# We're strengthening our leadership position...

Annual Report 2004

Electrolux

# This is Electrolux

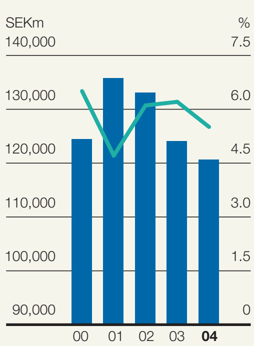
With sales of SEK 120.7 billion, Electrolux is the world's largest producer of appliances and equipment for kitchen, cleaning and outdoor use, such as refrigerators, cookers, washing machines, chainsaws, lawn mowers and garden tractors. Electrolux is also one of the largest producers in the world of similar equipment for professional users.

| **Key data** | 2004 SEK | 2003 SEK | 2004 EUR | 2004 USD |
|---|---|---|---|---|
| SEKm, EURm, USDm, unless otherwise stated | | | | |
| Net sales | 120,651 | 124,077 | 13,235 | 16,464 |
| Operating income | 4,741 | 7,175 | 521 | 647 |
| Margin, % | 3.9 | 5.8 | | |
| Income after financial items | 4,359 | 7,006 | 478 | 595 |
| Net income per share, SEK, EUR, USD | 10.55 | 15.25 | 1.16 | 1.44 |
| Dividend per share, SEK, EUR, USD | 7.00 1) | 6.50 | 0.76 | 0.96 |
| Return on equity, % | 12.7 | 17.3 | | |
| Return on net assets, % | 17.2 | 23.9 | | |
| Value creation | 2,978 | 3,449 | 327 | 406 |
| Net debt/equity ratio | 0.05 | 0.00 | | |
| Average number of employees | 72,382 | 77,140 | | |

1) Proposed by the Board of Directors.

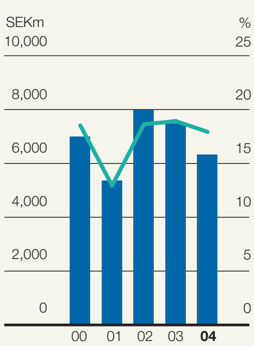
| Net sales and employees in the 10 largest countries | SEKm | Employees |
|---|---|---|
| USA | 43,393 | 19,995 |
| France | 6,597 | 2,134 |
| Italy | 6,579 | 9,090 |
| UK | 6,545 | 1,946 |
| Germany | 6,448 | 4,299 |
| Sweden | 6,123 | 6,546 |
| Australia | 4,902 | 3,532 |
| Canada | 4,687 | 1,552 |
| Brazil | 3,417 | 4,797 |
| Spain | 2,847 | 1,680 |
| Total | 91,538 | 55,571 |

### Net sales and operating margin*



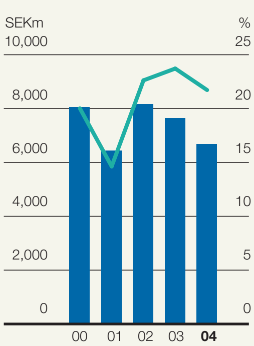

Net sales
Operating margin

### Income after financial items and return on equity*



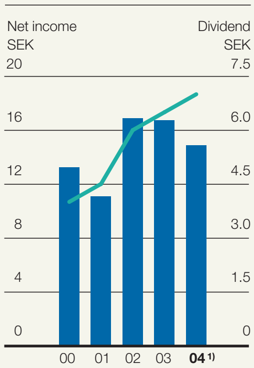

Income after financial items
Return on equity

### Operating income and return on net assets*




Operating income
Return on net assets

### Net income and dividend per share*




Net income per share
Dividend per share

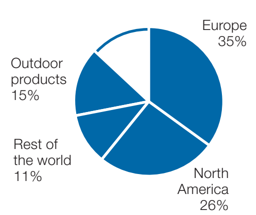
1) Dividend proposed by the Board of Directors.

* Excluding items affecting comparability.

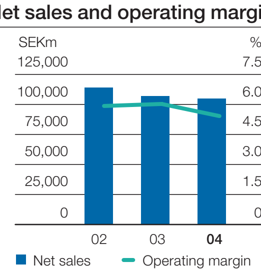
## Business areas

### Consumer Durables

#### Share of total Group sales

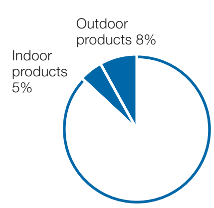



#### Net sales and operating margin*

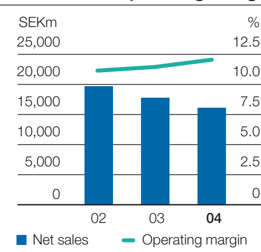



### Professional Products

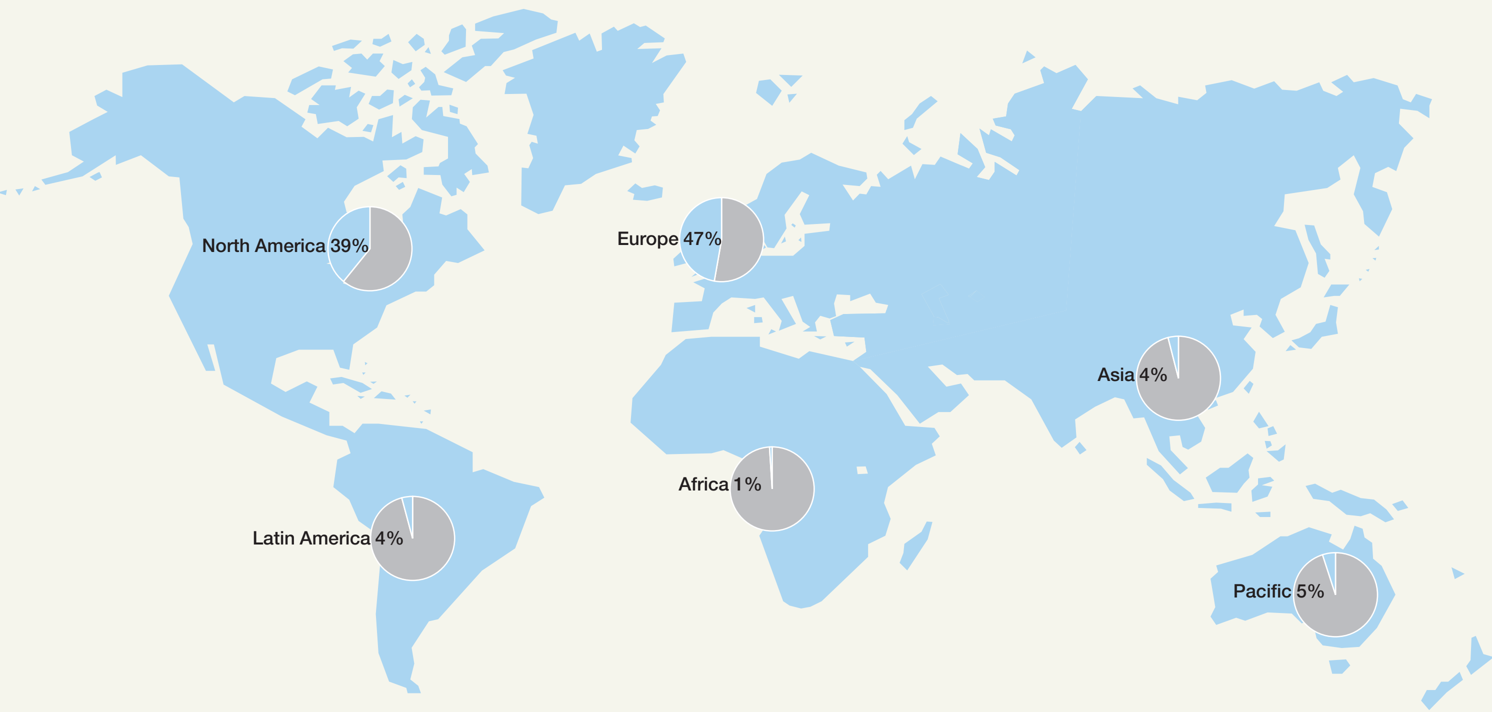
#### Share of total Group sales




#### Net sales and operating margin*



## Net sales by geographical area




| Market position | Key brands | Performance in 2004 | Strategic priorities |
|---|---|---|---|
| **Indoor products**<br>Appliances: Market leader in Europe and Australia, third largest producer in US.<br><br>Floor-care products: World leader, largest producer in Europe, third largest in US. | Electrolux<br>Electrolux Kelvinator<br>AEG Electrolux<br>Eureka Vacuum Cleaners<br>Frigidaire<br>Zanussi Electrolux | • Income for appliances in Europe somewhat lower than in 2003<br>• Strong sales growth and unchanged income in USD for appliances in North America, despite higher costs for materials<br>• Considerably lower income for floor-care equipment, particularly in US, and for appliances in Asia/Pacific | • Increase investments in R&D and marketing<br>• Strengthen Electrolux as a leading global brand<br>• Consolidate and relocate production to Eastern Europe, Asia and Mexico<br>• Increase purchases from low-cost countries<br>• Continue launching high-end Electrolux products in US |
| **Outdoor products**<br>World's largest producer of garden tractors, lawn mowers and other portable petrol-driven garden equipment. | Husqvarna<br>Partner<br>Flymo<br>McCulloch<br>Poulan<br>Weed Eater | • Somewhat higher demand than in 2003<br>• Good sales growth and higher income in Europe<br>• Continued good performance in North America | • Improve cost structure<br>• Increase sourcing among Group operations and from low-cost countries<br>• Continue launching high-end products in US under Husqvarna brand |
| **Indoor products**<br>Food-service equipment: Market leader in Europe, third largest producer in the world.<br><br>Laundry equipment: One of the world's leading producers. | Electrolux<br>Zanussi Professional<br>Dito Electrolux<br>Molteni | • Continued weak demand for both food-service and laundry equipment<br>• After adjustment for divest-ments, sales on level with 2003, somewhat higher income | • Accelerate pace of product renewals<br>• Implement measures for higher productivity and improved internal efficiency<br>• Increase sales of food-service equipment in US through new sales organization |
| **Outdoor products**<br>Chainsaws: World's largest producer.<br><br>Diamond tools: One of the world's largest producers of diamond tools and related equipment for the construction and stone industries. | Husqvarna<br>Partner Industrial Products<br>Jonsered<br>Diamant Boart | • Higher demand in most markets<br>• Strong sales growth for chain-saws<br>• Income largely unchanged, adversely affected by exchange-rate effects<br>• Continued high margin | • Continue strengthening profitable positions in chainsaws<br>• Continue growing within professional lawn and garden equipment |

## Financial reports in 2005

| | |
|---|---|
| • Consolidated results | February 15 |
| • Annual Report | Early April |
| • Form 20-F | Early April |
| • Interim report January – March and Annual General Meeting | April 20 |
| • Interim report April – June | July 19 |
| • Interim report July – September | October 25 |

Financial information from Electrolux is available on the Group's website, www.electrolux.com/ir

The above reports are also available on request from AB Electrolux, Investor Relations and Financial Information, SE-105 45 Stockholm, Sweden.

