



CEO STATEMENT

# Good progress in a challenging environment



## SALES GROWTH

1.7

PERCENT

OPERATING MARGIN<sup>1)</sup>

5.4

PERCENT

OPERATING CASH FLOW<sup>2)</sup>

3,649

SEKm

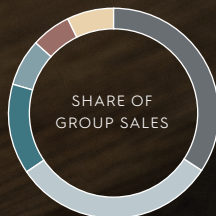
DIVIDEND<sup>3)</sup>

8.50

SEK per share

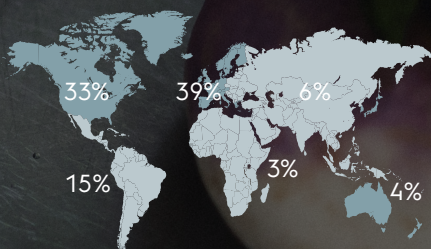
<sup>1)</sup> Excluding non-recurring items.<sup>2)</sup> After investments.<sup>3)</sup> Proposed by the Board.

## BUSINESS AREAS



- Major Appliances Europe, Middle East and Africa (EMEA), 34%
- Major Appliances North America, 31%
- Major Appliances Latin America, 14%
- Major Appliances Asia/Pacific, 7%
- Home Care & SDA, 6%
- Professional Products, 7%

## SALES BY REGION



- Core markets
- Growth markets



Jonas Samuelson, Electrolux President and CEO.

I am pleased with our performance in 2018 in the face of challenging conditions. Our focus on innovation to improve the consumer experience and our high cost efficiency are key competitive assets. Combined with price increases, these factors had a positive impact on our earnings, but could not fully compensate for the strong headwinds we faced primarily from raw material and currency.

Our performance in 2018 was very encouraging in several key areas. We launched a large number of new innovative products designed to deliver outstanding consumer experiences. We continued to improve our cost efficiency throughout the Group, and we carried out large parts of our re-engineering program that aims to drive profitable growth in the years ahead. We also reinforced our position as a sustainability leader in the industry, which is an ever-more crucial competitive advantage as sustainability is playing an increasingly important role for consumers and is a key driver of demand. ▶



► **Good progress despite strong headwinds in 2018**

Underlying operating income and margin contracted due to the negative impact of raw material and currency. In fact, it is very unusual for us to experience such strong headwinds from both these factors in the same year. In addition, the U.S. trade tariffs that were imposed during the year had an adverse effect. Therefore it was important that we managed to implement price increases and improve the mix by providing more relevant, innovative product offerings. We continued to perform favorably in terms of cost efficiencies, mainly as a result of continuous improvements. Sales growth was 1.7%, driven mainly by price increases

“We reported strong organic sales growth in EMEA and continued to gain market shares.”

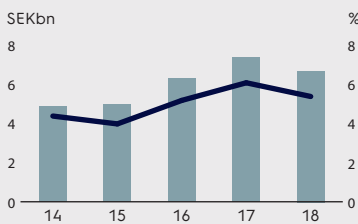
and mix improvements across most business areas although acquisitions also contributed.

We reported strong organic sales growth in EMEA, mainly due to our consistent focus on innovative products under premium brands, and we continued to gain market shares in the focus areas of laundry and built-in kitchen. Operating income excluding non-recurring items improved as higher volumes, mix

improvements and increased cost efficiency offset higher costs for raw materials and currency headwinds. Strong growth in Eastern Europe continued to drive overall market demand in Europe, while demand in Western Europe declined somewhat.

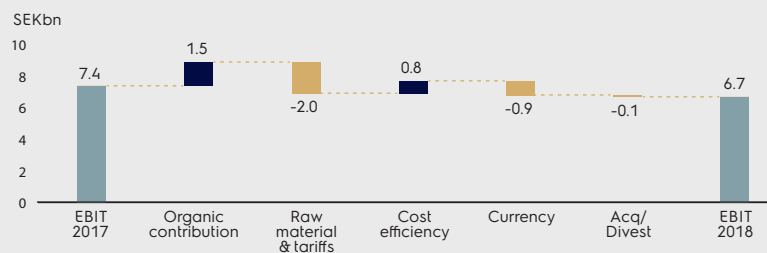
Our North American operation was significantly impacted by increased raw material costs and U.S. trade tariffs as well as from lower volumes, partly related to private label. To mitigate the cost inflation, several cost-based price increases were announced and implemented. We also announced a major re-engineering of our Anderson freezer/fridge factory to increase our competitiveness by providing a sharper product offering and achieving higher efficiency. To simplify operations, lower costs and increase focus ►

EARNINGS DEVELOPMENT<sup>1)</sup>



Operating income excl. non-recurring items in 2018 was SEK 6,653m (7,407), corresponding to a margin of 5.4% (6.1).

