

our world our approach



Sustainability Report 2005

 **Electrolux**

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About this report

The ambition of this report is to present an overview of Electrolux environmental, social and economic performance. It contains three distinct sections—Our world, Our approach and Our metrics.

- Our world takes up how Electrolux addresses the issues facing our industry—globalization, legislation and environmental and social challenges in the world today.
- Our approach looks at how we have woven the concept of sustainability into the way we work and into our company brand.
- Our metrics reports 2005 performance data in the form of tables and graphs.

Electrolux produces annual sustainability reports. The metrics presented represent data collected over the calendar year (from January 1 through December 31). To compensate for the changing structure and to enable comparisons over time, data from previous years has been revised to reflect the current structure of the Electrolux Group. Manufacturing data is global, covering 90% of our majority-owned production facilities worldwide. The product performance indicators green range, fleet average and life-cycle impact and costs (p. 32) refer to household appliances sold on the European market. Data is incorporated from manufacturing facilities in which Electrolux has more than 50% ownership (p.33). The occupational health & safety metrics relate to 56,000 employees (p.34). This report makes reference to the Global Reporting Initiative (GRI). A GRI chart listing key components of this report, the annual report and other relevant sources is available at www.electrolux.com/sustainability.

Cover photo:
The integration of people, the environment and our products symbolize the thoughtful approach Electrolux takes towards our world. Tewa Ukam works at the Electrolux washing machine factory in Rayong, Thailand.

About Electrolux

The Electrolux Group had annual sales of approximately SEK 129,500 m, and 69,500 employees in 2005. Every year customers in more than 150 countries buy more than 50 million Electrolux Group products for both consumer and professional use.

Indoor Products

With sales of SEK 100,670 m, Electrolux is the world's largest producer of appliances and equipment for kitchen and cleaning, such as refrigerators, cookers and washing machines.

Outdoor Products

Electrolux is the world's largest producer of chainsaws, lawn mowers and other powered garden equipment such as trimmers and leaf blowers, and one of the largest in garden tractors. It is also the world's largest producer of diamond tools for the construction and stone industries. In February 2005, the Board of Directors decided that the Group's Outdoor Products operation would be spun-off as a separate company.



A thoughtful company

In a world of change, one thing remains the same: Electrolux stands for a company that strives to be thoughtful in everything we do.

In 2005 we redefined Electrolux as the Thoughtful Design Innovator. This made perfect sense not only in how we design our products, but also in how we view our role in the world. "Thinking of you" is not just a catchy slogan. It's about considering our impact on the environment and on society. From this perspective, there are five main ways in which we strive to be a thoughtful company:

Thoughtful design: Being thoughtful naturally starts with our products, and listening closely to consumers. People demand good design, quality, and performance, including efficient use of natural resources. Electrolux products have long had outstanding water- and energy-efficiency performance. By offering among the most efficient appliances on the market, and encouraging consumers to switch to these products, we can play our part to fight global warming.

Thoughtful corporate citizen: Globalization is increasingly defining the world we live in today, bringing with it greater responsibility to live up to universal standards as a global company. The global market and increased trade bring many benefits: for consumers, wider availability of products at lower prices; for people in developing economies, higher standards of living, technology transfer, and greater job opportunities, and for Electrolux, expanding markets, lower-cost production, and access to global talent.

Thoughtful transitions: To stay competitive and access new markets, we are restructuring our production – moving manufacturing to countries with a lower cost base. This has negative consequences for employees and communities in countries where we close factories. For Electrolux, closing a factory is always a last resort. We have an open, respectful and transparent procedure in which we encourage dialogue with relevant stakeholders, and try to limit as much as possible the negative impact on those affected.

Thoughtful employer and business partner: We are thoughtful in the way we view our role as a global company, and we develop our employees to meet this challenge. Our employees and our suppliers must meet the high environmental and social standards of the Electrolux

Workplace Code of Conduct and Electrolux Environmental Policy; we ensure this through training and monitoring. It is a learning process, but the commitment to these principles is unwavering.

Thoughtful legacy: Our greatest responsibility is to future generations. They are the ones we must think about when we consider our use of natural resources and our contribution to society.

We recognize that being a thoughtful company is a lot to live up to. We hope this year's Sustainability Report provides an overview of where we are on this journey – and where we are headed.

Hans Stråberg
President and CEO



Global mission, local action

Backed by Group-level guidance, actions to support our social and environmental performance are carried out at the local level to ensure engagement and results.

From North America to Asia to Europe, we provide examples in this Report of how Group policies and strategies facilitated on the local level allow us to respond firmly but flexibly in meeting high social and environmental standards.

Group-level guidance comes through codes, policies and procedures such as the Electrolux Environmental Policy and the Electrolux Workplace Code of Conduct. These are executed via globally facilitated, locally owned management systems for environment, occupational health and safety, social and quality issues based on ISO 14001 and ISO 9001.

Setting high standards

The Electrolux Environmental Policy outlines the Group's commitment to improve environmental performance in production, as well as products' use and disposal. It also addresses the supply chain. The policy prescribes a proactive approach to legislation.

The Electrolux Workplace Code of Conduct defines high workplace standards for all Electrolux employees in all countries and business sectors as well as for all suppliers.

The Code incorporates issues such as child and forced labor, health and safety, workers rights and environmental compliance. This is supported by management guidelines and monitoring to assess compliance. The Code is based on universal standards such as the United Nations (UN) Global Compact, the UN Declaration of Human Rights, the Fundamental ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

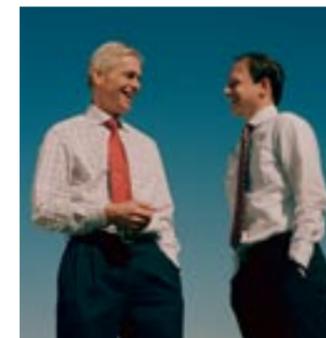
How we work

Each part of the organization contributes to meeting our sustainability objectives:

- Group Management has the overall responsibility for sustainability codes and policies.
- Group Environmental Affairs works closely with Group Management to implement sustainability issues in the organization. It develops the implementation tools and coordinates common programs.
- The heads of business sectors must ensure compliance with codes and policies in their sector.
- Unit heads are responsible for compliance in their day-to-day operations.

At different levels throughout the Group we communicate with our stakeholders, including investors, employees, consumers, governments and local communities, retailers and customers, and suppliers.

In 2006 we will continue to develop our Supply Chain Monitoring Program and our work to integrate sustainability into the Electrolux brand.



Henrik Sundström, Vice President of Environmental Affairs and Jens Schlyter, Manager, Corporate Social Responsibility are responsible for Group coordination and communication of sustainability issues.

Main achievements 2005

In 2005, Electrolux achieved the following milestones in its commitment to sustainable development:

- Sustainability launched as one of seven components of the Electrolux Thoughtful Design Innovator brand (p. 19 and 20)
- Further developed the Supplier Monitoring and Compliance Program with a first phase in China (p. 26)
- Electrolux management systems integrated into new production facilities (p. 24 and 29)
- Increased awareness, implementation and monitoring of The Electrolux Workplace Code of Conduct among employees (p. 23, 24 and 29)
- Established program office and took necessary action to comply with the EU Waste Electrical and Electronic Equipment (WEEE) Directive, effective in many European countries in 2005 (p. 10)
- Established effective system for ensuring compliance with the EU Directive on Restriction of the use of certain Hazardous Substances (RoHS), effective July 1, 2006 (p. 10)



our world

Views on our changing world

Staying on the path of sustainable development will require industry and society to face some challenging issues in the years to come.

We've asked three experts to frame issues that are key for Electrolux, industry and society in 2005 and beyond. Our response to these challenges is addressed in the articles that follow.



Making a sustainable brand

The relationship between corporate social responsibility (CSR), brand and market shares was once wishful thinking; now it has some bottom to it. It is more credible when these issues are integrated into the company. The issues have to connect directly to people; environmental concerns like climate change make sense to them.

CSR hits home when there is a direct connection with affected target groups—like how workers are treated. To make sustainability truly part of the brand and not green-wash, a company has to demonstrate how quality of life, a decent environment, and social justice are all related to doing business.

Martin Wright, Editor-in-Chief, Green Futures, Special advisor to the Ashdown Prize



The power of the consumer

Consumers want to know under which conditions goods are produced and whether the products they purchase contribute positively or negatively to sustainable development. We want producers to live up to their responsibility to inform consumers on these issues and to demonstrate

that they are adequately managing their supply chain to ensure high social and environmental standards. However,

we often see a big gap between policy and practice when it comes to implementation of company Codes of Conduct in the supply chain. This affects a company's credibility with consumers and makes it harder for the company to win commitment to managing these issues internally.

Margreet Simons, Corporate Social Responsibility researcher, Consumentenbond, one of the largest consumer organizations in Europe



The heat is on

Fighting climate change requires all of society's ingenuity. We will need tremendously different approaches to the way we consume and generate energy. Business as the developer of products and services will have to play a huge part in that.

Energy efficiency is almost unexploited in business terms. The big growing economies like China and Brazil will experience a surge in energy demand if energy efficiency is not put at the core of all activities. Household energy consumption will grow exponentially while income is growing, with all the negative consequences for the climate. The white goods industry has the responsibility to slow down that growth in energy consumption by continuously increasing the market share of highly efficient products. There is an obvious business opportunity for Electrolux to position itself as the leading company in product efficiency. This would be good for the business and the climate. What the world needs are innovative solutions to fight climate change, and companies that have the courage to develop and push those solutions.

Oliver Rapp, Senior Policy Officer, Climate Change & Business, Worldwide Fund for Nature (WWF) European Policy Office

Energy squeeze

Global warming poses the greatest threat to our environment today. Stimulating consumer purchasing behavior towards energy-efficient products remains a central challenge.

In Europe, electricity used for appliances accounts for approximately 4% of total CO₂ emissions. Our industry can contribute to reducing greenhouse gases by cutting down our own emissions levels and developing energy-efficient products. More than 80% of our products' environmental impact occurs during use.

Despite growing anxiety over climate change, it is not yet a key motivating factor for consumer purchasing, says Euan Murray, strategy manager of The Carbon Trust, an independent company funded by the UK government.

"We've yet to reach the tipping point," Murray says, adding that the appliance industry may be in a unique position to galvanize consumer action. "Since the energy-labeling scheme has been around for a long time, consumers are already sensitized to the energy equation when purchasing white goods. Consumers may well factor this into other purchasing decisions in the future."

Current appliance purchases are steered primarily by price, along with quality, design and energy efficiency. Increasing consumer interest in energy-efficient products is dependent on a myriad of factors, including marketing messages, government incentives, legislation, and consumer awareness of environmental issues and how their purchasing choices can impact climate change.

