

# Remuneration to Senior Management

Below Remuneration Committee Chairman Barbara Milian Thoralfsson reports on the company's approach to remuneration to senior management.

Electrolux achieved excellent results in 2009, in a difficult and uncertain market. Total shareholder return exceeded 150%. Operating income improved substantially. Launches of new products in several markets improved the product mix. Performance targets set by the Board at the beginning of the year focused on operating margin, net working capital and cash flow and were exceeded by the company overall and by virtually all business units. The structure of Electrolux total remuneration places high emphasis on 'pay for performance' with short-term variable remuneration payouts historically correlating closely with achieved performance. In 2009, the targets relating to variable remuneration were exceeded.

In spite of the strong results of 2009, the 2007-2009 long-term incentive plan will not pay out, owing to the poor results achieved in a very difficult environment during 2008.

Looking forward, our remuneration strategy remains focused on principles that both align with shareholder interests and engage a talented and multinational senior management group. Key within our 'pay for performance' framework is to establish competitive total remuneration within our various relevant markets – normally the country or region where our executives are employed. During 2009, we reviewed elements of our total remuneration with particular attention on our long-term element. In the process, we have engaged with key shareholders to exchange ideas and discuss proposals.

The result of our review is contained in the recommendation to the AGM for 2010 on the Long Term Incentive program. We propose no change to the total remuneration structure comprising fixed

salary, a short-term variable component, a long-term share related incentive plan, and pension. We intend to introduce a mandatory personal investment feature to the long-term plan along with a matching element to enhance long-term equity ownership of executives and further align with shareholder interests.

Salaries for the President and CEO and all members of Group Management were frozen during 2009 and we expect to see only modest adjustments during 2010. As normal, targets for both short-term and long-term plans have been set at the start of this year. For the short-term, these are focused on financial goals including operating margin, and net operating working capital, while the long-term continues to be based on average EPS growth over the upcoming three-year period. Targets are, as usual, challenging but consistent with the overall strategic objectives of the Group.

We are confident that our overall approach to, and management of, total remuneration aligns well with our business goals, and long-term shareholder interests and will engage and motivate our talented and committed executive team in a very challenging market.

# Electrolux share program for senior management

Since 1998, Electrolux has offered annual long-term incentive programs to the Group's senior management. Option programs were offered in 1998–2003. Since 2004, Electrolux has long-term share programs. The Board of Directors proposes also for 2010 a performance-based, long-term share program.

As in previous years, the share program comprises financial goals that are based on the average annual increase in earnings per share over a three-year period. A requirement for participants to individually invest in Electrolux shares is a new component in this year's program. The aim is to increase the participants' holdings in the company and therefore reinforce the mutual interest of managers and shareholders in good, long-term development for Electrolux.

The Board expects that the share program will be beneficial to the company's shareholders and will contribute to recruiting and retaining competent personnel within the Group. The share program is part of the total remuneration package for senior managers and is aimed at motivating them to remain with Electrolux and become long-term shareholders. The value of the program for the participants is based on a combination of the Group's earnings development, the development of the share price and the size of own investments in Electrolux shares.

## Summary of the proposed share program 2010

- As in previous programs, participants receive performance shares if earnings per share increase annually by at least 5% on an average over the three-year period.
- The program is capped if the annual average increase in earnings per share exceeds 20%.
- A participant in the program must invest in Electrolux shares in an amount corresponding to at least 10% of the maximum value of the performance-based share program for each participant's category.
- The shares must be retained during the performance period. At the end of this period, the participant is allotted one additional share to match each share acquired.

- The program covers a maximum of 160 managers and key employees.

Invitations to participate in the program are scheduled to be posted in May 2010. The entire proposal is given in Appendix E to the notification of the AGM and at [www.electrolux.com/corpgov](http://www.electrolux.com/corpgov).