OPERATING INCOME BRIDGE<sup>1)</sup>



Our focus on innovation to improve the consumer experience and our high cost efficiency are key competitive assets. Combined with price increases these had positive impact on operating income (EBIT), but could not fully compensate for the strong headwind we faced, primarily from raw material and currency.

<sup>1)</sup> Operating income excluding non-recurring items.





## Taste

By making it possible to make great-tasting food.

We sell cookers, hobs, ovens, hoods, microwave ovens, refrigerators, freezers and dishwashers for households and professional kitchens throughout the world. Electrolux is a leader in kitchen appliances and new functionalities are continuously being developed.

In 2018, Taste innovations included the new SenseProbe induction hob with sous-vide and a world-first wireless and battery-less probe, that provides precise and automated assistance when cooking, and the AEG UltraFresh+ fridge-freezer, with smart cooling technology that automatically regulates the perfect environment for food.



## Three clear areas for innovation

### Care

By making it possible to care for your clothes so they stay new for longer.

Washing machines and tumble dryers are the core of our product offering for washing and garment care. Demand is driven by innovations that promote user-friendliness and resource efficiency.

Care innovations in 2018 included the development of a new sensor system that enables tumble dryers to sense when clothes are perfectly dry.



Electrolux PerfectCare 900



Pure F9 cordless vacuum cleaner

### Wellbeing

By making it possible to achieve healthy wellbeing in your home.

Electrolux vacuum cleaners, air-conditioning equipment, water heaters, heat pumps, small domestic appliances, and accessories are sold to consumers worldwide. We have a strong, global distribution network and an attractive product offering, including service.

In the Wellbeing segment in 2018, we launched the groundbreaking cordless vacuum cleaner Electrolux Pure F9 that uses powerful battery technology and innovative design to combine the performance of a traditional vacuum cleaner with the freedom of a stick vacuum.





Frigidaire Gallery Black Stainless Suite

- ▶ on the most profitable products, we reduced the number of products by about 50%.

The ongoing cost-efficiency initiatives in Latin America continued to be effective and an important phase of the re-engineering of the freezer/fridge plant in Curitiba was concluded. Investments in manufacturing re-engineering play a key role in driving profitable growth. Macroeconomic turbulence impacting currencies had a negative impact,

along with raw material cost. This was offset by price increases, mix improvements and higher cost efficiency.

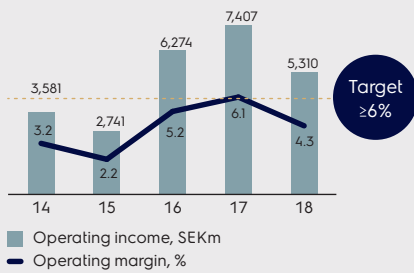
In Asia/Pacific, organic sales growth was driven largely by two-digit profitable growth in laundry and food preparation in Southeast Asia, offering products tailored to specific consumer needs in these regions. For example, cold water technology in washing machines enables consumers in Indonesia

to get perfectly cleaned clothes despite electricity limitations. However, operating income declined as currency headwinds and increased cost for raw material were not fully offset by higher sales volumes and mix improvements.

In line with its strategy, Home Care & SDA was in a product transition phase with lower volumes as a consequence. The shift in market demand toward cordless vacuums

## Targets<sup>1)</sup>

### OPERATING MARGIN



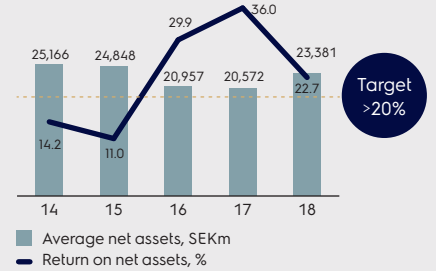
In 2018, operating income included non-recurring items of SEK -1,343m.