## Contacts

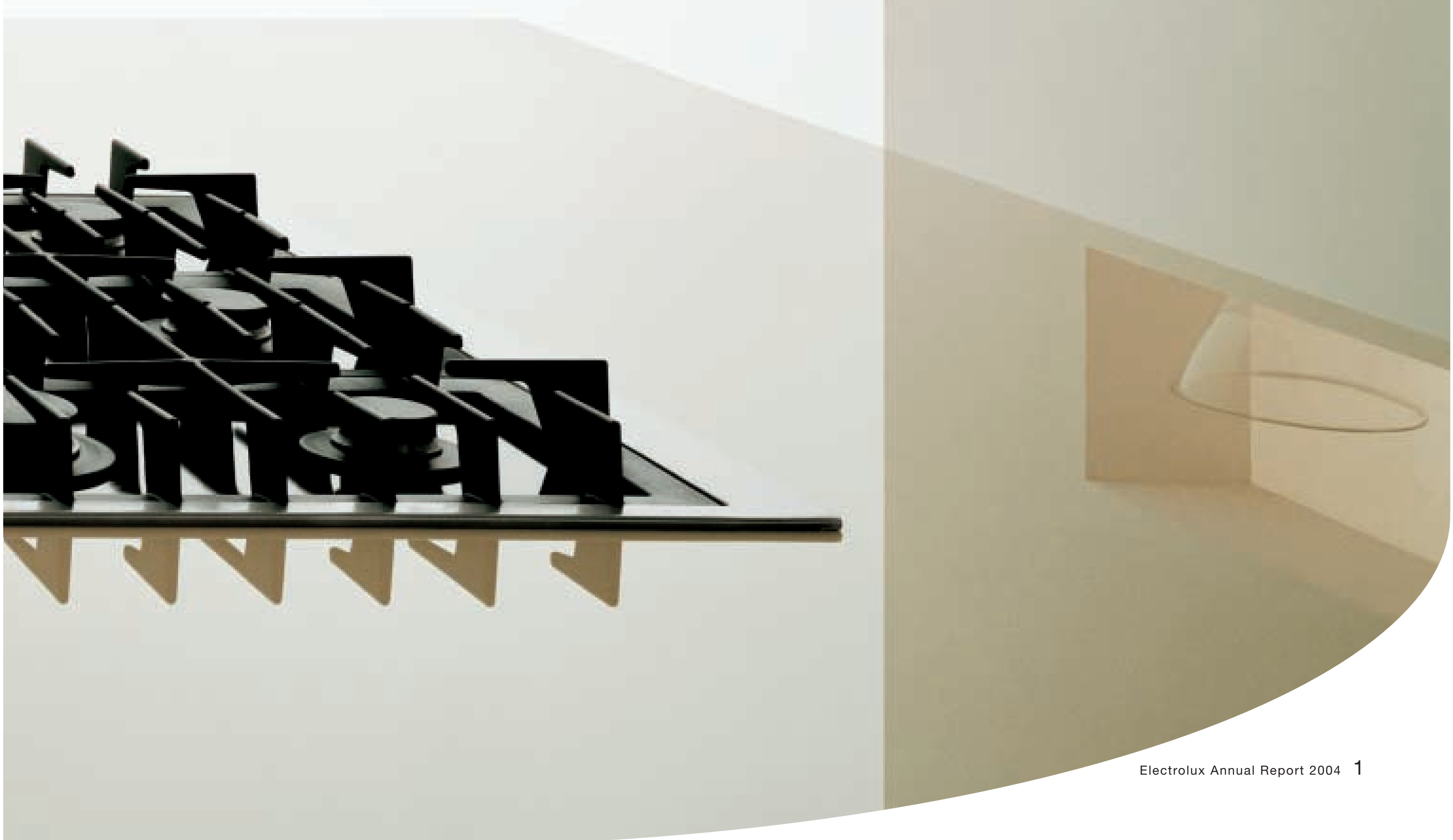

| | |
|---|---|
| Åsa Stenqvist<br>Vice President, Investor Relations and Financial Information | Tel. +46 8 738 64 94 |
| Michael Andersson<br>Business Analyst | Tel. +46 8 738 65 49 |
| Martin Hedensiö<br>Investor Communication Director | Tel. +46 8 738 66 47 |
| Investor Relations | Tel. +46 8 738 60 03<br>Fax +46 8 738 70 90<br>E-mail: ir@electrolux.se |


# Contents



# …by actively:

- Increasing investments in product development
- Building the Electrolux brand globally and reducing the number of brands
- Continuing to develop our strong relations with major retailers
- Cutting costs in production and distribution
- Utilizing the Group's size and global presence more effectively



"Fashions and trends in decoration are becoming more important even in the kitchen."

# What's happening in our industry?

A growing share of disposable household income is devoted to the home, and in particular to the kitchen. Many consumers are interested in food and food preparation, and kitchen design and equipment have become a way of expressing their personalities. Life-styles, fashions and trends in decoration are becoming more important even for kitchen appliances. And for many consumers, esthetic values are just as important as function.

Products are becoming more intelligent as they comprise more electronic systems. Consumers want products that are not only more useful, but are also easy to use and require less looking after – products that provide greater convenience and reliability in the home.

These trends have brought exciting opportunities to our industry. At the same time, pressure for change is being generated by greater globalization and more competition from producers in low-cost countries, as well as by a trend to bigger and more international retail chains.

## Stable demand

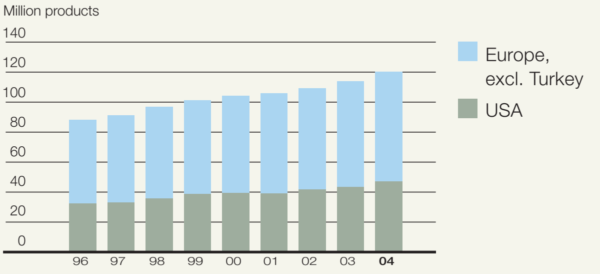
About seven out of ten appliances are purchased when the existing appliance breaks down. The replacement market is therefore a steady basis for demand. The others are purchased mainly when people move to a new home. Demand is affected by housing starts, trends in disposable household income and the number of households. Consumer confidence is also an important factor.

The degree of saturation, i.e. the share of households that have cookers, refrigerators and other appliances, is high in our traditional markets in Western Europe and North America. Saturation is considerably lower in both Eastern Europe and Asia, and these markets also show high growth within most product areas.

## High growth in specific segments

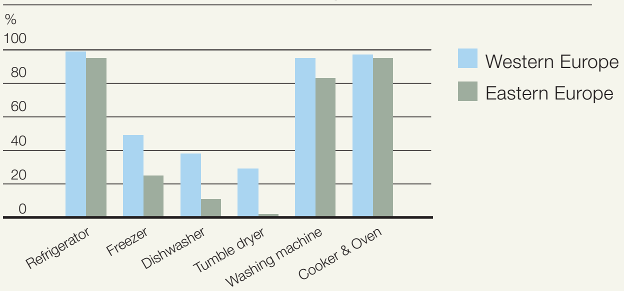
Although some product categories are highly saturated, certain segments or products can still show high growth. For example, frost-free freezers in Sweden have shown annual growth of 150% in the past two years, while the freezer product category as a whole has grown by only 5%. Other examples of products with high growth in many European countries are induction hobs and large side-by-side refrigerators. Built-in products also show substantially higher growth than the overall market in several countries and within certain categories.

### Shipments of core appliances in Europe and US




**Shipments of appliances have been stable in both Europe and the US.**

### Penetration of product categories in Europe




**The graph shows the share of households that owns a refrigerator, freezer etc. in Western Europe and Eastern Europe.**

Hans Stråberg
President and CEO

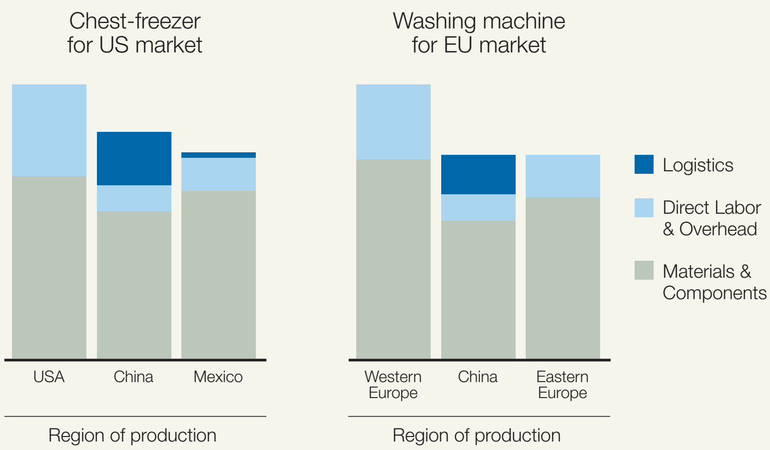
## Globalization and price competition

There is a trend to greater globalization of products and production in our product areas. In our traditional markets, we are meeting competition from a growing share of products from manufacturers in China and Eastern Europe. These companies benefit from low production costs in their home countries, but they also have higher freight costs. Many household appliances are too heavy and bulky to be shipped economically between continents.

At the same time, both Electrolux and our traditional competitors are relocating production to low-cost countries and are also buying more components from them. Globalization is thus gradually leveling out the differences in cost levels.

### Examples of regional production costs

**Estimated landed cost for two different appliances**




**In the examples above, production in Mexico and Eastern Europe is competitive with production e.g. in China.**

## Market polarization

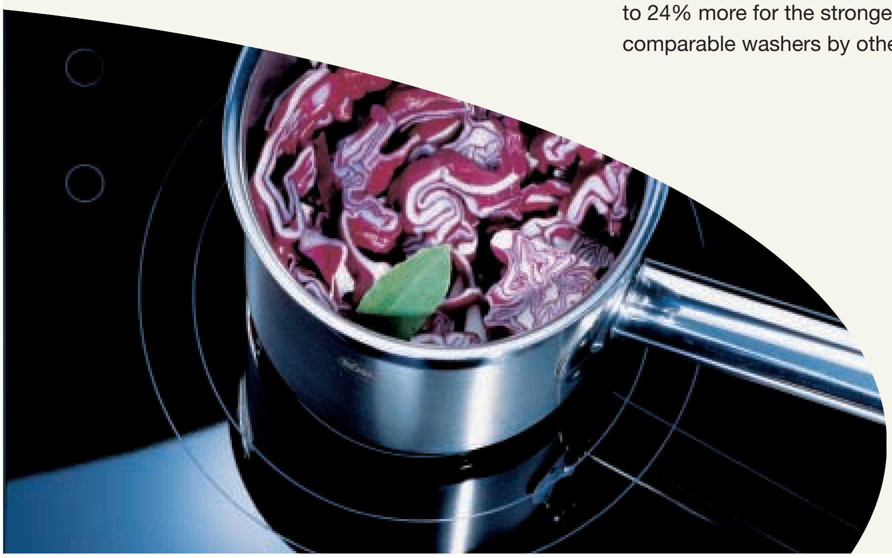
An increasing number of consumers are willing to pay more for products with advanced design and function. At the same time, a large number of consumers want functional basic products at minimum cost. The market is thus becoming more polarized, with higher growth in the premium and lower price segments.