*Answers to the most frequently asked questions about the share program to be approved by the AGM are given below, together with an example of how the program would affect an individual participant.*

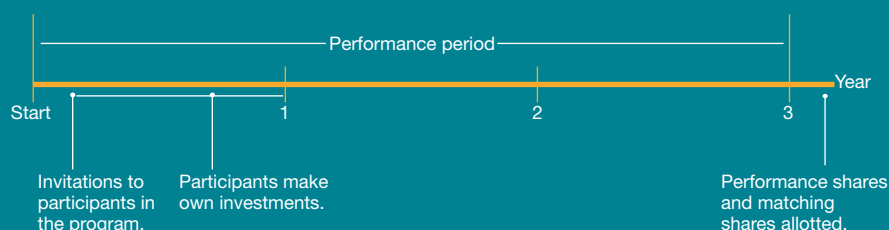
## How is the proposed share program designed?

The value of the program is based on the average annual growth in earnings per share (EPS), excluding items affecting comparability, over a three-year period ("performance period"). The invitation states the value of the program and the number of performance shares that may be allotted to each participant if the goal is achieved. Minimum and maximum levels for allotment of shares have been defined. The final outcome is confirmed by the Board at the end of the three-year period.

After three years, Electrolux B-shares are allotted to participants free of charge, based on the outcome for earnings per share.

Managers and key employees who are invited to participate in the program must invest in Electrolux shares in an amount corresponding to a minimum of 10% and a maximum of 15% of the maximum value of the performance share program for their specific positions, as indicated in the table on page 3. At the end of the three-year period, one matching share is allotted for each share acquired.

## Overview of the share program



Earnings per share for Electrolux in 2009, excluding items affecting comparability, has to increase by an average of at least 5% annually before any performance shares will be allotted.

Participants in the program must invest in Electrolux shares. At the end of the three-year period, one matching share is allotted for each share acquired.

## How many shares can be generated by the proposed program?

The Board has proposed maximum values for conversion to shares. These values are related to the participant's position. The maximum value for the President and CEO is SEK 5m and for other members of Group Management SEK 1.8m. For other participating senior managers there are three different levels of value related to their positions, with a maximum of SEK 1.3m at the highest level and SEK 675,000 at the lowest. See table below.

Maximum values are converted to shares on the basis of the average closing share price for Electrolux B-shares on the exchange NASDAQ OMX Stockholm during the 10 trading days prior to the date the managers are invited to participate in the program. The value of the shares is reduced by the present value of the estimated dividend during the performance period. The number of shares allotted depends on the average annual growth in the Group's earnings per share.

The table below shows the value that the program can generate. If the target of an average annual increase of 5% in earnings per share is achieved, 25% of the maximum number of shares is allotted. If Electrolux earnings per share increases by an average of 20% or more annually, 100% of the maximum number of shares is allotted. If the average annual increase is less than 5%, no shares will be allotted. See figure on next page.

As in previous years, the maximum aggregate value for all participants is SEK 146m.

In addition to possible performance shares, one matching share is allotted for each share acquired through individual investment in accordance with the program requirements.

### What is the cost of the proposed program?

The total cost of the program is estimated at not less than SEK 11m if only matching shares are allotted, and at a maximum of SEK 222m if the maximum number of matching and performance shares is allotted.

### How does the program affect the number of outstanding shares?

Use of repurchased shares in accordance with the program would involve a maximum increase of approximately 0.5% in the total number of outstanding shares. The aggregated increase in the number of outstanding shares generated by the proposed share program for 2010, the share programs for 2008–2009 and the option programs for 2003 is a maximum of approximately 2.0%.

The share program is one component in the total remuneration package for senior managers. The other components comprise fixed salary, variable salary based on annual targets, and other benefits such as pensions and insurance.

The value of the program for an individual participant depends on three factors, i.e., the extent to which the targets for earnings per share are achieved, and the trend for the share price during the performance period and the size of own share investments. One of the benefits with variable components in remuneration is that the company's cost for remuneration varies with the performance of the business.

### Values of the performance-based share program

Position	Group	Maximum value, SEK	No. of shares* (rounded)
President		5,000,000	32,258
Group Management		1,800,000	11,613
Others, approx. 150 managers	C	1,350,000	8,710
	B	900,000	5,807
	A	675,000	4,355

\* Based on a share price of SEK 155 after reduction of a total expected dividend of SEK 8.20 over two years.