### CAPITAL TURNOVER-RATE



Reducing the amount of capital tied up in operations creates opportunities for profitable growth.

### RETURN ON NET ASSETS



Sustained profitability and a small, efficient capital base enable us to achieve a high long-term return on capital.

<sup>1)</sup> Financial targets are over a business cycle.



► accelerated, and I am therefore very pleased to see that we strengthened our offering with the launch of the ground-breaking premium cordless vacuum cleaner Pure F9. The business area completed its product portfolio review after divesting the North American commercial and central vacuum cleaner businesses.

An improved product mix contributed positively to earnings.

Professional Products continued its profitable growth journey based on product innovation and increased market coverage. The new laundry line launched in 2018 uses cutting-edge innovations and connectivity

solutions to maximize uptime and best-in-class energy savings. Acquisitions strengthened the beverage offering and added functional sales expertise through laundry rental services. Earnings remained solid. ►

■ CASE STUDIES – PROFITABLE GROWTH

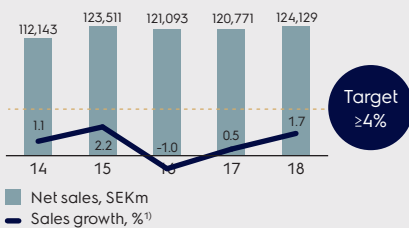
### Increase competitiveness in the U.S. through factory re-engineering

Electrolux is investing approximately USD 250m in the Anderson facility to drive profitable growth in North America with new lines of innovative Frigidaire refrigerator and freezer products. The investment will increase efficiency through automation and modularized products. The automation level will be significantly higher, from below 10% to around 35%.

Learn more on Electrolux Annual Review 2018 at: [www.electroluxgroup.com/annualreports/2018](http://www.electroluxgroup.com/annualreports/2018)



#### SALES GROWTH



<sup>1)</sup> Total sales growth excluding currency translation effects.

To reach the growth target, we are continuing to strengthen our positions in core markets, new markets and segments.

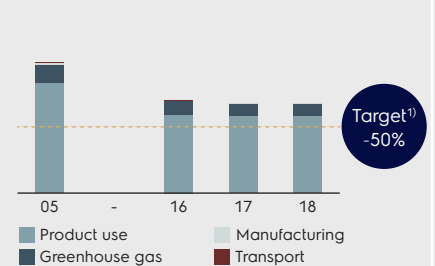
#### EMPLOYEE ENGAGEMENT



In 2017, a mini survey was carried out to monitor the teams with low scores in previous surveys. The survey showed progress.

The employee engagement survey (EES) is an important tool to assess engagement, leadership and commitment to strategy.

#### SUSTAINABILITY

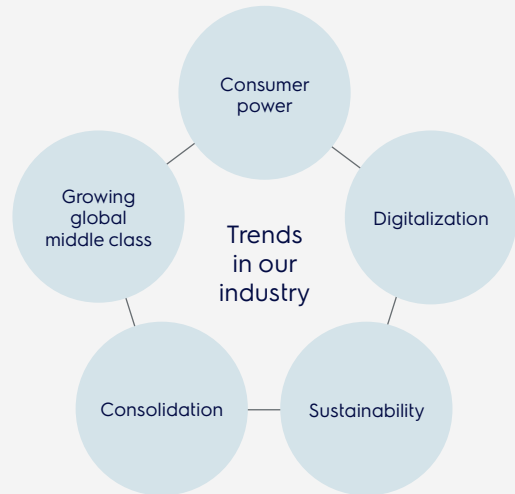


<sup>1)</sup> Reduce CO<sub>2</sub> impact by 50% in 2020 focusing on product efficiency in the main product categories. Sales volumes and emission factors are normalized to 2005.

Sustainability leadership is a key business driver and important to realizing the Electrolux strategy for profitable growth.



## Trends in our industry



### TRENDS

The increasing pace of change in the global market stems from a number of trends that influence volumes and the types of products that are in demand, but also how these products are produced, marketed and sold.

