	Electrolux Professional Inc.	100

A detailed specification of Group companies has been submitted to the Swedish Companies Registration Office and is available on request from AB Electrolux, Investor Relations, and Financial Information.

## Note 30 Discontinued Operations

The Outdoor Products operations of the Group were distributed to the Electrolux shareholders in June, 2006 under the name of Husqvarna AB. Before September 2005, Husqvarna AB did not legally own any of the subsidiaries within the Outdoor Products segment. During the period September 2005 to May 2006 the Outdoor Products operations were transferred to Husqvarna AB at book values. The Outdoor Products operations have been consolidated in the Electrolux Group accounts up to May 31, 2006.

In accordance with IFRS 5, "Non-current Assets held for sale and Discontinued Operations", the net results for the distributed Outdoor Products operations are reported in the Group's income statement under the item "Income for the period from discontinued operations". This means that the figures for the former Outdoor Products operations are excluded from the sales and expenses reported in the income statement for the current period and for the corresponding period in 2005. Similarly, Outdoor Products operations are reported in the cash-flow statement under "Cash flow from discontinued operations" whereas the comparative balance sheet as of December 31, 2005 comprises the original figures, including Outdoor Products operations.

In addition so called combined financial statements have been prepared for the Outdoor Products operations presented below which represent the financial position and results of operations and cash flows of Husqvarna AB and its subsidiaries and other entities included in the Outdoor segment within the Electrolux Group, including assets, liabilities, revenues and costs of doing business in the past, even if the amounts were not historically allocated to the Outdoor Products operations or do not appear in the historical financial statements of Husqvarna AB and its subsidiaries. The combined financial statements have been prepared as if the Outdoor Products operations were formed as of January 1, 2004. The results and net assets of the entities within the Outdoor Products operations, as well as related share capital and provisions are aggregated.

In the preparation of the combined financial statements for the Outdoor Products operations, a number of allocations and other assumptions, have been made, which management believes are reasonable. However, these allocations and other assumptions are not necessarily indicative of the costs and expenses that would have resulted if the Outdoor Products operations had been operating as a separate entity. The following describes the most significant allocations and assumptions when preparing the combined financial statements for the Outdoor Products operations 2005 and for the period January—May 2006:

- Allocations of certain group common services provided by Electrolux including financial, legal, human resources and other support functions. The allocations have primarily been made based on percentage of revenue or employees, which management believes represent a reasonable allocation methodology.
- The risk management activities of Electrolux including the captive solutions for insurance have not been allocated to Outdoor Products operations since the Outdoor Products operations have been charged with insurance premiums which are deemed to be at arms-length.
- Employees working within the Outdoor Products operations, participated in various Electrolux Group pension, health-care, defined contribution, other benefit plans and incentive programs. The pro-rata costs, based on the identified number of Outdoor Products operations employees related to these plans, have been allocated and are included in the combined financial statements.
- Since the Electrolux Group does not allocate liquid funds, loans and equity on divisions, assumptions regarding the capitalization of the Outdoor Products operations that are not separate legal units have to be made. In preparing the combined financial statements, minor divisions were assumed to be financed by loans. Major divisions were assumed to be capitalized according to the debt/equity ratio in the respective legal unit where they belonged. Interest has been charged to the finance net, taking into account the varying need for capital during the year by using average net assets.
- Derivative contracts with Electrolux Group Treasury, made by the Outdoor Products operations, relating to hedging of transaction exposure, have been treated as external in the combined financial statements and have been marked-to-market as from January 1, 2005. Hedge accounting has been applied since the Electrolux Group has applied hedge accounting for these contracts.
- Taxes have been calculated using the tax rate of the respective countries.

**The combined income statements prepared for the Outdoor Products operations**

	January–May 2006	January–December 2005
<b>Net sales</b>	<b>16,988</b>	<b>28,768</b>
Cost of goods sold	-12,890	-21,128
<b>Gross operating income</b>	<b>4,098</b>	<b>7,640</b>
Selling expenses	-1,787	-3,663
Administrative expenses	-411	-1,094
Other operating income	5	18
Other operating expenses	—	-3
<b>Operating income</b>	<b>1,905</b>	<b>2,898</b>
Financial income	25	15
Financial expenses	-189	-192
<b>Financial items, net</b>	<b>-164</b>	<b>-177</b>
<b>Income after financial items</b>	<b>1,741</b>	<b>2,721</b>
Taxes	-542	-816
<b>Income for the period</b>	<b>1,199</b>	<b>1,905</b>

**Earnings per share for discontinued operations, SEK** Note 20

Basic	4.15	6.54
Diluted	4.13	6.50

**Average number of shares, million** Note 20

Basic	288.8	291.4
Diluted	289.8	293.2

## Note 31 Definitions

### Capital indicators

#### Annualized net sales

In computation of key ratios where capital is related to net sales, the latter are annualized and converted at year-end exchange rates and adjusted for acquired and divested operations.

#### Net assets

Total assets exclusive of liquid funds and interest-bearing financial receivables less operating liabilities, non-interest-bearing provisions and deferred tax liabilities.

#### Working capital

Current assets exclusive of liquid funds and interest-bearing financial receivables less operating liabilities and non-interest-bearing provisions.

#### Liquid funds

Liquid funds consist of cash on hand, bank deposits, fair-value derivatives, prepaid interest expenses and accrued interest income and other short-term investments, of which the majority has original maturity of three months or less.

#### Interest-bearing liabilities

Interest-bearing liabilities consist of short- and long-term borrowings. Please refer to Note 17.

#### Total borrowings

Total borrowings consist of interest-bearing liabilities, fair-value derivatives, accrued interest expenses and prepaid interest income, and trade receivables with recourse.

#### Net liquidity

Liquid funds less short-term borrowings, fair-value derivatives, accrued interest expense and prepaid interest income and trade receivables with recourse. Please refer to Note 17.

#### Net borrowings

Total borrowings less liquid funds.

#### Net debt/equity ratio

Net borrowings in relation to equity.

#### Equity/assets ratio

Equity as a percentage of total assets less liquid funds.

### Earnings per share

#### Earnings per share

Profit for the period divided by the average number of shares after buy-backs.

### Other key ratios

#### Organic growth

Sales growth, adjusted for acquisitions, divestments and changes in exchange rates.

#### EBITDA margin

Operating income before depreciation and amortization expressed as a percentage of net sales.

#### Operating cash flow

Total cash flow from operations and investments, excluding acquisitions and divestment of operations.

#### Operating margin

Profit for the period expressed as a percentage of net sales.

#### Return on equity

Net income expressed as a percentage of average equity.

#### Return on net assets

Operating income expressed as a percentage of average net assets.

#### Interest coverage ratio

Operating income plus interest income in relation to total interest expense.

#### Capital turnover rate

Net sales divided by average net assets.

#### Value creation

Value creation is the primary financial performance indicator for measuring and evaluating financial performance within the Group. The model links operating income and asset efficiency with the cost of the capital employed in operations. The model measures and evaluates profitability by region, business area, product line, or operation.

Value created is measured excluding items affecting comparability and defined as operating income less the weighted average cost of capital (WACC) on average net assets during a specific period. The cost of capital varies between different countries and business units due to country-specific factors such as interest rates, risk premiums, and tax rates.

A higher return on net assets than the weighted average cost of capital implies that the Group or the unit creates value.

#### Electrolux Value Creation model

Net sales

– Cost of goods sold

– Selling and administration expenses

+/- Other operating income and expenses

= Operating income, EBIT <sup>1)</sup>

– WACC x Average net assets <sup>1)</sup>

= Value creation

EBIT = Earnings before interest and taxes, excluding items affecting comparability.

WACC = Weighted Average Cost of Capital. The WACC rate before tax for 2006 is calculated at 11% compared to 12% for 2005 and 2004 and 13% for 2003.

<sup>1)</sup> Excluding items affecting comparability.

# Proposed distribution of earnings

	Thousands of kronor
The Board of Directors and the President propose that net income for the year and retained earnings <sup>1)</sup>	10,767,510
<b>Total</b>	<b>8,668,516</b>
be distributed as follows:	
A dividend to the shareholders of SEK 4.00 per share <sup>2)</sup> , totaling	1,119,854
To be carried forward	7,548,662
<b>Total</b>	<b>8,668,516</b>

1) After share redemption in late January of SEK 5,579,000 thousand.

2) Calculated on the number of outstanding shares as per February 28, 2007. Currently, the company holds 28,956,923 shares as treasury shares. Based on the resolution adopted by the Annual General Meeting in April 2006, a maximum of 1,935,108 additional shares may be repurchased prior to the Annual General Meeting in April 2007, thereby decreasing the total dividend payment. The number of repurchased shares may decrease if employees exercise their options, which would increase the total dividend payment. The Board of Directors and the President propose April 19, 2007 as record day for the right to dividend.

The Board of Directors has proposed that the Annual General Meeting 2007 resolves on an appropriation of profits involving a dividend to the shareholders of SEK 4.00 per share. With reference to, the Board of Directors' proposed distribution of earnings above, the Board of Directors hereby makes the following statement according to Chapter 18 Section 4 of the Swedish Companies Act (2005:551).

The retained earnings from the previous years amount to SEK -2,098,994 thousand and the net income for the year amounts to SEK 10,767,510 thousand. Provided that the Annual General Meeting 2007 resolves to allocate the results in accordance with the Board of Directors' proposal, SEK 7,548,662 thousand will be carried forward. After distribution of the proposed dividend, there will be full coverage for the restricted equity of the Company.

It is the Board of Directors' assessment that after distribution of the proposed dividend, the equity of the Company and the Group will be sufficient with respect to the kind, extent, and risks of the operations. The Board of Directors has hereby considered, among other things, the Company's and the Group's historical development, the budgeted development and the state of the market. If financial instruments currently valued at actual value in accordance with Chapter 4 Section 14 a of the Swedish Annual Accounts Act (1995:1554) instead had been valued according to the lower of cost or net realizable value, the equity of the company would decrease by SEK 29,245 thousand.

The Board of Directors has made an assessment of the financial position of the Company and the Group as well as the possibilities of the Company and the Group to comply with its obligations in a short term and long-term perspective. After the dividend, the debt/equity ratio of the Company and the Group is assessed to continue to be high in relation to the industry in which the Group is operating.

The proposed dividend will not affect the ability of the Company and the Group to comply with its payment obligations. The company and the Group has sufficient access to long-term, as well as short-term, credit facilities, which can be used by short notice. The Board of Directors therefore finds that the Company

and the Group are well prepared to handle any changes in respect of liquidity, as well as unexpected events.

The Board of Directors is of the opinion that the Company and the Group have the ability to take future business risks and also cope with potential losses. The proposed dividend will not negatively affect the Company's and the Group's ability to make further commercially motivated investments in accordance with the strategy of the Board of Directors.

The Board of Directors and the President and CEO declare that, to the best of our knowledge, the annual report is prepared in accordance with generally accepted accounting principles for stock market companies, that the information contained in the annual report is in accordance with factual circumstances and that it contains no omission likely to affect the representation of the Company which is established by the annual report.

Stockholm, March 5, 2007

Michael Treschow  
*Chairman of the Board of Directors*

Peggy Bruzelius  
*Vice Chairman of the Board of Directors*

Louis R. Hughes

Caroline Sundewall

Barbara Milian Thoralfsson

Marcus Wallenberg

Ola Bertilsson

Gunilla Brandt

Ulf Carlsson

Hans Stråberg  
*President and CEO*



# Audit report

## TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF

### **AB Electrolux publ.**

#### **Corporate identity number 556009-4178**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Electrolux for the year 2006. The company's annual accounts are included in the printed version on pages 51-108. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the

annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

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

Stockholm, March 9, 2007  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Authorized Public Accountant*  
*Partner in charge*

Dennis Svensson  
*Authorized Public Accountant*

# Eleven-year review

The information below for 2006 and 2005 in the two first columns, refers to continuing operations exclusive of outdoor operations, Husqvarna, which was distributed to the Electrolux shareholders in June 2006.