Electrolux has long been a leader in the development of energy-efficient products. Today, almost all products sold by the European appliance industry are top energy rated.

"Too many homes have appliances running on technologies developed more than a decade ago," says Environment Affairs Vice President Henrik Sundström. "Although we continue to cut energy levels in our products, the best approach I know to cut consumption is to encourage customers to exchange models that are more than 10 years old for new, more efficient ones."

For more information on energy issues, see product life cycle graphs p.32 and Our products at www.electrolux.com/sustainability

Electrolux is responding to the climate challenge by:

- improving the rate of our products' energy efficiency by 4% a year
- improving processes to cut energy use in manufacturing
- supporting government incentives for energy conservation
- joining voluntary industry agreements to improve energy efficiency
- communicating the importance of energy efficiency to consumers

During 2005, Electrolux Home Products in the Netherlands encouraged consumer interest in energy-efficient products through an advertising campaign and website together with Eneco, a Dutch energy utility with 1.7 million customers.

The right incentives for saving resources

"Dig the well before you are thirsty," advises an old Chinese proverb. Government incentives and the introduction of efficient products are vital for meeting demands in increasingly resource-stressed markets.

China is an environmental hotspot, with just 8 percent of the world's fresh water to meet the needs of 22 percent of the world's population. It is also the world's second-largest emitter of CO₂. Rising standards of living will amplify these trends.

China: important market for Electrolux

Some experts predict that China will represent 35% of global appliance sales by 2012. "It is important that resource-related trends are reflected in our positioning today, because we know that government programs and common sense will translate into growing demand for efficient products," says Vincent Tai, product category manager, food preparation for Electrolux in China.

Chinese consumers prioritize features such as low noise levels, good design and energy efficiency in their purchasing decisions. In China, the gas-efficient Spiral Flame Burner hobs, top-rated energy-efficient refrigerators and water-saving front-load washing machines are all Electrolux sales successes.

China's mandatory and voluntary labeling schemes for efficient appliances influence consumer preferences. Currently, there are mandatory energy labeling systems for refrigerators, freezers and air conditioners.

In Australia, incentives for change

From precedents set in other resource-stressed markets, we know that government incentive programs are a contributing factor in purchasing behavior. In addition to its stiff mandatory energy labeling systems for refrigerators, freezers and air conditioners, the Australian government has voluntary product labeling schemes for water efficiency,

Electrolux products are represented in the highest energy-efficiency classes as defined by the EU Energy+ scheme from 2004 and the US ENERGY STAR program. Electrolux anticipates that it qualifies to receive recently enacted US energy tax credits as a result of the sale of ENERGY STAR appliances.



Electrolux in China recognizes the potential in meeting consumer demands for efficient appliances. Chinese consumption patterns have growing global impact on availability of resources and climate change.

which will become mandatory in 2006. It also has a cash rebate system that is offered to consumers who purchase the most water-efficient appliances.

"What makes the Australian market unique is that its labeling systems are well-policed, and it is one of the first countries to develop mandatory water schemes," says Ian Forte, regulatory affairs manager for Electrolux in Australia.

Price is still the decisive factor in the choice of a product. "However, the growth in the front-loader washing machine market has been driven largely by water conservation," he says. Voluntary water efficiency labeling has positively impacted sales.

The more water-efficient front-load washing machines have gained on the typically less efficient top-load models. In the drought-ravaged state Western Australia, front-load washer sales gained market share between 2004 and 2006 while top loaders lost share, thanks primarily to cash rebate schemes for buyers of top-rated ENERGY STAR washers.

For more information visit Significant Impacts at www.electrolux.com/sustainability

Partners for sound legislation

Together with many diverse stakeholders, Electrolux actively promoted the concept of individual producer responsibility in Europe's WEEE Directive which took effect in many European countries in August 2005.

The Waste Electrical and Electronic Equipment (WEEE) Directive of the European Union is designed to deal with a growing waste problem in Europe—including about 50 million major household appliances.

A key element of the WEEE Directive is that individual producers bear responsibility for the management and financing of treatment, recycling and disposal of the waste of the products that they have produced after 13 August 2005 and which are deposited at collection facilities.

Responsible lobbying

Several years before the WEEE Directive became legislation, Electrolux fought strongly for individual producer responsibility as a way to deal with this waste problem.

We joined other leading electronics firms and non-government organizations such as the European Environmental Bureau and WWF who shared this position.

In our public policy work Electrolux strives to both promote our commercial interests and to contribute to social and environmental goals. This idea of "responsible lobbying," which gained leverage in 2005, reflects our own approach of working with stakeholders on common issues to achieve mutual aims.

"Electrolux feels strongly that individual responsibility is necessary to give an incentive for each manufacturer to create products that can be more easily recycled. Creating this incentive was one of the main objectives of the EU and the WEEE Directive," says Viktor Sundberg, Vice President Environmental and European Affairs for Electrolux Major Appliances Europe.



Incentives for eco-design

For example, the fact that Electrolux uses hydrocarbon (HC) in its refrigerators and freezers makes it easier and cheaper to recycle discarded products, compared to using other gases that have a higher global warming potential.

The WEEE Directive is a minimum Directive, so it is expected that central aspects of the legislation will differ among member states, adding to its complexity. This is of some concern to Sundberg, who says that member states have decided to interpret the law in many different ways, some that run counter to the principle of individual producer responsibility. Electrolux is continuing to advocate to clarify this aspect of the legislation.

Electrolux preparing for WEEE

The Directive stipulates that 80% of the weight of large domestic (and 70% of small domestic) appliances must be recovered. For large appliances 75% of these materials must be recycled, while the remaining 5% can be converted into energy.

WEEE-related legislation was already in force in Sweden, Norway, Belgium, the Netherlands and Switzerland before the Directive was introduced. By 2004, WEEE-related national legislation was published in Greece and Cyprus. By 2005, and with the

exception of Malta and the UK, the remaining EU countries followed, though some countries only partially adopted the Directive. Both Malta and the UK are expected to transpose the Directive into national legislation in 2006.

"Electrolux is well prepared to meet the Directive," says Martin Therkelsen, WEEE business manager for Electrolux who heads the WEEE program office in Brussels. In addition, a WEEE representative has been appointed in each

European country where Electrolux does business to ensure that the Directive is carried out in accordance with each country's specific legal and environmental requirements. Electrolux intends to recoup the extra costs incurred under WEEE through adjustment of the price of the product.

Industry recycling scheme

Electrolux is one of four founders of the European Recycling Platform (ERP), together with Braun/Gillette, Hewlett Packard and Sony. It is the first pan-European platform for managing recycling under the WEEE Directive and covers nine European countries representing 75% of the total waste volume in Europe. Through this cooperation, the companies expect to benefit from economies of scale and increased competition in waste management services. This will help them to meet their commitment to the Directive in the most cost-effective way through market-based structures that reward improved design for recycling.

A comprehensive list of legislation affecting the Electrolux Group worldwide is available under Significant Impacts and ERP under Our products, both at www.electrolux.com/sustainability. Visit also www.erp.recycling.org



Manufacturing operations such as the one at the refrigerator factory in Curitiba, Brazil are largely responsible for the final assembly of components coming from a whole chain of suppliers. The Electrolux Restricted Materials List (RML) ensures that certain chemicals are kept out of the supply chain.

Removing hazardous materials

Another important piece of legislation with significant impact on Electrolux is the EU Directive on Restriction of the use of certain Hazardous Substances (RoHS). This legislation restricts the use of six hazardous substances in electrical and electronic equipment placed on the market after July 1, 2006: Lead (Pb), Mercury (Hg), Cadmium (Cd), hexavalent Chromium (Cr+6), polybrominated biphenyl (PBB), polybrominated diphenyl ether (PBDE). Almost all Electrolux electrical products are modified to some extent to fulfill the RoHS Directive.

Electrolux has been proactively engaged with legislators in developing RoHS and in preparing for compliance. We expect to meet the July 1, 2006 deadline.

As a way to stay ahead of legislation and to better manage the risks of chemicals present in products, the Electrolux Group has a Restricted Materials List that is used to inform suppliers of chemicals that are banned, restricted for use and substances that could be of concern. Banned substances cannot be present in components delivered to Electrolux; restricted chemicals can be phased out under certain conditions. The RML is mandatory for all materials, parts of products and packaging supplied to Electrolux.

In Brazil, Electrolux asked suppliers to report any RML materials via a questionnaire, to which 80% responded by end of 2005. The rest are expected to respond by mid-2006. The RML is more stringent than Brazilian legislation, says Luis Carlo R. Machado, Environmental Manager for Electrolux Brazil, yet suppliers have generally been positive to the RML; most have been able to work with Electrolux to find alternative materials.

"Both our employees and suppliers recognize the importance of keeping hazardous chemicals out of our products as part of our environmental commitment," he says.

Investors redefine the bottom line

Pension funds are among the mainstream investors on the forefront of using sustainability performance to evaluate sound investment opportunities.

Increasingly, Electrolux shareholders are gauging corporate responsibility performance as an investment tool. The Second Swedish National Pension Fund (AP2), is Electrolux third largest shareholder. Carl Rosén, AP2's Head of Corporate Governance and Communications, emphasizes that sustainability-related performance is integral to corporate governance. Its approach, where these criteria permeate all investment decisions, is regarded as leading in mainstreaming 'socially-responsible investment' (SRI).

What mandate have you been given by the Swedish government?

We are to take into account environmental and ethical aspects of companies belonging to our investment universe, but not at the expense of our financial performance. It is up to us to interpret that directive. We started in 2001, and have been undergoing a gradual process of incorporating corporate social responsibility [CSR]-related issues since then. CSR is a part of our investment process. Our asset managers and analysts must have a decent degree of SRI knowledge to make the right investment decisions.

In 2004, AP2 invested with the SAM Sustainable European Equity Fund.

We've invested 76 m Euro with them; our asset managers also talk to their asset managers about investment decisions; and we're using SAM's questionnaires when we meet with our largest investments, such as Electrolux.

You initiated a dialogue process with Electrolux in 2005.

What we've done with Electrolux is the same procedure as the other companies belonging to our ten largest investments. We seek transparency most. *The Electrolux Sustainability Report* is important as a starting point for dialogue – we think that it is a good tool. But it is still early days in our long term engagement with Electrolux.

Although it's difficult to compare different companies, Electrolux lies in the forefront, primarily because it integrates sustainability issues into its organization. With production shifts, in terms of looking at the Electrolux decision-making process, we basically see it as not a big issue.

Is incorporating sustainability criteria driven by risk or by long-term portfolio returns?

In Sweden, we're opportunity driven; internationally we're risk driven. We know the domestic companies best and we know where our possibilities lie.

What's the value of integrating sustainability performance for investors?

Finding opportunities that are undervalued.

