

## **Annual General Meeting, 2004**

Questions and answers regarding the proposed share program for senior managers and share redemption

This folder provides answers to the most frequently asked questions regarding the share program and share redemption prior to decisions at the Annual General Meeting. The Board of Directors' proposals are presented in the invitation to the Annual General Meeting and are also available at [www.electrolux.com](http://www.electrolux.com)

For answers to more detailed questions, please contact Electrolux Investor Relations at telephone: +46-8-738 60 00 or via e-mail at [ir@electrolux.se](mailto:ir@electrolux.se)

## **Share program for senior managers**

The Electrolux Board of Directors proposes that the 2004 Annual General Meeting approve a share program for senior managers and key employees in the Group. The proposed share program is aimed at creating long-term value for shareholders by means of a clear link to targets for the Group's value creation over a number of years.

### **Why does Electrolux have a long-term incentive program?**

Since 1998, Electrolux has had an annual stock options program for its top senior managers. The Electrolux Board proposes that, effective 2004, the stock option program be replaced by a share program. The program covers almost 200 managers in the Group and is part of their overall compensation package. The other components of the package are a fixed salary, a variable salary based on annual targets, and other benefits, such as pension and insurance.

The long-term incentive program is aimed at creating a long-term focus on the company's earnings. It is also in line with Electrolux principles for performance-based remuneration, and is an integral part of the total compensation package for those involved. The Board believes that the program will benefit the company's shareholders and facilitate recruiting and retaining skilled employees.

### **Why has Electrolux decided to introduce a share program instead of employee stock options?**

The Board's criteria for a new incentive program are that it should

- create long-term value for shareholders through a clear link with earnings targets over a number of years
- be perceived as reasonable in terms of allotment and results
- raise the long-term commitment of key employees at the executive level
- increase share ownership among senior executives
- attract employees in a global labor market

A share-related program is the model the Board currently believes is best suited to meet the requirements of an incentive program for Electrolux.

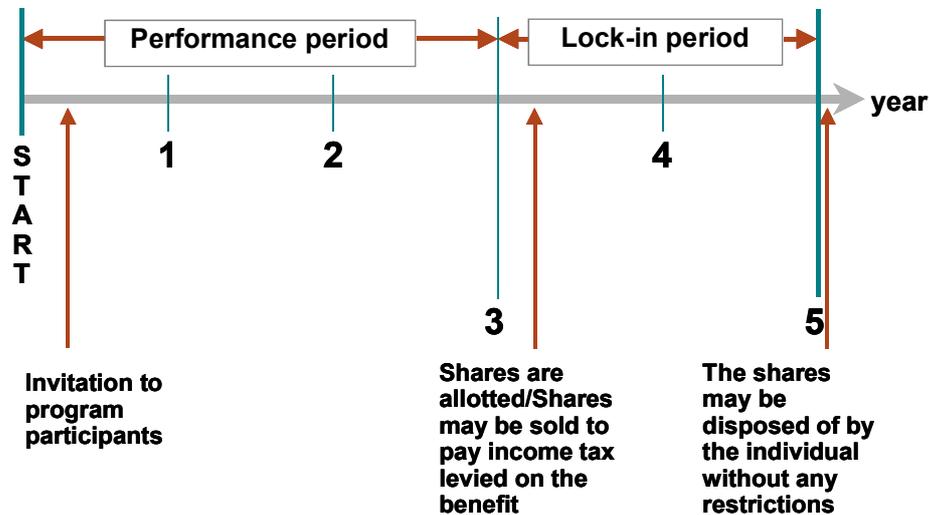
### **How is the proposed share program structured?**

The financial targets (value creation) are set for a three-year period – the "performance period."

At the initial stage of the performance period, program participants will receive information regarding the value-creation targets set by the company, and how many shares each participant will be allotted if these targets are met.

Following the performance period, value creation is summed for the three years and compared with the targets. At no cost, the individual is allotted a

number of shares based on the targets attained. The individual may immediately sell a portion of the shares to cover future taxation of benefits. The remaining shares must be held for another two years before the individual can dispose of them.



The program runs for five years. The Board sets the targets for the performance period, which is three years. The two subsequent years are referred to as the lock-in period.

### **How are the targets set and who assesses them?**

The program is based on the value creation targets set by the Board. The Board sets three levels for target fulfillment: "entry", "target" and "stretch" (the minimum level, target level and maximum level, respectively). The Board determines the final outcome at the end of the three-year period.