Amounts in SEKm unless otherwise stated	2006 <sup>1)</sup>	2005 <sup>1)</sup>	2005	2004	2003
<b>Net sales and income</b>					
Net sales, %	103,848	100,701	129,469	120,651	124,077
Organic growth, %	3.3	4.5	4.3	3.2	3.3
Depreciation and amortization	2,758	2,583	3,410	3,038	3,353
Items affecting comparability	-542	-2,980	-3,020	-1,960	-463
Operating income	4,033	1,044	3,942	4,807	7,175
Income after financial items	3,825	494	3,215	4,452	7,006
Income for the period	2,648	-142	1,763	3,259	4,778
<b>Cash flow</b>					
EBITDA <sup>2)</sup>	7,333	6,607	10,372	9,805	10,991
Cash flow from operations excluding change in operating assets and liabilities	5,263	5,266	8,428	7,140	7,150
Changes in operating assets and liabilities	-703	-1 804	-1 888	1 442	-857
Cash flow from operations	4,560	3,462	6,540	8,582	6,293
Cash flow from investments	-2,386	-4,485	-5,827	-5,358	-2,570
of which capital expenditures	-3,152	-3,654	-4,765	-4,515	-3,463
Cash flow from operations and investments	2,174	-1,023	713	3,224	3,723
Operating cash flow	1,110	-653	1,083	3,224	2,866
Dividend and repurchase of shares	-4,416	-2,038	-2,038	-5,147	-3,563
Capital expenditure as % of net sales	3.0	3.6	3.7	3.7	2.8
<b>Margins <sup>2)</sup></b>					
Operating margin, %	4.4	4.0	5.4	5.6	6.2
Income after financial items as % of net sales	4.2	3.4	4.8	5.3	6.0
EBITDA margin, %	7.1	6.6	8.0	8.1	8.9
<b>Financial position</b>					
Total assets	66,049		82,558	75,096	77,028
Net assets	18,140	17,942	28,165	23,988	26,422
Working capital	-2,613	-3,799	-31	-383	4,068
Trade receivables	20,905	20,944	24,269	20,627	21,172
Inventories	12,041	12,342	18,606	15,742	14,945
Accounts payable	15,320	14,576	18,798	16,550	14,857
Equity	13,194		25,888	23,636	27,462
Interest-bearing liabilities	7,495		8,914	9,843	12,501
<b>Data per share, SEK</b>					
Income for the period	9.17	-0.49	6.05	10.92	15.25
Equity	47		88	81	89
Dividend <sup>3)</sup>	4.00	7.50	7.50	7.00	6.50
Trading price of B-shares at year-end	137.00		206.50	152.00	158.00
<b>Key ratios</b>					
Value creation	2,202	1,305	2,913	3,054	3,449
Return on equity,%	18.7		7.0	13.1	17.3
Return on net assets,%	23.2	5.4	13.0	17.5	23.9
Net assets as % of net sales <sup>4)</sup>	16.5	15.7	21.0	21.2	23.6
Trade receivables as % of net sales <sup>4)</sup>	19.1	18.3	18.1	18.2	18.9
Inventories as % of net sales <sup>4)</sup>	11.0	10.8	13.9	13.9	13.4
Net debt/equity ratio	-0.02		0.11	0.05	0.00
Interest coverage ratio	6.13		4.32	5.75	8.28
Dividend as % of equity	8.5		8.5	8.6	7.3
<b>Other data</b>					
Average number of employees	55,471	57,842	69,523	72,382	77,140
Salaries and remuneration	12,849	13,987	17,033	17,014	17,154
Number of shareholders	59,500	60,900	60,900	63,800	60,400
Average number of shares after buy-backs	288.8	291.4	291.4	298.3	313.3
Shares at year end after buy-backs	278.9	293.1	293.1	291.2	307.1

1) Continuing operations.

2) As of 1997, items affecting comparability are excluded.

3) 2006: Proposed by the Board.

4) Net sales are annualized.

2002	2001	2000	1999	1998	1997	1996	Compound annual growth rate, %	
							5 years	10 years
133,150	135,803	124,493	119,550	117,524	113,000	110,000	-5.2	-0.6
5.5	-2.4	3.7	4.1	4.0	5.0	-3.0		
3,854	4,277	3,810	3,905	4,125	4,255	4,438		
-434	-141	-448	-216	964	-1 896			
7,731	6,281	7,602	7,204	7,028	2,654	4,448	-8.5	-1.0
7,545	5,215	6,530	6,142	5,850	1,232	3,250	-6.0	1.6
5,095	3,870	4,457	4,175	3,975	352	1,850	-7.3	3.7
12,019	10,699	11,860	11,325	10,189	8,805	8,886	-7.3	-1.9
9,051	5,848	8,639	7,595	5,754	4,718	6,174	-2.1	-1.6
1,854	3,634	-2,540	1,065	-1,056	584	-2,198		
10,905	9,482	6,099	8,660	4,698	5,302	3,976	-13.6	1.4
-1,011	1,213	-3,367	-3,137	-776	-4,344	-4,767		
-3,335	-4,195	-4,423	-4,439	-3,756	-4,329	-4,807	-5.6	-4.1
9,894	10,695	2,732	5,523	3,922	958	-791		
7,665	5,834	2,552	3,821	1,817	865	842	-28.2	2.8
-3,186	-3,117	-4,475	-1,099	-915	-915	-915	7.2	17.0
2.5	3.1	3.6	3.7	3.2	3.8	4.4		
6.1	4.7	6.5	6.2	5.2	4.0	4.0		
6.0	3.9	5.6	5.3	4.2	2.8	3.0		
9.0	7.9	9.5	9.5	8.7	7.8	8.1		
85,424	94,447	87,289	81,644	83,289	79,640	85,169	-6.9	-2.5
27,916	37,162	39,026	36,121	39,986	38,740	41,306	-13.4	-7.9
2,216	6,659	9,368	8,070	12,101	10,960	12,360		
22,484	24,189	23,214	21,513	21,859	21,184	20,494	-2.9	0.2
15,614	17,001	16,880	16,549	17,325	16,454	17,334	-6.7	-3.6
16,223	17,304	12,975	11,132	10,476	9,879	9,422	-2.4	5.0
27,629	28,864	26,324	25,781	24,480	20,565	22,428	-14.5	-5.2
15,698	23,183	25,398	23,735	29,353	29,993	32,954	-20.2	-13.8
15.58	11.35	12.40	11.40	10.85	0.95	5.05	-4.2	6.1
87	88	77	70	67	56	61	-11.8	-2.6
6.00	4.50	4.00	3.50	3.00	2.50	2.50	-2.3	4.8
137.50	156.50	122.50	214.00	139.50	110.20	79.20	-2.6	5.6
3,461	262	2,423	1,782	437				
17.2	13.2	17.0	17.1	18.2	1.7	8.5		
22.1	15.0	19.6	18.3	17.5	6.4	10.9		
23.1	29.3	30.4	30.6	33.3	34.0	36.9		
18.6	19.1	18.1	18.2	18.2	18.6	18.3		
12.9	13.4	13.1	14.0	14.4	14.4	15.5		
0.05	0.37	0.63	0.50	0.71	0.94	0.80		
7.66	3.80	4.34	4.55	3.46	1.42	2.26		
6.9	5.1	5.2	5.0	4.5	4.4	4.1		
81,971	87,139	87,128	92,916	99,322	105,950	112,140	-8.6	-6.8
19,408	20,330	17,241	17,812	18,506	19,883	20,249	-8.8	-4.4
59,300	58,600	61,400	52,600	50,500	45,660	48,300	0.3	2.1
327.1	340.1	359.1						
318.3	329.6	341.1						

# Quarterly information

## NET SALES AND INCOME

Amounts in SEKm unless otherwise stated		Q1	Q2	Q3	Q4	Full year
<b>Net sales</b>	<b>2006</b>	<b>24,553</b>	<b>25,322</b>	<b>26,087</b>	<b>27,886</b>	<b>103,848</b>
	2005	21,860	24,239	25,951	28,651	100,701
<b>Operating income</b>	<b>2006</b>	<b>455</b>	<b>862</b>	<b>685</b>	<b>2,031</b>	<b>4,033</b>
	<b>Margin, %</b>	<b>1.9</b>	<b>3.4</b>	<b>2.6</b>	<b>7.3</b>	<b>3.9</b>
	<b>2006 <sup>1)</sup></b>	<b>600</b>	<b>844</b>	<b>1,136</b>	<b>1,995</b>	<b>4,575</b>
	<b>Margin, %</b>	<b>2.4</b>	<b>3.3</b>	<b>4.4</b>	<b>7.2</b>	<b>4.4</b>
	2005	499	750	151	-356	1,044
	Margin, %	2.3	3.1	0.6	-1.2	1.0
	2005 <sup>1)</sup>	499	750	1,033	1,742	4,024
	Margin, %	2.3	3.1	4.0	6.1	4.0
<b>Income after financial items</b>	<b>2006</b>	<b>387</b>	<b>783</b>	<b>684</b>	<b>1,971</b>	<b>3,825</b>
	<b>Margin, %</b>	<b>1.6</b>	<b>3.1</b>	<b>2.6</b>	<b>7.1</b>	<b>3.7</b>
	<b>2006 <sup>1)</sup></b>	<b>532</b>	<b>765</b>	<b>1,135</b>	<b>1,935</b>	<b>4,367</b>
	<b>Margin, %</b>	<b>2.2</b>	<b>3.0</b>	<b>4.4</b>	<b>6.9</b>	<b>4.2</b>
	2005	436	610	-49	-503	494
	Margin, %	2.0	2.5	-0.2	-1.8	0.5
	2005 <sup>1)</sup>	436	610	833	1,595	3,474
	Margin, %	2.0	2.5	3.2	5.6	3.4
<b>Income for the period, continuing operations</b>	<b>2006</b>	<b>232</b>	<b>541</b>	<b>440</b>	<b>1,435</b>	<b>2,648</b>
	2005	312	436	-263	-627	-142
<b>Earnings per share, continuing operations<sup>2)</sup></b>	<b>2006</b>	<b>0.79</b>	<b>1.83</b>	<b>1.54</b>	<b>5.01</b>	<b>9.17</b>
	<b>2006 <sup>1)</sup></b>	<b>1.28</b>	<b>1.85</b>	<b>2.81</b>	<b>4.95</b>	<b>10.89</b>
	2005	1.07	1.50	-0.90	-2.16	-0.49
	2005 <sup>1)</sup>	1.07	1.50	2.04	4.58	9.19
<b>Value creation, continuing operations</b>	<b>2006</b>	<b>-23</b>	<b>256</b>	<b>565</b>	<b>1,404</b>	<b>2,202</b>
	2005	-108	69	308	1,036	1,305
<b>Income for the period</b>	<b>2006</b>	<b>807</b>	<b>1,165</b>	<b>440</b>	<b>1,435</b>	<b>3,847</b>
	2005	854	1,196	153	-440	1,763
<b>Earnings per share, SEK <sup>2)</sup></b>	<b>2006</b>	<b>2.78</b>	<b>3.95</b>	<b>1.54</b>	<b>5.05</b>	<b>13.32</b>
	<b>2006 <sup>1)</sup></b>	<b>3.27</b>	<b>3.97</b>	<b>2.81</b>	<b>4.99</b>	<b>15.04</b>
	2005	2.93	4.11	0.53	-1.52	6.05
	2005 <sup>1)</sup>	2.93	4.11	3.56	5.22	15.82

1) Excluding items affecting comparability.

2) Before dilution, based on average number of shares after buy-backs.

## NUMBER OF SHARES BEFORE DILUTION

<b>Number of shares after buy-backs, million</b>	<b>2006</b>	<b>295.6</b>	<b>290.3</b>	<b>281.8</b>	<b>278.9</b>	<b>278.9</b>
	2005	291.2	291.2	291.4	293.1	293.1
<b>Average number of shares after buy-backs, million</b>	<b>2006</b>	<b>294.0</b>	<b>295.0</b>	<b>291.6</b>	<b>280.4</b>	<b>288.8</b>
	2005	291.2	291.2	291.2	291.9	291.4

## ITEMS AFFECTING COMPARABILITY

<b>Restructuring provisions, write-downs and capital gains/losses</b>	<b>2006</b>	<b>-145</b>	<b>18</b>	<b>-451</b>	<b>36</b>	<b>-542</b>
	2005	—	—	-882	-2,098	-2,980

**NET SALES, BY BUSINESS AREA**

Amounts in SEKm unless otherwise stated		Q1	Q2	Q3	Q4	Full year
<b>Consumer Durables, Europe</b>	<b>2006</b>	<b>9,999</b>	<b>10,336</b>	<b>11,226</b>	<b>12,672</b>	<b>44,233</b>
	2005	9,931	10,116	11,206	12,502	43,755
<b>Consumer Durables, North America</b>	<b>2006</b>	<b>9,097</b>	<b>9,287</b>	<b>9,216</b>	<b>8,571</b>	<b>36,171</b>
	2005	7,173	8,478	9,553	9,930	35,134
<b>Consumer Durables, Latin America</b>	<b>2006</b>	<b>1,769</b>	<b>1,697</b>	<b>1,913</b>	<b>2,387</b>	<b>7,766</b>
	2005	1,198	1,423	1,381	1,817	5,819
<b>Consumer Durables, Asia/Pacific and Rest of the world</b>	<b>2006</b>	<b>2,094</b>	<b>2,196</b>	<b>2,101</b>	<b>2,245</b>	<b>8,636</b>
	2005	2,119	2,475	2,240	2,442	9,276
<b>Professional Products</b>	<b>2006</b>	<b>1,588</b>	<b>1,749</b>	<b>1,605</b>	<b>1,999</b>	<b>6,941</b>
	2005	1,431	1,739	1,563	1,953	6,686

