

Electrolux Annual General Meeting 2006 – CEO address

Shareholders, guests, ladies and gentlemen,

Four years have now passed since the first time I stood before you, the shareholders of Electrolux, as a new CEO here at Berwaldhallen. A lot has happened in these short years.

We have implemented major changes to cut costs. We have a unique model for understanding consumers and developing the right products. We have focused on our most important brand, Electrolux. We have built a robust platform for increased growth and profitability.

And our strategy has born fruit. Despite strong new competitors and much higher materials prices, we have succeeded in maintaining our profit margins. I find this particularly encouraging since several of our competitors have seen their margins shrink in recent years.

Electrolux' operating margin was 5.4 percent adjusted for items affecting comparability. Our operating profit was almost 7 billion kronor, which is on a par with last year's profit. It's an excellent result, given the great increases in materials prices we saw during both years.

Our value creation for the year totaled almost 3 billion kronor.

Let me also mention our results for the first quarter of 2006, which were released at noon today. Quarterly sales totaled 33.9 billion kronor, a 14 percent increase compared with the same period in 2005.

Our operating profit was 1.5 billion, with an operating margin of 4.5 percent.

During the first quarter of this year, the trends ran largely as expected. Demand was strong, our new products sold well and we received additional confirmation that our strategy works.

The Board of Directors has proposed to spin off our outdoor products. Following this decision, Electrolux will be a company 100 percent focused on the kitchen, cleaning and laundry, for both consumers and professional customers. This is our core area of competence. This is where we're going to increase our pace of growth and our profitability.

Last year Electrolux recorded sales of over 100 billion kronor excluding outdoor products. Leaving aside outdoor products, the company had an operating profit of 4.6 billion kronor and over 56,000 employees worldwide.

We are one of the few global manufacturers of household products and their professional equivalents with a significant market share around the world.

Size and global presence are not worth anything if you cannot use them, though. For this reason, we have built up global coordination of our purchasing, product development, design, manufacturing and brand building efforts in recent years.

Our strategy is four-pronged: innovative products, a strong Electrolux brand, low costs, and not least making sure that we have the best employees to implement the strategy.

We are working systematically on this last point through our Talent Management process. Its objective is to attract, develop and retain employees. The process ensures that employees take on the career challenges they are interested in to the full extent we can provide them. I personally take part in reviews of over 200 managers every year.

As part of the process, we look especially closely at women in leadership roles to make they receive development help and are offered the same opportunities as men. In a recent internal survey, 87 percent of the respondents said that “career opportunities in my organization are the same regardless of gender.”

We are also in the process of developing an internal mentoring program from women. We try to see that women are always included on the short list in our recruitment processes.

Though we have not achieved all of our goals yet, we are working hard for a better balance. I am convinced that a more even gender distribution is good for business. And it provides us with a significantly broader recruiting base.

What is going to make Electrolux continue to grow, more than anything else, is innovative new products. We have a unique product development process that is one of the best in the world. For every new product, there must be a clearly identified customer need. That applies to consumer and professional products alike.

When we begin working on a new product, we start from consumers with certain needs, based on a global model of four types of consumers. We have also identified five global trends that are growing stronger. Each new product is directed to one type of consumer and a particular trend. This ensures that our developers know who the user is and in what context the product will be used.

In 2000, we committed just over 1 percent of sales to product development. Now we're up to about 1.8 percent. Our goal is to invest at least 2 percent of sales in product development.

We have strategic product plans for the upcoming years in every product category. We are putting most of our development effort into growth segments, such as frost-free freezers and induction hobs. The segments that are growing almost always yield above-average profits.

We have also identified major opportunities with new environmentally friendly products. Electrolux is a world leader in this area, and ever higher energy prices are creating increased demand for such products. I really recommend reading our environmental

report, which was just published. You can find it on the internet and here at the annual meeting.

We are launching products at an accelerating rate. In 2002, we introduced about 200 new products around the world. Last year's figure was almost double that, about 370, and this year we will introduce even more.

Among these new products is the Insight cooking range, which gives the consumer a brand new way to see what's happening inside the oven – without having to bend over. Incidentally, you can buy this truly attractive product right here at the annual meeting.

For Chinese consumers, last year we introduced a hob with a spiral gas flame. It's perfect for wok dishes, which come out best if you can concentrate a lot of heat in one place. Even more important, it reduces consumption of expensive gas.

As we all know, people are spending more and more time in the kitchen. With the new Screenfridge, which is displayed out in the lobby, you can watch television, access the internet and leave messages on the built-in screen. Manufacturers of refrigerator magnets – watch out!

A very important and very profitable part of our operations is built-in products, that is, products that are integrated with the kitchen furnishings. We are the European leader in this fast-growing category. More and more consumers are interested in kitchen furnishings with modern design.

A few weeks ago, I visited the major international kitchen fair Eurocucina in Milan. This is where the kitchen trends are created. It's a huge event that draws 200,000 visitors – retailers, decorators, architects and journalists – from around the world.

Our products were included in 70 percent of the kitchens exhibited at the fair. Among them, we showed our new compact range and our new aluminum range. We also showed our new built-in range "Bright" for the first time. The use of glass and elegant linear lighting are its characteristic features, picking up on the current horizontal trend in kitchen design.