For more information on AP2's ownership policies, visit Significant Impacts at www.electrolux/sustainability



Carl Rosén, Head of Corporate Governance and Communications for Second Swedish National Pension Fund, emphasizes both sustainability-related risks and opportunities in his dialogue with companies belonging to AP2's investment universe. AP2 is the third largest shareholder of Electrolux.

A global balancing act

Globalization opens doors for exciting opportunities—and serious responsibilities. The challenge is to find the balance.

Globalization is changing the world as we know it. Growing international trade, the opening of new markets, cross-border social, cultural and technological exchange, and the instant flow of information are transforming business and society. For millions of people, globalization has raised living standards.

Electrolux has been a global company for more than 80 years, but the pace of globalization is faster than ever, posing new challenges and opportunities. For Electrolux, opportunities include increased market access, lower-cost production and greater competitiveness. For consumers, it means wider availability of products and lower prices.

"Globalization has heightened the focus on corporate social responsibility. This means that Electrolux remains committed to core principles wherever we do business in the world," says Hans Stråberg, CEO of the Electrolux Group.

Seizing opportunities

"As more than half of the world's largest economies are not nation states, but corporations, it is easy to see how business operations can have tremendous impact on the economic and social well-being of billions of people—for better or worse," says Georg Kell, Executive Head of the United Nations Global Compact.

"Companies around the world have come to realize that it is in their enlightened self-interest to promote sustainable business strategies on the basis of solid value frameworks. Indeed developing markets offer enormous untapped opportunities and companies are beginning to see and seize these opportunities," he adds.

For Electrolux, one such opportunity is technology transfer. "When we establish production in emerging markets, these markets are in a position to leap frog to the latest and most environmentally sustainable technology. This improves productivity and competitiveness for them, and for us," says Stråberg. "Another positive impact we have is through the Electrolux Code of Conduct, which helps promote high environmental and social standards in the workplace."

Managing transitions responsibly

As a result of globalization, Electrolux must shift more production from higher- to lower-cost countries to stay competitive. Electrolux seeks to manage these restructuring activities responsibly.

"We have an open, fair and transparent procedure, in which we support people and communities affected in a timely manner, so that they can better prepare for the transition," says Stråberg. "We think that ethically, in a difficult situation, this is a good procedure."

Driver of business success

"Business can exercise leadership by rooting its operations in universal values such as those expressed in the Global Compact. Smart business thinking effectively links a company's core strengths with the greater good," says Kell.

That is how Electrolux will continue to build the company's presence in the world, says Stråberg.

"By conducting business in the right way – in a way that is socially and environmentally sustainable – we can seize all the advantages a global market offers, while also having a positive influence on the world. That, for me, is how sustainable development and globalization can work hand in hand."

Electrolux global operations



Today, most of our factories and warehouses are located in countries where we have the largest markets for our products; North America and Europe.



Electrolux supports the United Nations Global Compact (www.unglobalcompact.org), and endorses its ten principles, which cover human rights, labor standards, business ethics and the environment.

Responsible transitions

In 2005 Electrolux continued to shift our production to boost global competitiveness. We strive to manage responsibly the impact of these decisions on individuals and communities.

In March 2005 the vacuum cleaner production facility in Västervik, Sweden closed, affecting 511 employees. News of the planned closing a year earlier was a shock to this small town, where Electrolux was the main employer. What could have been disastrous for a town that already had one of Sweden's highest unemployment rates resulted in a more favorable outcome than expected, thanks to a partnership between local and regional politicians, local industry, Electrolux and other stakeholders.

The Västervik closing occurred against a backdrop of rapid change for Electrolux. To stay competitive and access new markets, we are shifting production from countries with a higher cost base to those offering lower costs. This has a negative impact on individuals and communities where we close factories or downsize production.

Individually tailored support

In Västervik, Electrolux committed to help employees find jobs for a two-year period after the closing. Gunnar Jansson, an Electrolux human resources professional from the Västervik factory, is employed full-time through March 2007 to help people find work tailored to their individual needs. By March 2006, 210 of the former employees had found jobs while about 110 were jobless. Of the remainder, 120 were studying full-time, in some cases with financial support from Electrolux; 35 had received early retirement, and the remainder were engaged in other forms of support, such as practical training at a workplace, part-time study or career coaching.

Restructuring decisions in 2005

Plant	Shut down date	Cost, SEKm	Number of employees
Nuremberg (washing machines, dishwashers and tumble dryers)	2007	2,300	1,750
Fuenmayor (refrigerators)	2006	535	450
Mariestad (refrigerators)	2005/2006*		150
Florence (refrigerators)	2005/2006*		200
Parabiago (lawn mowers)	2005		100

* Capacity cut-back

"We've learned a lot about how we can handle this type of situation and we appreciated the dialogue we were able to have with Electrolux. We are now investing in the growth of small-and-medium sized industry to stimulate the local economy," says Västervik municipal chairman Conny Jansson. The former factory building was donated to local entrepreneurs who established a business park.

Together with Västervik Framåt (Västervik Forward), a business development company set up by the town, Gunnar Jansson has visited about 250 companies in Västervik to try to match former Electrolux employees with available jobs.

Our approach to restructuring

At Electrolux, when a factory closing is announced, a procedure is followed, adapted to local needs and priorities, where we consider the impact on employees. A wide range of other stakeholders are consulted in a timely manner, including labor union representatives, local, national and regional politicians, and government authorities.

This helped Ulf Ivarsson find work at Slip Naxos, a local manufacturing facility. "At first I didn't think I'd find a new job at age 55, but (former Electrolux plant manager) Mari-Katarina Kadowaki helped me get temporary employment at Slip Naxos which led to a full-time job."

Carina Wiström, who did light assembly at the factory,

Electrolux initiated a restructuring program in 2005 (expected to be complete in 2008) to move more production to countries with a lower cost base. It is estimated that about half of our production facilities in high-cost countries may be affected through closures or downsizing. See p. 34.



For Conny Jansson, left, Carina Wiström and Gunnar Jansson, partnership was the key to addressing a difficult transition after Electrolux closed its factory in Västervik in 2005.

has not found a new job. She has joined a new initiative through Electrolux in which 20 former employees still without work will be part of a joint employment project.

"I appreciate that Electrolux has a long-term commitment to assist me and others," says Wiström. "My attitude is that life can't be over because Electrolux closes its factory. I was happy working for Electrolux but this change has forced me to think of new possibilities for myself."

Transfer technology to new markets

In June 2005 Electrolux opened a large refrigerator plant in Juarez, Mexico, bringing positive changes to this emerging economy. The plant employs 1,500 people, expected to reach 2,500 when the factory is fully operational in 2006. A new washer and dryer factory will also be built there, initially employing 800 people when it opens in 2008.

By the time the Juarez factory produced its first refrigerator, employees had had an average of 200 hours of classroom and practical training. Over 100 managers and other employees were trained at the Electrolux facility in Andersen, South Carolina. All production employees had 95 hours of hands-on classroom training through the Technological University of Ciudad Juarez—the most extensive program of this kind ever run in Juarez. The factory is one of the most environmentally advanced refrigerator factories within Electrolux.

At Electrolux in Juarez, an employee social responsibility committee carries out projects in the local community to benefit individuals in need, such as donations of food and supplies to hurricane victims and holiday events and toy collections to benefit children in need.

Like ripples in the water, Electrolux's presence in Juarez also has indirect impacts. The factory's construction and development generated more than USD 30 million into the local economy. Over 200 local suppliers and

related companies are expected to benefit from annual purchasing spend of over USD 60 million annually. The Juarez factory is expected to generate 6,000 additional jobs in the area, besides the 2,500 direct jobs.

In Rayong, Thailand, where Electrolux has factories for washing machines and professional laundry equipment, there are 250 current employees, expected to grow by 30% in 2006. Along with employee training and development, area university students are offered training programs with hands-on factory experience. Technology and skills from Electrolux sites around the world are transferred to Rayong employees. The factory is supported by about 30 local suppliers, a number that will increase as more components are sourced locally.

Local authorities and businesses have been "very positive towards the Electrolux investment in Thailand," says Likhit Somboon, manager of Human Resources in Rayong. "Our environmental and social commitment means that there is trust in the way we do business."

Investments in low-cost countries in 2003–2005

Product area	Country	Investment, SEKm	Production start
Refrigerators	Mexico	1,200	2005
Refrigerators/freezers	Hungary	600	2005
Washing machines	Russia	80	2004/2005
Tumble-dryers	Poland*	270	2005
Washing machines	Poland	500	2006
Dishwashers	Poland	275	2005
Cookers	Poland	380	2006
Professional washing machines	Thailand	90	2005/2006
Washing machines	Thailand	80	2003
Hobs/hoods	China	55	2005

* Increase in plant capacity.

News & views



Encouraging innovative design

For the second consecutive year, a concept appliance which uses waterless cleaning technology captured the Electrolux Design Laboratory award for 2005. Airwash, a waterless clothes washer claimed top prize for its Singapore student designers. This competition drew more than 3,000 entries from 88 countries around the world.



During 2004-2005, Rex Electrolux and the Worldwide Fund for Nature (WWF) in Italy produced and distributed 80,000 copies of a new edition of Ecoguida. Illustrated by school children, this accessible guide to efficient use of appliances and selection of eco-efficient appliances is targeted to consumers through retail outlets and trade magazines. A drawing competition was part of a three-year environment educational program organized by WWF and supported by Rex Electrolux. Winners' illustrations were included in the guide and Rex Electrolux donated environmental publications to their schools. For a copy of Ecoguida in English, visit our products at www.electrolux.com/sustainability.

Appliance industry launches Code of Conduct

The European Committee of Domestic Equipment Manufacturers (CECED) launched its Code of Conduct in 2005. Electrolux played an active role in the development of the Code, which aims to promote fair and sustainable standards for working conditions and environmental performance among CECED company members, who are signatories of the Code. Visit www.ceced.be



REACHing out

Electrolux, H&M, and Marks & Spencer were among the companies participating in the January 2005 publication "What we need from REACH", published by the International Chemical Secretariat. The report profiled stakeholders' views on the importance of a strong and streamlined formulation of upcoming European legislation on the registration and restriction of chemicals.

Raising breast cancer awareness

Breast cancer is a top health concern among women. In 2005, Electrolux Brazil continued its three-year cooperation with the Brazilian Breast Cancer Institute, Instituto Brasileiro de Controle do Câncer, in its campaign "Targeting Breast Cancer", with awareness-raising campaigns and sponsoring marathons nationwide.



Cooperating for clean air

Electrolux Romania extended its cooperation in 2005 with the Pneumology Institute "Marius Nasta" in Bucharest by financing a nation-wide mapping of chronic breathing disorders. The study of five Romanian cities collected health data on 38,700 children. For more information visit The way we work, community initiatives at www.electrolux.com/sustainability



Electrolux in global sustainability ranking

Electrolux is among the 'Global 100 Most Sustainable Corporations in the World', a listing launched by Corporate Knights at the World Economic Forum in 2005 and compiled from a list of 2,000 companies that are rated by Innovest.