**OPERATING INCOME, BY BUSINESS AREA**

Amounts in SEKm unless otherwise stated		Q1	Q2	Q3	Q4	Full year
<b>Consumer Durables, Europe</b>	<b>2006</b>	<b>405</b>	<b>376</b>	<b>672</b>	<b>1,225</b>	<b>2,678</b>
	<b>Margin, %</b>	<b>4.1</b>	<b>3.6</b>	<b>6.0</b>	<b>9.7</b>	<b>6.1</b>
	2005	416	486	714	986	2,602
	Margin, %	4.2	4.8	6.4	7.9	5.9
<b>Consumer Durables, North America</b>	<b>2006</b>	<b>213</b>	<b>383</b>	<b>333</b>	<b>533</b>	<b>1,462</b>
	<b>Margin, %</b>	<b>2.3</b>	<b>4.1</b>	<b>3.6</b>	<b>6.2</b>	<b>4.0</b>
	2005	168	350	290	636	1,444
	Margin, %	2.3	4.1	3.0	6.4	4.1
<b>Consumer Durables, Latin America</b>	<b>2006</b>	<b>77</b>	<b>76</b>	<b>83</b>	<b>103</b>	<b>339</b>
	<b>Margin, %</b>	<b>4.4</b>	<b>4.5</b>	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>
	2005	-4	-11	26	112	123
	Margin, %	-0.3	-0.8	1.9	6.2	2.1
<b>Consumer Durables, Asia/Pacific and Rest of the world</b>	<b>2006</b>	<b>-47</b>	<b>54</b>	<b>58</b>	<b>98</b>	<b>163</b>
	<b>Margin, %</b>	<b>-2.2</b>	<b>2.5</b>	<b>2.8</b>	<b>4.4</b>	<b>1.9</b>
	2005	-13	-16	0	42	13
	Margin, %	-0.6	-0.6	0.0	1.7	0.1
<b>Professional Products</b>	<b>2006</b>	<b>83</b>	<b>143</b>	<b>127</b>	<b>182</b>	<b>535</b>
	<b>Margin, %</b>	<b>5.2</b>	<b>8.2</b>	<b>7.9</b>	<b>9.1</b>	<b>7.7</b>
	2005	51	137	117	158	463
	Margin, %	3.6	7.9	7.5	8.1	6.9
<b>Common Group costs, etc.</b>	<b>2006</b>	<b>-131</b>	<b>-188</b>	<b>-137</b>	<b>-146</b>	<b>-602</b>
	2005	-119	-196	-114	-192	-621
<b>Total Group, excluding items affecting comparability</b>	<b>2006</b>	<b>600</b>	<b>844</b>	<b>1,136</b>	<b>1,995</b>	<b>4,575</b>
	<b>Margin, %</b>	<b>2.4</b>	<b>3.3</b>	<b>4.4</b>	<b>7.2</b>	<b>4.4</b>
	2005	499	750	1,033	1,742	4,024
	Margin, %	2.3	3.1	4.0	6.1	4.0
<b>Items affecting comparability</b>	<b>2006</b>	<b>-145</b>	<b>18</b>	<b>-451</b>	<b>36</b>	<b>-542</b>
	2005	0	0	-882	-2,098	-2,980
<b>Total Group, including items affecting comparability</b>	<b>2006</b>	<b>455</b>	<b>862</b>	<b>685</b>	<b>2,031</b>	<b>4,033</b>
	<b>Margin, %</b>	<b>1.9</b>	<b>3.4</b>	<b>2.6</b>	<b>7.3</b>	<b>3.9</b>
	2005	499	750	151	-356	1,044
	Margin, %	2.3	3.1	0.6	-1.2	1.0

# Corporate governance report 2006

The governance of Electrolux is based on the Swedish Companies Act, the regulatory system of the Stockholm Stock Exchange, including the Code of Corporate Governance (the “code”), as well as other relevant Swedish and foreign laws and regulations.

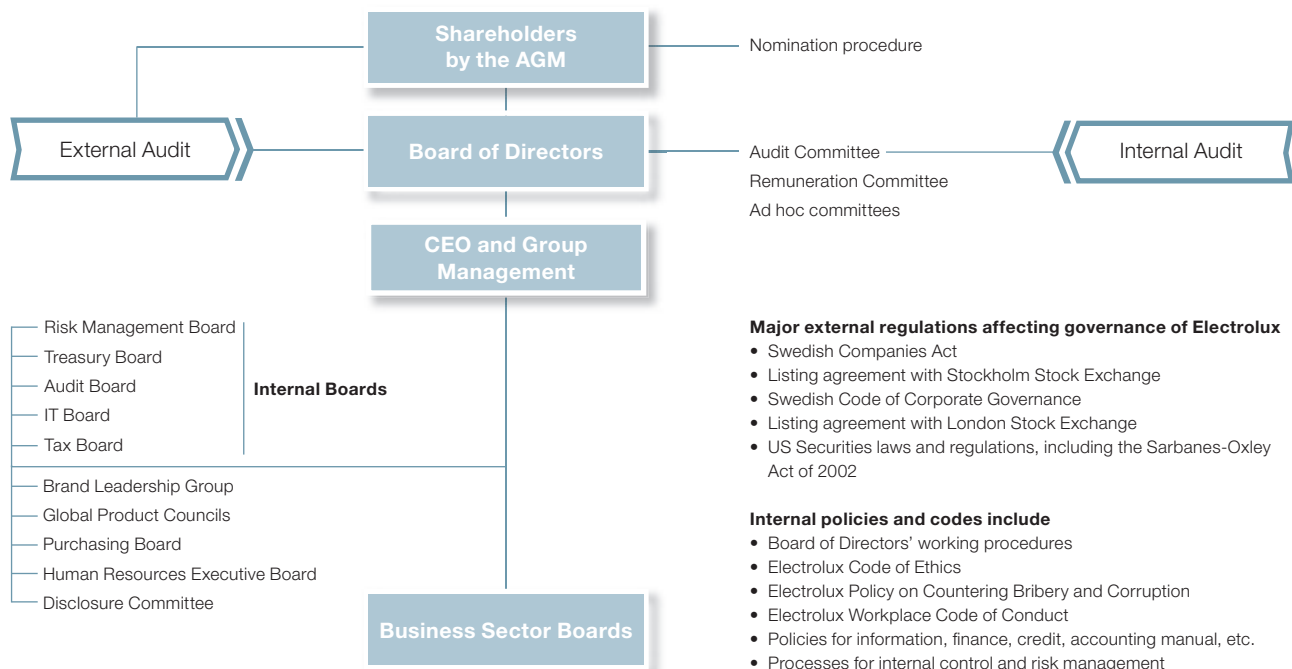
Electrolux applies the code. This corporate governance report is drawn up as a part of this application. The report has not been audited by the Group’s external auditor. Electrolux does not report any deviations from the code in 2006, except as regards the composition of the Board of Directors’ Remuneration Committee, see page 118 for more information.

As a result of the US Securities and Exchange Commission (SEC) registration of Electrolux B-shares in the form of American Depositary Receipts (ADRs), Electrolux is subject to US securities laws and regulations which affect the governance of the Group, including the Sarbanes-Oxley Act of 2002. Electrolux submits an annual Form 20-F report to the SEC.

## Highlights of 2006

- In April, the Annual General Meeting approved the Board’s proposal for distributing the Group’s Outdoor Products operations, Husqvarna, to Electrolux shareholders. In June, Husqvarna was listed as an independent company on the Stockholm Stock Exchange.
- In December, an Extraordinary General Meeting approved distribution of capital to shareholders through redemption of shares.
- Work continued on ensuring that Electrolux is in compliance with the criteria of the Sarbanes-Oxley Act, in particular Section 404.
- At the end of the year, Board Chairman Michael Treschow announced that he declines re-election at the AGM in 2007.

## Governance structure



### Major external regulations affecting governance of Electrolux

- Swedish Companies Act
- Listing agreement with Stockholm Stock Exchange
- Swedish Code of Corporate Governance
- Listing agreement with London Stock Exchange
- US Securities laws and regulations, including the Sarbanes-Oxley Act of 2002

### Internal policies and codes include

- Board of Directors’ working procedures
- Electrolux Code of Ethics
- Electrolux Policy on Countering Bribery and Corruption
- Electrolux Workplace Code of Conduct
- Policies for information, finance, credit, accounting manual, etc.
- Processes for internal control and risk management

### Shareholder structure

According to the share register at VPC AB (the Swedish Central Securities Depository & Clearing Organization) at year-end 2006, the Group had a total of approximately 59,500 shareholders. The shares held by the ten largest owners corresponded to approximately 32% of the total share capital and 45% of the voting rights.

Approximately 54% of the share capital was owned by Swedish institutions and mutual funds, approximately 38% by foreign investors, and approximately 8% by private Swedish investors. The total number of Electrolux shareholders in Sweden at year-end was approximately 56,300. Most of the shares owned by foreign investors are registered through foreign banks or other trustees which are not registered in the share register kept by VPC. This means that the actual owners are not displayed in the share register kept by VPC. Information on shareholders and their holdings is updated continuously at the Group's website, [www.electrolux.com/corpgov](http://www.electrolux.com/corpgov).

#### Major shareholders as of December 31, 2006<sup>1)</sup>

	Share capital, %	Voting rights, %
Investor AB	11.1	27.6
Alecta Pension Insurance	7.7	7.2
Fourth Swedish National Pension Fund	2.8	2.2
Swedbank Robur Funds	2.3	1.8
Handelsbanken/SPP Investment Funds	2.1	1.6
SEB Funds	1.6	1.2
Second Swedish National Pension Fund	1.1	0.9
Skandia Life Insurance	1.1	1.1
Industritjänstemannaförbundet, Sif	1.0	0.8
Third Swedish National Pension Fund	0.8	0.7
<b>Total</b>	<b>31.6</b>	<b>45.1</b>
Board of Directors and Group Management, collectively	0.03	0.03

1) Source: SIS Ägarservice as of December 31, 2006.

#### Voting rights

The share capital of AB Electrolux consists of A-shares and B-shares. An A-share entitles the holder to one vote and a B-share to one-tenth of a vote. All shares entitle the holder to the same proportion of assets and earnings and carry equal rights in terms of dividends.

#### Nomination procedure for election of Board members and auditors

The nomination process for members of the Board of Directors involves appointing a Nomination Committee consisting of the Chairman of the Board and representatives of the four largest shareholders in terms of voting rights. The names of these representatives and the shareholders they represent are announced publicly at least six months before the Annual General Meeting (AGM).

Selection of the shareholders is based on known holdings of voting rights immediately prior to the announcement. If the identity of major shareholders changes in the course of the nomination process, the composition of the Nomination Committee may be changed accordingly.

The Nomination Committee's tasks include preparing a proposal for the next AGM regarding the following issues: Chairman of the AGM, Board members, Chairman of the Board and remuneration for Board members, as well as remuneration for committee work and Nomination Committee for the next accounting year. Shareholders may submit proposals for nominees to the Nomination Committee.

The Nomination Committee is also entrusted with the task to make proposals for the election of auditors and auditors' fees, when these matters are to be decided by the following AGM. In preparing these proposals, the Nomination Committee is assisted by the Electrolux Audit Committee, which among other things informs the Nomination Committee of the results of the evaluation of the audit work, which is performed as a part of this process.

The committee's proposal shall be announced publicly in connection with or prior to the notice of the AGM.

#### Nomination Committee for the AGM 2007

The Nomination Committee for the AGM in 2007 was composed on the basis of the register of shareholders at VPC AB as of September 30, 2006, and was announced in a press release on October 16, 2006. On November 9, changes in the Committee were announced, as The Second Swedish National Pension Fund had reduced its holding. Carl Rosén, who had represented the Fund, resigned from the Committee and was replaced by Marianne Nilsson, representing Swedbank Robur Funds. As of March 5, 2007, no other changes in the composition of the Committee had occurred.

The Committee Chairman is Börje Ekholm, President and CEO of Investor. The other members are Ramsay J. Brufer, Alecta Pension Insurance, Annika Andersson, Fourth Swedish National Pension Fund, Marianne Nilsson, Swedbank Robur Funds and Michael Treschow, Board Chairman of Electrolux.

The Nomination Committee's proposals as well as a report on how the Nomination Committee has conducted its work will be publicly announced no later than the date of notification of the AGM. Shareholders who wish to submit proposals to the Nomination Committee should send an e-mail to [nominationcommittee@electrolux.com](mailto:nominationcommittee@electrolux.com).

#### General Meetings of shareholders

The decision-making rights of shareholders in AB Electrolux are exercised at General Meetings of shareholders.

Participation in decision-making requires the shareholder's presence at the meeting, whether personally or through a proxy. In addition, the shareholder must be registered in the share register as of a prescribed date prior to the meeting and must provide notice of participation in due course. Additional requirements for participation apply for shareholders with holdings in the form of ADRs or similar certificates. Holders of such certificates are advised to contact the ADR depositary bank, the fund manager or the issuer of the certificate in good time before the meeting in order to obtain additional information.

Decisions at the meeting are normally made by simple majority. However, for some matters the Swedish Companies Act and the Articles of Association stipulate that a proposal must be approved by a higher proportion of the shares and votes represented at the meeting.

Individual shareholders who wish to have a specific issue included in the agenda of a general shareholders' meeting can request the Electrolux Board to do so in good time by mail to an address that is posted at the Group's website.

The AGM is held annually in Stockholm, Sweden, during the first half of the year. The meeting decides on dividends, adoption of the annual report, election of Board members and auditors if applicable, remuneration to Board members and auditors, guidelines for remuneration to Group Management, and other important matters.