We also introduced the TwinClean vacuum cleaner this year. It is an excellent example of how we are developing new products.

Through home visits, interviews and testing, we determined that many consumers don't like cleaning the filter of a cyclone vacuum cleaner – that is, a cleaner with no bag. The filter gets dirtier in this kind of vacuum cleaner, and there's a risk you will end up spreading the dirt around when you clean the filter.

So we understood the problem. The solution is as simple as it is brilliant. On the new TwinClean, there are two filters. The first one filters out particles, while the second is itself cleaned by the air passing through it. When it's time to clean the first filter, you simply switch it with the second. The vacuum cleans the filter itself so the user doesn't have to.

All product development at Electrolux begins with a deep understanding of the users' needs, behavior and motivation. We can truly say, "We were thinking of you when we developed this product" – and TwinClean is a perfect example.

We sum up this approach with the slogan "Electrolux – Thinking of you." "Thinking of you" symbolizes what Electrolux stands for: always thinking of and understanding the user, whether we're developing products, manufacturing them, dealing with logistics or providing service. And whether we're talking about private consumers or professional customers.

"Thinking of you" is a common theme of our marketing efforts worldwide. It's the central pillar of our work to build a strong, leading global brand. These advertisements are one of the ways we're presenting it.

ADVERTISING FILMS

A brand is strong if many people are aware of it, connect it with quality and innovative products, and feel confidence in it and loyalty to it. Our way of building confidence is to let customers know that we always start with their needs when developing new products.

As a result of our focus on branding efforts, approximately half of the Group's sales are now made under the Electrolux brand. This is a clear increase compared with five years ago, when the figure was around 15 percent. And we continue to increase our commitment to Electrolux.

Our strategy for increasing growth and profits is this, then: make the most of available talent, develop more innovative products, build a stronger global brand and cut costs. Competition from low-cost countries is growing tougher. Most consumers simply aren't prepared to pay more because a product is manufactured in a particular country.

In order to succeed, we have to be sure that no one can manufacture products at a lower cost than Electrolux. That means that much of our production has to be in countries with a lower cost base, which unfortunately has a great deal of impact on many employees. However, there is no alternative.

By the time we're finished with the current program, our annual production costs will be 2.5 to 3.5 billion kronor lower.

Today the Board decided to move current production in Torsvik outside Jönköping to Poland. The decision affects 152 employees. Last year, we decided to close our refrigerator factory in Fuenmayor, Spain and our washer, dryer and dishwasher factory in Nuremburg, Germany.

In Germany, we unfortunately ended up being a bargaining chip in a much bigger game, and the strike lasted significantly longer than we had expected. Though our organization took vigorous action to redirect production, our sales took a hit in several countries. We have bounced back successfully, however.

And despite the protests, I am firmly convinced that we made the right decision. In the long run, you simply can't keep producing without profits.

During the year, we also moved some aspects of production at the refrigerator factories in Florence and Mariestad. In early 2006, we decided to move production of front-loading washing machines from our American factory in Webster City, Iowa to Mexico.

At the same time, we are establishing new production in countries like Poland, Hungary, Russia, Thailand, China and especially Mexico.

Our biggest new production investment is the new refrigerator plant in Juarez, Mexico. In June, it was my privilege to open this cutting-edge facility, which took just over a year to build. The facility is off to a very good start, and will manufacture more than a million units annually, especially side-by-side refrigerators for the North American market. It replaces the plant in Greenville, Michigan, where cost levels were significantly higher. Our investment in Juarez greatly strengthens our position in North America.

We have also introduced the Electrolux Manufacturing System, a comprehensive efficiency improvement program being implemented in all our factories. The work is off to a good start, and we see good potential for further productivity improvements.

The new Electrolux is not only on the way to becoming much more efficient on the production side. Our efforts to cut purchasing costs have also yielded excellent results.

In my opinion we've only scratched the surface when it comes to purchasing savings. We can get even more from the new global purchasing organization we established last year. There are several areas we can look at in the years to come. I'm thinking of a variety of component categories where we can reduce the global numbers of variants and suppliers.

We will also be buying more from low-cost countries. Last year, purchases of materials and finished products from these countries accounted for 37 percent of the total purchasing. The percentage will continue to grow in the coming year.

My friends, Electrolux will continue to grow while improving profitability. We have proven that our strategy is right and that it produces results.

Most of our growth will be organic. However, we are not ruling out growing by acquiring other companies in categories where we want to grow.

Our approach is now stable enough and clearly defined enough that the right kind of acquisitions may contribute significantly to increased growth and profitability.

We can see that the savings from restructuring are starting to kick in. We can see that the product mix is migrating towards a higher percentage of high-margin products. We can see that focusing on the Electrolux brand is increasing market awareness and confidence in the brand.

Thanks to these factors and the advantages of scale provided by a global presence, I am very optimistic about the future of Electrolux.

My goal and the goal of my coworkers at the new Electrolux is to continue building a company that is more profitable and grows faster. We intend to make Electrolux the strongest brand in the industry, one that people associate with innovative products designed and developed with the user in mind.

Thank you very much!