No shares will be allocated if the Group does not attain the minimum level at the end of the period. The Board has also set a maximum level for potential share allotment. The maximum level is 1.5 times the number of shares set for the target level. The maximum level may not be exceeded, irrespective of the degree of value creation attained during the period.

### **What is the potential value of the proposed program for the individual?**

The Board has set the target values for particular positions. The target value is SEK 2,400,000 for the President, while for other members of Group management the target value is SEK 1,200,000, and for other senior officers who are offered the program the minimum is SEK 450,000, with a maximum of SEK 900,000. The aggregate target value set for all participants will not exceed SEK 120m.

The target values are converted into a number of shares. The exact number of shares will be based on the average closing price of the Electrolux B-share on Stockholmsbörsen (Stockholm Exchange) during a period of ten trading days

before the day participants are invited to the program. The values are reduced by the present value of the anticipated dividend payments for the period until shares are allotted. Subsequently, the number of shares is linked to the levels set for value creation in the Group.

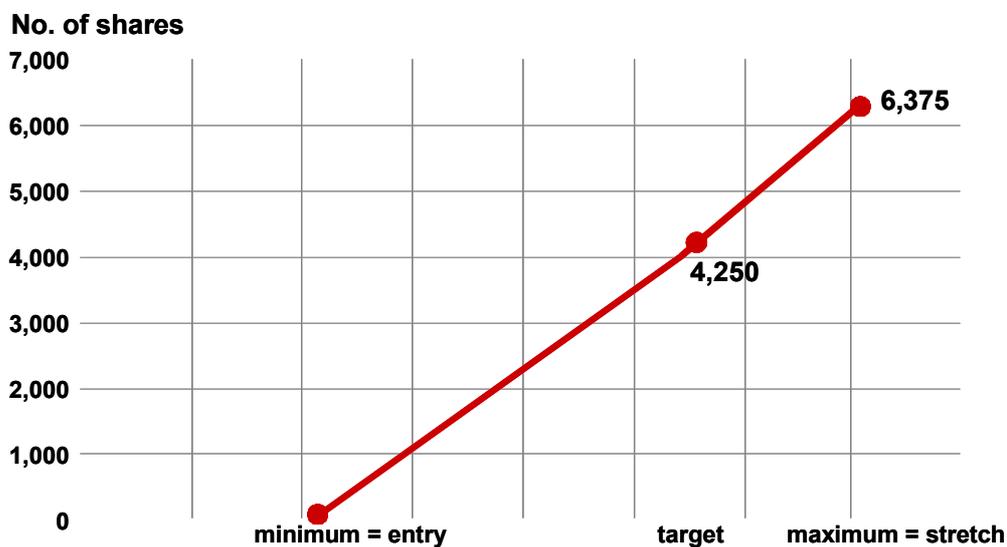
Invitation to participants intends to be distributed in May 2004. The invitation will provide the participants with information about which targets that shall be achieved (value creation) as well as how many shares the individual will be allotted if the targets are attained.

### Example of conversion of target values to number of shares

Position	Group	Target value (SEK)	Number of shares* (rounded)
President	1	2.400.000	17,000
Group management	2	1.200.000	8,500
Other managers, approx. 180	3	900.000	6,375
	4	600.000	4,250
	5	450.000	3,188

\* In the example, we have used a share price of SEK 163 (reduced by an aggregate anticipated dividend over there years of SEK 22).

### Exemple of potential no. of shares for group 4 among "Other managers, approx. 180"



The value of the program for the individual depends on two factors: the degree of fulfillment of the Group's value creation targets; and, the share price trend during the performance period and the lock-in period.

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

The cost of the proposed program is comparable with previous employee stock option programs. If the set target level is attained the cost is estimated to approx. SEK 150m, including employer contributions and financing costs. If the maximum level (stretch) is attained, the cost is estimated to SEK 240m. If the company does not reach the minimum level (entry) for the program, only the financial cost for hedging the program arises. This cost is estimated to approx. SEK 17m.

**How great is the program's dilution effect?**

Since the number of shares is substantially fewer in the proposed program compared with the number of options allotted during 1999-2003, dilution will be less. Anticipated dilution is estimated to be a maximum of approx. 0.55%, calculated as the maximum increase in the number of shares. The overall dilution for the options program and share program amounts to a maximum of approx. 3.88%.