#### ► Well positioned to benefit from global trends

Electrolux is operating in a global market that is being transformed by a number of important trends. A key trend is the rise of consumer power. I am therefore convinced that our consumer-focused business model gives us a competitive advantage in today's market where the consumers are very well informed about their options. Our experience innovation and brand/product focus are therefore specifically tailored to appeal to targeted consumer segments and needs. As a global business with local presence in regions like Africa, Middle East, Eastern Europe, Latin America and Southeast Asia, we have opportunities to leverage the continued rapid growth of the global middle class. Along with digitalization and sustainability, these trends necessitate significant investments and drive industry consolidation.

With our leadership in sustainability and our re-engineering investments, Electrolux is well positioned to drive growth.

#### How to achieve profitable growth

Electrolux has a clear strategy to deliver profitable growth and create shareholder value. We define profitable growth as sales growth of at least 4% and an operating margin of at least 6% over a business cycle. At the heart of our strategy is a strong consumer focus. I firmly believe that to achieve our targets, we first need to offer outstanding consumer experiences and, with our deep understanding of consumer needs, we are well positioned to do so. We will continue to use our global strength to support investments in consumer-driven product innovation, and over the past number of years we have successfully sharpened our brands AEG and Frigidaire to target specific consumer

segments and trends. The Electrolux brand is now being sharpened in a similar way.

#### A clear consumer focus

Innovation is crucial to our continued success, especially in an industry where the consumers have the power. I am very proud that we launched a large number of new innovative products in 2018. Successful launches of new products under premium brands contributed to an improved product mix, and we continue to invest in R&D to develop new generations of products under well-established brands with a clear proposition. Product development focuses on three main areas to offer outstanding consumer experiences: great-tasting food, care for clothes and healthy wellbeing in the home, see page 7. ►



## Focused strategy for profitable growth

### PATH TO PROFITABLE GROWTH

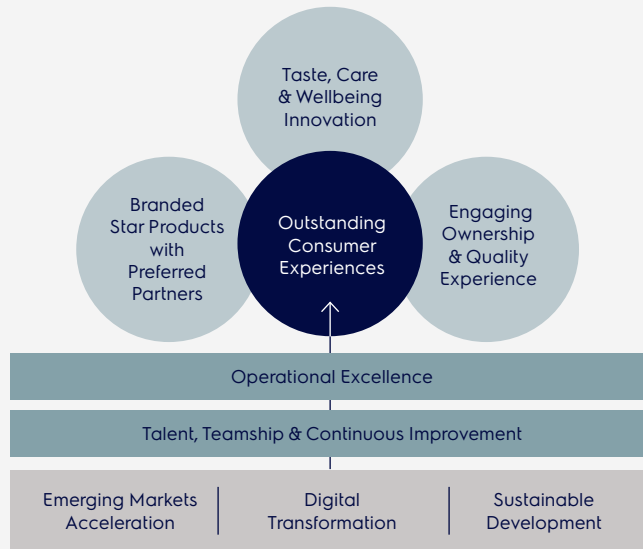
Electrolux applies a three-step model for all business areas. It starts with ensuring stability and predictability in all key processes in combination with clear focus. In the second step, the business model has resilience to external factors and clear competitive advantages that enable profitability over time. The third step is to accelerate growth in a targeted way.



A clear consumer focus sets us apart

Execution to increase competitiveness

With drivers that prepare us for the future



### ELECTROLUX BUSINESS MODELL

To achieve the Group's purpose - Shape living for the better - and drive profitable growth, Electrolux uses a business model that focuses on creating Outstanding Consumer Experiences.

#### Increased competitiveness

It is in our DNA to continuously strive to further improve efficiency and quality across the organization, from production to administration. Our global product architecture and automation program strengthens competitiveness and increases flexibility and product speed to market. In 2018, we implemented some elements of our re-engineering programs, in which we expect to invest a total of SEK 8bn over a 4-5 year period, starting in 2018. These investments will drive growth through the manufacture of innovative products as well as strong cost improvements. Teamship is essential to successfully launch new, innovative products, meet operational excellence targets and move toward profitable growth. A clear company purpose and culture that promote engagement and attract talents is also key.

“Sustainability is increasingly important to consumers, and therefore a key driver of demand.”

#### Future drivers

Emerging markets acceleration, digitization and sustainability are key drivers that we focus on to strengthen our competitiveness going forward. We see an opportunity to target the global emerging markets with a clear market positioning, targeted product platforms and innovation road map. During the year, we announced the merger of the two organizations within APAC and MEA, which are regions with similar market dynamics and this will position Electrolux well to drive future growth.