The AGM in April 2006 was attended by shareholders representing 42.7% of the share capital and 55.3% of the voting rights in the Company. The minutes of the AGM are available at [www.electrolux.com/corpgov](http://www.electrolux.com/corpgov). All Board members as well as the Group's auditor in charge were present at the meeting. The AGM approved, i.a., the Board's proposal for distributing the Group's Outdoor Products operations to Electrolux shareholders.

An Extraordinary General Meeting (EGM) may be held at the discretion of the Board of Directors or, if requested, by the auditors or by shareholders owning at least 10% of the shares. In December 2006, the Board called an EGM for approval of a proposal for distributing capital to the shareholders through redemption of shares. This meeting was attended by shareholders representing 36.9% of the share capital and 49.9% of the votes.

### The Board of Directors

The main task of the Electrolux Board of Directors is to manage the Group's affairs in such a way as to satisfy the owners that their interests in terms of a good long-term return on capital are being met in the best possible way. The Board's work is governed by rules and regulations that include the Swedish Companies Act, the Articles of Association, the code, and the working procedures established by the Board.

The Board decides on issues related to the Group's main goals, strategic orientation and major policies, as well as important issues related to financing, investments, acquisitions and divestments. The Board monitors and deals with, inter alia, follow-up and control of Group operations, Group communication, and organization, including evaluation of the Group's operative management. The Board also has overall responsibility for establishing an effective system of internal control and risk management.

### Working procedures and meetings

The Board determines its working procedures each year and reviews them when necessary. The working procedures include allocation of tasks between Board members. The Chairman's special role and tasks are described, as well as the responsibilities delegated to the committees appointed by the Board. In accordance with the procedures, the Chairman shall ensure that the Board functions effectively and discharges its duties. The Chair-

man shall also organize and distribute the Board's work, and ensure that the Board's decisions are implemented effectively and that the Board evaluates its work annually.

The working procedures for the Board of Directors also include detailed instructions to the President and CEO and other corporate functions regarding issues that require the Board's approval. Among other things, these instructions specify the maximum amounts that various decision-making functions within the Group are authorized to approve regarding credit limits, capital expenditure and other outlays.

The working procedures stipulate that the meeting for formal constitution of the Board shall be held directly after the AGM. Decisions at this meeting include election of the Deputy Chairman, distribution of remuneration to Board members for work in committees, and authorization to sign for the Company. The Board normally meets on six other occasions during the year. Four of these meetings are held in connection with publication of the Group's annual and interim reports. One or two meetings are held in connection with visits to Group operations. Additional meetings, including telephone conferences, are held when necessary.

### Ensuring quality in financial reporting

The working procedures determined annually by the Board include detailed instructions regarding the type of financial and other reports that shall be submitted to the Board. In addition to interim reports and the annual report, the Board reviews and evaluates comprehensive financial information regarding the Group as a whole and the entities it comprises.

The Board also reviews, primarily through the Group's Audit Committee, the most important accounting principles applied by the Group in financial reporting, as well as major changes in these principles. The tasks of the Audit Committee also include reviewing reports regarding internal control and processes for financial reporting, as well as internal audit reports submitted by the Internal Audit function, Management Assurance & Special Assignments.

The Group's external auditors report to the Board as necessary, but at least once a year. At least one of these meetings is held without the presence of the President and CEO or any other member of Group Management. The external auditors also attend meetings of the Audit Committee.

The Audit Committee reports to the Board after all its meetings. Minutes are taken at all meetings of the Audit Committee and are available to all Board members and the auditors.

### Evaluation of the Board's activities

The Board evaluates its activities annually with regard to working procedures and the working climate, as well as the alignment of the Board's work. The evaluation also focuses on access to and requirements for special competence. This evaluation provides input for the nomination procedures by which the Nomination Committee decides on matters such as the Board's composition and remuneration to members.

The Deputy Chairman of the Board also manages a separate annual evaluation of the Chairman's work.



### Composition of the Board

The Electrolux Board of Directors consists of seven members without deputies who are elected by the Annual General Meeting for a period of one year. Three additional members, with deputies, are appointed by the Swedish employee organizations, in accordance with Swedish labor laws.

With the exception of the President and CEO, the members of the Board are non-executives. Two of the seven members are not Swedish citizens. Three of the members are women. For information on Board members, see [www.electrolux.com](http://www.electrolux.com) and page 124.

### Independence

The Board is considered to be in compliance with the requirements for independence stipulated by the Stockholm Stock Exchange and the Swedish Code of Corporate Governance. All Directors elected by the AGM 2006, with the exception of Michael Treschow, Marcus Wallenberg and Hans Stråberg, have been considered independent by the Nomination Committee prior to the AGM 2006, both in relation to the major shareholders of Electrolux and in relation to the Company and the management of the Company.

Michael Treschow has been considered independent in relation to the major shareholders, but not in relation to the Company and the management of the Company, since he was President and CEO of Electrolux during the years 1997–2002. Marcus Wallenberg has not been considered independent, neither in relation to the major shareholders in Electrolux, nor in relation to the Company or the management of the Company. Marcus Wallenberg is, i.a., the Chairman of the Board of Directors of SEB, Skandinaviska Enskilda Banken, with which bank Electrolux has extensive business relations.

Hans Stråberg has been considered independent in relation to the major shareholders of Electrolux, but not – in his capacity as President and CEO – in relation to the Company and the management of the Company. With the exception of the President and CEO Hans Stråberg, the members of the Board are not Group executives. The President and CEO has no major shareholdings nor is he a part-owner in companies that have significant business relations with Electrolux.

### Remuneration to Board members

Remuneration to Board members is authorized by the AGM and distributed to the Board members who are not employed by the Group. Information on remuneration to Board members is given in the table below. Remuneration to the President and CEO is proposed by the Remuneration Committee and authorized by the Board of Directors. Board members who are not employed by Electrolux do not participate in the Group's long-term incentive programs, nor in any outstanding share or share-price incentive schemes.

The Board of Directors adopted after the AGM in 2006, upon the recommendation of the Nomination Committee, a policy according to which the members of the Board of Directors each year shall use 25% of the fee, net of taxes, for purchase of shares in Electrolux. The intention is that shares that are acquired for part of the director's fee shall be kept for as long as the Board member remains a member of the Board.

The composition of the Board and remuneration to members in accordance with the decision of the AGM on April 24, 2006, are shown in the table below.

### Composition of the Board and authorized remuneration <sup>1)</sup>

Board	Born	Nationality	Elected	Independence <sup>2)</sup>	Remuneration, Audit Committee, SEK	Remuneration, Remuneration Committee, SEK	Ordinary remuneration, SEK	Total remuneration, SEK
Michael Treschow Chairman of the Board and Chairman of the Remuneration Committee	1943	SWE	1997	No		100,000	1,500,000	1,600,000
Peggy Bruzelius Deputy Chairman of the Board and Chairman of the Audit Committee	1949	SWE	1996	Yes	175,000		500,000	675,000
Louis R. Hughes	1949	US	2005	Yes		50,000	437,500	487,500
Hans Stråberg President and CEO	1957	SWE	2002	No			–	–
Barbara Milian Thoralfsson	1959	US	2003	Yes	75,000		437,500	512,500
Caroline Sundewall	1958	SWE	2005	Yes	75,000		437,500	512,500
Marcus Wallenberg	1956	SWE	2005	No		50,000	437,500	487,500
Ulf Carlsson Employee representative	1958	SWE	2001	–			–	–
Gunilla Brandt Employee representative	1953	SWE	2006	–			–	–
Ola Bertilsson Employee representative	1955	SWE	2006	–			–	–
<b>Total</b>					<b>325,000</b>	<b>200,000</b>	<b>3,750,000</b>	<b>4,275,000</b>

1) For the period from the AGM 2006 to the AGM 2007.

2) According to the Nomination Committee prior to the AGM 2006. For more information, see Independence above.

For additional information on remuneration to the Board members and the President and CEO in 2006, see Note 27 on page 101.

#### Changes in the Board in 2006

- In connection with the AGM on April 24, 2006, the following members declined re-election: Tom Johnstone, elected 2005, Aina Nilsson Ström, elected 2004, and Karel Vursteen, elected 1998.
- Louis R. Hughes and Marcus Wallenberg were appointed to the Remuneration Committee. Board Chairman Michael Treschow remained as Chairman of the Remuneration Committee.
- The AGM 2006 re-elected Michael Treschow as Chairman of the Board.
- The meeting for formal constitution of the Board re-elected Peggy Bruzelius as Deputy Chairman.
- In connection with the distribution of Husqvarna, employee representatives and their deputies were replaced.
- Board Chairman Michael Treschow announced at the end of the year that he declines re-election at the AGM in 2007.

#### The Board's work in 2006

During the year, the Board held seven scheduled and two extraordinary meetings. In addition, five per capsulam meetings were held to decide on urgent matters. Six of the scheduled meetings were held in Stockholm and one in the US. In connection with the latter, the Board visited the Electrolux plants in Juarez, Mexico, as well as the Group's regional office and retailers in the US.

Each scheduled Board meeting includes a review of the Group's results and financial position as well as the outlook for the following quarters, which is presented by the President and CEO. The meetings also deal with investments and the establishment of new operations, as well as acquisitions and divestments. The Board decides on all investments that exceed SEK 50m, and receives reports on all investments between SEK 10m and SEK 50m. Normally, the head of a sector also reviews a current strategic issue at the meeting.

The Group's auditors participated in the Board meeting in February 2006, where the Annual Report for 2005 was approved.

All Board meetings during the year followed an approved agenda, which together with documentation for each item was sent to all Board members. Cecilia Vieweg, Head of Group Staff Legal Affairs, was the secretary at all Board meetings.

#### Major topics in 2006

Major topics dealt with by the Board in 2006 comprised:

- The spin-off of Husqvarna, the Group's Outdoor Products operations
- Distribution of capital to shareholders through redemption of shares
- Restructuring, primarily in terms of relocation of production
- Development of the Group's strategy and organization
- Product development and brand strategy

#### Committees

The Board has established a Remuneration Committee and an Audit Committee. The main tasks of the committees are preparatory and advisory. In addition, the Board may delegate decision-making powers on specific issues.

The Board has also decided that issues may be referred to ad hoc committees that deal with specific matters.

#### Remuneration Committee

The main task of the Remuneration Committee is to propose principles for remuneration to members of Group Management. The Remuneration Committee makes proposals to the Board of Directors regarding:

- Targets for variable compensation
- The relationship between fixed and variable salary
- Changes in fixed or variable salary
- Criteria for assessment of variable salary, long-term incentives, pension terms and other benefits

The Committee comprises three Board members, with Chairman of the Board Michael Treschow as Chairman, and Louis R. Hughes and Marcus Wallenberg as members. At least two meetings are convened annually. Additional meetings are held as needed.

Prior to the AGM in 2006 the Nomination Committee determined that Marcus Wallenberg was not independent of the company and company management as required by the code. Marcus Wallenberg's positions include Chairman of SEB, Skandinaviska Enskilda Banken, a bank with which Electrolux has comprehensive business relations. However, the Electrolux Board has decided that these relations do not affect Marcus Wallenberg's tasks in the Remuneration Committee, and that the company benefits from his expertise in terms of his work on this committee.

The Remuneration Committee held six ordinary meetings and two per capsulam meetings in 2006. In addition to remuneration to the President and Group Management, major issues considered during the year included remuneration in connection with the spin-off of the Group's Outdoor Products operations. Harry de Vos, Head of Group Staff Human Resources and Organizational Development, participated in the meetings and was responsible for preparations.

#### Audit Committee

The primary task of the Audit Committee is to assist the Board in overseeing the accounting and financial reporting processes, including the effectiveness of disclosure controls and procedures as well as the adequacy and effectiveness of internal controls of financial reporting.

The Audit Committee also assists the Board of Directors in:

- Overseeing the audit of the financial statements including related disclosures
- Pre-approving audit and non-audit services to be provided by the external auditors

- Reviewing the objectivity and independence of the external auditors
- Overseeing the work of the external auditors, evaluating the external auditors' performance and, if necessary, recommending their replacement

In addition, the Audit Committee is tasked with supporting the Nomination Committee in preparing proposals to them regarding external auditors and fees. The Audit Committee also reviews the Group's Internal Audit function, Management Assurance & Special Assignments, in terms of organization, staffing, budget, plans, results, and reports prepared by this function.

The Audit Committee comprises three Board members, with Peggy Bruzelius as Chairman, and Barbara Milian Thoralfsson and Caroline Sundewall as members.

The external auditors report to the Audit Committee at each ordinary meeting. At least three meetings are held annually. Additional meetings are held as needed.

In 2006, the Audit Committee held four scheduled meetings and one extra meeting. Electrolux managers have also had regular contacts with the Committee Chairman between meetings regarding specific issues. Fredrik Rystedt, CFO, and Anna Ohlsson-Leijon, Head of the Internal Audit function, participated in most of the Audit Committee's meetings. Other Electrolux managers also participated in relation to specific issues, as did the Group's external auditors. Cecilia Vieweg, Head of Group Staff Legal Affairs, was the secretary at all meetings.