**Will the stock option programs be terminated?**

No new options will be allotted for 2004. However, the option programs already in progress will continue as scheduled. In other words, employees who have been allotted options will continue to have the opportunity to exercise their options in line with the program.

**Value creation**

Value creation is a measurement adopted by the company to measure value created. Electrolux creates value when operating income exceeds the cost of capital required by operations. Capital consists of all plants, inventories, and receivables less liabilities to suppliers.

## Share redemption

### What does the share redemption offer entail?

The offer entails that shareholders are entitled to redeem their shares in exchange for cash payment. In practice it means that the company pays out capital to shareholders in return for shares.

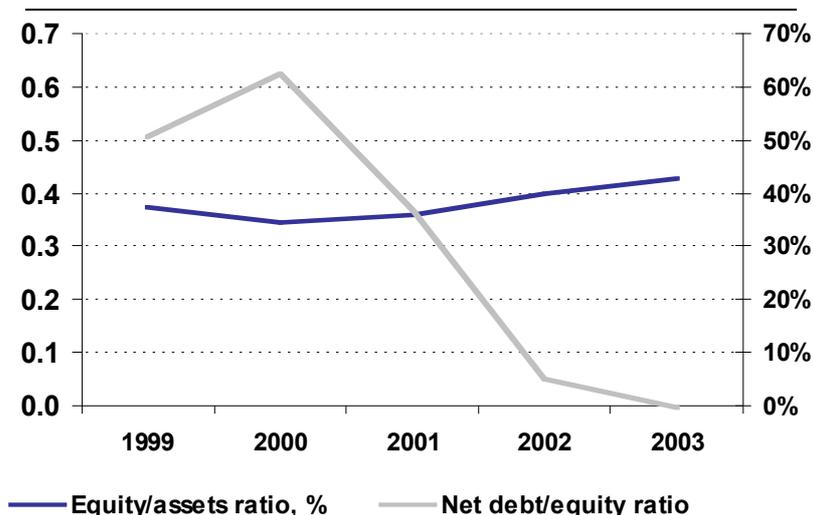
### Why is Electrolux proposing a share redemption?

**Electrolux earnings and profitability have improved steadily in recent years. Both cash flow and the balance sheet have been strengthened.** Net debt, meaning interest-bearing loans minus liquidity in relation to adjusted equity\*, was 0.00 at year-end. The equity/asset ratio – meaning adjusted equity\* as a percentage of total assets minus liquid funds – was 42.7%.

\*Adjusted equity = Equity including minority interests.

**The Board believes that share redemption permits Electrolux to attain superior balance between shareholders' equity and borrowed capital.** It is good for a company to have a certain percentage of interest-bearing liabilities, since interest is deductible for tax purposes. This raises the value accruing to shareholders through dividends and a rising share price. The strong balance sheet also means that we have substantial cash, leading to a lower return on equity.

### Capital structure



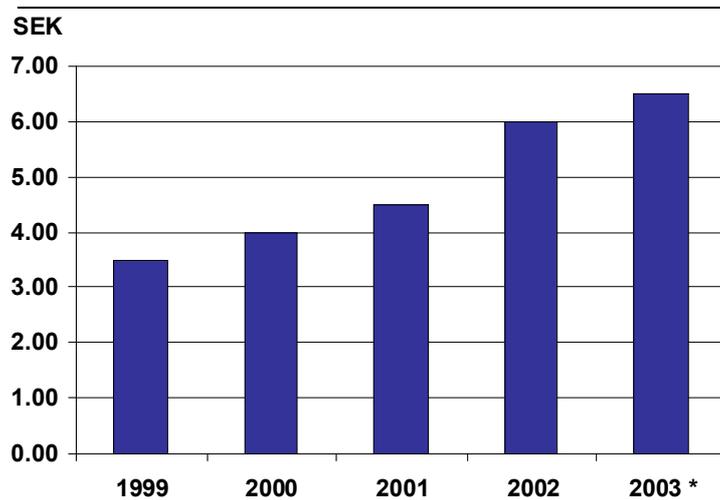
The net debt/equity ratio and the equity/assets ratio have improved gradually and were 0.00 and 42.7%, respectively, at year-end 2003.

