

Michael Treschow's speech at Electrolux AGM, April 25, 2000

Dear shareholders and guests ,

During the past year we completed the restructuring that we started in 1997. This was a painful but necessary process, during which 14,500 people, or more than 10% of our employees, left the Group, and we shut down 27 plants and 50 warehouses.

At the same time, our operations were streamlined to comprise the areas where we are a leader and have competitive advantages. Since 1997 we have divested operations with total sales of more than 20 billion kronor, more than 22,000 employees, and total operating income of about 1 billion kronor. This is the equivalent of a typical Swedish listed company exiting from the Group.

The focus on profitability and streamlining has paid off. In 1999, net income per share increased by 29%.

For the first time, we are now reporting results by geographical region for our consumer products for indoor and outdoor use. The strong improvement in North America that has been in progress for more than three years is especially gratifying. As you can see, our operations in new markets such as Brazil and Asia are still in the red, although income improved there during 1999.

Our professional products for indoor use include food-service equipment, commercial laundry equipment, leisure appliances and components. Sales of these products decreased because we divested several operations, in particular the one for food and beverage vending machines - and operating income rose during the same period. Professional outdoor products, mainly those in the Husqvarna operation, reported somewhat lower income.

There were two dark clouds in our skies during 1999. One of them was a court decision in the US which makes us liable for pension costs in a company that was divested by our American subsidiary WCI before we bought it. The other was unauthorized currency trading by an employee at our internal bank in Germany. Both of these events led to provisions that have been charged against income for 1999.

For some time, Electrolux's financial targets have been an operating margin of 6.5-7% and a return on equity of at least 15%. As we shall soon see, we achieved these targets in the first quarter of this year, which is normally the weakest quarter, as well as in two quarters of 1999. Our total operating margin for 1999 was 6.2%, and the return on equity for the year was more than 17%. So it is now time to set new targets.

We use the concept of "value creation" as a measure of success for Electrolux, both for the Group as a whole and for all our business sectors.

How do we compute value created? Electrolux sales in 1999 were 119.6 billion kronor, and our operating expense was 112.2 billion. The remaining 7.4 billion kronor is our operating income.

From this income we subtract the total cost of the net assets that we use. The total value of Electrolux assets is about 40 billion kronor, and with an average cost of capital of 14% this

gives us a cost of 5.6 billion. This means that we created value in the amount of 1.8 billion kronor in 1999.

This is 1.4 billion kronor more than the value we created in 1998, which was 0.4 billion kronor, computed by the same formula. If we go even further back in time, we find that Electrolux actually destroyed value during a number of years. In other words, our operating income was not enough to compensate for the costs of the assets we used.

Over the past three years we have created average additional value of 1.2 billion kronor per year, and our goal is to maintain this positive trend. This means that our goal is to create at least an additional one billion kronor in new value annually over the next three years.

How will we reach our goal?

First of all, through organic growth, by increasing our sales volume. Important factors for organic growth include new and attractive products as well as better service to dealers and consumers.

Secondly, through lower costs and resulting improved margins. We must continue to make our operation more efficient. We are focusing in particular on improved margins, and we will not be satisfied until our margins are in the same class as those of our foremost competitors.

Thirdly, through improved capital management. A rational flow from suppliers to consumers requires less capital.

I would also like to emphasize that historically there is a direct link between value created and the trading price of our shares.

I would now like to describe our business model for consumer products. Our ultimate goal is of course for consumers to buy and use our products - to prepare or store food, clean clothes, dishes, and their homes, and take care of their gardens.

Consumers purchase our products from dealers, who are our customers.

We develop and manufacture these products within the Group on the basis of materials and services that we buy from our suppliers.

To generate new ideas and new competence, we form strategic alliances with other companies.

Information is exchanged continuously between the various players, depending on their requirements.

And this information generates a continuous flow of physical goods from suppliers through Electrolux and through the dealers, to the homes of our consumers – from raw materials to ready-to-use products.