SRI funds give Electrolux high grades



Several socially responsible investment indices include the Electrolux Group as a constituent company, including Dow Jones STOXX Sustainability Index and the FTSE4Good Series. The Group is also ranked highly by Oekom Research in Germany, Storebrand SRI in Norway and US independent SRI research institute KLD Research and Analytics Inc. which has ranked Electrolux among its Global Climate 100 Index. In SRI evaluations, Electrolux is considered to have above-average environmental performance in terms of products.

Electrolux Hungary awarded for recycling solution

In February 2005, The World Packaging Organization, an independent, international federation of packaging institutes, bestowed Electrolux Major Appliances Europe plant in Jászberény, Hungary with its WorldStar 2004 Award for packaging developed for chest freezers. The award was in recognition for a pressed cardboard packaging solution for chest freezers that is 100% recyclable and saves an estimated 977 tons of wood per year.

Making life easier

The first Electrolux Easier Life Prize, an initiative of Electrolux Denmark to award individuals who make life a little easier, was awarded in 2005 to Ida Lunde Jørgensen, who used the DKK 25,000 (EUR 3,400) award to build sun cookers for orphanages in India.



In the wake of Hurricane Katrina

Employees at Electrolux North America donated US \$178,635 to relief work in the aftermath of Hurricane Katrina in the US Gulf coast area in September 2005. This support was matched by a \$150,000 Group contribution to the American Red Cross. Electrolux Professional Outdoor collected clothing from employees and dealers for shipment to local emergency shelters and sent a truckload with water, food and t-shirts. For emergency operations, Professional Outdoor diverted chain saws and equipment to area dealers, and its "disaster team" assisted dealers and instructed customers on using the products. Electrolux Professional kitchens were used to prepare up to 30,000 meals a day to feed victims, relief workers and military personnel.



Photo: American Red Cross

our approach

The outside-in perspective

With the new brand platform, The Thoughtful Design Innovator, Electrolux is focusing on an outside-in perspective. Listening to the concerns of consumers and other stakeholders is at the heart of the strategy.

By merging the more than 20 brands it carried in 2004 into a master brand and redefining itself as the Thoughtful Design Innovator, Electrolux has taken a decisive step to reposition the Group. At the December 2005 launch, CEO Hans Stråberg called it an “important page in the history of our company.”

With an ear to the ground

“Thoughtfulness” has the potential to be a powerful carrier of the Electrolux message – it is a word that conveys promise and radiates empathy; its purpose is to build on both functional and emotional value. It is also intended as a platform to affirm relationships with Group stakeholders – foremost with consumers, and also with employees, investors, suppliers and government officials.

Electrolux is striving to shift from being a volume leader to a value leader. “We’re looking to grow our business, but in a different way,” explains Peter Sjölander, Global Brand Director. “Our strategies are built on adopting an outside-in logic. We have chosen a path where we actively seek to understand the outside world. If we listen well, we will deliver thoughtful and innovative solutions.”

Sustainability as part of the DNA

Values integral to building a sustainable company – integrity, commitment and dialogue – are part of the ‘thoughtful’ brand. “Rebranding does not only represent a commercial equation. ‘Thoughtful’ values have got to be a part of the company DNA,” says Sjölander.

Contributing credibility

Henrik Sundström, Vice President of Environmental Affairs, regards the Group’s sustainability strategies as a core element of the brand. “Group-level codes and policies help ensure that employees, suppliers and business partners are treated fairly and acting as a good neighbor can help assure stakeholders that Electrolux is not thoughtful to one constituent at the expense of another.”

Electrolux has a long-standing reputation in the areas of resource-efficient products. “A focus on efficient use of resources to ensure quality of life for future generations is also part of being thoughtful,” says Sundström.

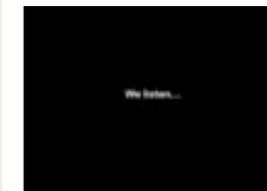
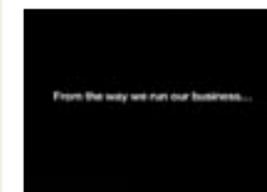
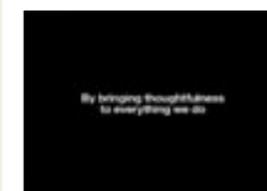
Stakeholder dialogue is the kernel of the outside-in logic. Interacting with people that impact the company’s operations help Electrolux define what ‘thoughtful’ means.

Made in Electrolux

All products manufactured under the Electrolux brand are based on seven dimensions of thoughtful design – insight, functionality, usability, sense, aesthetics, total experience and sustainability. By integrating these components on a global scale, “Made in Electrolux” stands for strong values, no matter where products are assembled.

Integrating sustainability into the brand is a long and complex process. “It has to be part of the company. It is up to us to prove to the market that we’re committed to this journey,” concludes Sjölander.

Excerpts from a 2005 brand video emphasize that Electrolux has its ear to the ground.



The Thoughtful Design Innovator

Innovation is about meeting customers' desires for better quality of life and greater efficiency.

The Electrolux Thoughtful Design Innovator strategy has identified sustainability as one of its seven components. Quality of life, energy, water efficiency and clean manufacturing processes are some of sustainability's core aspects.

Sustainability as a design component resonates particularly with our Professional Indoor customers. In professional food service, Electrolux helps customers serve over 100 million meals a day, through 110,000 company canteens, 190,000 hotels and restaurants, 85,000 public institutions and 65,000 hospitals around the world.

Since there is a direct correlation between the products' life cycle cost, their operating efficiency and intensive use, professional customers demand high energy and water efficiency from their suppliers. If in use for a ten-year period, running the Electrolux Wascator W365H washing machine represents 80% of the total life cycle cost. The initial investment in the appliance represents the remaining 20%. In addition, professional users place high demands on quality, safety and superior health and hygiene standards.

Hygiene a key concern

The Group is world leader in laundry services. Detlef Münchow, Sector Head of Professional Indoor, explains that sustainability is key to developing products for this market. "The washing machine has essentially not changed in the past 100 years, aside from the introduction of electronic control devices. What has changed are energy and water consumption and durability. These are important to buyers of professional laundry equipment."

An innovation by Professional Indoor to address the growing problem of bacterial infection in health care and food service involved putting two doors in distinct sections of the washing machine to separate clean and dirty areas. This minimizes the risk for laundry contamination and helps maintain bacteria-free hospital environments.

Consumer-based insight

The Group's 'product management flow', a road map for innovation, relies on cooperation between marketing and product development. This cross-functional approach, based on consumer insight, results in a faster response to customer needs and expectations.

Electrolux in 2005 developed four consumer profiles based on interviews with about 150,000 consumers. These profiles lay the foundation for innovating new products and features. By understanding consumers' different needs and aspirations, products can be tailored to the right target group.

Investment in product development



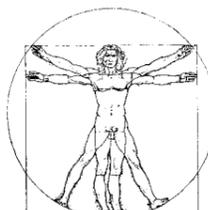
Product development as % of sales. In 2005 we increased our investment by almost SEK 280 m over 2004. The goal is to invest at least 2% of sales revenues in this area.

Floor care innovation

Consumers who value products that cater to indoor air quality and an improved environment are of particular interest to Electrolux Floor Care. "This consumer quadrant accounts for a growing segment of the market," says Martin Hedström, Business Segment Manager. A group of products meeting this segment's needs are the Oxy³ line of vacuum cleaners, central vacuum cleaners and air cleaners. Two of the three Oxy³ products are endorsed by the British Asthma and Allergy Institute. The Swedish Asthma and Allergy Association endorses all three members of the product line.

Defining future direction

"Innovation is not just about new technology. It is about responding to the changing needs and requirements of different consumers as well as to changing standards in society," says Mats Rönne, Vice President, Brand Management. "A true innovator, however, is not just responding but helping to define these criteria."



Anders Scharp Award for Innovation

The Anders Scharp Award for Engineering Excellence is the Group's annual internal recognition for technological development and innovation. In 2005, the award bestowed its top prize on a project to dry clean clothing using liquid CO₂ instead of chlorinated solvents.

Product innovations

Several new Electrolux products have been introduced into the market that exemplify our sustainability approach to product development.



Since considerable amounts of humidity are produced in the cavity of ovens during professional cooking use, the **Electrolux Air-O-Steam** oven is equipped with a patented steam control. The oven has the added advantage of being able to use the 'half power' mode to avoid peaks of consumption, thereby improving energy efficiency. Steam cooking has numerous health benefits: vitamins and mineral salts are retained, much of the fat content in meat and fish is dispersed and roasting does not require fat or oil.

Eureka Sanitaire Upright Vacuum Cleaners –This is the only brand offering a sealed HEPA system that captures 99.97% of dust, allergens and small particles.



The Electrolux Kelvinator BioFresh O2 Air Conditioner is a Top Energy Saver Award (TESAW) winner for 2005. It boasts energy efficiency and is also particularly beneficial for households with infants, asthmatics and the elderly. It eliminates 99% of airborne allergens including dust, pollen, pet hair and odors as well as 95% of harmful bacteria and 85% of viruses. TESAW is an award system created by the Australian governments and the appliance industry for the most energy efficient (best in class) star-rated products on the market.



Electrolux Spiral Flame Burner is a built-in hob developed by Electrolux in China. The design of the spiral flame outlet directs the gas inward, concentrating the heat into a pan's center, creating intense heat using less gas. This design resulted in 20% less gas use and 22% less cooking time. At the same time, the design of the trivet means there is a lower center of gravity in the wok, resulting in greater stability. Better control provided by the closed gas flame, coupled with better wok stability, means that the spiral burner is much safer than competitor's products.



Sensidry is a heat pump condensed tumble dryer launched in 2005 by AEG-Electrolux. It boasts record-low energy consumption and advanced technology to safely dry delicate fabrics. The dryer's closed circuit ensures that energy does not go to waste, resulting in much lower energy consumption compared to traditional dryers. The unique silk drying program consumes only half the energy of an ordinary tumble dryer.



Both **Electrolux EX500ISB and EX600ISB dishwashers** won the TESAW 2005 and consume less than 15 liters of water per load when the auto wash program is selected. Its Aquapulse® wash system and automatic sensors ensure that Electrolux dishwashers use less than 15 liters of water per load when the 'auto' wash program is selected.



The Electrolux Lagoon Concept is Electrolux Professional's answer to environmentally sound garment cleaning. This wet cleaning concept replaces solvent-based dry cleaning, using only water and biodegradable soaps. It presents many advantages, including a better result and greater care of natural fibers. It has been endorsed by Woolmark.