## Innovative products enable higher prices

Consumers are willing to pay more for new products that correspond better to their needs and desires – both functionally and esthetically. Innovative products generate growth in specific market segments, despite moderate growth for the market as a whole.

Since purchases of our products are relatively infrequent and represent a substantial investment for the individual consumer, knowledge of and trust in our brand is important. Recent market research in the UK reveals that consumers are willing to pay up to 24% more for the strongest brand's washing machine than for comparable washers by other strong brands.

The number of induction hobs sold in the past five years in Europe has shown an average annual growth of 22%.



## High productivity in our industry

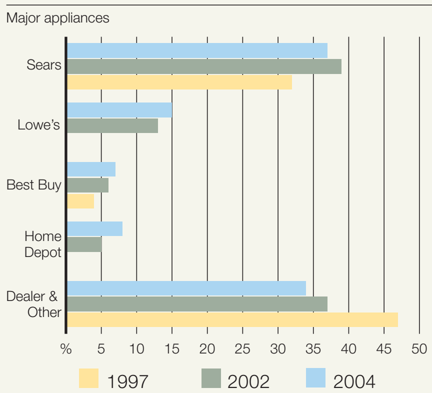
Sharper competition is a driver for greater efficiency in both production and distribution. Productivity in the appliance industry has steadily improved over the years and enabled offering consumers better products at lower prices. This trend is now being accelerated by globalization of production and purchasing. Another contributing factor is the reduction in the number of product platforms and variants as consumer preferences in different countries and regions become increasingly more similar.

## Fewer and bigger retailers

The large modern retail chains are growing and taking market shares from traditional dealers. They are also expanding geographically, becoming more international, and consolidating their purchases to fewer producers. The flow of products between producers and retailers is also becoming more integrated.

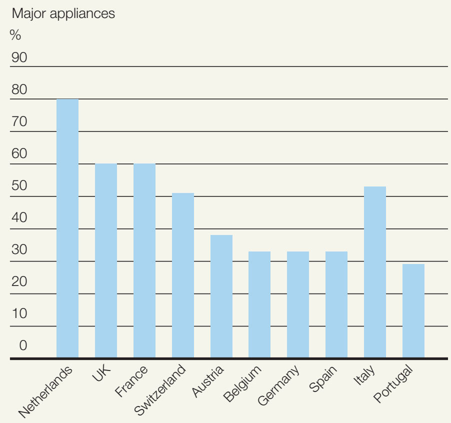
Large volumes and efficient flows often enable us to serve these customers at lower cost. The decisive factor for successful relations with retailers is our ability to adapt our service to the needs and desires of different types of customers.

### Market shares for leading retailers in US




**In the US the three largest retail chains account for almost 60% of sales of major appliances.**

### Retail structure in Europe




**The graph shows the total market share for the ten largest retailers in each country.**


Every year, Electrolux invites design schools from around the world to participate in its Design Lab competition, where students design appliances for the not-too-distant future. Among the finalists this year were the UK's Power Grid Table, which uses movable induction stove units to turn a table into a cooking center, and the combined Czech and Slovak entry Washman, a combination hamper, washer and dryer.

# Where does Electrolux stand today?

Electrolux is the market leader in most of its product areas and has strong relations with leading retailers.

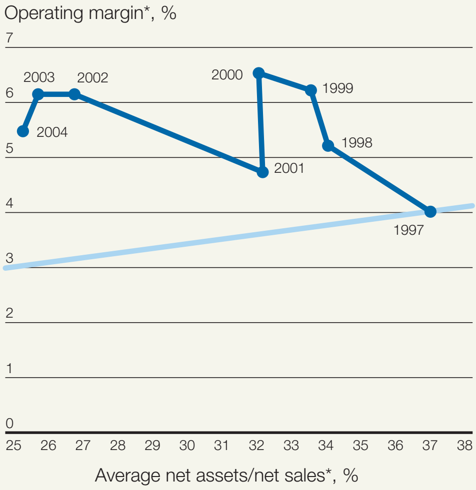
The Group has a solid foundation in the form of high volume in production and product development. Every year, we sell over 55 million products to consumers in more than 150 countries. Our professional products for indoor and outdoor use are also sold world-wide. Electrolux is one of the few global companies in its product areas.

In recent years the Group's operations have been streamlined through restructuring and divestments. Profitability for appliances has improved in both Europe and the US, and our market shares have grown. Our financial position has been strengthened and cash flow has improved. Although operating income has been negatively affected by restructuring costs, unfavorable currency trends and higher costs for materials, the return on equity over the past five years, including items affecting comparability, has averaged 15.5%, and the return on net assets 19.6%. The model that we use internally to calculate the value created within the Group shows that Electrolux has more than covered its cost of capital every year since 1998.

We have launched a comprehensive program to cut costs and reduce complexity within our operations, and to better utilize the Group's size. This program includes reducing the number of plants and product platforms as well as relocating production to low-cost countries.

At the same time, investments in product development are being increased and the number of brands is being reduced. We are well on our way to establishing Electrolux as a leading global brand.

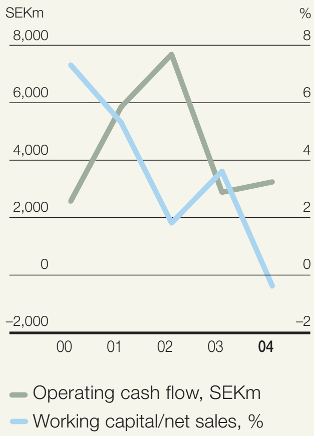
## Operating margin and return on net assets




* Excluding items affecting comparability.

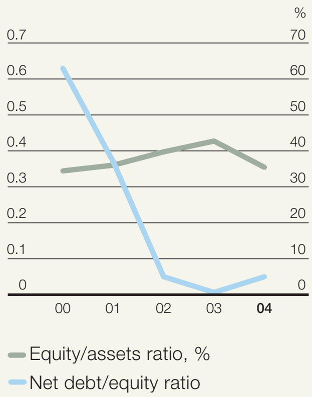
**The graph shows the trend for the Group's operating margin since 1997. The light blue line indicates the level where value is created, based on a 12% Weighted Average Cost of Capital (WACC) before tax.**

## Cash flow and working capital




**Cash flow improved in 2004, mainly as a result of lower working capital.**

## Capital structure




**The net debt/equity ratio has improved in recent years but was slightly higher at year-end 2004 than in 2003.**

## Electrolux strongpoints:

- Global no. 1–2 in most product areas
- Global presence
- No. 1–2 with leading retailers in both Europe and North America
- Leading brands
- Benefits of scale in production, logistics, and product development
- High-margin products for professional users
- Strong balance sheet and cash flow

# Operations in 2004

- Sales rose by 3%, adjusted for divestments and exchange-rate effects
- Operating income declined, mainly due to restructuring and higher prices for materials
- Cash flow improved despite considerably higher investments

We continued to implement our strategy, with increased investments in marketing and product development. The share of new products was considerably higher than in 2003, which among other things contributed to an improved product mix in both Europe and the US. We also continued to work on cost reductions and turnarounds of unprofitable units.

Sales and income, SEKm

| Excluding items affecting comparability | 2004 | Change | 2003 |
|---|---|---|---|
| Net sales | 120,651 | –3% | 124,077 |
| Operating income | 6,674 | –13% | 7,638 |
| *Margin, %* | *5.5* | | *6.2* |
| Income after financial items | 6,319 | –15% | 7,469 |
| *Margin, %* | *5.2* | | *6.0* |
| Net income per share, SEK | 14.87 | –11% | 16.73 |
| Value creation | 2,978 | –471 | 3,449 |
| Return on equity, % | 17.9 | | 18.9 |
| Dividend, SEK | 7.00* | | 6.50 |

*** Proposed by the Board.**

## Higher demand

The market for core appliances in the US rose by about 8% in volume. The European appliance market showed an increase of close to 4% in volume. Eastern Europe rose by almost 9% and Western Europe by about 2%. Several major markets in Western Europe showed weak demand, including Germany, Italy and France.

Market conditions for Professional Indoor Products remained relatively weak. Demand for Outdoor Products increased for most product categories within both consumer and professional products.

## Sales and income

Group sales rose by 3.2% after adjustment for changes in exchange-rates and divestments.

Operating income excluding items affecting comparability decreased by 13%, corresponding to a margin of 5.5%. The decline referred mainly to substantially higher costs for materials, primarily steel and plastics, as well as an increase of approximately SEK 500m in investments in marketing and product development. Divested units led to a shortfall in operating income of approximately SEK 170m in comparison with the previous year.

Cash flow improved, excluding proceeds on divestments in 2003, primarily through a reduction in working capital.

## Performance by operation

In terms of specific operations, the decline in operating income refers mainly to floor-care products in North America and appliances in Australia and Asia. Income for appliances in Europe was also somewhat lower than in 2003. Income for appliances in North America decreased in Swedish kronor but was unchanged in dollars, despite considerably higher costs for materials.

The decline in income for Professional Indoor Products resulted from divestments, and income was somewhat higher than in 2003 for comparable units.

Outdoor Products continued to perform well and reported higher income for both consumer and professional operations.

## Restructuring

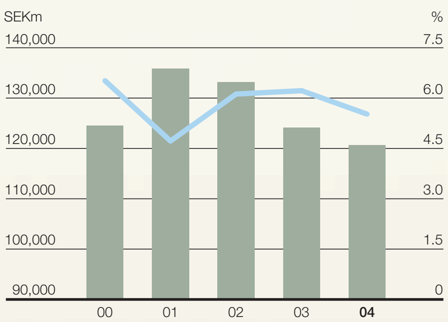
In the course of the year several decisions were made regarding relocation of production to low-cost countries. We also implemented other restructuring measures to improve profitability for both floor-care products and appliances.

## Outlook for 2005

Demand for appliances is expected to show some growth in both Europe and the US as compared to 2004.

Higher costs for materials and components will have an adverse effect on the Group's operating income. Efforts will continue to strengthen the Group's competitive position through investments in product development and in building the Electrolux brand. Operating income for the full year of 2005 is expected to be somewhat lower than in 2004, excluding items affecting comparability.

