Questions & Answers about the repurchase of Electrolux shares and options program

This booklet provides answers to the most commonly asked questions about the repurchase and redemption of shares and about the options program prior to the decisions that will be taken at the 2003 Annual General Meeting. The full text of the Board proposal for decision by the AGM is contained in the formal invitation to the Meeting and can be read on http://investors.electrolux.com

Should you have more detailed questions, please contact Electrolux Investor Relations, telephone number +46 (0)8-738 6000, or send an e-mail to ir@electrolux.se

Electrolux

Regarding the repurchase of company shares

1. Why is Electrolux repurchasing its own shares?

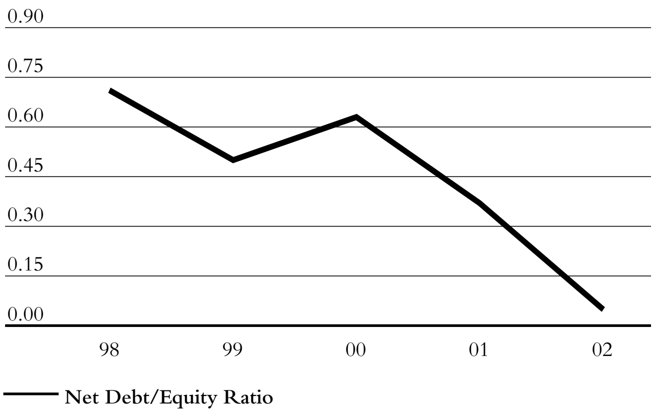
In recent years, Electrolux has enjoyed good profitability and has built up a strong balance sheet. We have also sold assets, reduced inventory and reduced our debt.

Net debt (interest-bearing loans less liquid assets) in relation to equity was 0.05 at year-end. Our policy is to maintain net debt at between 0.5 and 0.8 times shareholders' equity. Expressed in the form of an equity/assets ratio (shareholders' equity as a percentage of total assets) the corresponding key ratio was about 30% at the year-end. This indicates a significantly stronger balance sheet than our debt/equity target.

By repurchasing shares, the Board believes that we will achieve a better balance between shareholders' equity and borrowed capital. It is good for a company to have a certain portion of interest-bearing liabilities since the interest on them are tax deductible. This increases the value accruing to shareholders through the payment of dividends or price rises. The strong balance sheet has also provided us with an overly strong cash position, which generates a lower return on equity.

Moreover, the repurchased shares may be only used to finance possible company acquisitions and as hedge for personnel options programs (see below). We are not allowed to sell the shares back to the market and speculate in any share price improvement.

Net Debt/Equity Ratio

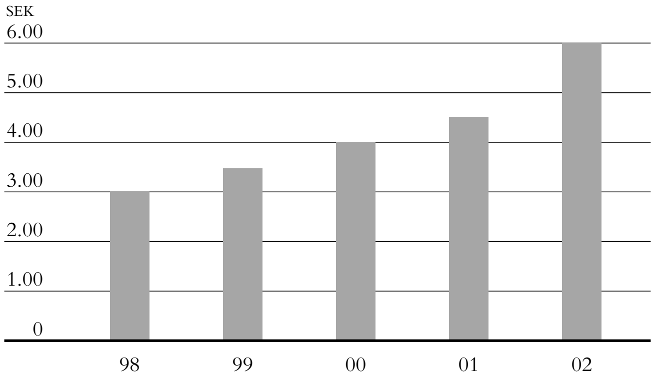


The net debt/equity ratio has been reduced significantly over the past years and was 0.05 at year-end 2002.

2. Why don't you reduce shareholders' equity in relation to liabilities by raising the dividend instead?

The Board has made the assessment that a reasonable balance would be to propose an increase in the dividend from SEK 4.50 to SEK 6.00 and permit a further repurchase of up to 10% of the total number of shares in the company. Repurchase, with its accompanying flexibility, has an advantage compared with dividends, since shares can be used for financing possible acquisitions. If a company can increase its operating profitability through acquisitions, the opportunities to do so are improved if the company holds a stock of repurchased shares. The repurchase approach is also characterized by tax advantages.