#### Participation at Board and Committee meetings during 2006 <sup>1)</sup>

	Board	Audit Committee	Remuneration Committee
Total number of meetings	14	5	8
Michael Treschow	14		8
Peggy Bruzelius	14	5	
Louis R. Hughes (in the Remuneration Committee since April 2006)	14		5
Hans Stråberg	14		
Barbara Milian Thoralfsson	14	5	
Caroline Sundewall	14	5	
Marcus Wallenberg (in the Remuneration Committee since April 2006)	13		5
Aina Nilsson Ström (resigned April 2006)	6		3
Karel Vuursteen (resigned April 2006)	5		3
Tom Johnstone (resigned April 2006)	5		
Ulf Carlsson	14		
Gunilla Brandt (member since May 2006)	7		
Ola Bertilsson (member since June 2006)	6		
Annika Ögren (resigned May 2006)	8		
Malin Björnberg (resigned April 2006)	7		

1) In 2006, the Board held seven scheduled meetings, two extraordinary meetings and five per capsulam meetings.

#### External auditors

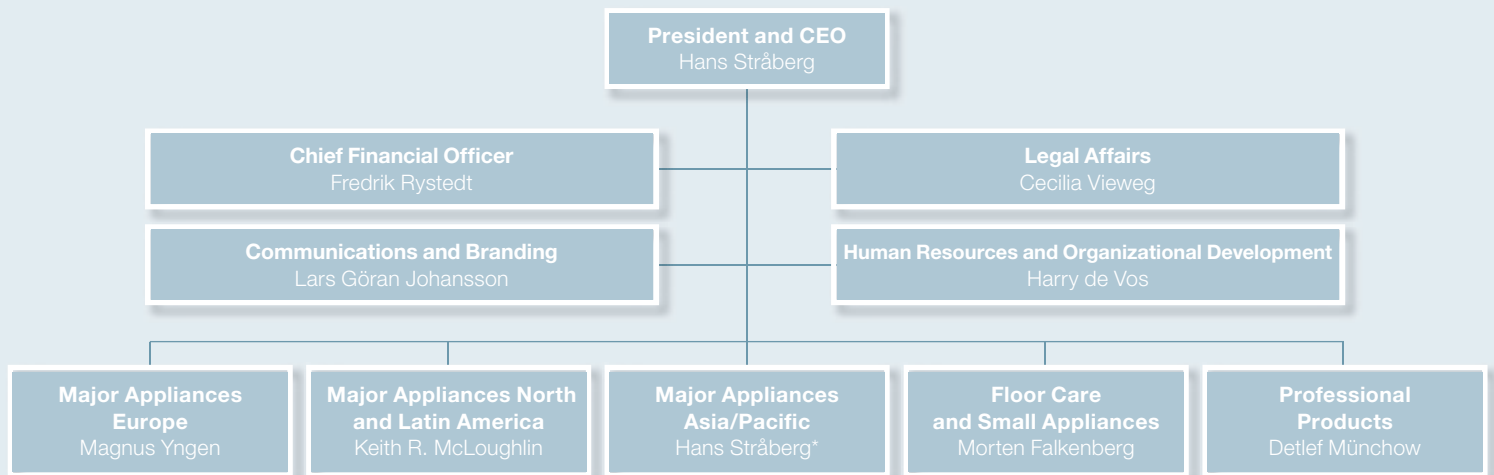
The AGM in 2006 re-elected PricewaterhouseCoopers (PwC) as the Group's external auditors for a four-year period, until the AGM in 2010. Certified public accountants Peter Clemedtson and Dennis Svensson are responsible for auditing of Electrolux.

PwC provides an audit opinion on AB Electrolux, the financial statements of its subsidiaries, the consolidated financial statements for the Electrolux Group, and the administration of AB Electrolux.

The audit is conducted in accordance with the Swedish Companies Act and the generally accepted Swedish auditing standards issued by FAR, which is the institute for the accountancy profession in Sweden (Swedish GAAS). The auditing standards issued by FAR are based on international auditing standards issued by the International Federation of Accountants (IFAC GAAS).

Audits of local statutory financial statements for legal entities outside of Sweden are performed as required by laws or applicable regulations in the respective countries, and as required by IFAC GAAS including issuance of audit opinions for the various legal entities. In addition, PwC performs audits in accordance with US generally accepted auditing standards (US GAAS) and provides an audit report for the Electrolux Group that is filed on Form 20-F, as required by the US Securities and Exchange Commission (SEC).

For additional information on the Group's auditors and their other audit assignments, see page 124. For information on fees paid to the auditors and their non-audit assignments in the Group, see Note 28 on page 103.



\* Peter Birch is CEO for Major Appliances Asia/Pacific and reports to Hans Stråberg. Peter Birch is not a member of Group Management.

### Management and Company structure

Electrolux operations are organized in five business sectors that include a total of 25 product lines. There are four Group staff units. The Group has a decentralized corporate structure in which overall management of operative activities is largely performed by sector boards.

#### Overall Group policies and guidelines

Electrolux aims at implementing strict norms and efficient processes to ensure that all operations create long-term value for shareholders and other stakeholders. This involves maintaining an efficient organizational structure, systems for internal control and risk management, and transparent internal and external reporting.

In order to ensure a systematic approach to improving operational efficiency and the internal control, and to ensure uniform implementation of operational procedures, the Group has defined six core processes within strategically important areas. These processes are common to the entire Group and comprise purchasing, brand, product development, demand flow, business support and people.

Electrolux has determined that the performance of operations shall be environmentally compatible as well as socially and ethically responsible. A proactive approach in this regard reduces risks, strengthens the brand, increases the motivation of personnel and ensures good relations with the societies in which the Group operates. Key policies in this context include the Electrolux Code of Ethics, the Electrolux Workplace Code of Conduct, and the Electrolux Policy on Countering Corruption and Bribery.

The Group has established the Electrolux People Process, which provides support at Group level for managers with regard to recruitment and development of employees. The process also aims at ensuring that individuals are treated fairly by the company. For more information on the Electrolux People Process, see page 67.

### Group Management

In addition to the President and CEO, Group Management includes the five sector heads and the four Group staff heads. The President and CEO is responsible for ongoing management of the Group in accordance with the Board's guidelines and instructions.

Group Management holds monthly meetings to review the previous month's results, update forecasts and plans, and discuss strategic issues.

#### Changes in Group Management in 2006

- Bengt Andersson left the Group and Group Management in June 2006. He was appointed President and CEO of Husqvarna AB when the Outdoor Products operations of Electrolux were distributed to the shareholders and listed on the Stockholm Stock Exchange as a separate company.
- Johan Bygge resigned as sector head for Major Appliances in Europe in October 2006.
- Magnus Yngen, previously head of Floor Care and Small Appliances, succeeded Johan Bygge as sector head for Major Appliances in Europe in October 2006.
- Morten Falkenberg was appointed sector head of Floor Care and Small Appliances in December 2006.

#### Business sectors

The sector heads have responsibility for results and balance sheets in their respective sectors. The overall management of the sectors is the responsibility of sector boards, which meet quarterly. The President and CEO is the chairman of all sector boards. The sector board meetings are attended by the President and CEO, the management of the respective sectors and the Chief Financial Officer (CFO). The sector boards are responsible for monitoring on-going operations, establishing strategies, determining sector budgets and making decisions on major investments. The product-line

managers are responsible for the profitability and long-term development of their respective product lines.

In terms of external reporting structure, Group operations are divided into five business areas. Operations in Consumer Durables comprise four geographical areas, i.e., Europe, North America and Latin America and Asia/Pacific. Professional Products is the fifth business area.

#### Remuneration to Group Management

Remuneration to the President and CEO and Group Management is proposed by the Remuneration Committee and decided upon by the Board of Directors. Remuneration comprises fixed salary, variable salary in the form of short-term incentives based on annual performance targets, long-term incentive programs, and benefits such as pensions and insurance. The general principles for remuneration within Electrolux are based on the position held, individual and team performance, and comparable salaries in the relevant market.

Variable salary is paid according to performance. Variable salary for the President and CEO is determined by achievement of financial targets during the year. Variably salary for sector heads is determined by the achievement of both financial and non-financial targets. Value created is the most important financial indicator. For 2006, the non-financial targets focused, i.a., on value market share and succession planning. Group staff heads receive variable salary based on the value created for the Group as well as achievement of performance targets within their respective functions. For more information on value creation, see below.

Electrolux long-term incentive programs include a performance-based share program and employee stock-option programs, which are designed to align management incentives with shareholder interests. In 2006, the AGM approved a performance-based long-term share program, the Electrolux Share Program 2006, which has the same parameters as the share programs for 2005 and 2004. The program is based on value created over a three-year period and includes 160 senior officers and key employees of the Electrolux Group.

#### Remuneration to Group Management in 2006

'000 SEK	President and CEO	Other members of Group Management <sup>1)</sup>	Total
Fixed salary	8,718	28,723	37,441
Variable salary	5,303	14,932	20,235
<b>Total</b>	<b>14,021</b>	<b>43,655</b>	<b>57,676</b>

1) Other members of Group Management include eight persons.

For additional information on remuneration, remuneration guidelines, long-term incentive programs and pension benefits, see Note 22 on page 92 and Note 27 on page 101.

#### Value creation

The Group uses a model for value creation to measure profitability by business area, sector, product line and region. The model links operating income and asset efficiency with the cost of the capital employed in operations. Value created is also the basis for incentive systems for managers and employees in the Group. Since 1998, Electrolux has covered the annual cost of capital employed.

Value created is defined as operating income excluding items affecting comparability, less the weighted average cost of capital (WACC) on average net assets, excluding items affecting comparability.

For details of the value-creation concept, see Note 31 on page 107.

#### Internal control and risk management

The process of internal control and risk management has been developed to provide reasonable assurance that the Group's goals are met in terms of efficient operations, compliance with relevant laws and regulations, and reliable financial reporting. For information on internal control of financial reporting, see below "Description of internal control of financial reporting".

The Electrolux process for internal control and risk management is based on the control environment and comprises four main activities: Risk assessment, control activities, information and communication, and monitoring.

Risk assessment includes identifying, sourcing and measuring business risks, such as strategic, operational, commercial, financial and compliance risks, including non-compliance with laws, other external regulations, and internal guidelines. Assessing risks also includes identifying opportunities that ensure long-term value creation.

The choice of control activities depends on the nature of the identified risk and the results of a cost-benefit analysis, within the guidelines set by the Group. Control activities for managing risks may include insuring, outsourcing, hedging, prohibiting, divesting, reducing risk through detective and preventative internal controls, accepting, exploiting, reorganizing and redesigning.

The process for internal control and risk management generates valuable information regarding business objectives, risks and control activities. Communicating on a timely basis throughout the Group contributes to ensuring that the right business decisions are made.

The effectiveness of risk assessment and execution of control activities are monitored continuously. Various tools including self-assessments and risk surveys are also used within the Group.

The Internal Audit function Management Assurance & Special Assignments is responsible for independent objective assurance, in order to systematically evaluate and propose improvements for more effective governance, internal control and risk management processes.

### Description of internal control of financial reporting

The Electrolux process for internal control and risk management related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable laws and regulations, generally accepted accounting principles, and other requirements for listed companies. The process is based on the control environment and comprises four main activities: Risk assessment, control activities, information and communication, and monitoring, as defined in the framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

#### Control environment

The Board has the overall responsibility for establishing an effective system of internal control and risk management. The Board has determined its working procedures, which include the allocation of tasks to Board members. The Board has established an Audit Committee, which assists the Board in overseeing relevant manuals, policies and important accounting principles applied by the Group in financial reporting, as well as major changes in these principles.

Responsibility for maintaining an effective control environment and operating the system for risk management and internal control of financial reporting is delegated to the President and CEO. Management at various levels has operational responsibility within their respective areas.

The Group's operations are organized in five business sectors and four Group staff units. Group Management includes the President and CEO, the five sector heads and the four Group staff heads. The sector heads have responsibility for results and balance sheets in their respective sectors. The overall management of the sectors is the responsibility of sector boards. A number of internal boards and councils have been established within the Group for specific areas such as risk management, treasury, audit, IT, taxes, brands, products, purchasing and human resources.

The Group's Disclosure Committee contributes to considering the materiality of information relating to Electrolux and ensuring that such information is properly communicated to the market on a timely basis.

The Group has established six group processes within strategically important areas such as purchasing, people, brand, product development, demand flow, and business support in order to ensure, among other things, a systematic approach to improving internal control. The Electrolux People Process provides support to managers within the Group in the form of tools and checklists to ensure efficient recruitment processes and continuous development of employees.

The limits of responsibilities and authorities are given in instructions for delegation of authority, manuals, policies and procedures, and codes, including the Electrolux Code of Ethics, the Electrolux Workplace Code of Conduct, and the Electrolux Policy on Counter-

ing Bribery and Corruption, as well as in policies for information, finance and credit, and in the accounting manual. In addition, minimum requirements have been set for internal control of financial reporting on the basis of the Group's internal processes. Together with laws and external regulations, these internal guidelines form the control environment, which is the foundation of the internal control and risk management process. All employees, including process, risk, and control owners, are accountable for compliance with these guidelines.

#### Risk assessment

Risk assessment includes identifying, measuring and sourcing risks. The major risks affecting internal control of financial reporting are defined at four levels: Group, business sector, unit, and process. Assessment of risk includes risks related to irregularities and undue favorable treatment of a third party at the Group's expense, as well as the risk of loss or misappropriation of assets. Assessment of risk generates control objectives that fulfill the fundamental criteria for financial reporting.