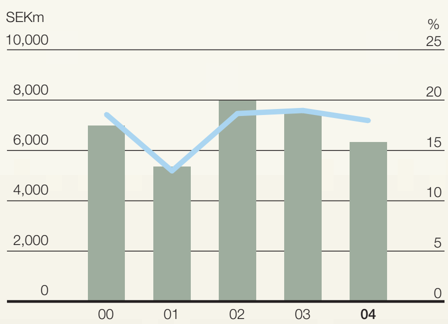
## Net sales and operating margin*




*** Excluding items affecting comparability.**

**Operating margin declined in 2004, mainly due to higher material costs and increased investments in brand-building and R&D.**

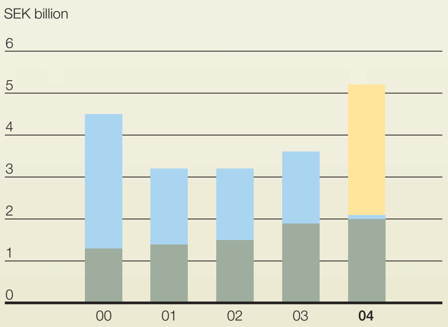
## Income after financial items and return on equity*




*** Excluding items affecting comparability.**

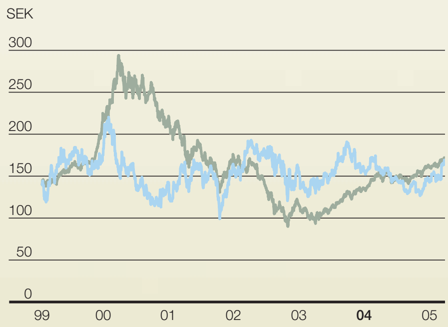
**Income after financial items declined by 15%, while return on equity was in line with 2003.**

## Total distribution to shareholders




**Total distribution to shareholders in 2004 amounted to approximately SEK 5 billion, including redemption program and share repurchases.**

## Trend for the Electrolux share




**The price of the Electrolux B-share declined in 2004 by 4%, while the Stockholm SAX Index increased by 18%.**


ergorapido
Electrolux
ergorapido
Electrolux

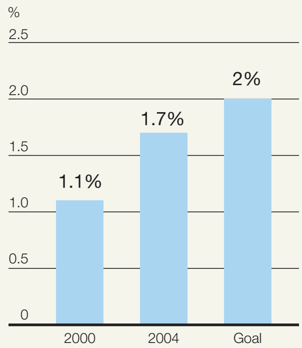
# Product development based on consumer insight

The market for core appliances is usually regarded as mature. But this is not so. There are segments in our industry that show high growth. The challenge is to identify these segments and make profitable use of them.

In 2003 and 2004 we increased our investments in product development, which has led to an improvement of the product mix in both Europe and the US. We expect investments in product development to continue increasing over the next few years, reaching about 2% of sales from about 1.7% in 2004.

In order to achieve better precision, and to reduce development time for new products, we've worked hard to improve the internal process for product development. All development activities within the Group are now based on research into how consumers think, feel and behave when they use our products, as well as which problems they experience. Development is also more cross-functional, and involves more parallel phases.

### R&D as % of net sales




The Group is gradually increasing its investments in R&D, which are expected to reach about 2% of sales in the next few years.

## Ergorapido illustrates profitable product development

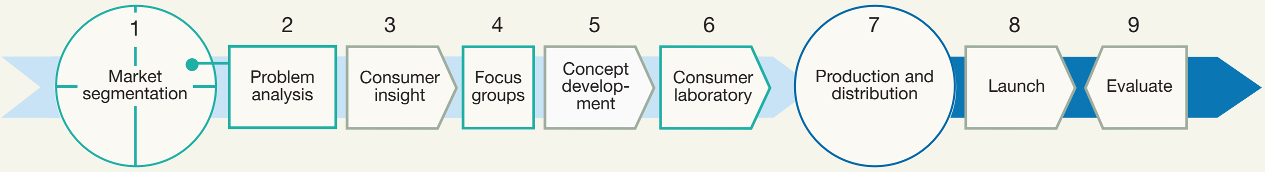
In 2004 we launched Ergorapido, a rechargeable vacuum cleaner that was developed in record time on the basis of our new method.

Our research indicated that growing numbers of consumers are changing their cleaning habits. Instead of cleaning the entire home once a week they clean for a short time every day. Dust balls in a corner, crumbs under the table and gravel in the hall are experienced as problems. But the handheld vacuum cleaners for lighter cleaning that were available were not perceived as satisfactory. They had poor suction, made too much noise and often broke down. Cleaning the filters was also a problem.

On the basis of a survey of 1,500 households, we developed a new type of vacuum cleaner – a combination of a handheld unit and a floor model, which has changed the cleaning habits. It features good suction and a low noise level, and it's easy to empty. It also has a very attractive design, and can be left in sight, so it's always to hand.

Ergorapido was an immediate success. This was despite the fact that the price is substantially higher than for a conventional handheld vacuum cleaner. Demand was so high that for a while we had trouble delivering.

## The Electrolux process for product development




**1. Market segmentation:** We use a global method to divide consumers into groups on the basis of their specific needs. Every new product is developed for a clearly defined target group and responds to clearly identified needs.

**2. Problem analysis:** What problems do these consumers experience? How important are their problems?

**3. Identify opportunities:** What changes in consumer behavior could create new business opportunities? Is there anything we can do that our competitors haven't done? Where are the growth opportunities?

**4. Test hypotheses:** Are our assumptions correct? What are the consumer's perceptions and attitudes?

**5. Develop the product concept:** Function, properties, color and styling. At the same time we determine the best way to produce and market the new product.

**6. Consumer laboratory:** We test the product through interviews with consumers, focus groups and observation analysis.

**7. Industrialization:** We design the product, prepare for production and determine how it should be distributed.

**8. Launch:** Effective, focused marketing all the way into the retail outlet rapidly generates acceptance, volume sales and profitability.

**9. Evaluate:** We listen to consumers and retailers in order to make the next generation of the product even better.

The Group's new horizontal dishwasher, a full 90 centimeters wide, is a built-in product being launched in 2005 in a number of European markets.

Visi, a new dishwasher with a see-through window and smart programming, is being introduced in Europe in 2005 in the higher-price segment.

In 2005 new built-in products are being launched under the AEG-Electrolux brand. The products have received several design awards.

Large-capacity, American-style refrigerators are a growing segment in Europe. This model has an automatic ice-maker with an electronic child lock.

The launch of the Electrolux ICON series in the US is being followed up by a new series, the Electrolux ICON Professional, in stainless steel and a more robust design.

This double oven with stay-cool glass doors and fully extendable oven racks is an addition to the exclusive Electolux ICON series, which was originally launched in 2004.

The Oxy³system vacuum cleaner is the latest addition to the floor-care range in the US. This vacuum cleaner delivers extremely clean exhaust air.

In 2003 and 2004 Electrolux launched several new refrigerators in China. Among them is this one, which received the prestigious IF China Design Award.

In January 2005 Electrolux launched the Electrolux ICON outdoor grill for the American market.

DITO Electrolux Libero is a new professional kitchen series made especially for smaller businesses, like cafés and pubs.

The Group's French subsidiary Molteni is a leading producer of stoves for exclusive restaurants. This model was launched in 2005 for private consumers who demand the extraordinary.

Electrolux AIR-O-SYSTEM makes the workflow in a professional kitchen more efficient. The system consists of oven and freezer/chilling units, as well as dedicated plate trolley and handling devices that allow for fast and easy transfer between units.


The Husqvarna 575 XP chain saw was launched in the US in 2004 and is the first larger professional saw to meet the coming US environmental standards.

The new Husqvarna ProFlex 21 AWD is the first garden tractor to feature all-wheel drive, which remarkably increases the trafficability.

In 2005 Electrolux launched the lawn mower Flymo easibag that collects and packs grass cuttings in a biodegradable bag.

# Electrolux as the leading global brand

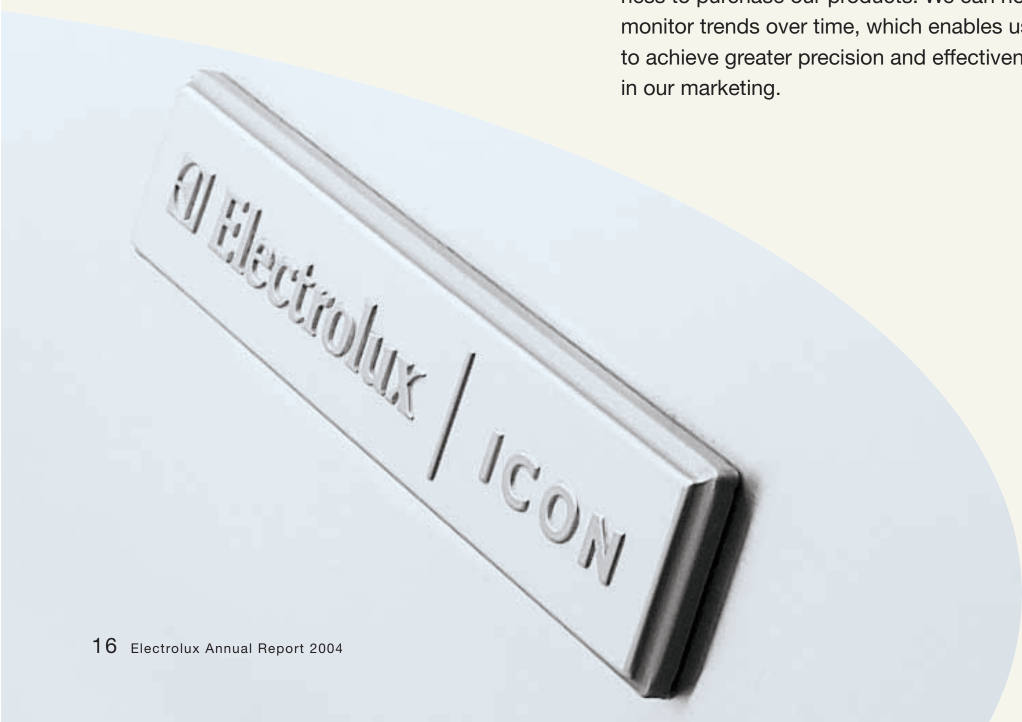
Our goal is for Electrolux to be the leading global brand within our product categories.

A brand is strong when many people are aware of it, associate it with quality, innovation and value, feel confidence in it and are loyal to it. That is how we want consumers and customers to perceive Electrolux. A strong brand enables higher prices and generates loyalty and repurchasing.

Since consumers do not buy household appliances frequently, they have limited knowledge of what is offered on the market and how products have developed since their last purchase. For most of them, buying an appliance also involves a large cost. The trust that a leading brand inspires is of especially great importance when it comes to more expensive products that are seldom purchased.

That is why we are continuing to focus on Electrolux and reduce the number of other Group brands. But we will retain certain tactical brands in order to compete in specific market segments.

In 2004 the Electrolux brand was introduced for appliances in the US through the Electrolux ICON™ product range for the premium segment.




## Double-branding with local brands

In countries where we have strong local brands we double-brand them with Electrolux, which strengthens the Electrolux brand rapidly and at a reasonable cost. We started double-branding in 2003 and it has now been introduced in all major markets. The results so far have been very encouraging, and we have maintained or increased our market shares. In 2005 we are going to take another step forward and double-brand all AEG products as AEG-Electrolux.