The Electrolux Outdoor Backpack Blower is designed with a high blow capacity and touts the market's lowest sound levels. Sound levels are one quarter of those emitted by similar products currently on the market—it measures 64 decibels at a 15 meter distance, while industry equivalents measure 70 decibels. In addition to meeting strict standards of the California Air Resources Board (CARB) and the EPA, the product is designed to meet 2008 EU requirements on emissions levels of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO). The Backpack Blower is distributed in all markets.

Governance for sustainability

A company with its house in order is usually well regarded by investors and other stakeholders. Good corporate governance has a direct impact on both share value and reputation.

Today, good corporate governance is as much a matter of controlling financial performance and business structures as it is social and environmental performance. Electrolux has a robust corporate governance system that takes into account both the financial and non-financial aspects of a well-run company.

In 2005, work continued on ensuring that Electrolux complies with requirements of the US Sarbanes-Oxley Act of 2002 by the December 2006 deadline. The law in general holds corporations to high standards of ethics and accountability. The Swedish Code of Corporate Governance, which took effect July 1, 2005, has been applied by Electrolux as of that date. The Electrolux Group had previously applied most of the provisions of the Code and since July 1, 2005 implemented the remainder of the provisions. For more information, see the Electrolux Annual Report at www.electrolux.com/ir.



To ensure effective corporate governance, employees receive information and training regarding the Electrolux mission, Code of Conduct and other policies and procedures. At the Juarez, Mexico refrigerator factory, employees receive this information during a five-day induction.

An ethical business framework

Internal policies and codes such as the Electrolux Environmental Policy, Electrolux Code of Ethics, the Electrolux Policy on Countering Bribery and Corruption, and the Electrolux Workplace Code of Conduct are integral to the company's corporate governance structure. The Code of Ethics defines the framework of how the company is to do business while the Policy on Countering Bribery and Corruption prohibits bribes, kickbacks or any other improper benefits to those with whom Electrolux conducts business. Reports of non-compliance may be submitted, anonymously if the employee wishes, without risk of negative consequences for those reporting.

The Code of Conduct includes assessment tools and third-party monitoring to follow the Group's progress in meeting the Code, which covers both Electrolux operations and suppliers.

"In a competitive environment, seizing opportunities and managing risks that threaten the objectives of Electrolux is a prerequisite to creating sustainability," says Anna Ohlsson-Leijon, Senior Vice President, Management

Assurance & Special Assignments. "Internal as well as external risk factors should be assessed and sustainability aspects integrated in our business processes. Internal policies and codes are implemented at all levels of the company, supported by communication and training.

Investors take notice

Corporate governance is rising on investors' agendas. "It is important for investors that a company controls and documents not only its financial performance but also its social and environmental performance. The market expects it," says Peter Nyquist, Vice President for Electrolux Investor Relations & Financial Information. "As Electrolux as a single global brand becomes more widespread, we must live up to the promise implicit in that brand."

For the complete formulations of Electrolux codes and policies, see **The way we work, Sustainable governance** at www.electrolux.com/sustainability <<http://www.electrolux.com/sustainability>>

Managing impacts down to the factory floor

We manage our social, environmental and quality issues through a number of management systems. But it is our employees around the world who transform them to action.

At Electrolux Professional Food Service Equipment in Vallenoncello, Italy, integrating environmental thinking into daily decision making has long been a practice that yields results. In Brazil, the Electrolux Code of Conduct is high on the radar of employees' everyday business decisions, due to widespread training and an aggressive implementation plan. These are just two examples of the Electrolux "globally facilitated, locally owned" approach to managing sustainability issues.

This approach is characterized by top management commitment, central support and training, Group data collection and local-level ownership. The result is reduced environmental impact, risk assurance, improved working conditions, lower costs and greater employee awareness. With local implementation, it is also easier to comply with varying national legislation.

Italy keeps environment in forefront

Group Management has stipulated that an environmental management system is to be implemented for each business sector's entire operations. All manufacturing units with at least 50 employees are mandated to be certified according to ISO 14001. By the end of 2005, 98% of the Group's total manufacturing area was certified to ISO 14001, corresponding to 68 production units, or 91% of the total number of units requiring certification. In addition,

seven non-manufacturing units have received ISO 14001 certification.

In 1995, the Vallenoncello cooking equipment factory for Electrolux Indoor Products became the first manufacturing facility in Italy to have a certified environmental management system.

"Since then, we have seen a steady improvement in water and energy consumption and waste among other key performance indicators. In 2005, in comparison to 2004, water consumption was reduced by 25%, energy consumption by 17%, common waste by 9% and compressed air consumption by 20%," says Francesco Omiccioli, Environmental Coordinator and Quality Manager for the Indoor Food Product Line in Europe.

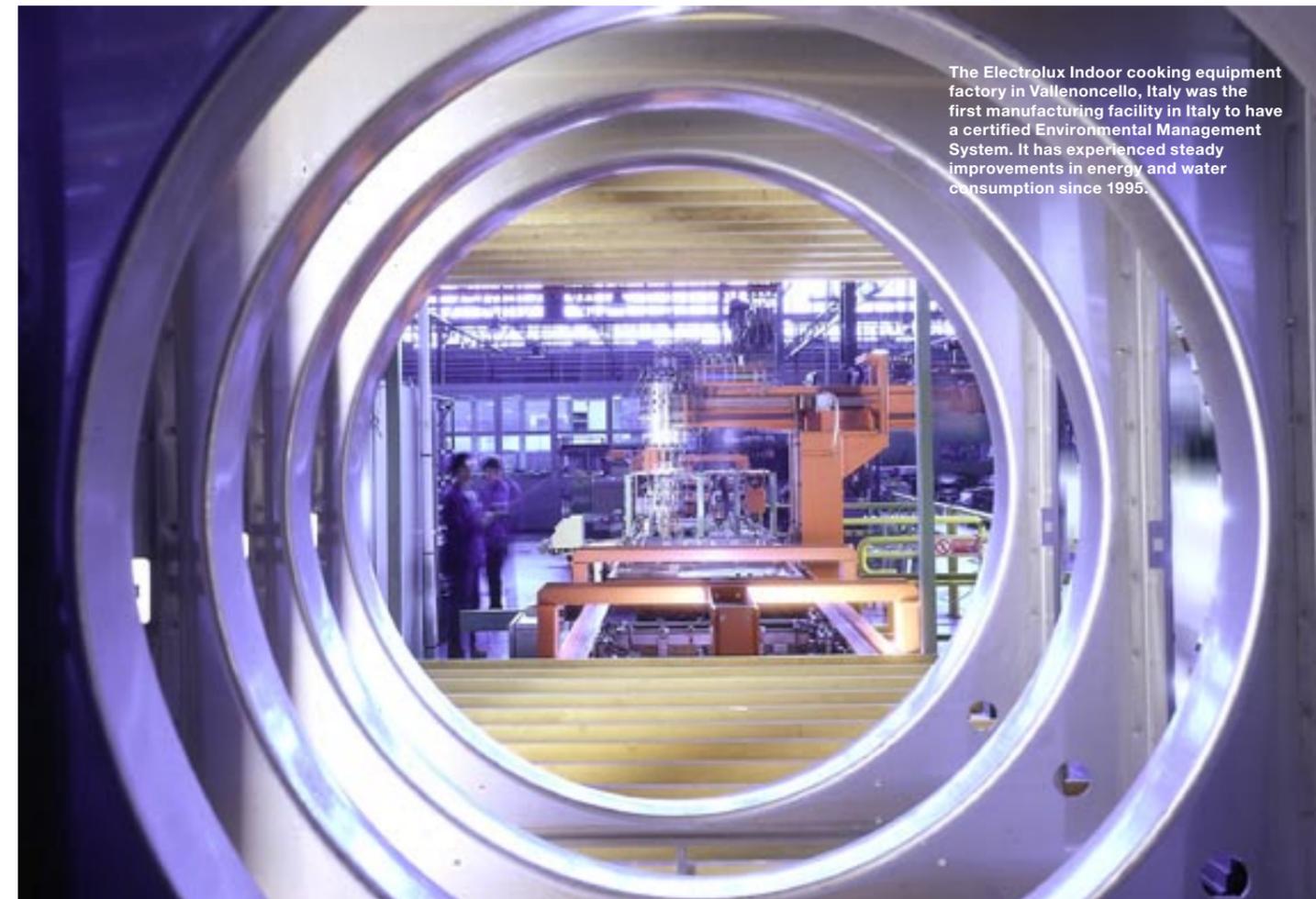
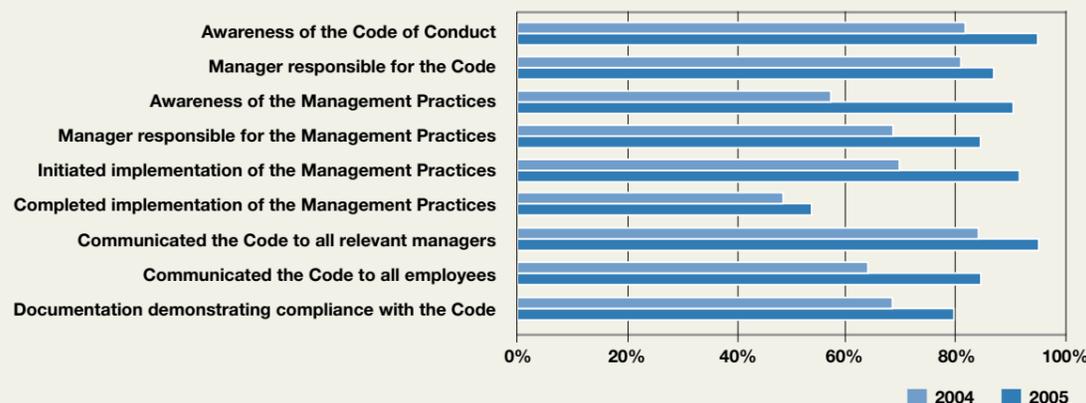
An ongoing priority is to identify environmental targets when developing products, not only to meet new legislative requirements but also to fulfill the Electrolux commitment to produce the most environmentally sound products on the market, says Omiccioli.

Integrating Code of Conduct

The Awareness-Learning-Feedback-Assessment (ALFA) tool is used to manage socially related issues. It communicates the key concepts of the Electrolux Code of Conduct and measures its integration among Group units.

In addition to the ALFA tool, external audits are also

ALFA tracks Code of Conduct (No. manufacturing units)



The Electrolux Indoor cooking equipment factory in Vallenoncello, Italy was the first manufacturing facility in Italy to have a certified Environmental Management System. It has experienced steady improvements in energy and water consumption since 1995.

conducted at Electrolux operations to ensure compliance with the Code. In 2005, there were two follow-ups to 12 audits conducted in 2004 as well as one new audit. This means that all Electrolux factories in Asia and all but one in Latin America have been audited on social and environmental issues.