#### Control activities

Control activities include both general and detailed controls aimed at preventing, detecting and correcting errors and irregularities. These activities include manual controls, application controls built into IT systems, and controls in the underlying IT environment, known as IT General Controls.

Control activities that fulfill the control objectives identified in risk assessment are implemented and documented at four levels: Group, business sector, unit, and process. Documentation comprises both flowcharts and detailed descriptions of the control activities. The documented activities are quality-assured by the responsible employees in terms of completeness and accuracy, according to Group-wide procedures, at Group, business sector, unit, and process levels.

#### Information and communication

Guidelines for financial reporting are communicated to employees, e.g., by ensuring that all manuals, policies and codes are published and accessible through the Group-wide Intranet. Information is provided periodically to relevant parties regarding monitoring of the effectiveness of internal control of financial reporting.

The Group maintains a representation process in which Group Management signs an annual representation letter stating its opinion regarding internal control of financial reporting as well as disclosure controls and procedures, and compliance with other internal guidelines.

### Monitoring

The effectiveness of the process for assessing risks and the execution of control activities are monitored continuously at four levels: Group, business sector, unit, and process. Monitoring involves both formal and informal procedures applied by management and owners of processes, risks, and controls, including reviews of results in comparison with budgets and plans, analytical procedures, and key performance indicators.

In addition, various tools including self-assessment are used within the Group. Reporting units within the Group use these tools for, e.g., evaluation of the security of information as well as processes for business transactions, reporting and final accounts.

In 2005 and 2006, the Internal Audit function Management Assurance & Special Assignments created test plans for specific key control activities based on documented flowcharts and detailed descriptions of control activities. The key control activities are tested for operating effectiveness by employees independent of those performing the controls. The test results are documented in an IT system that is implemented solely for this purpose.

The Internal Audit function is responsible for performing independent objective assurance activities, in order to systematically evaluate and propose improvements to the effectiveness of the governance, of financial reporting in the internal control and risk management processes. In addition, this function proactively proposes improvements to the control environment. The head of this function has dual reporting lines, to the President and CEO and the Audit Committee for assurance activities, while other activities are reported to the CFO.

The Audit Committee reviews reports regarding internal control and processes for financial reporting, as well as internal audit reports submitted by the Internal Audit function. The external auditors report to the Audit Committee at each ordinary meeting.

### Compliance with the Sarbanes-Oxley Act

Section 404 of the Sarbanes-Oxley Act stipulates that companies subject to SEC reporting requirements, such as Electrolux, must submit annual reports in a Form 20-F that include a report from the President and CFO on the effectiveness of the company's internal controls over financial reporting. The Group's external auditors are required to issue an attestation report regarding management's assessment of the effectiveness of these controls, as well as an auditor's independent assessment of the effectiveness of the Group's internal control over financial reporting. This attestation report must also be included in the Form 20-F. Electrolux and its external auditors must comply with these requirements starting with the Group's Form 20-F report for the fiscal year ending December 31, 2006.

In the course of 2004, extensive efforts were made to develop a method within the Group for documenting, evaluating and testing Electrolux internal controls over financial reporting, and work on documentation was started. This work also included comprehensive staff training in order to secure the required competence within

the Group for effective compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. The work is being led by Management Assurance & Special Assignments, the Group's Internal Audit function. In 2005 and 2006, extensive work was performed to document, evaluate and test Electrolux internal controls over financial reporting.

### Financial reporting and disclosure

Electrolux routines and systems for information and communication aim at providing the market with relevant, reliable, correct and vital information about the development of the Group and its financial position.

A disclosure policy in accordance with the Sarbanes-Oxley Act of 2002 was adopted by the Audit Committee in 2003. Electrolux complies with the requirements for an information policy that was introduced in 2004 by the Stockholm Stock Exchange in listing agreements.

#### Financial information is issued regularly in the form of:

- Interim reports, published as press releases.
- The Annual Report.
- An annual report on Form 20-F and interim reports on Form 6-K, each of which are filed with the US Securities and Exchange Commission (SEC).
- Press releases on all important matters which could materially affect the share price.
- Presentations and telephone conferences for analysts, investors and media representatives on the day of publication of quarterly and full-year results, and in connection with release of important news.
- Meetings with financial analysts and investors world-wide.

All reports and press releases are published simultaneously at [www.electrolux.com/ir](http://www.electrolux.com/ir).

### Disclosure Committee

Electrolux has a Disclosure Committee. This Committee contributes to considering the materiality of information relating to Electrolux and ensuring that such information is properly communicated to the market on a timely basis.

The Disclosure Committee comprises the Head of Group Staff Legal Affairs, the Chief Financial Officer, the Head of Group Staff Communications and Branding, and the Head of Investor Relations and Financial Information.

# Board of Directors and Auditors

## Michael Treschow

### Chairman

Born 1943, M. Eng. Elected 1997. Chairman of the Electrolux Remuneration Committee.

**Board Chairman** of Telefonaktiebolaget LM Ericsson and The Confederation of Swedish Enterprise. Board Member of ABB Ltd.

**Previous positions:** President and CEO of AB Electrolux, 1997–2002. President and CEO of Atlas Copco AB, 1991–1997.

**Holdings** in AB Electrolux: 37,620 B-shares, 60,000 options.

## Peggy Bruzelius

### Deputy Chairman

Born 1949, M. Econ. Hon. Doc. in Econ. Elected 1996. Chairman of the Electrolux Audit Committee.

**Board Chairman** of Lancelot Asset Management AB. Board Member of Axfood AB, Industry and Commerce Stock Exchange Committee, Axel Johnson AB, Ratos AB, Scania AB, Husqvarna AB, Syngenta AG and The Association of the Stockholm School of Economics.

**Previous positions:** Executive Vice President of SEB, Skandinaviska Enskilda Banken AB, 1997–1998. President and CEO of ABB Financial Services AB, 1991–1997.

**Holdings** in AB Electrolux: 6,000 B-shares.

## Louis R. Hughes

Born 1949, B.S., Mech. Eng., Harvard M.B.A. Elected 2005. Member of the Electrolux Remuneration Committee.

**Board Chairman** and CEO of GBS Laboratories, Virginia, USA. Non-executive Chairman of Maxager Technology, California, USA.

Board Member of ABB Ltd, AkzoNobel nv, and Sulzer AG. Member of the Supervisory Board of MTU Aero Engines Holding AG. Board Member of AB Electrolux 1996 until 2004, when he was appointed Chief of Staff for a group of senior US government advisors to the Afghanistan government. Member of British Telecom US Advisory Council.

**Previous positions:** Executive Vice President of General Motors Corporation, Michigan, USA, 1992–2000.

**Holdings** in AB Electrolux: 1,260 ADRs.

## Hans Stråberg

### President and CEO

Born 1957, M. Eng. Elected 2002. President and CEO of Electrolux since 2002.

**Board Member** of The Association of Swedish Engineering Industries and AB Ph. Nederman & Co.

**Previous positions:** Joined Electrolux in 1983. Held various management positions in the Group until appointed President and CEO in 2002. **Holdings** in AB Electrolux: 23,944 B-shares, 120,000 options.

## Caroline Sundewall

Born 1958. M.B.A. Elected 2005. Member of the Electrolux Audit Committee. Independent Business consultant since 2001.

**Board Member** of Swedbank AB, TeliaSonera AB, Haldex AB, Lifco AB, Pägengruppen AB and The Association of Exchange-listed Companies.

**Previous positions:** Business commentator at Finanstidningen, 1999–2001, Managing editor of the business desk section at Sydsvenska Dagbladet, 1992–1999, and Business controller at Ratos AB, 1989–1992.

**Holdings** in AB Electrolux through company: 1,500 B-shares.

## Barbara Milian Thoralfsson

Born 1959, M.B.A., B.A. Elected 2003.

Member of the Electrolux Audit Committee. Director of Fleming Invest AS, Norway, since 2005.

**Board Member** of SCA AB, Storebrand ASA, Tandberg ASA, Rieber & Son ASA, Fleming Invest AS, Stokke AS, and Norfolier AS.

**Previous positions:** President of TeliaSonera Norway, 2001–2005. President of Midelfart & Co, Norway, 1995–2001, and on various positions within marketing and sales, 1988–1995.

**Holdings** in AB Electrolux through company: 2,000 B-shares.

## Marcus Wallenberg

Born 1956, B. Sc. Elected 2005. Member of the Electrolux Remuneration Committee.

**Board Chairman** of SEB, Skandinaviska Enskilda Banken AB, Saab AB, and ICC (International Chamber of Commerce). Deputy Chairman of Telefonaktiebolaget LM Ericsson. Board Member of AstraZeneca Plc, Stora Enso Oyj, Thisbe AB and The Knut and Alice Wallenberg Foundation.

**Previous positions:** President and CEO of Investor AB, 1999–2005. Executive Vice President of Investor AB, 1993–1999.

**Holdings** in AB Electrolux: 15,000 B-shares. Related party: 1,500 B-shares.

## EMPLOYEE REPRESENTATIVES

### Members

#### Ulf Carlsson

Born 1958. Representative of the Swedish Confederation of Trade Unions. Elected 2001.

**Holdings** in AB Electrolux: 0 shares.

#### Gunilla Brandt

Born 1953. Representative of the Federation of Salaried Employees in Industry and Services. Elected 2006.

**Holdings** in AB Electrolux: 0 shares.

#### Ola Bertilsson

Born 1955. Representative of the Swedish Confederation of Trade Unions. Elected 2006.

**Holdings** in AB Electrolux: 0 shares.

### Deputy Members

#### Bengt Liwång

Born 1945. Representative of the Federation of Salaried Employees in Industry and Services. Elected 2005.

**Holdings** in AB Electrolux: 0 shares.

#### Gyula Math

Born 1945. Representative of the Federation of Salaried Employees in Industry and Services. Elected 2006.

**Holdings** in AB Electrolux: 0 shares.

#### Peter Karlsson

Born 1965. Representative of the Swedish Confederation of Trade Unions. Elected 2006.

**Holdings** in AB Electrolux: 0 shares.

## SECRETARY OF THE BOARD

### Cecilia Vieweg

Born 1955. B. of Law. General Council of AB Electrolux. Secretary of the Electrolux Board since 1999.

**Holdings** in AB Electrolux: 0 shares, 45,294 options.

## AUDITORS

At the Annual General Meeting in 2006, PricewaterhouseCoopers (PwC) was re-elected as auditors for a four-year period until the Annual General Meeting 2010.

### Peter Clemedtson

PricewaterhouseCoopers AB Born 1956. Authorized Public Accountant. Partner in Charge.

**Other audit assignments:** Ericsson, KMT, Medivir, OMX and SEB.

**Holdings** in AB Electrolux: 0 shares.

### Dennis Svensson

PricewaterhouseCoopers AB Born 1956. Authorized Public Accountant. Certified Public Accountant in the US, US CPA.

**Other audit assignments:** Volvo Cars, 1999–2005.

**Holdings** in AB Electrolux: 0 shares.

Holdings in AB Electrolux as of December 31, 2006.

For more information on the Board of Directors, see page 117.





Michael Treschow



Peggy Bruzelius



Louis R. Hughes



Hans Stråberg



Caroline Sundewall



Barbara Milian Thoralfsson



Marcus Wallenberg



Ulf Carlsson



Gunilla Brandt



Ola Bertilsson



Bengt Liwång



Gyula Math



Peter Karlsson

# Group Management

## **Hans Stråberg**

### **President and CEO**

Born 1957, M. Eng. In Group Management since 1998. Joined Electrolux in 1983. Head of product area Dishwashers and Washing Machines, 1987. Head of product division Floor Care Products, 1992. Executive Vice-President of Frigidaire Home Products, USA, 1995. Head of Floor Care Products and Small Appliances and Executive Vice-President of AB Electrolux, 1998. Chief Operating Officer of AB Electrolux, 2001. President and CEO of AB Electrolux, 2002.

**Board Member** of The Association of Swedish Engineering Industries and AB Ph. Nederman & Co. **Holdings** in AB Electrolux: 23,944 B-shares, 120,000 options.

## **Keith R. McLoughlin**

### **Head of Major Appliances North and Latin America**

Born 1956, B.S. Eng. In Group Management since 2003. Held a number of senior management positions with DuPont, 1981–2003. Vice-President and General Manager of DuPont Nonwovens, 2000–2003, and of DuPont Corian, 1997–2000. Joined Electrolux in 2003 as Head of Major Appliances North America and Executive Vice-President of AB Electrolux. Also Head of Major Appliances Latin America as of 2004.

**Board Member** of Briggs & Stratton Corp., Wisconsin, USA.

**Holdings** in AB Electrolux: 0 shares, 5,000 options.

## **Changes in Group Management**

Bengt Andersson left the Group and Group Management in June 2006. He was appointed President and CEO of Husqvarna AB when the Outdoor Products operations were distributed to the Electrolux shareholders and listed on the Stockholm Stock Exchange as a separate company.