## Electrolux brand in North America

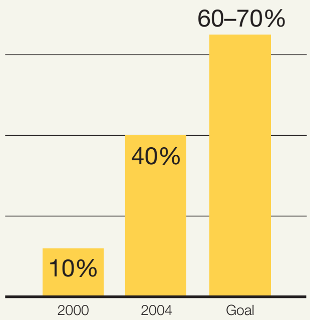
In 2004 we launched the Electrolux brand for appliances in North America. The first products are Electrolux ICON™, a high-price range that is sold today by more than 600 dealers. Other products for the premium segments will be launched in 2005 and 2006.

## Monthly measurements

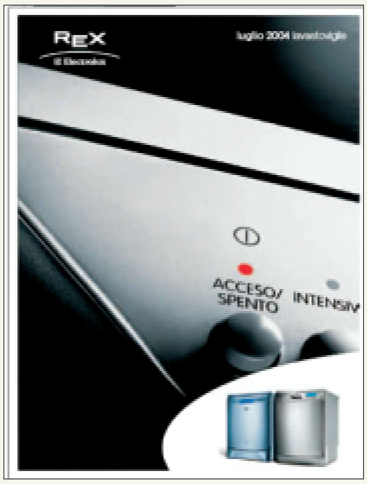
In 2004 we also started to implement new and more efficient methods for measuring how our brands are performing in specific markets. We now monitor performance on a monthly basis in 14 countries.

Our data show clearly that investments in market communication generate greater awareness of our brand and greater willingness to purchase our products. We can now monitor trends over time, which enables us to achieve greater precision and effectiveness in our marketing.

## The Electrolux brand's share of Group sales




The Electrolux brand's share of Group sales has increased from about 10% in 2000 to about 40% at the end of 2004, including double branding.


## Double branding with REX in Italy

REX is a leading brand in Italy and is also one of our strongest local brands. In 2004 we started double branding of REX-Electrolux with a campaign showing that the Group's global resources support REX products.

The endorsement enables us to use the strength of REX in the local market and also strengthen Electrolux. Although our competitors invested considerably more in market communication, measurements show that awareness of REX and Electrolux increased. The Group strengthened its leading position in the Italian market.

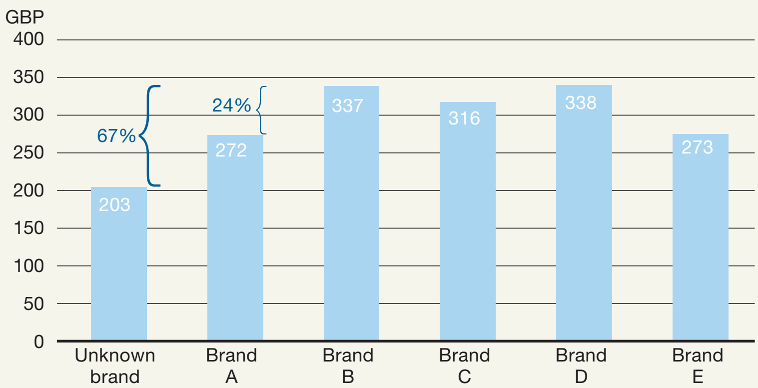
## What is the value of a strong brand?

In February 2005 we asked 200 consumers in the UK to choose the washing machine that they would purchase from a group of six machines with comparable performance but different brands and prices. Five of the washers had well-known brands. The sixth brand was invented for the survey and therefore unknown.

The average price that the consumers were willing to pay for products with the five known brands varied from GBP 338 down to GBP 272, i.e. there was a difference of 24% between the strongest and the weakest brand. For the unknown brand, the price they were willing to pay fell to GBP 203.

This research shows the value of a strong brand and that the difficulty to launch a new one should not be underestimated.

### Consumers pay more for strong brands




**A survey in the UK showed that consumers were willing to pay a premium of 24% for a washer with the strongest brand compared to a similar product with the weakest brand of the five well-known brands. The premium compared to an unknown brand was 67%.**

# Higher cost efficiency

We are continuing our efforts to reduce costs, particularly in production and purchasing. We are also improving the efficiency of our marketing organizations in a number of countries.

In terms of production, we are reducing the number of plants, product platforms and product variants, and we are increasing the share of production in low-cost countries.

## Accelerated restructuring

We are now accelerating consolidation and relocation of production. The goal is for these changes to be largely completed by 2008. The measures are expected to involve costs totaling about SEK 8-10 billion, which will be charged on an on-going basis. About two-thirds of these costs refer to cash items, and the rest to write-downs on assets.

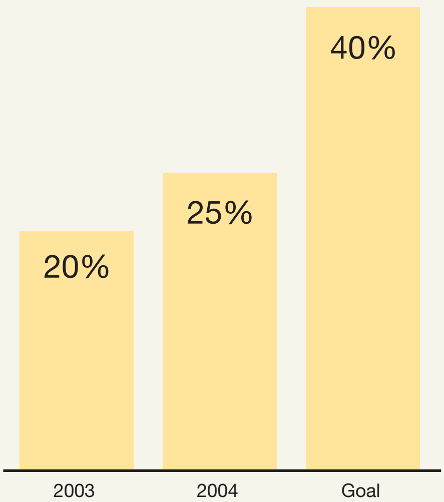
Restructuring will gradually generate savings that are expected to reach approximately SEK 2.5–3.5 billion annually as of 2009.

During 2004 we decided to close four plants for appliances, two for floor-care products and one for professional laundry equipment. We also shut down part of production at two units in Australia. Following these changes the Group will have 43 production units for appliances and floor-care products, of which 16 in low-cost countries. We expect that about half of the remaining plants in high-cost countries may be affected in the future.

## Higher rate of restructuring

- Goal: Relocation of production largely completed by 2008
- Total cost: Approximately SEK 8–10 billion
- Savings: Approximately SEK 2.5–3.5 billion annually as of 2009

### Increased purchases from low-cost countries




The share of purchases from low-cost countries is gradually increasing, and was about 25% at year-end 2004. The goal is to reach about 40% within the next few years.

## More efficient purchasing

In 2004 the Group spent about SEK 90 billion on purchases of materials and services. Direct materials, including components, accounted for about two-thirds of total purchases.

In 2004 we were able to offset about half of the increase in material prices through more efficient purchasing. Over the next few years we expect to achieve more savings in purchasing. This will be based on increased internal coordination for better utilization of the Group's size, a reduction in the number of suppliers, a higher share of purchases from Eastern Europe and Asia, and standardization of components and products.

## Restructuring decisions in 2004

| Plant | Shut-down date | Cost, SEKm | No. of employees |
|---|---|---|---|
| Refrigerator plant, Greenville, MI, USA | 2005 | 1,100 | 2,700 |
| Cooker factory, Reims, France | 2005 | 289 | 240 |
| Production of hoods, Adelaide, Australia*) | 2005 | 205 | 550 |
| Production, refrigerators and freezers, Orange, Australia*) | 2005 | | |
| Motor plant, Adelaide, Australia | 2005 | | |
| Cooker factory, Christchurch, New Zealand | 2005 | | |
| Vacuum-cleaner plant, Västervik, Sweden | 2005 | 220 | 500 |
| Vacuum-cleaner plant, El Paso, TX, USA | 2004 | 153 | |
| Outsourcing of components, El Paso, TX, USA | 2005 | | 850 |
| Tumble dryer plant, Tommerup, Denmark | 2006 | 49 | 180 |

*Part of production.

## Investments in low-cost countries in 2003-2004

| Product | Country | Investment, SEKm | Production start-up |
|---|---|---|---|
| Refrigerators | Mexico | 1,200 | 2005–2006 |
| Refrigerators/freezers | Hungary | 600 | 2005 |
| Washing machines | Russia | 80 | 2005 |
| Tumble dryers | Poland*) | 270 | 2006 |
| Washing machines | Poland | 500 | 2005–2006 |
| Dishwashers | Poland | 275 | 2005–2006 |
| Washing machines | Thailand | 80 | 2003 |
| Hobs/hoods | China | 54 | 2005 |

*) Expansion of capacity in existing plant.

In 2003 and 2004 investments were authorized for a new plant in Mexico and six new plants in Eastern Europe and Asia.

## Fewer and global product platforms

While production is being consolidated we are also reducing the number of product platforms, i.e. basic designs. The trend is now toward increasingly global basic designs.

Reducing the number of product platforms enables among other things greater standardization of components, fewer product variants and more streamlined production.

### Fewer product platforms in Europe

| Product area | Total reduction | Year-end 2004 |
|---|---|---|
| Refrigerators | 46 → 17 platforms | 32 |
| Cookers | 41 → 24 structures | 24 |
| Ovens | 32 → 10 cavities | 18 |
| Washing machines | 13 → 6 platforms | 10 |
| Dishwashers | 4 → 1 platform | 1 |

# Good foundation for profitable growth

Electrolux is increasingly becoming a consumer- and customer-driven company, with greater focus on product development and marketing. We are improving our profitability and internal efficiency by cutting costs in operations and turning unprofitable units around.

Our efforts are starting to generate results. The share of new products was considerably higher in 2004, and we achieved a better product mix in both Europe and the US. Implemented restructuring also contributed to improving performance for operations such as floor-care products in North America and appliances in Australia during the latter part of the year.

We are now accelerating restructuring with the goal of completing most consolidation and relocation of production by 2008. The costs of these changes are expected to amount to approximately SEK 8–10 billion, and will be charged against income on an on-going basis. These changes will gradually generate savings that are expected to total approximately SEK 2.5–3.5 billion annually as of 2009.

In February 2005 the Board announced its intention of spinning off Outdoor Products as a separate unit. The aim is to achieve a spin-off in a cost-efficient way to be finalized no later than mid-2006. Outdoor Products has shown good growth and high profitability, and is now large enough to comprise a separate company.

The Electrolux Group's operations will thus be concentrated to the core areas. I am convinced that the changes we are making in these areas create a good foundation for long-term and profitable growth.

Hans Stråberg
President and CEO

Actions for profitable growth:
- Increased investments in new products
- Focus on the Electrolux brand, reduction of number of brands
- Consolidation and relocation of production to low-cost countries
- Fewer and global product platforms
- Fewer product variants, greater standardization of components
- Better coordination through global product councils
- More efficient purchasing
- Outsourcing
- Cost savings in marketing organization


## Spin-off of Outdoor Products

Spin-off to be achieved in a cost-efficient way no later than mid-2006
Sales: Total approx. SEK 27 billion, of which 65% consumer products, 35% professional products
Operating income: Approx. SEK 3 billion
Number of employees: Approx. 11,500

World's largest producer of chainsaws for professional users and consumers, and of garden tractors, lawn mowers, and other portable petrol-driven garden equipment. One of the world's largest producers of diamond tools for the construction and stone industries.

