

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

# Remuneration to Senior Management

We have a clear remuneration strategy based on principles that both align with shareholder interests and engage a talented and multinational senior management group – particularly important during these times of economic turmoil. Key is that we seek to establish competitive total remuneration within relevant markets, normally the country or region where our executives are employed. In addition, a relatively large portion of that total remuneration is variable, reflecting our “pay for performance” principle.

Short-term variable remuneration for 2008 was generally very limited. While a few business units achieved good results for the year, most were badly affected by the downturn in demand on our major markets. Similarly, the long-term share-program for the three-year period ending in December 2008 is not going to pay out, having failed to achieve the minimum targets we set at the start of the performance period. The share-program ending in December 2007, did however achieve good results reflecting solid performance in 2006 and 2007. The awards under this plan were made early in 2008 and now have a required two-year holding period. Further detail on actual pay and share awards is set out in Note 22 and Note 27 in the second part of the Annual Report.

During 2008 we conducted a major review of our total remuneration approach with special focus on our long-term element. With over 150 executives in our senior group, made up of 19 different nationalities spread across 20 countries, we wanted to be sure that our approach was in fact meeting our objectives -align-

ing with shareholder interests and engaging our executives. Results of the review were encouraging. Our total remuneration is very competitive in most markets and is viewed positively by our executives. The long-term plan is valued by executives and competitively important, with limited cost and dilution. Therefore, in our proposal to the AGM, we recommend that the total remuneration structure comprising a fixed salary, a short-term variable component and a long-term share-related incentive plan remain unchanged for 2009.

Fixed salaries will be frozen for 2009, reflecting the difficult market situation. As normal, we have set targets for both the short-term and long-term variable plans starting this year. For the short-term, these are mainly focused on financial goals including operating margin and operating cash flow. For the long-term we will again focus on average annual growth in earnings per share over the three-year performance period. These are, of course, anything but normal times, and we will monitor the plans to ensure targets remain challenging yet realistic.

We are confident that our overall approach to, and management of, total remuneration will serve in shareholders best interests as well as engage our talented and committed executive team in what is a very demanding 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 a performance based, long-term share program for 2009 in accordance with the previous year.

The design of the program is in-line with the previous share programs. As of 2008 the financial targets are based on the average annual growth in earnings per share. The program's targets are clear not only for the managers involved but for shareholders as well.

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 financial development and the development of the share price.

## Summary of the proposed share program 2009

- The criteria set for allocation of shares are expressed in terms of earnings per share over the next three years.
- Earnings per share over these three years must improve by an average of at least 5% annually in order for shares to be allotted.
- The number of shares a participant may receive reaches a maximum when earnings per share increases by an annual average of more than 20%.
- Shares are allotted to senior management on the basis of the development of earnings per share over a 3-year period.
- Shares allotted must be retained for at least two more years before the participant may dispose of them.
- A maximum of 160 managers and key employees may participate in the program.

Invitations to participate in the program are scheduled to be posted in May 2009. The entire proposal is given in Appendix D 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.*

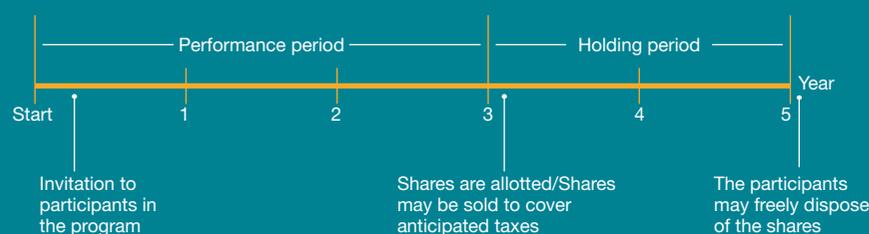
## How is the proposed share program designed?

The value of the program is based on the average annual growth in earnings per share (EPS), excluding items affecting comparability, during a 3-year period ("performance period"). Minimum and maximum levels for allotment of shares is decided. The final outcome is confirmed by the Board at the end of the 3-year period.

Managers who are invited to participate in the program receive information about the targets and the number of shares allotted to each participant if the targets are achieved.

After three years, Electrolux B-shares are allotted to participants free of charge, based on the outcome for earnings per share. These shares must be retained for another two years ("holding period") before the participants are free to dispose of them. However, participants have the right to sell shares directly in connection with the allotment in order to pay possible taxes on benefits. Fiscal regulations vary between countries. In Sweden, income tax would be payable based on the value of the shares.