Johan Bygge resigned as sector head for Major Appliances in Europe in October 2006. Magnus Yngen, previously head of Floor Care and Small Appliances, succeeded Johan Bygge as sector head for Major Appliances in Europe. Morten Falkenberg was appointed sector head of Floor Care and Small Appliances in December 2006.

Holdings in AB Electrolux as of December 31, 2006.

For more information on Group Management and Group structure, see page 120.

## **Detlef Münchow**

### **Head of Professional Products**

Born 1952, M.B.A., PhD Econ. In Group Management since 1999. Member of senior management in consulting firms Knight Wending/Wegenstein AG, 1980–1989, and GMO AG, 1989–1992. FAG Bearings AG, 1993–1998, as Chief Operating Officer in FAG Bearings Corporation, USA. Joined Electrolux in 1999 as Head of Professional Indoor Products and Executive Vice-President of AB Electrolux.

**Holdings** in AB Electrolux: 0 shares, 0 options.

## **Magnus Yngen**

### **Head of Major Appliances Europe**

Born 1958, M. Eng. Lic.Tech. In Group Management since 2002. Held several international sales and marketing positions, 1988–1995. Joined Electrolux in 1995 as Technical Director within the direct sales operation LUX. Head of Floor Care International operations, 1999. Head of Floor Care Europe, 2001. Head of Floor Care and Small Appliances and Executive Vice-President of AB Electrolux, 2002. Head of Major Appliances Europe as of October 2006.

**Holdings** in AB Electrolux: 0 shares, 75,000 options.

## **Morten Falkenberg**

### **Head of Floor Care and Small Appliances**

Born 1958, B.Econ. In Group Management since 2006. Held different sales/marketing positions in Carlsberg Group, 1980–1987, a number of senior management positions with Coca-Cola Company, 1987–2000, and Senior Vice-President of Alliances/Partnerships for TDC Mobile, 2001–2003. Joined Electrolux in 2003 as Head of Floor Care and Small Appliances Europe.

**Holdings** in AB Electrolux: 0 shares, 15,000 options.

## **Lars Göran Johansson**

### **Head of Group Staff Communications and Branding**

Born 1954, M. Econ. In Group Management since 1997. Account Executive of KREAB Communications Consultancy, 1978–1984, President, 1985–1991. Headed the Swedish “Yes to EU Foundation campaign” for the referendum that determined Sweden’s membership in the EU, 1992–1994. Joined Electrolux as Senior Vice-President of Communications and Public Affairs, 1995.

**Holdings** in AB Electrolux: 500 B-shares, 45,294 options.

## **Fredrik Rystedt**

### **Chief Financial Officer**

Born 1963, M. Econ. In Group Management since 2001. Joined Electrolux Treasury Department, 1989. Subsequently held several positions within the Group’s financial operations. Head of Mergers and Acquisitions, 1996. Joined Sapa AB in 1998 as Head of Business Development, Chief Financial Officer, 2000. Rejoined Electrolux in 2001 as Chief Administrative Officer, responsible for Controlling, Accounting, Taxes and Auditing. In 2004, appointed Chief Financial Officer and responsible also for Group Treasury, and in 2005 for IT.

**Holdings** in AB Electrolux: 5,333 B-shares, 45,135 options.

## **Cecilia Vieweg**

### **Head of Group Staff Legal Affairs**

Born 1955, B. of Law. In Group Management since 1999. Attorney with Berglund & Co Advokatbyrå, 1987–1990. Corporate Legal Counsel of AB Volvo, 1990–1992. General Counsel of Volvo Car Corporation, 1992–1997. Attorney and partner in Wahlén Advokatbyrå, 1998. Joined Electrolux in 1999 as General Counsel.

**Board Member** of Haldex AB. **Holdings** in AB Electrolux: 0 shares, 45,294 options.

## **Harry de Vos**

### **Head of Group Staff Human Resources and Organizational Development**

Born 1956, Process Eng, post-doc Training Management. In Group Management since 2005. Held various positions within General Electric, 1978–2001. Human Resource Director for GE Plastics Europe, 1999–2001. Joined Electrolux in 2002 as Head of Human Resources and Organization within Major Appliances Europe. Head of Group Staff Human Resources and Organizational Development, 2005. Member of the Supervisory Board of ASML N.V.

**Holdings** in AB Electrolux: 0 shares, 15,000 options.



Hans Stråberg



Keith R. McLoughlin



Detlef Münchow



Magnus Yngen



Morten Falkenberg



Lars Göran Johansson



Fredrik Rystedt



Cecilia Vieweg



Harry de Vos

# Annual General Meeting

The Annual General Meeting will be held at 5 pm on Monday, April 16, 2007, at the Berwald Hall, Dag Hammarskjölds väg 3, Stockholm.

## Participation

Shareholders who intend to participate in the Annual General Meeting must

- be registered in the share register kept by VPC AB (Swedish Central Securities Depository & Clearing Organization) on Tuesday, April 10, 2007, and
- give notice of intent to participate, thereby stating the number of assistants attending, to Electrolux no later than 4 pm on Wednesday, April 11, 2007.

## Notice of participation

Notice of intent to participate can be given

- by mail to AB Electrolux, C-J, SE-105 45 Stockholm, Sweden
- by telephone +46 8 738 64 10
- by fax +46 8 738 63 35
- on the Internet on the Group's website, [www.electrolux.com/agm](http://www.electrolux.com/agm)

Notice should include the shareholder's name, registration number, if any, address and telephone number. Information provided together with the notice will be made subject to computer processing and will be used solely for the Annual General Meeting. Shareholders may vote by proxy, in which case a power of attorney should be submitted to Electrolux prior to the Annual General Meeting.

## Shares registered by trustee

Shareholders, whose shares are registered through banks or other trustees, must have their shares temporarily registered in their own names on Tuesday, April 10, 2007, in order to participate in the Annual General Meeting.

## Dividend

The Board has proposed a cash dividend of SEK 4.00 per share and Thursday, April 19, 2007, as record day for the dividend. With this record date, it is expected that dividends will be paid from VPC on Tuesday, April 24, 2007, and the last day for trading in Electrolux shares including the right to dividend for 2006 will be Monday, April 16, 2007.

## Factors affecting forward-looking statements

This report contains "forward-looking" statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Such statements include, among others, the financial goals and targets of Electrolux for future periods and future business and financial plans. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially due to a variety of factors. These factors include, but may not be limited to the following; consumer demand and market conditions in the geographical areas and industries in which Electrolux operates, effects of currency fluctuations, competitive pressures to reduce prices, significant loss of business from major retailers, the success in developing new products and marketing initiatives, developments in product liability litigation, progress in achieving operational and capital efficiency goals, the success in identifying growth opportunities and acquisition candidates and the integration of these opportunities with existing businesses, progress in achieving structural and supply-chain reorganization goals.

# Risk factors

Electrolux files an annual Form 20-F report with the Securities and Exchange Commission (SEC) in the US. In accordance with US regulations, this report should contain a section about risk factors referring to the Company or the industry in which it operates. The section below is in all material respects expected to be included in the Form 20-F for 2006. You should carefully consider all of the information in this Annual Report and, in particular, the risks outlined below.

## Business risks

### **Electrolux markets are highly competitive and subject to price pressure.**

The markets for Electrolux products are highly competitive and there is considerable pressure to reduce prices, especially when faced with an economic downturn and possible reductions in consumer demand. Electrolux faces strong competitors, who may prove to have greater resources in a given business area, and the likely emergence of new competitors, particularly from Asia and Eastern Europe. Some industries in which Electrolux operates are undergoing consolidation, which may result in stronger competitors and a change in Electrolux relative market position. In 2006, price competition was most apparent in the European market, but it was also present in North America. In response to an increasingly competitive environment, Electrolux and other manufacturers may be forced to increase efficiency by further reducing costs along the value chain, including their suppliers. The development of alternative distribution channels, such as the Internet, could also contribute to further price pressure within Electrolux markets. There can be no assurances that Electrolux will be able to adapt to these changes and increase or maintain its market share.

### **Electrolux business is affected by global economic conditions.**

Current conditions in many of the economies in which Electrolux operates and the global economy remain very uncertain. As a result, it is difficult to estimate the global and regional economic development for the foreseeable future. In addition, the business environment and the economic condition of Electrolux markets are influenced by political uncertainties, including the current political situation in the Middle East. A lengthy recession or sustained loss of consumer confidence in the markets in which Electrolux operates could trigger a significant industry-wide decline in sales and could also lead to slower economic growth and a corresponding significant reduction in demand. Electrolux generates a substantial portion of its net sales from North America and Europe. Lately, North America has demonstrated a slow-down in its economy, while economic conditions in Europe have experienced an upturn. These global and regional conditions could have an adverse impact on the operations of Electrolux, with a resulting material adverse effect on results of operations and financial condition.

### **Electrolux is subject to risks relating to the relocation of manufacturing capacity.**

As part of its strategy of continued reduction of costs and rationalization of its production activities, Electrolux has in the past,

and will in the future, relocate some of its manufacturing capacity to low cost countries. Electrolux has announced restructuring measures of approximately SEK 8 billion for the years 2004–2009, of which slightly more than SEK 5 billion had been charged at year-end 2006. The restructuring measures encompass further relocation of some of its manufacturing capacity. The transfer of production from one facility to another is costly and a complex process, and presents the possibility of additional disruptions and delays during the transition period. In addition, during relocation Electrolux will be dependent on cost-efficient deliveries of components and half-finished goods from suppliers. Electrolux might not be able to successfully transition production to different facilities. Any prolonged disruption in the operations of any of its manufacturing facilities or any unforeseen delay in shifting manufacturing operations to new facilities, whether due to technical or labor difficulties or delays in regulatory approvals, could result in delays in shipments of products to Electrolux customers, increased costs and reduced revenues.

### **Consolidation of retail chains has resulted in increased dependence on a number of large customers.**

Due to the ongoing consolidation of retail chains, major customers account for a large and increasing part of Electrolux sales, and give retailers a stronger negotiating position. This trend towards consolidation has resulted in greater commercial and credit exposures. If Electrolux were to experience a material reduction in orders or become unable to collect fully its accounts receivable from a major customer, its net sales and financial results would suffer.

### **Electrolux operating results may be affected by seasonality.**

Demand for certain of Electrolux products, and consequently Group income is affected by seasonality. For example, sales of relatively more profitable cookers are higher towards the end of the year. Sales of less profitable products such as refrigerators are usually the highest in the middle of the year. Electrolux expects this seasonality to continue in the future.

### **Electrolux future success depends on its ability to develop new and innovative products.**

Product innovation and development are critical factors in improving margins and enabling net sales growth in all of Electrolux product lines. To meet Electrolux customers' needs in these businesses, Electrolux must continuously design new, and update existing, products and services and invest in and develop new technologies. Product development is also driven by criteria for better environmental performance and lower cost of use. Introducing new products requires significant management time

and a high level of financial and other commitments to research and development, which may not result in success. During 2006, Electrolux invested SEK 1,832 (1,743) million in research and development in continuing operations, corresponding to 1.8 (1.7) percent of net sales. R&D projects during the year mainly referred to new products and design projects within appliances including development of new platforms. Electrolux sales and net income may suffer if investments are made in technologies that do not function as expected or are not accepted in the marketplace.

**Electrolux may experience difficulties relating to business acquisitions and dispositions.**

Electrolux has in the past, and may in the future, increase significant market positions in its product areas through organic growth and acquisitions and by improving operational efficiencies. Expansion through acquisitions is inherently risky due to the difficulties of integrating people, operations, technologies and products. Electrolux may incur significant acquisition, administrative and other costs in connection with any such transactions, including costs related to integration of acquired or restructured businesses. There can be no assurances that Electrolux will be able to successfully integrate any businesses it acquires into existing operations or that they will perform according to expectations once integrated. Similarly, dispositions of certain non-core assets may prove more costly than anticipated and may affect its net sales and results of operations.

**Electrolux may not be able to successfully implement planned cost-reduction measures and generate the expected cost-savings.**

Between 2002 and 2006, as well as in earlier years, Electrolux implemented restructuring programs in an effort to improve operating efficiencies and the Group's profitability. These restructuring measures included the divestitures of unprofitable non-core operations, layoffs of employees, consolidation of manufacturing operations, relocation of the Group's production from high-cost countries to those with lower cost levels and other cost-cutting measures. Electrolux has also put substantial effort into driving down costs and complexity throughout the supply chain by improving integration of the supply chain and demand flow management. There can be no assurances that these measures of approximately SEK 8 billion in respect of the years 2004–2009, of which slightly more than SEK 5 billion had been charged at year-end 2006, will generate the level of cost savings that Electrolux has estimated going forward.

**Electrolux is dependent on third-party suppliers to deliver key components and materials for its products.**

Electrolux manufacturing process depends on the availability and timely supply of components and raw materials, generally from third-party suppliers. While supply problems can affect the performance of most of Electrolux business sectors, Electrolux is particularly sensitive to supply problems related to electronic components, compressors, steel, plastics, aluminum and copper. Electrolux works closely with its suppliers to avoid supply-related problems and is increasing its supply of sourced finished products, but there can be no assurances that it will not experi-

ence problems in the future. Such problems could have material adverse effects on the business, results of operations or financial condition of Electrolux. In addition, unanticipated increases in the price of components or raw materials due to market shortages could also adversely affect the financial results of Electrolux businesses.