Digital manufacturing helps us minimize product cost while maximizing quality and flexibility. Through connected appliances, digitalization is a key tool to create new consumer experiences and innovations at different stages - from exploring alternatives to using the product. Importantly, it also enables us to be in closer contact with the consumer throughout the lifespan of the product.

I am very proud that Electrolux remains a sustainability leader in the appliance industry. This is crucial as sustainability is increasingly important to consumers, and therefore a key driver of demand. Efficient sustainable operations also help reduce cost. For the past 17 years, Electrolux has been a signatory of the UN Global Compact, and we are recognized as industry leader in the prestigious Dow Jones Sustainability Index.





■ CASE STUDIES – PROFITABLE GROWTH

## Induction focus accelerates profitable growth in EMEA

*For several years, the business area Major Appliances EMEA consistently focused on induction hob innovation as an important profitable growth area. Based on consumer insights and in-house developed technology, Electrolux has been able to outpace the high market growth in this built-in kitchen segment and has increased its European market share by more than 5 percentage points over the past ten years. Induction is a true star product with high margins and strong growth prospects.*

Learn more on Electrolux Annual Review 2018 at:  
[www.electroluxgroup.com/annualreports/2018](http://www.electroluxgroup.com/annualreports/2018)

■ CASE STUDIES – PROFITABLE GROWTH

## How premium laundry added >30% EBIT improvement

*Electrolux identified a potential to grow profitably in the premium laundry category in Europe under the AEG brand, with the help of a sharpened brand and product offering. Investment in focused innovation based on consumers' Care habits led to the launch of a new generation of AEG laundry products. A clear understanding of consumer relevance inherent in the development process resulted in increased market shares and outstanding consumer experience ratings across Europe. One year after the launch for the AEG brand in Europe, operating income (EBIT) in premium laundry increased by >30% and the price index for laundry increased by 7.5 percentage points. This is a clear example of how we execute our profitable growth strategy.*

Learn more on Electrolux Annual Review 2018 at: [www.electroluxgroup.com/annualreports/2018](http://www.electroluxgroup.com/annualreports/2018)





## Key areas to drive profitable growth



### Strong focus on consumer experience innovation through focused brands that drive mix

- Focused and innovative product portfolio with proven consumer benefits
- Well-established brands with strong innovation heritage
- Leading position in targeted areas
- Leading position in sustainability is growing sales and lowering cost
- Clear strategy to increase aftermarket sales



### Modularized products in automated production with digitally integrated global supply chain

- Strong track record of delivering cost reductions
- Global product architecture and automation program is instrumental to continue drive cost efficiency
- Global presence offers economies of scale



### Healthy cash flow generation and a strong balance sheet supporting further growth

- Strong balance sheet and firepower offer growth opportunities
- Healthy cash flow generation
- Increasing earnings stability through product mix and cost efficiency

#### ► Acquisitions drive growth

Acquisitions are integral to the efforts to strengthen and expand our product offering and drive profitable growth. In 2018, we acquired Schneidereit, a German supplier of laundry rental solutions for professional customers. This enables us to develop our functional sales offering and drive aftermarket sales. We also acquired SPM Drink Systems, an Italian leading manufacturer of primarily professional dispensers of frozen beverages. The acquisition is part of the strategy to strengthen our full-service offering for the professional market.

#### Well positioned to create value

The expertise and commitment of our employees remain crucial to our success,

and I would like to thank all our employees for their important contributions throughout the year.

In 2019, Electrolux will turn 100. This means that we have been reinventing what great taste, care and wellbeing experiences mean for our consumers for a century. In doing so, we have enhanced the quality of life for hundreds of millions of people around the world. Our journey toward profitable growth continues in 2019 and beyond. A strong focus on consumer experience innovation and sharpened brands will remain a vital driver in order to improve the mix. Modularized products produced in automated production with a digital global supply chain are important to increase cost efficiency and flexibility. Growth is further supported by a healthy cash flow

generation and our strong balance sheet. I am confident that we are well positioned with the right business focus in this challenging cost environment to continue to deliver shareholder value. ■

Stockholm, February 2019

Jonas Samuelson  
President and CEO