Brands: Husqvarna, Jonsered, Partner Industrial Products, Dimas, Diamant Boart, Flymo, Partner, McCulloch, Poulan, Weed Eater.

# Report by the Board of Directors for 2004

- **Net sales amounted to SEK 120,651m (124,077), corresponding to an increase of 3.2% after adjustment for divestments and exchange-rate effects**
- **Operating income declined to SEK 4,714m (7,175), mainly due to costs for relocation of production**
- **Cash flow improved to SEK 3,224m (2,866), exclusive of proceeds on divestments in 2003**
- **Net income amounted to SEK 3,148m (4,778), corresponding to SEK 10.55 (15.25) per share**
- **Restructuring to be accelerated in order to finalize most relocation of production by 2008**
- **The Board proposes increasing the dividend to SEK 7.00 (6.50) per share, dividend policy changed from 30–50% to at least 30%**
- **The Board intends to spin-off the Group's Outdoor Products operation as a separate unit**

**Contents** Page



### Key data[1)]

| SEKm, unless otherwise stated | 2004 | Change | 2003 | Change | 2002 |
|---|---|---|---|---|---|
| Net sales | 120,651 | –2.8% | 124,077 | –6.8% | 133,150 |
| Operating income | 4,714 | –34% | 7,175 | –7.2% | 7,731 |
| *Margin, %* | *3.9* | | *5.8* | | *5.8* |
| Operating income, excluding items affecting comparability | 6,674 | –13% | 7,638 | –6.5% | 8,165 |
| *Margin, %* | *5.5* | | *6.2* | | *6.1* |
| Income after financial items | 4,359 | –38% | 7,006 | –7.1% | 7,545 |
| Net income | 3,148 | –34% | 4,778 | –6.2% | 5,095 |
| Net income per share, SEK[2)] | 10.55 | –31% | 15.25 | –2.2% | 15.58 |
| Dividend per share, SEK | 7.00[3)] | 7.7% | 6.50 | 8.3% | 6.00 |
| Return on equity, % | 12.7 | | 17.3 | | 17.2 |
| Return on net assets, % | 17.2 | | 23.9 | | 22.1 |
| Value creation | 2,978 | –471 | 3,449 | –12 | 3,461 |
| Net debt/equity ratio | 0.05 | | 0.00 | | 0.05 |
| Operating cash flow | 3,224 | 13% | 2,866 | –63% | 7,665 |
| Capital expenditure | 4,515 | 30% | 3,463 | 3.8% | 3,335 |
| Average number of employees | 72,382 | –6.2% | 77,140 | –5.9% | 81,971 |

1) Including items affecting comparability, unless otherwise stated. For key data, excluding items affecting comparability, see page 25.
2) Before dilution, see page 23 for information on net income per share after dilution.
3) Proposed by the Board of Directors.
For definitions, see page 81.

### Outlook for 2005

Demand for appliances in 2005 is expected to show some growth in both Europe and the US as compared to 2004.

Higher costs for materials and components will have an adverse effect on the Group's operating income. Efforts to strengthen the Group's competitive position through investments in product development and in building the Electrolux brand will continue. Operating income for the full year of 2005, exclusive of items affecting comparability, is expected to be somewhat lower than in 2004.

# Net sales and income

- **Net sales increased by 3.2% for comparable units, adjusted for divestments and changes in exchange rates**
- **Operating income declined by 34.3% to SEK 4,714m (7,175), mainly due to costs for relocation of production**
- **Net income decreased by 34.1% to SEK 3,148m (4,778)**
- **Net income per share declined by 30.8% to SEK 10.55 (15.25)**

## Net sales

Net sales for the Electrolux Group in 2004 amounted to SEK 120,651m, as against SEK 124,077m in the previous year. The decline refers to changes in exchange rates and divestments, while changes in volume/price/mix had a positive effect.

**Change in net sales**

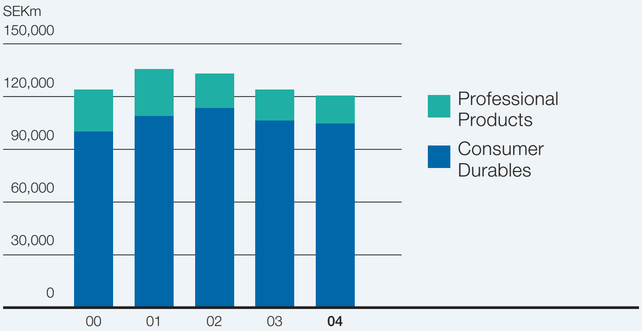
| % | 2004 | 2003 | 2002 |
|---|---|---|---|
| Changes in Group structure | –2.0 | –0.9 | –3.4 |
| Changes in exchange rates | –4.0 | –9.2 | –4.1 |
| Changes in volume/price/mix | +3.2 | +3.3 | +5.5 |
| **Total** | **–2.8** | **–6.8** | **–2.0** |

For information regarding changes in Group structure, see page 24.

In terms of business areas, net sales for Consumer Durables declined by 1.6% to SEK 104,528m (106,281) and net sales for Professional Products by 9.3% to SEK 16,063m (17,709). The decline for Consumer Durables was mainly due to changes in exchange rates, related primarily to the weakening of the US dollar against the Swedish krona. The decline for Professional Products referred to divestments and changes in exchange rates.

In comparable currencies, sales for Consumer Durables increased by 2.6%, while sales for Professional Products declined by 7.0%. See page 37.

**Net sales, by business area**




**Net sales for the Consumer Durables business area declined by 1.6% but increased by 2.6% in comparable currencies.**

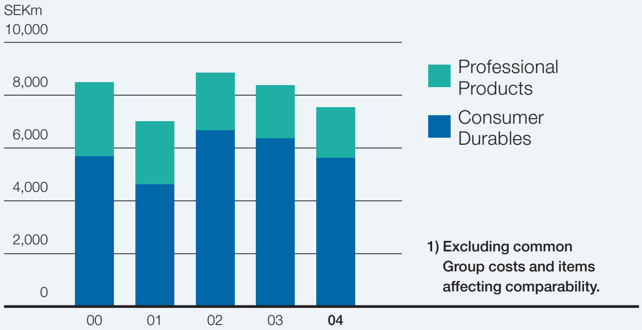
## Operating income

The Group's operating income for 2004 decreased by 34.3% to SEK 4,714m (7,175), corresponding to 3.9% (5.8) of net sales. The decline refers mainly to costs for restructuring within Consumer Durables, which amounted to SEK 1,711m in 2004. See Items affecting comparability on page 24.

Excluding items affecting comparability, operating income for Consumer Durables declined by 11.7% as a result of lower volumes in some product categories and markets, downward pressure on prices, higher investments in brand building and R&D, as well as higher costs for materials and components. The margin for Consumer Durables were lower than in the previous year. Operating income for Professional Products, excluding items affecting comparability, declined by 4.8% to SEK 1,921m (2,018), due to divestments and changes in exchange rates. Margin improved over the previous year.

In comparable currencies, operating income for Consumer Durables decreased by 8.4% and for Professional Products by 3.7%. See page 37.

**Operating income, by business area[1]**




1) Excluding common Group costs and items affecting comparability.

**Operating income for Consumer Durables declined by 11.7%, or 8.4% in comparable currencies.**

### Depreciation and amortization

Depreciation and amortization in 2004 amounted to SEK 3,178m (3,353), of which SEK 155m (182) referred to goodwill.

### Financial net

Net financial items declined to SEK –355m (–169), mainly due to higher costs for hedging the Group's net investments in foreign subsidaries following the decline in Swedish interest rates. Increased interest rates on borrowings in US dollar, and lower interest income as a result of lower Swedish and Euro interest rates also had a negative impact.

For more information regarding financial items, see Note 9 on page 52.

## Income after financial items

Income after financial items decreased by 37.8% to SEK 4,359m (7,006) corresponding to 3.6% (5.6) of net sales.

## Taxes

Total taxes in 2004 amounted to SEK 1,210m (2,226), corresponding to 27.8% (31.8) of income after financial items.

For more information concerning taxes, see Note 10 on page 53.

## Effects of changes in exchange rates

Changes in exchange rates compared to the previous year, i.e., translation and transaction effects, had a negative impact of approximately SEK –84m on operating income. Approximately SEK –214m of this amount referred to translation of income state-



For definitions, see page 81.

## Consolidated income statement

| Amounts in SEKm, unless otherwise stated | Note | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| **Net sales** | **Note 4** | **120,651** | **124,077** | **133,150** |
| Cost of goods sold | | –91,006 | –93,742 | –101,705 |
| **Gross operating income** | | **29,645** | **30,335** | **31,445** |
| Selling expenses | | –17,369 | –16,877 | –17,738 |
| Administrative expenses | | –5,513 | –5,699 | –5,405 |
| Other operating income | **Note 5** | 91 | 130 | 135 |
| Other operating expenses | **Note 6** | –180 | –251 | –272 |
| Items affecting comparability | **Note 7** | –1,960 | –463 | –434 |
| **Operating income** [1] | **Notes 4, 8, 28** | **4,714** | **7,175** | **7,731** |
| Financial income | **Note 9** | 583 | 794 | 947 |
| Financial expenses | **Note 9** | –938 | –963 | –1,133 |
| **Income after financial items** | | **4,359** | **7,006** | **7,545** |
| Taxes | **Note 10** | –1,210 | –2,226 | –2,459 |
| Minority interests in net income | **Note 11** | –1 | –2 | 9 |
| **Net income** | | **3,148** | **4,778** | **5,095** |
| Net income per share, SEK | **Note 12** | 10.55 | 15.25 | 15.58 |
| After dilution | | 10.54 | 15.24 | 15.57 |
| Net income per share according to US GAAP, SEK | **Note 31** | 9.35 | 15.58 | 16.23 |
| After dilution | | 9.34 | 15.58 | 16.23 |
| Average number of shares, millions | **Note 12** | 298.3 | 313.3 | 327.1 |
| After dilution | | 298.6 | 313.6 | 327.3 |
| **1) Operating income includes depreciation and amortization in the amount of:** | | **3,178** | **3,353** | **3,854** |

ments in subsidiaries, resulting mainly from the strengthening of the Swedish krona against the US dollar.

Transaction effects, net of hedging contracts, amounted to approximately SEK 130m and referred largely to the strengthening of the British pound against the euro.

The effect of changes in exchange rates on income after financial items amounted to approximately SEK –87m.