Dividend per share



The Board of Directors proposes an increase of the dividend by 33% to SEK 6.00 per share.

3. How do you repurchase your own shares?

A couple of years ago, a change in legislation was made that enabled listed companies in Sweden to repurchase their own shares. Electrolux has engaged in the buy-back of own shares since year 2000. According to law, a company may not repurchase more than 10% of the total number of its own shares. In order to repurchase more shares, the shares already repurchased must be cancelled. (See next question).

4. How do you cancel the repurchased shares? Why is it so difficult?

The cancellation of repurchased shares is a complicated process that requires court permission and can take up to six months to complete. To achieve the same end-result more rapidly, it is possible to use newly issued, redeemable C shares. This achieves the same result but the company saves time and money. This method has been used by several Swedish companies, including Skanska, Holmen, Trelleborg, Drott and Lundbergs.

Electrolux used the same method in 2002 and will propose to the 2003 AGM that it be used again.

This is how it works.

1. The AGM resolves that the company's share capital be reduced through the cancellation of the B shares repurchased by the company. An amount corresponding to the reduction is transferred to an unrestricted fund, so that the restricted shareholders' equity in the company is reduced in a corresponding amount.
2. The AGM resolves that the share capital in the company be increased by the same amount through a private placement of redeemable C shares. Since the company then receives share capital that corresponds in amount to the reduction noted in item 1, the reduction in B shares can be made

without a court decision. A bank (in our case Handelsbanken) undertakes to subscribe for all of the C shares.

3. The AGM resolves that the company's share capital shall be reduced through the redemption of C shares. The reduction amount which is taken from unrestricted shareholders' equity is transferred to the statutory reserve (restricted equity).
4. The redemption of the C shares is carried out immediately after the issue of the C shares has been registered. In practice, this means that Handelsbanken will "own" the shares for only about 15-20 days. The bank receives the redemption amount plus interest. The redemption amount is paid using funds from unrestricted shareholders' equity.

5. How does the reduction in share capital affect a shareholder?

The reduction does not have any practical effect on the shareholder. The shares purchased earlier by Electrolux are cancelled, but since the share capital was already reduced at the purchase date, no further change in value arises for either the shareholder or the company. As a result of the reduction, additional repurchases of the company's own shares can be carried out in future.

Regarding the options program

6. Why does Electrolux have an options program?

The Electrolux stock options program covers approximately 200 senior managers in the Group. The program is part of their total compensation package, which also includes a fixed salary, earnings-based remuneration and other benefits, for example pension benefits.

There are three main reasons for the options program:

1. Such programs create *long-term* commitment among key members of Group personnel.
   The programs have maturity periods of seven years, with opportunities to exercise 1/3 after one year, 1/3 after two years, and so forth. In general, other variable remuneration is based on earnings under a single year.
2. Such programs focus internal attention on *shareholder value. Other variable remuneration has no direct relation to the price of the share. Variable remuneration is based mainly on annual value creation, meaning specifically sales, operating earnings and the size of the assets tied up in operations.*
3. Such programs make Electrolux an attractive employer in the international labor market.
   The approximately 200 managers covered by the program come from 21 different countries. Electrolux competes for the top executives active in the type of international labor market where such programs are commonplace.

The stock option program for managers is a part of the managers' agreement with Electrolux. If that part, or any other part is revoked, it must be substituted with something else.

7. How does the Electrolux stock options program work?

The approximately 200 key persons involved are each allotted 15,000 options, with the exception of the President, who is allotted 60,000 options and members of Group Management, who are each allotted 30,000 options. The program contains a maximum of 3,000,000 options.

The exercise price is based on a price for the Electrolux share for a period of ten days before allotment, plus 10%. (For example, if the share price is SEK 150, the strike price is SEK 165). Allotment will be effected not later than May 30, 2003.

The options may be used to acquire a corresponding number of shares at the exercise price for 1/3 of the holding after one year, and 1/3 after two years, and so forth. The program has a maturity period of seven years. If the options have not been exercised during the maturity period they become worthless.