**Electrolux is subject to risks related to changes in commodity prices.**

Electrolux is subject to risks related to changes in commodity prices as the ability to recover increased costs through higher pricing may be limited by the competitive environment in which Electrolux operates. In 2006, Electrolux purchased raw materials, both directly and through sourced components, for a value of approximately SEK 23 billion. The recent development in many commodity markets has resulted in higher prices, particularly for steel, plastics, copper and aluminum. For example, in 2006 the costs of raw materials rose by a total of approximately SEK 900 million. Further increases in raw material prices may continue to have a negative effect on the Group's operating results in 2007. Electrolux commodity risk is mainly hedged through bilateral contracts with suppliers. There can be no assurances that this hedging activity will be effective in reducing costs in the Group's results.

**Financial risks**

**Electrolux is exposed to foreign-exchange risks and interest-rate risk.**

Electrolux operates in approximately 60 countries around the world and as a result is subject to the risks associated with cross-border transactions. In particular, Electrolux is exposed to foreign currency exchange-rate risks and risks relating to delayed payments from customers in certain countries or difficulties in the collection of receivables generally. Electrolux is also subject to risks arising from translation of balance sheets and income statements of foreign subsidiaries to Swedish kronor as well as through export of products and sales outside the country of manufacture, i.e., transaction exposure. Translation exposure is related mainly to EUR and USD. Transaction exposure is greatest in EUR, USD, GBP and HUF. While Electrolux geographically widespread production and its hedging transactions reduce the effects of changes in exchange rates, there can be no assurances that these measures will be sufficient.

In addition, Electrolux holds assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. These interest-rate sensitive assets and liabilities are subject to interest-rate risk. While these interest-rate exposures are minimized to some extent by the use of derivative financial instruments, there can be no assurances that these hedging activities will be effective or sufficient.

Changes in exchange rates also affect Group equity. The difference between assets and liabilities in foreign countries is subject to these changes and comprises a net foreign investment. At year-end 2006, the largest foreign net assets were in USD, EUR and HUF.

### Regulatory, liability and other risks

#### **Electrolux is subject to regulatory risks associated with its international operations.**

As a result of its worldwide operations, Electrolux is subject to a wide variety of complex laws, regulations and controls, and various non-binding treaties and guidelines, such as those related to employee safety, employee relations, product safety and exchange controls. Electrolux expects that sales to, as well as manufacturing in, and sourcing from, emerging markets, particularly in China, Southeast Asia, Eastern Europe and Mexico, will continue to be an increasing portion of its total operations. Changes in regulatory requirements, economic and political instability, tariffs and other trade barriers and price or exchange controls could limit its operations in these countries and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in certain of the countries in which it operates could limit Electrolux ability to effectively enforce its rights in those markets. Electrolux products are also affected by environmental legislation in various markets, which principally involves limits for energy consumption (which relate to certain of its white goods products) as well as the obligation to recycle waste of electrical products.

#### **Electrolux is subject to certain environmental risks.**

Electrolux operations are subject to numerous European Union, or EU, national and local environmental, health and safety directives, laws and regulations, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous and toxic materials, the construction and operation of its plants and standards relating to the discharge of pollutants to air, soil and water. Although Electrolux believes its operations are in substantial compliance with presently applicable environmental, health and safety laws and regulations, violations of such laws and regulations have occurred from time to time and may occur in the future. In addition, risks of substantial costs and liabilities, including for the investigation and remediation of past or present contamination, are inherent in Electrolux ongoing operations and its ownership or occupation of industrial properties, and may arise specifically from its planned closure of certain of its manufacturing plants.

Other developments, such as increased requirements under environmental, health and safety laws and regulations, increasingly strict enforcement of them by governmental authorities, and claims for damage to property or injury to persons resulting from environmental, health or safety impacts of Electrolux operations or past contamination, could prevent or restrict its operations, result in the imposition of fines, penalties or liens, or give rise to civil or criminal liability.

Electrolux maintains liability insurance at levels that management believes are appropriate and in accordance with industry practice. In addition, Electrolux maintains provisions on its balance sheet for certain environmental remediation matters. There can be no assurances, however, that (i) Electrolux will not incur environmental losses beyond the limits, or outside the coverage, of any insurance or that any such losses would not have a material adverse effect on the results of its operations or financial condition, or (ii) Electrolux provisions for environmental remediation will be sufficient to cover the ultimate loss or expenditure.

#### **Compliance with EU directives regulating environmental impacts associated with electrical and electronic equipment may be costly.**

The EU has adopted directives specifically regulating environmental impacts associated with electrical and electronic equipment, and compliance with these directives is being phased in. The Waste Electrical and Electronic Equipment, or WEEE, directive imposes responsibility on manufacturers and importers of electrical and electronic equipment for the cost of recycling, treatment and disposal of such equipment after its useful life. Based on Electrolux present working assumptions, its estimate of the annual cost to Electrolux when the directive is fully implemented in 2008 are SEK 600 million. These estimates remain highly uncertain as, among other things, the recycling ratio and actual costs are not yet fully known in all relevant jurisdictions. Electrolux has compensated for a large share of the cost by visibly including a surcharge in the price of the products concerned. In most European countries a surcharge is permissible until 2011 for small appliances and until 2013 for large appliances. Surcharges will not be permitted after these dates. Compliance with the WEEE directive could have a material adverse effect on Electrolux income, financial position and cash flow.

#### **Lawsuits in the United States claiming asbestos-related personal injuries are pending against the Electrolux Group.**

Litigation and claims related to asbestos are pending against the Group in the United States. Almost all of the cases relate to externally supplied components used in industrial product manufactured by discontinued operations of Electrolux prior to the early 1970s. Many of the cases involve multiple plaintiffs who have made identical allegations against many other defendants who are not part of the Electrolux Group.

As of December 31, 2006, there were 1,688 (1,082) lawsuits pending against Electrolux entities representing approximately 7,700 (approximately 8,400) plaintiffs. During 2006, 986 new cases with approximately 1,300 plaintiffs were filed and 380 pending cases with approximately 2,000 plaintiffs were resolved. Approximately 5,650 of the plaintiffs relate to cases pending in the State of Mississippi.

Electrolux believes its predecessor companies may have had insurance coverage applicable to some of the cases during some of the relevant years. Electrolux is currently in discussions with those insurance carriers.

Additional lawsuits may be filed against Electrolux in the future. It is not possible to predict either the number of future claims or the number of plaintiffs that any future claims may represent. In addition, the outcome of asbestos claims is inherently uncertain and always difficult to predict and Electrolux cannot provide any assurances that the resolution of these types of claims will not have a material adverse effect on its business or results of operations in the future.

#### **Electrolux may incur higher than expected warranty expenses.**

Electrolux value chain comprises all the steps in its operations, from research and development, through production, marketing and sales. Operational failures in its value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Such risks are particularly present

in relation to Electrolux production facilities which are located all over the world and have a high degree of organizational and technological complexity. Unforeseen product quality problems in the development and production of new and existing products could result in loss of market share and higher warranty expense, any of which could have a material adverse effect on Electrolux results of operations and financial condition.

**Electrolux may be subject to significant product recalls or product liability actions that could adversely affect its business, results of operations or financial condition.**

Under laws in many countries regulating consumer products, Electrolux may be forced to recall or repurchase some of its products under certain circumstances, and more restrictive laws and regulations may be adopted in the future. For example, as a manufacturer and distributor of consumer products in the United States, Electrolux is subject to the U.S. Consumer Products Safety Act, which empowers the U.S. Consumer Products Safety Commission to exclude products from the U.S. market that are found to be unsafe or hazardous. Under certain circumstances, the U.S. Consumer Products Safety Commission could require Electrolux to repurchase or recall one or more of its products. Any repurchase or recall of products could be costly to Electrolux and could damage its reputation. If Electrolux was required to remove, or it voluntarily removed, its products from the market, Electrolux reputation could be tarnished and it might have large quantities of finished products that could not be sold. Accordingly, there can be no assurances that product recalls would not have a material adverse effect on Electrolux business, results of operations and financial condition.

Electrolux also faces exposure to product liability claims in the event that one of its products is alleged to have resulted in property damage, bodily injury or other adverse effects. Electrolux has become implicated in certain lawsuits in the ordinary course of its business, including suits involving allegations of improper delivery of goods or services, product liability and product defects and quality problems. Electrolux is largely self-insured for product liability matters expected to occur in the normal course of business and funds these risks, for the most part, through wholly owned insurance subsidiaries. Electrolux accrues for such self-insured claims and litigation risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. In addition, for large catastrophic losses, Electrolux maintains excess product liability insurance with third-party carriers in amounts that it believes are reasonable. However, there can be no assurances that product liability claims will not have a material adverse effect on Electrolux business, results of operations or financial condition.

**Electrolux is subject to risks related to its insurance coverage.**

Electrolux maintains third-party insurance coverage and self-insures through wholly owned insurance subsidiaries (captives) for a variety of exposures and risks, such as property damage, business interruption and product liability claims. However, while Electrolux believes it has adequate insurance coverage for all anticipated exposures in line with industry standards, there can be no assurances that (i) Electrolux will be able to maintain such insurance on acceptable terms, if at all, at all times in the future or that claims will not exceed, or fall outside of, its third-party or

captives insurance coverage, or (ii) its provisions for uninsured or uncovered losses will be sufficient to cover its ultimate loss or expenditure.

**There can be no assurance that Electrolux spin-off of its Outdoor Products operations will not give rise to additional liabilities.**

In June 2006, Electrolux completed the spin-off the Group's Outdoor Products operations ("Outdoor Products") as a separate unit. In order to govern the creation of Outdoor Products as a separate legal entity, as well as govern the relationship in certain aspects between Electrolux and Outdoor Products after the separation, Electrolux and Husqvarna AB (being the parent of the Outdoor Products group) and some of their respective subsidiaries entered into a Master Separation Agreement and related agreements (the "Separation Agreements"). Under the Separation Agreements, Electrolux has retained certain potential liabilities with respect to the spin-off and Outdoor Products. These potential liabilities include certain liabilities of the Outdoor Products business which cannot be transferred or which were considered too difficult to transfer. Losses pursuant to these liabilities are reimbursable pursuant to indemnity undertakings from Husqvarna. In the event that Husqvarna is unable to meet its indemnity obligations should they arise, Electrolux would not be reimbursed for the related loss, and this could have a material adverse effect on Electrolux results of operations and financial condition.

**Electrolux is also exposed to tax risks in relation to the spin-off.**

Electrolux has received a private letter ruling from the U.S. Internal Revenue Service (IRS) with regard to the distribution of the shares in Husqvarna and the U.S. corporate restructurings that preceded the distribution. The ruling confirms that these transactions will not entail any U.S. tax consequences for Electrolux, its U.S. subsidiaries or U.S. shareholders of Electrolux. In the event that any facts and circumstances upon which the IRS private ruling has been based is found to be incorrect or incomplete in a material respect or if the facts at the time of separation, or at any relevant point in time, are materially different from the facts upon which the ruling was based, Electrolux could not rely on the ruling. Additionally, future events that may or may not be within the control of Electrolux or Husqvarna, including purchases by third parties of Husqvarna stock or Electrolux stock, could cause the distribution of Husqvarna stock and the U.S. corporate restructurings that preceded the distribution not to qualify as tax-free to Electrolux and/or U.S. holders of Electrolux stock. An example of such event is if one or more persons were to acquire a 50 percent or greater interest in Husqvarna stock or Electrolux stock.

Electrolux has – as one of the Separation Agreements – concluded a Tax Sharing and Indemnity Agreement with Husqvarna. Pursuant to the tax sharing agreement, Husqvarna and two of its U.S. subsidiaries have undertaken to indemnify Electrolux and its group companies for U.S. tax cost liabilities in certain circumstances. If the contemplated distribution of the shares in Husqvarna or the U.S. corporate restructurings that will precede the distribution would entail U.S. tax cost liabilities, and Husqvarna would not be obliged to indemnify such liabilities or would not be able to meet its indemnity undertakings, this could have a material adverse effect on Electrolux results of operations and financial condition.



www.electrolux.com

On Electrolux website [www.electrolux.com](http://www.electrolux.com) you will find additional and up-dated information about, for instance, the Electrolux shares, financial statistics and corporate governance. On the website you can also read more about our brands as well as about our sustainability work.



### Financial reports in 2007

Consolidated results	February 14
Interim report January-March	April 26
Interim report April-June	July 17
Interim report July-September	October 22

### Major events in 2007

Annual report	Beginning of April
Annual General Meeting	April 16

### Contacts

Investor Relations	Tel. +46 8 738 60 03 E-mail: <a href="mailto:ir@electrolux.se">ir@electrolux.se</a>
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*Thinking of you*

 **Electrolux**

**AB Electrolux (publ)**

**Mailing address**

SE-105 45 Stockholm, Sweden

**Visiting address**

S:t Göransgatan 143, Stockholm

**Telephone:** +46 8 738 60 00

**Telefax:** +46 8 738 74 61

**Website:** [www.electrolux.com](http://www.electrolux.com)