**For additional information on effects of changes in exchange rates, see the section on Foreign exchange risk in Note 2, Financial risk management, on page 48.**

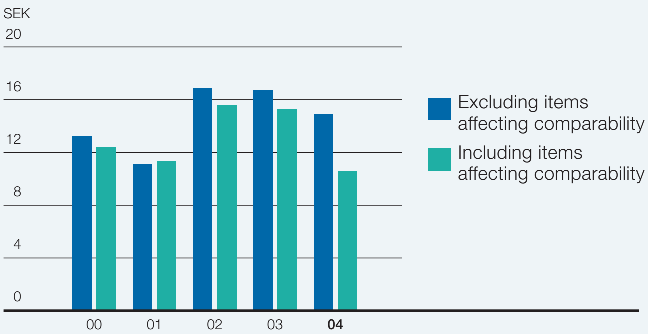
### Net sales and expenses, by currency

| | Share of net sales, % | Share of expenses, % | Average exchange rate 2004 | Average exchange rate 2003 |
|---|---|---|---|---|
| SEK | 4 | 8 | — | — |
| USD | 37 | 40 | 7.33 | 8.08 |
| EUR | 32 | 36 | 9.12 | 9.13 |
| GBP | 5 | 2 | 13.38 | 13.25 |
| Other | 22 | 14 | — | — |
| **Total** | **100** | **100** | | |

## Net income per share

Net income declined by 34.1% to SEK 3,148m (4,778), corresponding to a decline of 30.8% in net income per share to SEK 10.55 (15.25) before dilution.

### Net income per share




**Net income per share declined by 30.8% to SEK 10.55. Excluding items affecting comparability, net income per share declined by 11.1% to SEK 14.87.**

## Items affecting comparability

The above income figures for 2004 include items affecting comparability in the amount of SEK –1,960m (–463). These items include charges for restructuring, mainly involving plant closures, as well as costs for settlement of a lawsuit in the US. See table on page 24.

## Structural changes

In January 2004, it was decided that the refrigerator plant in Greenville, Michigan, USA, would be closed during 2005. Most of production in Greenville will be transferred to a new plant in Mexico. The Greenville plant has approximately 2,700 employees. The cost of closing the plant is estimated at SEK 1,100m, of which SEK 979m was charged against operating income in the first quarter of 2004 within items affecting comparability. Approximately half of the cost refers to write-downs on assets.

In May 2004, it was decided that the Group's vacuum cleaner plant in Västervik, Sweden, would be closed during the first quarter of 2005. Production was gradually transferred during the year to the Group's plant in Hungary. The Västervik plant had approximately 500 employees. The cost for closing the plant amounted to SEK 220m, of which SEK 167m and SEK 20m were charged against operating income in the second and third quarter respectively, within items affecting comparability. The remaining part was taken in operating income for Consumer Durables Europe in the fourth quarter of 2004.

In July 2004, a restructuring program was initiated to improve profitability in the Group's vacuum-cleaner operation in the US. The cost of the program amounted to approximately SEK 153m, which was charged against operating income in the third quarter within items affecting comparability. The program includes closure of a plant in El Paso, Texas, and transfer of production to the Group's plant in Mexico, as well as outsourcing of components manufactured at the Mexican plant. The program was largely finalized during the fourth quarter and affected about 850 employees.

In the course of the year, restructuring measures were also implemented within the Australian appliance operation, including production shutdowns at the cooker-hood plant in Dudley Park, Adelaide, the small refrigerator and freezer plant in Orange, the motor plant in Adelaide and the cooker plant in New Zealand, as well as divestment of the tooling business. The cost of these measures amounted to SEK 205m, of which SEK 103m was taken as a charge against operating income in the third quarter within items affecting comparability. The remaining part was taken in operating income in the third and fourth quarter within Consumer Durables, Rest of the world. The changes affect about 550 employees.

In November 2004, it was decided that the cooker plant in Reims, France, would be closed at the end of the first quarter of 2005. The plant has approximately 240 employees. The cost of the closure, including write-down of assets and other related costs, was SEK 289m, which was charged against operating income in the fourth quarter within items affecting comparability.

In December 2004, it was decided that the factory for tumble-dryers in Tommerup, Denmark, would be closed. Production at this plant is mainly for the professional market. Production will gradually be transferred to a new plant in Thailand and to a plant in Sweden. The transfer will start at the beginning of 2006 and is scheduled for completion at the end of 2006, when all production at Tommerup will be discontinued. The cost of the closure amounts to SEK 49m which was charged against operating income in the fourth quarter within items affecting comparability. Approximately 180 employees will be affected.

## Restructuring to finalize most relocation by 2008

In order to strengthen the Group's long-term competitiveness and secure its position as a leader in appliances, the Group will accelerate the ongoing process of consolidation and relocation of production.

The measures are intended to be implemented in 2005–2008 and are expected to involve costs of approximately SEK 8–10 billion, which will be charged on an on-going basis. About two-thirds of the costs will relate to cash items, and the rest to write-downs on assets.

Savings will be generated gradually and are estimated to amount to approximately SEK 2.5–3.5 billion on an annual basis from 2009.

The intention is to finalize most relocation by 2008 and that measures thereafter will refer mainly to normal efficiency improvements.

During 2004, the Group decided to close four plants within appliances and two within floor-care products. After these plants have been closed, Electrolux will operate a total of 43 production units within appliances and floor-care products, of which 16 are in low-cost countries. It is estimated that about half of the remaining plants in high-cost countries are at risk and may need to be relocated.

**Items affecting comparability**

| SEKm | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Restructuring provisions and write-downs** | | | |
| Refrigerator plant in Greenville, USA (Q1 2004) | –979 | | |
| Vacuum-cleaner plant in Västervik, Sweden (Q3, Q2 2004) | –187 | | |
| Floor-care products, North America (Q3 2004) | –153 | | |
| Appliances, Australia (Q3 2004) | –103 | | |
| Cooker factory in Reims, France (Q4 2004) | –289 | | |
| Tumble dryer plant, Denmark (Q4 2004) | –49 | | |
| Reversal of unused restructuring provisions (Q4 2004) | 39 | | |
| Major appliances, mainly outside Europe, and compressors | | | –1,338 |
| Write-down of assets within compressors and other underperforming operations | | | –1,006 |
| Write-down of participation in Nordwaggon (Q4 2003) | | –85 | |
| **Capital gains and losses on divestments** | | | |
| Compressor operation (Q3 2003) | | –85 | |
| Leisure-appliance operation | | | 1,800 |
| European home-comfort operation | | | 85 |
| Zanussi Metallurgica and other | | | 25 |
| **Other** | | | |
| Settlement in vacuum-cleaner lawsuit in USA (Q2 2004) | –239 | | |
| Provision for German launderette operators (Q3 2003) | | –293 | |
| **Total** | **–1,960** | **–463** | **–434** |



For definitions, see page 81.

**Key data, excluding items affecting comparability[1)]**

| SEKm, unless otherwise stated | 2004 | Change | 2003 | Change | 2002 |
|---|---|---|---|---|---|
| Net sales | 120,651 | –2.8% | 124,077 | –6.8% | 133,150 |
| Operating income | 6,674 | –13% | 7,638 | –6.5% | 8,165 |
| *Margin, %* | *5.5* | | *6.2* | | *6.1* |
| Income after financial items | 6,319 | –15% | 7,469 | –6.4% | 7,979 |
| Net income | 4,435 | –15% | 5,241 | –5.1% | 5,521 |
| Net income per share, SEK[2)] | 14.87 | –11% | 16.73 | –0.9% | 16.88 |
| Dividend per share, SEK | 7.00[3)] | 7.7% | 6.50 | 8.3% | 6.00 |
| Return on equity, % | 17.9 | | 18.9 | | 18.6 |
| Return on net assets, % | 21.7 | | 23.7 | | 22.6 |
| Value creation | 2,978 | –471 | 3,449 | –12 | 3,461 |
| Net debt/equity ratio | 0.05 | | 0.00 | | 0.05 |
| Operating cash flow | 3,224 | 13% | 2,866 | –63% | 7,665 |
| Capital expenditure | 4,515 | 30% | 3,463 | 3.8% | 3,335 |
| Average number of employees | 72,382 | –6.2% | 77,140 | –5.9% | 81,971 |

**1) For key data, including items affecting comparability, see page 21.**
**2) Before dilution.**
**3) Proposed by the Board of Directors.**

## Key data excluding items affecting comparability

Excluding items affecting comparability, operating income for 2004 declined by 12.6% to SEK 6,674m (7,638), which represents 5.5% (6.2) of net sales. Income after financial items decreased by 15.4% to SEK 6,319m (7,469), which corresponds to 5.2% (6.0) of net sales. Net income declined by 15.4% to SEK 4,435m (5,241), corresponding to a decline of 11.1% in net income per share to SEK 14.87 (16.73).

Excluding items affecting comparability, the tax rate was 29.8% (29.8). The return on equity was 17.9% (18.9) and the return on net assets was 21.7% (23.7).

## Value created

Total value created in 2004 amounted to SEK 2,978m (3,449). The decline refers mainly to the decrease in operating income, which was partly offset by a decline in average net assets. The capital turnover rate was 3.92, as against 3.85 in the previous year.

The WACC rate for 2004 was computed at 12%, as compared against 13% for 2003. The change in the WACC rate had a positive impact of SEK 308m on value created in 2004.

**For a definition of value created, see page 81.**

## Effects of new accounting standards in 2004

As of January 1, 2004, the Group implemented the new Swedish accounting standard RR 29, Employee benefits, which is based on the International Accounting Standard IAS 19. This involved a one-time charge of SEK 1,602m net of taxes, to the Group's opening equity, and had no effect on the income statement or on cash flow. Adjustment of assets and liabilities reduced working capital by SEK 2,773m and net assets by SEK 1,436m.

**For more information on the new RR 29 accounting standard, see Note 1 on page 44.**

## Implementation of IFRS in 2005

As of January 1, 2005, the Group will comply with International Financial Reporting Standards (IFRS), previously known as IAS, in accordance with the European Union regulation.

Swedish Accounting Standards have gradually incorporated IFRS, and several standards issued prior to 2004 have therefore already been implemented. However, a number of new standards and amendments to and improvements of existing standards will be adopted for the first time in 2005. The effects of the transition to IFRS will be recorded by adjustment of opening equity for 2004. The effect on the Group's net income and equity referring to these new standards will be limited.

The report for the first quarter of 2005 will be the first Group report in accordance with the new accounting standards. Comparative figures for 2004 will be restated.

The preliminary effects of the IFRS adjustments on the accounts for 2004 are shown in the table below.

**Preliminary IFRS transition effects 2004**

| SEKm | Net income | Equity Dec. 31 |
|---|---|---|
| Goodwill amortization | +155 | +155 |
| Share based payments | –35 | +42 |
| Other | –12 | +35 |
| **Total** | **+108** | **+232** |
| **Net income per share, SEK** | **+0.36** | |

The new standards stipulate that goodwill shall not be amortized but submitted to impairment test at least once a year. Goodwill will therefore no longer be amortized. The preliminary effect on the net income for 2004 referring to Goodwill will be approximately SEK +155m.

Accounting principles for share-based compensation programs imply that an estimated cost for the granted instruments, based on the instruments' fair value at grant date, shall be charged to the income statement over the vesting period. Previously, only employer contribution related to these instruments have been accounted for, no charge has been taken to the income statement for equity instruments granted as compensation to employees. The preliminary effect on the net income for 2004 referring to share based payments will be approximately SEK –35m.