The options are not transferrable. The value per option is equal to the share price less exercise price. (In our example, the options only assume a value when the share price exceeds SEK 165).

Electrolux Option Programs

	1998 Plan	2001 Plan
Years	1998 / 1999 / 2000	2001 / 2002 / 2003
Options per Lot *	10 600 / 16 700 / 6 500	15 000 / 15 000/ 15 000
Strike Price	115%	110%
Awarded by:	Position	Position
Participants	Approximately 100	Up to 200
Size of Allotment	Based on Prior Year Value Creation	Fixed Lot
Vesting	12 months	1/3 – 12 months 1/3 – 24 months 1/3 – 36 months
Term	5 year	7 year

8. Why and how are repurchased shares applicable to the stock options program?

Since Electrolux undertakes to redeem the options, the company uses the repurchased shares in order to hedge the costs that will be incurred if the price increases. When an employee wants to exercise his/her options, the company sells a corresponding number of shares.

In addition to this, a portion of the repurchased shares is reserved as a hedge against the employer contributions the company must pay if an option is exercised at a profit.

9. What can an option holder earn on the options? Do the options have any value before they are exercised?

The value of the option is wholly dependent on the trend of the share price. Since the options cannot be sold in the open market, the value per option at any given time is equal to the price of the share minus the strike price. A share price that is SEK 10 higher than the strike price at the time of exercise provides the holder of 15,000 options with a net profit of SEK 150,000 before tax.

Value can also be calculated in a theoretic manner using the Black & Scholes model. Among other factors, this model takes into account the time remaining to expiration and the volatility of the share price. The model is used to calculate the employer contributions payable for future exercise of the options.

10. What is the cost to shareholders?

There are three types of cost:

1. *Employer contributions when options are exercised.* A provision for this in an estimated amount of SEK 18 m has been made in the year-end accounts for 2003. The actual cost will depend on the value when the options are exercised. To hedge this expense, a certain portion of the repurchased shares has been reserved.
2. *The financing cost of the repurchased shares* (commission, etc). Costs in 2003 are expected to amount to SEK 20 m.
3. *Dilution of share capital.* The maximum possible dilution is calculated as follows:

Program	Dilution	Strike price	End-year
1998	–0,2%	170	2004
1999	–0,4%	216	2005
2000	–0,2%	170	2006
2001	–0,9%	177	2008
2002	–1,0%	191	009
Proposed, 2003	–1,1%	*	2010
Total	**–3.6%**		

* *The exercise price is based on a price for the Electrolux share for a period of ten days before allotment, plus 10%.*

The dilution in the table is based on all option holders exercising their right to purchase shares based on the terms of the stock options program. For this to occur, the share price must exceed the exercise price at the time of exercise.

If Electrolux had not had a stock options program, the company would have had to employ some other form of remuneration system, which would have affected the company's costs and profit.

11. What happens if the share price falls under the price that Electrolux repurchased the shares for? Does the company incur an extra cost?

If the options expire without any value, Electrolux is not required to sell the shares that have been used as hedge. The shares can either be cancelled or moved to a future options program. Repurchased shares are dealt with over shareholders' equity. Already at the time of the repurchase, share capital was reduced with the payment for the shares. When options are cancelled, no transactions are recorded in the company's books. Therefore, there is no risk for extra costs.

12. How was the proposal created? What majority is needed at the AGM?

The proposal was drafted by the Board's Remuneration Committee, which consists of the Board Chairman, Vice Chairman and the company President. The Board as a whole has voted to recommend that the proposal be accepted by the Annual General Meeting.

A decision on the approval of the 2003 stock option program, that is, Point 14 F on the AGM agenda, requires consent of at least half of the votes.

A decision on the transfer of shares in connection with the stock options program, that is, Point 14 G (i) on the AGM agenda, requires a majority of at least nine-tenths of the votes and the shares represented at the Meeting.

A decision on the transfer of shares to cover employer contributions in connection to the stock options program, that is, Points 14 G (ii) and 14 H on the AGM agenda, requires a majority of at least two thirds of the votes and the shares represented at the Meeting.

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