### Own investments in Electrolux shares

Position	Group	Minimum*, SEK	Maximum**, SEK
President		500,000	750,000
Group Management		180,000	270,000
Others, approx. 150 managers	C	135,000	202,500
	B	90,000	135,000
	A	67,500	101,250

Participants in the program must invest in Electrolux shares. At the end of the period, one matching share is allotted for each share acquired.

\* 10% of the maximum value of the performance-based share program.

\*\* 15% of the maximum value of the performance-based share program.

## How does the program benefit the individual participant?

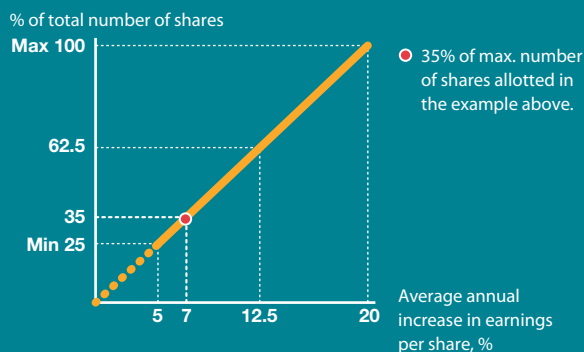
The example below shows the potential value of participating in the share program for Bertil, a manager from Group B. The maximum value of the program for him is SEK 900,000 (see table on previous page). The share price used to convert value to shares in this example is SEK 155. This means that Bertil can expect a maximum allocation of 5,807 performance shares.

The example involves an assumption that earnings per share for Electrolux in 2009 will increase on average by 7% annually over a three-year period, and the share price will rise to SEK 225 at the end of the period.

1. In May 2010, Bertil is invited to participate in the long-term share program, on condition that he invests in Electrolux shares. He may invest a minimum of 10% and a maximum of 15% of the maximum value of SEK 900,000. During 2010, Bertil invests SEK 90,000, corresponding to 530 Electrolux shares at an average market price of SEK 170. He must retain the shares until the end of the performance period.
2. The maximum value of the share-based program of SEK 900,000 is converted to shares. The share price in our example is SEK 155. The invitation to the program therefore specifies that Bertil is entitled to a maximum allocation of 5,807 performance shares.
3. There is now an incentive for Bertil to remain with Electrolux during the years covered by the program. At the end of this period, Bertil will receive in addition to possible performance shares one matching share for each Electrolux share he purchased. If he leaves the company during the three-year period covered by the program, he will not receive any shares.
4. The number of performance shares that will be allocated to Bertil depends on the trend for Electrolux earnings. If the company does not achieve the goal of an average annual increase in earnings per share of at least 5%, no shares will be allotted.
5. We assume in our example that when the three-year period ends in 2012, Group earnings have increased by an annual average of 7%. Bertil will be allocated 2,033 performance shares, corresponding to 35% of the maximum number of 5,807 shares (see the graph below). In addition to these shares, one matching share will be allocated to Bertil for every share he purchased. He will thus receive another 530 shares without cost.
6. Bertil has received a total of 2,563 shares under the program. If he is a resident of Sweden and his marginal tax is 55%, 1,410 shares will be used to cover the tax.
7. Bertil has thus received 1,153 Electrolux shares net of tax under the program. If the price of the Electrolux share has risen to SEK 225, the total value of these shares is approximately SEK 260,000. In addition, due to the positive share-price development the value of his own investment in 530 shares has risen from approximately SEK 90,000 to SEK 119,000. The outcome of the program for Bertil has been determined by the positive earnings trend for the Group, the increase in the trading price of the share and the size of his own investment in Electrolux shares.

*If you have further questions about the program, please contact Electrolux Investor Relations at +46 8 738 60 03, or by e-mail [ir@electrolux.se](mailto:ir@electrolux.se)*

### Allotment of shares



The value of the program for an individual participant depends on three factors, i.e., the extent to which the targets for earnings per share are achieved, the trend for the share price during the period and the size of own investment in Electrolux shares.

If the target of a minimum 5% average annual increase in earnings per share is not achieved, no performance shares will be allotted.