### Why doesn't Electrolux pay a non-recurring dividend instead?

Dividends to shareholders are paid annually in line with our dividend policy. According to this policy, the dividend should amount to 30-50% of the

Group's net income. Redemption is an extra measure used to adjust capital structure. The Offer may be viewed as a continuation of the Group's share repurchase and means that capital can be paid out faster to all shareholders. Redemption can also be advantageous from the tax perspective for shareholders domiciled in Sweden.

### Dividend per share



<sup>1)</sup> Proposed by the Board of Directors

During the past five years, the dividend has had an annual average growth of 17%.

### What does the redemption proposal entail for me as a shareholder?

- 1) Shareholders who on the record date of April 26, 2004, are registered with VPC (Swedish Securities Register Center) as shareholders in Electrolux are herewith offered to participate in the Electrolux share redemption offer. Each A-share provides one class A redemption right in Electrolux and each B-share in Electrolux provides one class B redemption right.
- 2) 20 class A redemption rights entitle redemption of one A-share and 20 class B redemption rights entitle redemption of one B-share. To facilitate holders of uneven lots, a maximum of 1,000 redemption rights, irrespective of class, may be used to redeem shares of either class (A and/or B). Redemption rights will be listed on Stockholmsbörsen during the period May 4 – 26, 2004.

*Example 1:* A holding of 100 B-shares provides 100 class B redemption rights, which may be sold or used to redeem 5 B-shares at a price of SEK 200 per share (see illustration on following page).

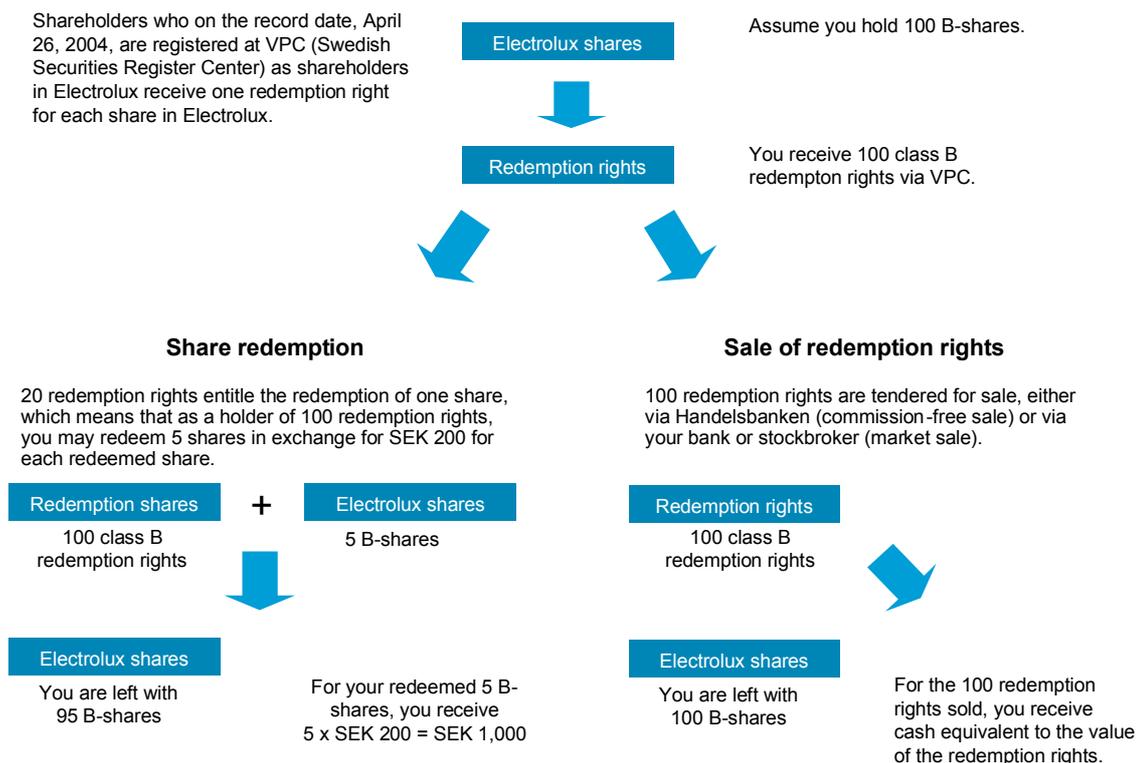
*Example 2:* A holding of 5 B-shares and 15 A-shares provides 5 class B redemption rights and 15 class A redemption rights (total of 20

redemption rights), which may be sold or used to redeem 1 A-share or 1 B-share at a price of SEK 200.