## Overview of the share program



Managers and key employees who are invited to participate in the program receive information about the targets and the number of shares allotted to each participant if the targets are achieved.

Earnings per share for Electrolux in 2008, excluding items affecting comparability, has to increase by an average of at least 5% annually before any shares will be allotted.

## 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 CEO and President 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.

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

The cost of the program is on a level with incentive programs in previous years. If the maximum target is achieved, it is estimated that the program will cost approximately SEK 182m, including employer contributions and financing costs.

### 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 0.9% in the total number of outstanding shares. The aggregate increase in the number of outstanding shares generated by the proposed share program for 2009, the share programs for 2006–2008 and the option programs for 2002–2003 is a maximum of approximately 2.5%.

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 two 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 and holding period. One of the benefits with variable components in remuneration is that the company's cost for remuneration varies with the performance of the business.

### An example of the value of the share program for different positions

Position	Group	Maximum value, SEK	No. of shares*) (rounded)
President		5,000,000	76,923
Group Management		1,800,000	27,692
Others, approx. 150 managers	C	1,350,000	20,769
	B	900,000	13,846
	A	675,000	10,385

\*) Based on a share price of SEK 65.00 after reduction of a total expected dividend of SEK 8.40 over two years.

## How does the program benefit the individual participant?

The example below indicates the value that the proposed share program can generate for a manager (here named Berit) at the B-level shown in the table above. The maximum value of the program for Berit is shown in the table. Berit can receive a maximum of 13,846 shares, at a value of SEK 900,000.

The example is based on the assumptions that A) the earnings per share for Electrolux in 2008 would increase by an average of 7% annually during three years, and B) the share price would rise to SEK 100 by the end of the 5-year period.

1. In May 2009 Berit is invited to participate in the long-term share program.
2. The maximum value of the program is for Berit SEK 900,000 and the share price used to calculate the number of shares in this example is assumed to be SEK 65.00. The invitation states that Berit can receive a maximum of 13,846 shares. The outcome in the amount of shares is depending on the performance of the Group and the value of these shares on the share price development.
3. There is now an incentive for Berit to remain with Electrolux during the years covered by the program. If she leaves the company during the period covered by the program, she will not receive any shares.
4. The actual outcome for Berit is entirely dependent on the increase of Electrolux earnings. If the company does not achieve the target of a minimum annual average increase of 5% in earnings per share, no shares will be allotted.

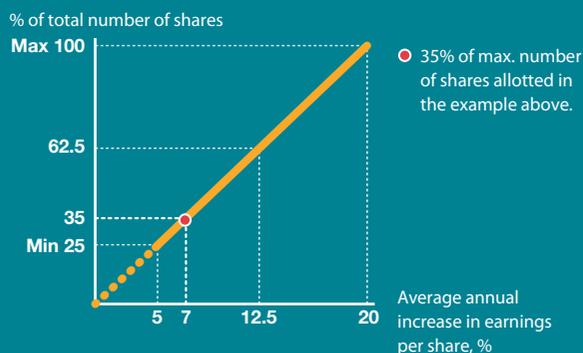
5. In the example, it is assumed that the Group's earnings per share will have increased by an annual average of 7% at the end of the 3-year period, in 2011. Berit would be allotted 4,846 shares, corresponding to 35% of the maximum 13,847 shares. See figure below.

6. Berit may not dispose of the shares until they have been retained for another two years. She is now a shareholder of Electrolux. If she needs to pay income tax in connection with the allotment of the shares, she has the right to sell the number of shares required in order to pay the income tax. If Berit's marginal tax rate is 55%, she can sell 2,666 shares and use the proceeds to pay the tax.

7. In 2014, at the end of the 5-year period, Berit is free to dispose of the shares. She would have 2,181 shares. If the trading price for an Electrolux share has risen to SEK 100, the value of Berit's shares would then be SEK 218,100. The outcome of the share program will have been affected by both the Group's positive earnings trend and the increase in the trading price of the share.

If you have any 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 two factors, i.e., the extent to which the targets for earnings per share are achieved, and the trend for the share price during the period. If the target of a minimum 5% average annual increase in earnings per share is not achieved, no shares will be allotted.

Electrolux costs vary with the performance of the company.