It is important to maintain this holistic overview, because we can see that there are great opportunities to be realized by refining and optimizing this model. And this is where IT and

the Internet in particular create completely new potential. They give all players simultaneous access to information, which completely changes the conditions in which we operate.

The moment of truth is when the consumer walks through the door at the dealer's. The consumer is interested in a product that he or she uses often, but does not buy very often. Our products are on display next to those from our competitors. Which means that we must have attractive, modern products that offer value for money. And we must have strong brands that consumers recognize and appreciate. And of course we must have dealers who are strongly motivated to promote and sell our products.

I would now like to highlight some of the new products we launched in 1999:

A new washer with a sloping front eliminates the need to bend over in order to fill or empty it.

The new AEG dishwasher is a good example of our products with high environmental performance. It consumes only 11 liters of water and is virtually silent.

Our new, silent air-cleaner automatically adjusts to ambient noise levels air quality – and it's also on sale here today at a special discount for shareholders.

Our compact professional steam oven is a completely new type of product for small kitchens.

This new bush-trimmer features a motor that we developed, and opens up a new market segment for Husqvarna.

In terms of product development, we have great expectations for our partnership with Toshiba, which got under way in 1999. Earlier this month I attended a meeting in Tokyo where we decided to intensify our cooperation. This will cover purchasing and development of electronics for our products, and Toshiba will also sell a range of Electrolux products in Japan.

Developing products that support wireless and Internet communication will enable us to offer totally new services to our customers. We are convinced that the networked home will be an important part of our future product offering. This is the background to our joint venture with Ericsson - the e2 home - that was presented in October.

Next week, together with representatives of the JM Bygg construction company, I'm going to break the ground for a series of intelligent homes in central Stockholm. Just as the refrigerator once was the symbol of a modern home, the Screenfridge – a refrigerator with a built-in screen – is the symbol of the intelligent home. It can be used to control a wide range of functions, including information about the weather, or about bus timetables. The families in these homes can use their refrigerators to book time in the laundry room, or to buy food. They can call home from their cars to check that they turned off the oven. They'll feel more secure, thanks to burglar alarms and a central locking system that opens with a fingerprint, instead of a key. And these are only a few of the new functions that will be available to them.

On the Swedish island of Gotland, in the Baltic, we have offered washing machines to 7,000 households, free of charge. They pay for each wash, which is reported on their electricity bills. We take care of service, as well as upgrading of the machines after about 1,000 washing

cycles. In the future, we will continue to sell our products, but I believe that we will also sell more functions, such as cleaning clothes or heating food.

The Internet also creates new channels for communicating with the people who use our products. It gives us an opportunity to present our product offering directly to the consumer, and to offer contact, service and support for the lifetime of a product. We now have about 50 Internet sites in different languages, for different various brands.

One example of a popular service is the function for downloading product manuals direct from the Internet. Another is the function for trouble-shooting and obtaining help for simple faults at www.elektroservice.se. We have also developed our own system for responding quickly to the approximately one hundred thousand e-mail messages that we receive each year from consumers around the world.

Our brands are our links with consumers. We are convinced that we can make better use of our family of strong brands in order to strengthen bonds with our consumers, which will contribute to sustainable growth. We also believe that strong brands will become even more important as consumers search for information on the Internet more frequently.

We intend to use the Group's size and strength as a guarantee for quality, leadership, and confidence in all our products. All communication for specific brands will emphasize that behind every product is the Electrolux Group, under the theme "The world's number one choice".

Our customers are not consumers. They are dealers. They are interested in creating sustainable profitability for their operations. They want to be sure that the right product is in the right place at the right time. They want to avoid complications and problems.

Meeting these demands and making life as easy as possible for dealers enables us to build strong relations with them.

The structure of retailing is now changing rapidly. Through acquisitions, dealers are getting bigger, and there are fewer of them. This process is most advanced in the US, where a handful of retail chains dominate the market for the types of products we supply. And in the US we have also been able to achieve good growth in sales by improving our service to these chains.