*Example 3:* A holding of 25 B-shares provides 25 class B redemption rights. The holder may select between selling all the redemption rights, selling five redemption rights and using the remaining 20 redemption rights to redeem one B-share or acquiring 15 redemption rights and using the total 40 redemption rights to redeem two B-shares at a price of SEK 200 each.

- 3) The shareholder may elect to redeem shares and receive proceeds on or around June 30, 2004. The reason for the delay is that an extraordinary meeting of shareholders, scheduled for June 16, 2004, must first approve the reduction in share capital. Subsequently, a reduction resolution and others must be registered at PRV (Swedish Patent and Registration Office). See also section entitled “What is the formal procedure for share redemption?”

## Illustration of example 1



**Note that application for redemption must be made during the period May 4 – June 1, 2004. Redemption rights are subsequently worthless. If the redemption rights are to be sold, this must be carried out during the period May 4 – 26, 2004. Commission-free sale of up to 1,000 redemption rights may be made not later than May 19.**

Those who on the record date, April 26, 2004, are registered by VPC as shareholders in Electrolux will receive by mail an application form and an information brochure describing the redemption offer, and how application, redemption and sale of the redemption rights proceed, as well as the tax implications, and how the application form is filled in. Shareholders whose shares are registered with a trustee (deposited with a custodian) should follow the instructions of their trustees.

### **What is the formal procedure for share redemption?**

On the expiry of the application period, application forms are counted and the exact number of shares for redemption is set. Normally, the redemption of shares requires formal court approval, which may take up to six months. **To achieve a faster process, it is possible to use newly issued redeemable C-shares. Electrolux used this method in 2002 and 2003 in conjunction with the withdrawal of repurchased shares.**

### **Redemption is planned as follows:**

1. An extraordinary meeting of shareholders, scheduled for June 16, 2004, resolves to reduce the share capital of the Company through the redemption of A and B-shares as a result of the redemption offer. An amount corresponding to the redemption amount of about SEK 3 billion can be paid out to shareholders after the requisite resolutions are registered with PRV (Swedish Patent and Registration Office). Restricted equity (share capital) is reduced by the nominal amount of the redeemed shares (reduction amount) and unrestricted equity is reduced by the remaining portion (difference between the redemption amount and the reduction amount).
2. The extraordinary meeting of shareholders also resolves that the Company's share capital is to be increased by the reduction amount through a limited new share issue of redeemable C-shares. As a result of the Company obtaining an amount equal to the reduction under Point 1, the share capital is restored. Consequently, the reduction arising from the redemption of A and B-shares can be made without the permission of a court. Handelsbanken has undertaken to subscribe for all C-shares.
3. Finally, the extraordinary meeting of shareholders resolves that the Company's share capital is to be reduced through the redemption of the

newly issued C-shares. Restricted equity is restored at the same time through a transfer from unrestricted equity to the statutory reserve (restricted equity) of an amount corresponding to the reduction amount.

4. This means that unrestricted equity is reduced by the redemption amount of about SEK 3 billion.

### **Is a share redemption a more tax-effective method of paying out capital to shareholders than dividends?**

For a major group of shareholders, such as individuals in Sweden, the tax levied on redemption is lower than that on dividends. The reason for this is that, in the case of a dividend, the shareholder is taxed for the entire dividend amount, while in the case of share redemption – for simplification – the shareholder may deduct the acquisition cost for the redeemed share and for the value of the redemption rights. **Tax considerations will be dealt with in greater detail in the information brochure to be distributed in connection with the redemption offer.**

#### **Timetable**

- Resolution regarding the Board's proposed redemption offer at the Annual General Meeting of Electrolux on April 21, 2004
- The Electrolux share is listed, excluding redemption rights, as of April 22, 2004
- The record date for receiving redemption rights is April 26, 2004
- An information brochure regarding the redemption offer will be distributed to shareholders on or about May 3, 2004
- Application period, May 4 – June 1, 2004
- Trading in redemption rights, May 4 – 26, 2004
- Trading in redemption shares, June 10 – 21, 2004
- Payment of redemption proceeds on or about June 30, 2004

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