In Brazil, there is an action plan to implement the Code of Conduct. It is part of induction training of all new employees, who also have easy access to information about it via the company intranet. In 2005, there was training on harassment issues for managers as well as the introduction of a feedback mechanism for employees wishing to communicate instances of non-compliance. The Brazil organization has used ALFA as a tool to measure its compliance with the Code and has also passed an internal audit on compliance.

"Nowadays most of our managers know what behaviors are necessary to ensure that our company complies with these values and principles, and how important it is in decision making," says Tania Maranhã, human resources manager at Electrolux in Brazil. "In 2006, we plan to train all our managers on the Code of Conduct."

In other examples of how the Code of Conduct is being integrated throughout the company, 40 managers from six countries in southeast Asia took part in a training program in the Code. And since 2003, Electrolux North America has required employees to complete a series of e-training courses on business ethics. To date, 7,782 employees have completed a total of 14,250 lessons.

Tracking quality

Quality is another issue managed globally but with leverage for local implementation. This provides for quick response backed by long-term commitment. In 2005, 90% of all Electrolux manufacturing facilities with more than 50 employees had been certified according to the international ISO 9001 quality standard, representing 96% of our production area. This is slightly lower than 2004 due to changes to the structure of the Group. The figure also includes three units that have pursued Sears Quality Standard, regarded as a higher standard than ISO. The safety and durability of products is tracked throughout the Group, evaluated by the Sector Product Safety Advisory Committee.

The product quality experienced by our customers is tracked and evaluated throughout the Group, where the same performance indicators are used in all sectors and markets for all products. The tracking and evaluation of product quality data is supported by the Electrolux Quality Evaluation System (QES), which is a tool for analysis of service call data. With the QES, product quality trends can be tracked by factory, market, product line, and many other categories. The number of markets using the QES is constantly growing and the system now covers all major markets in Europe, North America, Latin America and Asia Pacific.

For more information about results on our performance, see Performance indicators, p. 33-34 and The way we work at www.electrolux.com/sustainability

Chain reaction

The objective of the Electrolux Supplier Monitoring and Compliance Program is to ensure high environmental and social standards in our supply chain. In 2005, the program was launched in China, a growing source of purchasing for the Group.

To be globally competitive and gain access to growing markets for the Group, Electrolux is increasingly sourcing products and components from countries offering lower costs, primarily in Asia, Eastern Europe and Latin America. All suppliers must meet the requirements of the Electrolux Code of Conduct. (See p.5)

In 2005, Electrolux conducted the first phase of its Supplier Monitoring and Compliance Program in China. China presents complex issues from a Code of Conduct perspective, which we felt were important to examine. The purpose of this initial phase was to field test materials in order to finalize the program, gain further experience on situations and dilemmas that will be encountered while evaluating supplier performance in China on social and

environmental issues, and to determine what support suppliers will need to meet Electrolux requirements.

In China, Electrolux has approximately 400 suppliers. By the end of 2005, 45 suppliers, representing a significant part of purchasing spend in China, were audited on legal requirements and the Code of Conduct. The suppliers, which included both large and smaller companies, were primarily located in the coastal areas but also around the two Electrolux factories in Changsa and Hangzhou. There were 31 audits carried out by the internal auditing team based in Shanghai. Another 14 audits were conducted by external auditors.

Audit checks compliance

The audits revealed non-conformances with the Code of Conduct, primarily in the areas of health and safety, working hours, and compensation. Suppliers are given a period of time to take corrective actions before being audited again. Follow-up audits are conducted to secure that suppliers eliminated non-conformances.

Suppliers were generally positive to the Code of Conduct. Most agreed to provide corrective actions to resolve or improve the situation.

“These considerations might be new to them but they quickly realize that this is an important element of how to do business and that it is an opportunity for them to meet the social and environmental standards that will increasingly be required from them in a global market,” says Andy Ng, Asia Quality Manager and head of the auditing team.

The Electrolux Supply Chain Monitoring Program aims at ensuring high workplace standards among suppliers, a growing percentage of which are based in China.



Supplier gains insight

Midea-Royalstar Joint Venture, a Chinese company that supplies over 70,000 major appliances to Electrolux each year, was among those companies audited on the Code of Conduct. Non-conformances in the area of health and safety were found and corrected, says David Luo, sales representative for the company. Electrolux has received the supplier’s corrective action plan and a follow-up audit will be conducted to verify the improvements made by the factory.

“It is helpful for us to have these inspections as we gain experience and insight into how to improve working conditions and the overall quality of our factories,” says Luo. “We see that the positive changes we make are very motivating to our employees and it helps us remain a valued supplier.”

Working towards solutions

“It is clear from this first phase that our suppliers in China need guidance to meet the terms of the Code of Conduct and we are now considering how best to provide that support,” says Jens Schlyter, Manager, Social Responsibility for Electrolux.

“If necessary, we will terminate a contract, but we consider that a last resort,” says Jean-Michel Paulange,

Head of Electrolux Purchasing for Asia-Pacific. “Ending a contract with a supplier does not improve the situation for workers or the environment, and it is a costly and less-than optimal solution for Electrolux. Whenever possible, we will try to work with suppliers to fulfill our requirements.”

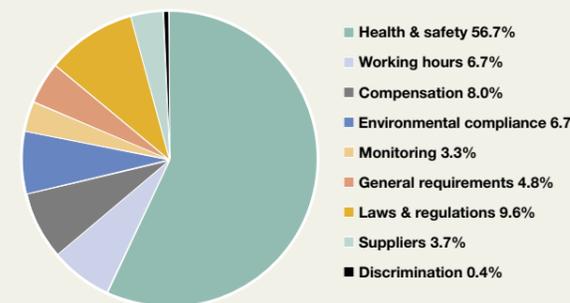
At the same time, it will be made clear to suppliers that meeting the Code of Conduct is just as important as other factors that determine the choice of suppliers, such as cost and quality, says Francois van Caeyzeele, Chief Purchasing Officer for Electrolux. “Every member of our purchasing staff has a responsibility to convey this message to our suppliers.”

Further developing the program

In 2006, the Supplier Monitoring and Compliance Program will be further developed to meet this ambition, including expansion of the Electrolux auditing team in China.

“As a global company, we have a responsibility to make sure that our suppliers wherever they operate observe certain ethical standards,” says van Caeyzeele. “It is an essential part of the Electrolux brand that all our products are manufactured with respect and consideration for human rights, health and safety and the environment.”

Audit findings in China during 2005



Distribution in percent of non-compliances of Electrolux Code of Conduct provisions in 2005.

Safety net

Safety is handled on a local level in order to find the best individual solutions for meeting the Group wide goal of occupational health & safety.

A safe working environment is one of the most important commitments we make to our employees.

At Electrolux, a proactive local approach inspired by the Group emphasis on health and safety has proven to be a valuable investment in reducing both injuries and costs. Each Group site is responsible for managing health and safety issues at its facilities, while business sectors coordinate efforts, share best practice and analyze trends. Group data showed an improvement in work-related injuries in 2005 with 16.2 work-related injuries per million hours worked, compared to 20.4 in 2004 and 29.8 in 2003.

Electrolux Major Appliances North America continues to be outstanding in its occupational health and safety performance. In 2005, it reduced its work-related injuries by almost 40% over 2004, about 50% safer than the industry average in North America. The key to the success is STOP (Safety Training Observation Program), which teaches safety auditing skills for observing people while they work.

"The key components of STOP are management commitment, communication, and employee involvement," says Harry Kagel, Environmental Safety Coordinator for Electrolux Major Appliances North America. "Supervisors and team leaders communicate not just what employees are doing wrong, but also what they're doing right."

Raising the bar

This approach yielded impressive results at various facilities. Webster City reduced its work-related injuries by 65% compared to 2004 while Springfield operated for more than a year without a lost-time recordable injury. The facility in Juarez, Mexico, which began operation in 2005, completed the year with a total case incident rate below 1%.

In 2006, the plan is to introduce Advanced STOP throughout Electrolux North America to improve performance even further.

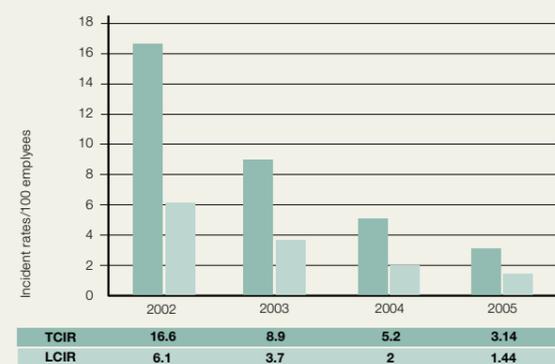
Robust systems for Australia

At Electrolux Australia, the focus on a safe working environment will be further bolstered with the introduction of SHE (Safety, Health and Environment) on July 1, 2006. SHE is an automated tool that replaces the current labor-intensive, paper-based records and reporting. It will give Electrolux Australia the tools to streamline OH&S policies and procedures with the aim of raising standards consistently and for their easy application across all sites.

"SHE has extensive capacities that will ultimately lower the number of workplace injuries," says Margaret Smith, OHS and Workers Compensation Manager for Electrolux Australia. "It allows transparency of incidents for management, team leaders, unions and state authorities."

For more information on safety, visit [The way we work at www.electrolux.com/sustainability](http://www.electrolux.com/sustainability) and Performance Indicators on p. 34.

STOP Safety Performance for Electrolux Major Appliances, North America



The number of work-related injuries at Electrolux North America operations declined once again in 2005, according to both the TCIR (Total Case Incident Rate) and LCIR (Lost Case Incident Rate), resulting in lost work time. The STOP program continues to place Electrolux as an industry safety leader in North America.

Talent: a global competitive factor

Attracting, developing and retaining talented people is a driving force for Electrolux to maintain our global competitiveness.

At Electrolux, we are committed to developing a talented and diverse workforce to meet the challenges of an increasingly global market.

"Talent management is about having the right person with the right behaviour and the right competencies in the right place at the right time," says Pia Hovland, Vice President Talent Management, Electrolux.

Through the Electrolux Talent Review Process, 3,000 individuals are reviewed each year. The process includes appraisal talks for all employees. In 2005 80% of the employees that responded to the Talent Management Survey had an appraisal talk with their managers, which is a high number and an increase from 75% in 2003.

Poised for the future

Leadership programs are another important part of the talent management process. Between 2003 and 2005, when the new programs were launched, 1,240 managers and senior executives attended three different types of leadership development programs offered by the Electrolux Talent Management Department. Now that the programs are established, it is estimated that about 300 managers will participate a year.