But the process of concentration is rapidly under way in other parts of the world as well. And we are convinced that this is good for Electrolux. The big chains want suppliers with wide geographical coverage and a broad product range. Within household appliances in Western Europe, we are the only company with substantial market shares and leading brands in virtually every country.

Our new structure for white goods in Europe will give us a better capability for working with both large and small dealers. The national organizations are being coordinated in a new company, Electrolux Home Products, based in Brussels. All marketing, product development, logistics and production are being integrated on a pan-European basis. At the local level, the top priorities are customer care and service.

On July 1, the new head of Electrolux Home Products will be Wolfgang Koenig, previously in charge of Kodak's consumer products in Europe, Africa and the Middle East!

We also use the Internet to communicate with our dealers in Sweden. They can now order products, receive information on delivery dates and check their credit limits directly on the Web. This type of communication naturally reduces our costs, and at the same time improves our service. We are now planning to launch a similar system throughout Europe next year.

The next step in our business model involves our own operations. The restructuring program has shown that efficiency can be drastically improved. A good example is Frigidaire Home Products in North America, where among other things we have cut inventories in half relative to sales, by creating a better product flow. We also know that close cooperation with the major dealers generates cost savings that benefit both partners.

This summer, our product line for commercial laundry equipment will build a factory outside Ljungby, Sweden that is based on a completely new working method. This is one of our biggest investments in Sweden in recent years. Our salesmen will use an Internet application in their contacts with customers, and will be able to provide direct information on prices and delivery dates. This new, simplified, modular production system will reduce the time from order to delivery by 50%, and will drastically reduce capital tied up in inventories.

Our internal labor market is another example of a good Internet solution. The Open Labour Market on the Internet lists open positions within the Group, which helps increase mobility for personnel.

Electrolux purchases more than 80 billion kronor worth of goods and services each year from our suppliers, who comprise the next component in our business model. These purchases involve substantial handling costs, which gives us a big opportunity to save money.

At the moment, within our North American operation we are at work building a system that gives suppliers access to all relevant data on sales and production, so that they can take over responsibility for inventory management within our plants. The information is updated four times a day. This means that we don't have to spend time planning the inflow of material, and our suppliers have more freedom to plan how they can best meet our demands.

I would now like to introduce another new member of Group management. In September, Lilian Fossum will take over as head of organizational development and management resources. A vital part of her work will be to continue creating a leadership with diversity in terms of age, gender and nationality.

I would also like to say a few words about our performance during the first quarter of this year. Income per share rose by more than 30% in comparison with the first quarter of 1999. Margin was 6.6%, and the return on equity was 18.4%. This was a strong performance, primarily on the basis of good demand, which we expect will continue at a high level for the rest of the year. During the first quarter we created value corresponding to 691 million kronor, which is more than 500 million higher than in the first quarter of last year.

To sum up, the last few years have featured comprehensive restructuring and continued streamlining to the Group's core areas. We are now focusing on being an attractive consumer-goods company – and many of the examples I have named here refer to that part of our

operation. At the same time, we are developing our professional products. These operations differ in that they involve working with different types of dealers, but the new opportunities that are being generated by new technology, in particular by the Internet, apply to the Group as a whole.

People sometimes talk about the contradictions between new and traditional companies. The companies that are called new normally base their business concepts on the Internet. The traditional companies are contrasted with them. I believe that this is a mistaken approach. Certainly, many of the new Internet companies will grow and fulfill great expectations. But the big winners from the new technology will be the traditional companies that succeed in developing their operations by making use of the new opportunities.

I am fully convinced that we are in the midst of a period of great change. Product life-cycles are becoming continuously shorter. Accurate, inexpensive and easily accessible information enables us to cut costs. We will see new alliances and new business models. Customers will become more demanding. Today, I have given you a few examples of how we are utilizing new opportunities here at Electrolux. In other words, we are integrating the Internet in our business model.

It is now time to start a new period in the development of Electrolux, with focus on growth and innovation. With deeper relations with dealers and consumers. To continue to build a company with good growth and profitability. A company that creates value for business partners, employees and shareholders!