"Electrolux focuses on developing managers' talent and leadership skills because we believe that managers have the greatest impact on developing and motivating their employees. It is our leaders who will take the company into the future and face the challenges of globalization," says Hovland.

As a separate initiative, Electrolux in East Asia launched in 2005 a regional employee exchange program designed to develop high-potential managers within marketing and sales. The employees work in different countries in the region, broadening their experience and deepening their skills.

General employee training and development is handled on the local level. This includes general training on, for example, the Code of Conduct; functional training, such as in quality or safety or technical aspects of the job, and management training.

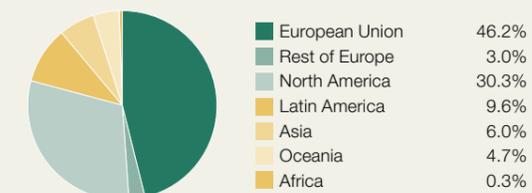
Attracting young talent

As one of the ways the company is seeking to attract young talent, Electrolux has a strategic partnership with AIESEC, a leading global organization for development of youth leadership. The goal of the partnership is to increase the number of young potentials in the Group and to develop the Electrolux employer brand. Greater gender and cultural diversity is an additional benefit, since the AIESEC interns come from many different countries, and the majority are female. In 2005, Electrolux hired 62% of its AIESEC interns.



As Vice President of Talent Management, part of Pia Hovland's job is to make sure Electrolux has the right management resources in place to be able to excel in an increasingly global business environment.

Employees, by geographical area



In 2005, the average number of employees worldwide was 69,522, of whom 45,327 were men and one third, or 24,195, were women.

our metrics

Economic data

Financial performance overview

The Electrolux Group is the world's largest producer of powered appliances for kitchen, cleaning and outdoor use. Net sales in 2005 increased to SEK 129,469 m (120,651) or by 4% in comparable currencies. For more information on the Group's financial performance, see Investor relations at www.electrolux.com.

Key data

	2005 SEK	2004 SEK	2005 EUR	2005 USD
<i>SEKm, EURm, USDm, unless otherwise stated</i>				
Net sales	129,469	120,651	13,958	17,366
Operating income	3,942	4,807	425	529
Margin, %	3.0	4.0		
Income after financial items	3,215	4,452	347	431
Earnings per share, SEK, EUR, USD	6:05	10:92	0.65	0.81
Dividend per share, SEK, EUR, USD	7:50 ¹⁾	7:00	0.81	1.01
Return on equity, %	7.0	13.1		
Return on net assets, %	13.0	17.5		
Value creation	2,913	3,054	314	391
Net debt/equity ratio	0.11	0.05		
Average number of employees	69,523	72,382		

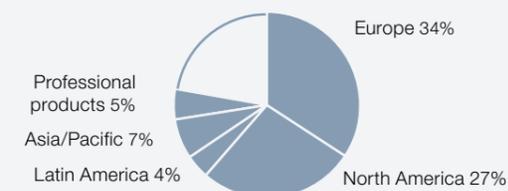
¹⁾ Proposed by the Board of Directors.

Net sales and employees, 10 largest countries

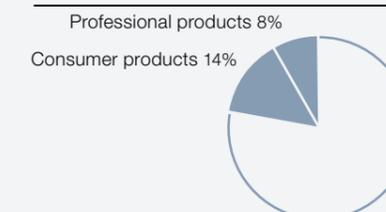
Country	SEKm	Employees
USA	46,208	19,353
Germany	9,220	3,900
France	6,659	1,925
UK	6,071	1,722
Canada	5,639	1,699
Italy	5,580	8,553
Australia	4,964	3,068
Sweden	4,592	5,905
Brazil	4,558	4,914
Spain	3,078	1,643
Total	96,569	52,682

Share of total Group sales

Indoor products



Outdoor products



Distribution of value added, by stakeholder

The Electrolux Group contributes to the economic development of the societies in which it operates throughout the world. The tables below show the value added that is generated by the Group and its distribution among stakeholders.

Stakeholder		2005	2004	2003
Customers	Revenues	129,469	120,651	124,077
Suppliers	Cost of goods and services	-99,333	-89,896	-90,790
	Value added	30,136	30,755	33,287
	Capital expenditure, R&D, marketing, etc.	-3,500	-4,546	-6,250
Distributed to stakeholders:		26,636	26,209	27,037
Employees	Salaries	17,033	17,014	17,154
	Employer contributions	5,388	5,642	5,605
Public sector	Taxes	1,450	1,205	2,215
Credit institutions	Interest payments	727	355	169
Shareholders	Dividend payments	2,038	1,993	1,894

Distribution of Group revenue



In 2005, value added amounted to SEK 26,636 m.

Value added (in SEKm) represents the contribution made by a company's operations, i.e., the increase in value generated by manufacture, handling, etc., within the company. It is defined as sales revenues less the cost of purchased goods and services.

A diagram illustrating Electrolux key stakeholders can be found on p. 34.

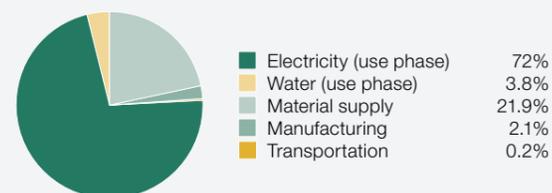
Environmental performance indicators

The Group is committed to continuous improvement in terms of energy efficiency, factory emissions, waste generation and handling hazardous materials in manufacturing and other processes, as well as designing products with high levels of environmental performance. The indicators presented below reflect the Group's key impacts on the environment. Data has been collected and aggregated on Group level since 1988, and reported externally since 1995.

In products

Different measurements naturally apply for different products. In general, the greatest environmental impact of Group products occurs during use, through consumption of energy, fuel and water. Efficient appliances reduce the consumer's operating costs. Offering products with outstanding environmental performance therefore provides competitive benefits. (See "Energy squeeze", p. 8) A review of the environmental performance of products can be found under 'Our products' at www.electrolux.com/sustainability.

Life-cycle impact



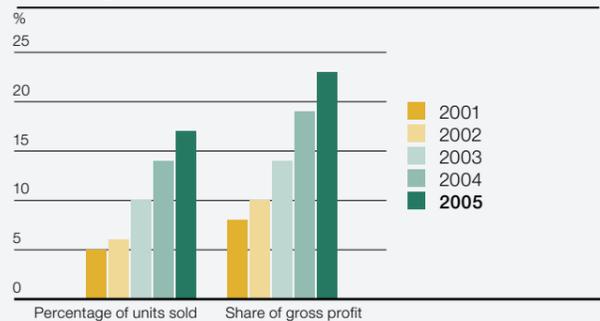
Life-cycle cost



The purchase price is often less than half of the total life-cycle cost and efficient appliances generate both economic and environmental savings. The graphs below are based on data from washing machines sold in Europe (Öko-Institut e.V., Institute for Applied Ecology, 2004).

Two performance indicators used for Major Appliances in Europe are Fleet average and Green range. Green range shows the relative profitability of products with leading environmental performance. Green range is not based on fixed criteria, but instead is defined as the top products in each product category. The criteria are made stricter each year to reflect overall improvement. The Green range calculation compares the percentage of sold units to these same products' share of gross profit. As shown in the graph, the most efficient products account for a higher share of gross profit, reflecting consumer awareness that life-cycle savings from lower electricity costs offset higher purchase prices.

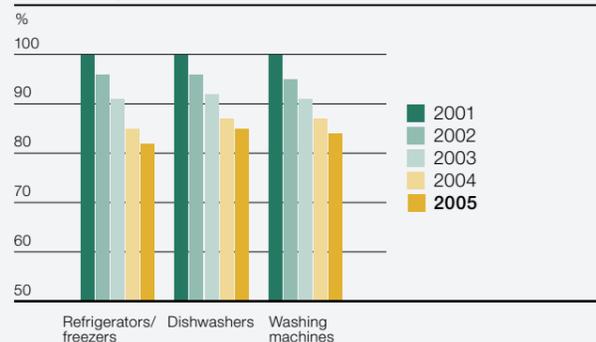
Green range



Within household appliances in Europe, the products with the best environmental performance accounted for 17% of total sold units in 2005 and 23% of gross profit.

Fleet average shows the relative improvement in energy efficiency of the various product groups each year using an energy index. Fleet average energy efficiency for various categories of appliances sold by Electrolux in Europe showed continued improvement in 2005.

Fleet average

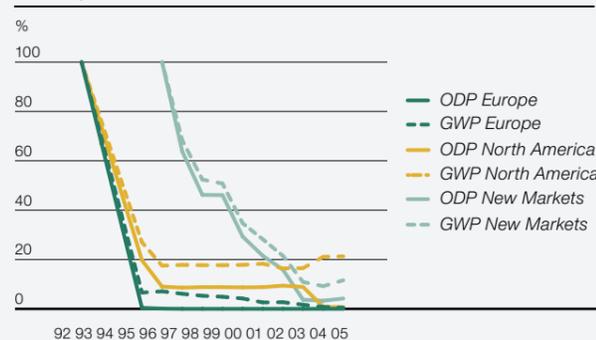


Reduction in energy consumption for products sold in Europe, with energy index set at 100% in the year 2001.

Phase-out of ozone-depleting and global warming substances

The Montreal Protocol was adopted by the United Nations in 1986 and calls for a phase-out of ozone-depleting substances. The use of chlorofluorocarbon (CFC) as a refrigerant or in insulation is prohibited in most markets including the EU and the US, where the Group's products have been free of CFCs for several years. The Group has been a leader in the phase-out of both CFC and hydrochlorofluorocarbon (HCFC) in new markets such as China and Brazil.

Global phase-out



The graph shows the relative change in the use of substances with ozone-depleting (ODP) and global warming potential (GWP) in refrigerants and insulating gases used in the Group's products.

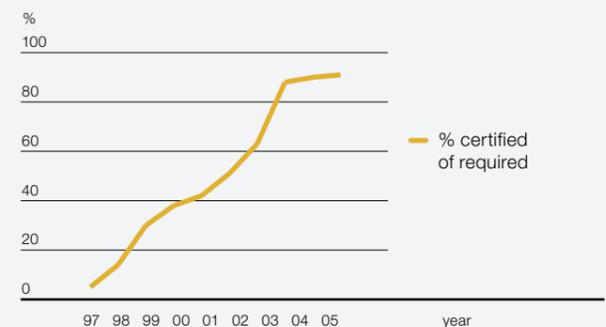
In operations

The Group works continuously to reduce consumption of energy and water at production sites, and to achieve high use rates for purchased material and components. These cover the balance between ingoing direct material and outgoing products, emissions, waste, use of solvents and oils, environmentally critical processes, water consumption and related carbon dioxide emissions. Since site measurements were implemented, environmental performance has steadily improved. For a site by site performance review of Electrolux production facilities, visit 'The way we work' at www.electrolux.com/sustainability

Management systems in production

By the end of 2005, 98% of the Group's total manufacturing area was certified to ISO 14001, corresponding to 68 production units, or 91% of the total number of units requiring certification. In addition, seven non-manufacturing units have received ISO 14001 certification. Newly acquired units must complete the certification process within three years after acquisition. (See Managing impacts down to the factory floor, p. 22)

ISO 14001 certification



Units certified to ISO 14001, as a percentage of all units for which certification is required.

Manufacturing data covers 90% of the majority-owned production facilities worldwide.

Direct material balance

	2005	2004	2003	2002	2001
Finished products (Incl. packaging)	91,08	90,47	89,22	89,10	89,00
External material and energy recycling	7,85	8,29	9,59	9,42	9,42
Waste to landfill (non-hazardous)	0,85	1,01	0,92	1,19	1,21
Hazardous waste	0,19	0,19	0,20	0,25	0,29
Emission to air	0,022	0,034	0,061	0,026	0,067
Emission to water	0,002	0,002	0,005	0,007	0,004
Total incoming material	100,00	100,00	100,00	100,00	100,00

Utilization of material in production continued to increase in 2005, while externally recycled material and waste to land-fill were reduced. The above chart reflects material use in percent from 82 manufacturing units.

Transportation

Efficient and sustainable transport is of strategic importance to Electrolux. In 2005, rail transport in Europe for Electrolux household appliances accounted for 45.5% of all transport from factories to regional distribution centers. A decrease of 5.5% from 2004 is the result of increasing retailer requirements that products be transported directly from factories.

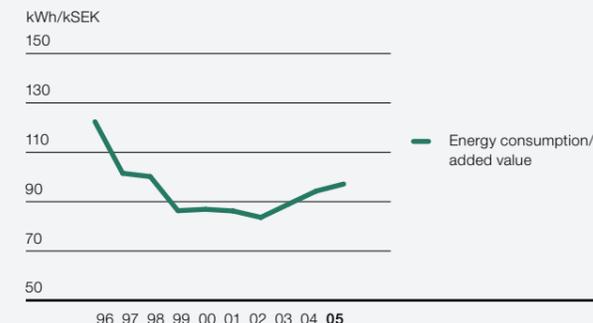
According to a life-cycle analysis (Electrolux, 2001) transportation has minimal impact compared to the impact from the use of appliances.

- A truck transport of a refrigerator from Mariestad, Sweden to Madrid, Spain (2,950 km) generates 14 kg CO₂. This is the equivalent to 30 days of use of a top energy class refrigerator/freezer, or less than 1% of the total life cycle impact.
- The same transport by rail generates approximately 7 kg CO₂.

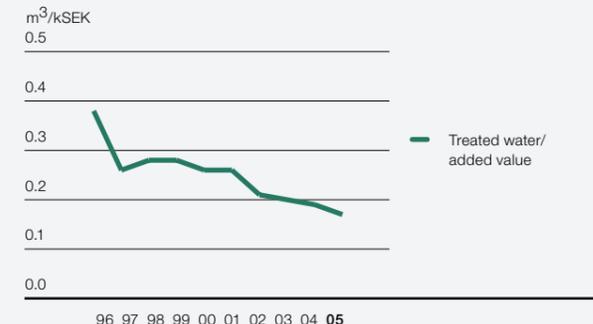
Energy and water use

Since the degree of environmental impact is dependent on the volume of production, some indicators are calculated in relation to added value, which is defined as the difference between total production cost and the cost of direct material.

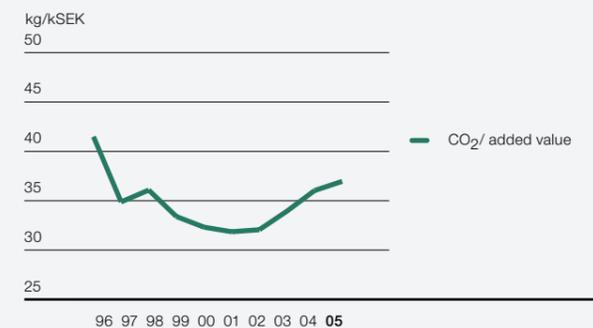
Energy consumption per added value



Treated water per added value



CO₂ per added value



Though the Group's total energy consumption and CO₂ emission levels were reduced between 2004 and 2005, a decline in added value in SEK resulted in an increase in consumption and emissions in relation to added value.

Solvents and oils (in metric tons)

	Number of factories	Chlorinated solvents	VOC*	Oils
Europe	49	26.1	272.3	547.1
North America	21	0.0	132.8	910.3
South America	6	0.0	0.0	98.3
Asia	4	0.3	19.1	12.3
Australia	5	0.0	2.6	32.1
South Africa	1	0.4	0.0	1.9
Total	86	26.8	426.8	1602.0

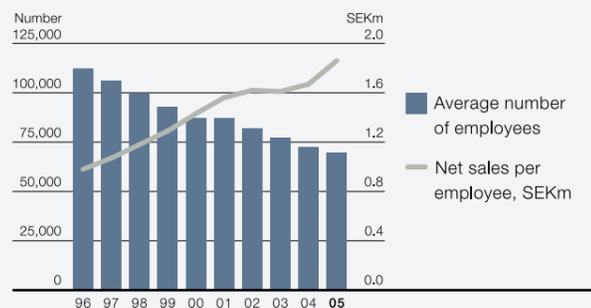
* Volatile Organic Compounds

Solvents and oils are substances that often require special handling in production and after use becomes hazardous waste.

Social indicators

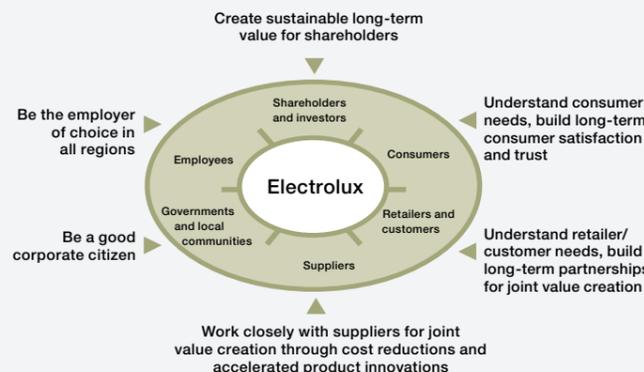
Our efforts in the social context of sustainability are focused primarily on employee welfare, supply chain compliance with the Workplace Code of Conduct, and corporate governance-related issues. Furthermore, the Group endeavors to improve quality of life through its products, and ensure that they are safe to use and manufacture. Electrolux has established policies, guidelines and management procedures aimed at guaranteeing fair business practices and consistent monitoring of social performance.

Employees



The average number of employees decreased from 72,382 to 69,522 as a result of Group divestments and structural changes. The decrease in the number of employees is in part attributed to divestments; where staff members maintain employment under a new employer. The main divestment during 2005 was Electrolux appliance operations in India, which affected 1,100 employees. A detailed listing of the number of employees by country is available under 'Investor relations' at www.electrolux.com/ir.

The diagram below illustrates the Group's key stakeholders.



ALFA

ALFA (Awareness – Learning – Feedback – Assessment) supports internal implementation of the Code of Conduct and continuously monitors Electrolux units regarding its compliance.

In 2005 ALFA was deployed in all Electrolux business sectors for the third time. (See p. 22). In total, 166 units have been evaluated and rated. The results have been communicated to the units involved to help them identify areas of good performance and those needing improvement.

ALFA Group-wide evaluation

Unit	Sent to	Responses	Response rate
Production units	85	85	100%
Offices/warehouses	102	81	79%
Total	187	166	89%

Facilities excluded: Olara and Zarow in Poland; Capetown, South Africa; Fuenmayor, Spain; Ödeshög, Sweden; and Rayong, Thailand.

Health and safety

Safe, healthy working conditions are an important element of the Code of Conduct. Individual business sectors are responsible for ensuring that health and safety are effectively managed. Local units are responsible for taking action and reporting data in accordance with local laws and regulations. (See Safety net, p. 28)

For information on employee absences due to illness, a table showing the sick leave rate for Electrolux Swedish operations is available in the Electrolux 2005 Annual Report, p. 68.

Health and safety in the workplace

	2005	2004 ¹⁾	2003
Number of work-related injuries ²⁾	16.2	20.4	29.8
Number of workdays lost due to occupational injuries ²⁾	239	217	327
Number of work-related fatalities	0	7 ³⁾	0

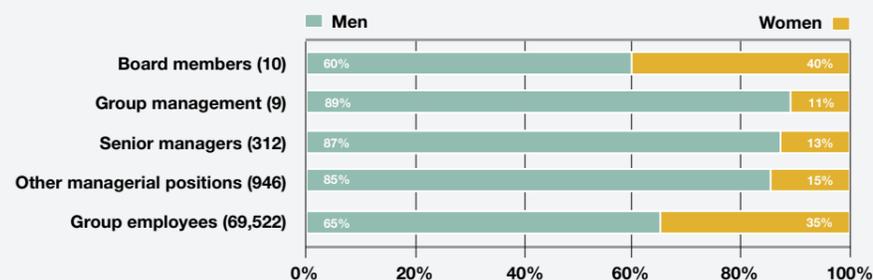
¹⁾ Health and safety key-performance indicators differ from those reported in 2004 due to improved data collection procedures.

²⁾ Per million hours worked.

³⁾ Explosion at construction site at Ath, Belgium, July 30, 2004.

The table illustrates key health and safety data for the Group's operations. In 2005, data was collected covering 84 production facilities and 40 warehouses corresponding to approximately 56,000 employees. The number of work-related injuries was reduced during 2005.

Gender diversity in 2005



In 2005, the average number of employees worldwide was 69,522, of whom 45,327 were men and one third, or 24,195, were women. This ratio has remained relatively constant in the last five-year period and is in line with industry norms. (See Talent: a global competitive factor, p. 29)

Sustainability online

Information on how we apply the concepts of sustainability to our operations and products. Insight into how we tackle risks and opportunities affecting our business.

The way we work

- Group-wide policies, codes and guidelines
- Site-by-site manufacturing performance data
- Guidelines for Code of Conduct management practices
- Supplier assessment criteria

Our products

- Innovation for energy and water efficiency, quality of life and consumer safety
- Product life-cycle data
- Tips for efficient use of appliances
- Recycling

Significant impacts

- Globalization
- Climate change
- Global legislation affecting the Group

GRI matrix

GRI core indicators linked to data in Electrolux Annual and Sustainability Reports as well as other relevant information.

Reports, news and downloads

The interviews, background and data behind the 2005 Sustainability Report Our world Our approach.



www.electrolux.com/sustainability



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Thinking of you



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