### Financial instruments

As of January 1, 2005, the Group will introduce the new accounting standard IAS 39, Financial Instruments: Recognition and Measurement. This stipulates that all financial derivative instruments shall be recognized at fair value in the balance sheet. The new rules allow for hedge accounting only if certain criteria are met. In connection with hedge accounting, changes in fair value for cash flow hedges are reported in equity. Changes in the fair value of derivative instruments will otherwise be reported in the income statement as they occur.

The effect of the new accounting standard will result in higher volatility in income, net borrowings and Group equity. Most derivatives used by the Group refer to hedging of various financial risks. The Group's intention is to meet the criteria for hedge accounting and limit the volatility of the income statement to a justifiable cost.

**For a more detailed description of the new reporting standards, see page 80.**

# Financial position

- **Equity/assets ratio was 35.4% (42.7)**
- **Return on equity was 12.7% (17.3)**
- **Average net assets declined to SEK 27,359m (30,071)**

## Net assets and return on net assets

Net assets as of December 31, 2004, amounted to SEK 23,772m (26,422). Average net assets for the year amounted to SEK 27,359m (30,071). Adjusted for items affecting comparability, average net assets amounted to SEK 30,797m (32,226), corresponding to 25.5% (26.0) of net sales.

The decline in average net assets referred mainly to changes in exchange rates and adjustment of opening equity following implementation of the new accounting standard for employee benefits.

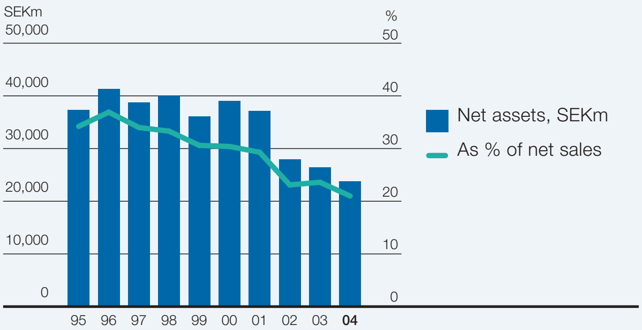
The return on net assets was 17.2% (23.9) and 21.7% (23.7), excluding items affecting comparability.

### Change in net assets

| SEKm | Net assets | Average net assets |
|---|---|---|
| January 1, 2004 | 26,422 | 30,071 |
| Adjustment of opening balance[1] | –1,436 | –1,531 |
| Divestments and acquisitions | — | –893 |
| Change in restructuring provisions | –411 | 126 |
| Write-down of assets | –346 | –295 |
| Other items affecting comparability | 112 | 89 |
| Changes in exchange rates | –1,113 | –1,310 |
| Changes in working capital, capital expenditures, depreciation, etc. | 544 | 1,102 |
| **December 31, 2004** | **23,722** | **27,359** |

**1) Non-recurring effect of implementing the new accounting standard RR 29, Employee benefits.**

### Net assets




**Net assets at year-end corresponded to 21.0% of annualized net sales in 2004, as against 23.6% in 2003.**

## Working capital

Working capital at year-end amounted to SEK –436m (4,068), corresponding to –0.4% (3.6) of annualized net sales. The substantial decline is due mainly to an increase of SEK 1,693m in accounts payable and a net adjustment of pension assets and liabilities in the amount of SEK 2,773m in the opening balance for 2004, following implementation of the new accounting standard for employee benefits.

Inventories amounted to SEK 15,742m (14,945) at year-end, and accounts receivable to SEK 20,627m (21,172), corresponding to 13.9% (13.4) and 18.2% (18.9) of annualized net sales, respectively. Accounts payable amounted to SEK 16,550m (14,857), corresponding to 14.6% (13.3) of annualized net sales.

### Working capital

| SEKm | Dec. 31, 2004 | Dec. 31, 2003 | Dec. 31, 2002 |
|---|---|---|---|
| Inventories | 15,742 | 14,945 | 15,614 |
| Accounts receivable | 20,627 | 21,172 | 22,484 |
| Accounts payable | –16,550 | –14,857 | –16,223 |
| Provisions | –12,813 | –9,786 | –11,279 |
| Prepaid and accrued income and expenses | –6,874 | –6,787 | –7,224 |
| Tax and other assets and liabilities | –568 | –619 | –1,156 |
| **Working capital** | **–436** | **4,068** | **2,216** |
| *% of annualized net sales* | *–0.4* | *3.6* | *1.8* |

## Net borrowings

Net borrowings at year-end rose to SEK 1,141m (–101) as a result of the share redemption program, corresponding to a value of over SEK 3 billion. A positive cash-flow from operations and investments and changes in exchange rates had a positive effect on net borrowings.

### Net borrowings

| SEKm | Dec. 31, 2004 | Dec. 31, 2003 | Dec. 31, 2002 |
|---|---|---|---|
| Interest-bearing liabilities | 9,843 | 12,501 | 15,698 |
| Liquid funds | 8,702 | 12,602 | 14,300 |
| **Net borrowings** | **1,141** | **–101** | **1,398** |

### Liquid funds

Liquid funds at year-end amounted to SEK 8,702m (12,602), corresponding to 7.7% (11.3) of annualized net sales.

The Group's goal is to ensure that the level of net liquid funds corresponds to at least 2.5% of annualized net sales. This means that liquid funds less short-term borrowings shall exceed zero, with due consideration for fluctuations referring to acquisitions, divestments and seasonal variations.

As shown in the table below, liquid funds as a percentage of annualized net sales have considerably exceeded the Group's minimum criterion in recent years, primarily as a result of positive operating cash flow and divestment of operations.

### Liquidity profile

| SEKm | Dec. 31, 2004 | Dec. 31, 2003 | Dec. 31, 2002 |
|---|---|---|---|
| Liquid funds | 8,702 | 12,602 | 14,300 |
| % of annualized net sales | 7.7 | 11.3 | 11.8 |
| Net liquidity | 2,799 | 8,593 | 12,682 |
| Fixed-interest term, days | 61 | 64 | 48 |
| Effective annual yield, % | 2.4 | 4.4 | 4.4 |

**For more information on the liquidity profile, see Note 18 on page 56.**



For definitions, see page 81.

# Consolidated balance sheet

| Amounts in SEKm, unless otherwise stated | Note | Dec. 31, 2004 | Dec. 31, 2003 | Dec. 31, 2002 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Fixed assets** | | | | |
| Intangible assets | Note 13 | 5,077 | 4,782 | 4,928 |
| Tangible assets | Note 14 | 16,033 | 15,638 | 18,188 |
| Financial assets | Note 15 | 1,412 | 1,276 | 1,591 |
| Deferred tax assets | Note 10 | 2,937 | 1,914 | 2,991 |
| **Total fixed assets** | | **25,459** | **23,610** | **27,698** |
| **Current assets** | | | | |
| Inventories, etc. | Note 16 | 15,742 | 14,945 | 15,614 |
| Current receivables | | | | |
| Accounts receivable | Note 17 | 20,627 | 21,172 | 22,484 |
| Taxes receivable | | 617 | 490 | 580 |
| Other receivables | Note 18 | 2,657 | 2,972 | 3,713 |
| Prepaid expenses and accrued income | | 1,128 | 1,237 | 1,035 |
| | | **25,029** | **25,871** | **27,812** |
| Liquid funds | Note 18 | | | |
| Short-term investments | | 4,442 | 8,577 | 8,316 |
| Cash and cash equivalents | | 4,260 | 4,025 | 5,984 |
| | | **8,702** | **12,602** | **14,300** |
| **Total current assets** | | **49,473** | **53,418** | **57,726** |
| **Total assets** | | **74,932** | **77,028** | **85,424** |
| **Assets pledged** | Note 19 | **137** | **423** | **1,908** |
| **Equity and liabilities** | | | | |
| **Equity** | Note 20 | | | |
| Share capital | Note 21 | 1,545 | 1,621 | 1,694 |
| Restricted reserves | | 11,136 | 11,711 | 14,287 |
| Retained earnings | | 7,581 | 9,352 | 6,553 |
| Net income | | 3,148 | 4,778 | 5,095 |
| | | **23,410** | **27,462** | **27,629** |
| **Minority interests** | | **10** | **27** | **592** |
| **Provisions** | | | | |
| Provisions for pensions and similar commitments | Note 23 | 7,852 | 5,678 | 6,018 |
| Deferred tax liabilities | Note 10 | 1,251 | 1,256 | 1,998 |
| Other provisions | Note 24 | 4,961 | 4,427 | 5,582 |
| | | **14,064** | **11,361** | **13,598** |
| **Financial liabilities** | | | | |
| Long-term loans | Note 18 | 3,940 | 8,173 | 13,759 |
| Short-term loans | Note 18 | 5,903 | 4,009 | 1,618 |
| | | **9,843** | **12,182** | **15,377** |
| **Operating liabilities** | | | | |
| Accounts payable | | 16,550 | 14,857 | 16,223 |
| Tax liabilities | | 900 | 1,180 | 1,211 |
| Other liabilities | | 2,153 | 1,935 | 2,535 |
| Accrued expenses and prepaid income | Note 25 | 8,002 | 8,024 | 8,259 |
| | | **27,605** | **25,996** | **28,228** |
| **Total equity and liabilities** | | **74,932** | **77,028** | **85,424** |
| **Contingent liabilities** | Note 26 | **1,323** | **1,179** | **949** |

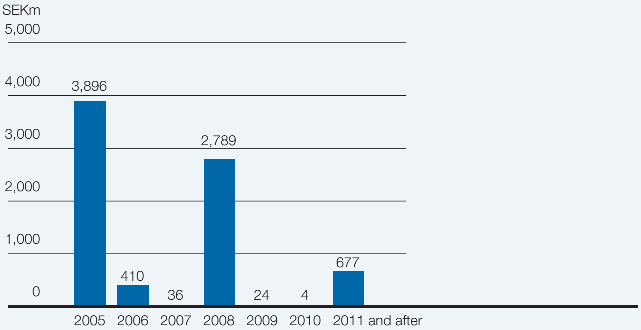
### Borrowings

At year-end, the Group's interest-bearing liabilities, including interest-bearing pension liabilities, amounted to SEK 9,843m (12,501), of which SEK 3,940m (8,173) referred to long-term borrowings. Average maturities of long-term loans including maturities within 12 months were 2.2 years (2.7). A significant portion of long-term borrowings are raised in the euro-bond market.

The Group's goal for long-term borrowings includes an average time to maturity of at least two years, an even spread of maturities, and an average interest-fixing period of one year. At year-end, the average interest-fixing period for long-term borrowings was 1.3 years (1.1).

At year-end, the average interest rate for the Group's total interest-bearing borrowings was 4.9% (4.9).

**Long-term borrowings, by maturity**




**During 2004, a total net of SEK 1,836m in borrowings matured or was amortized. For more information on borrowings, see Note 18 on page 56.**

### Ratings

Electrolux has Investment Grade ratings from Moody's and Standard & Poor's. The long-term ratings from both institutions were unchanged during the year.

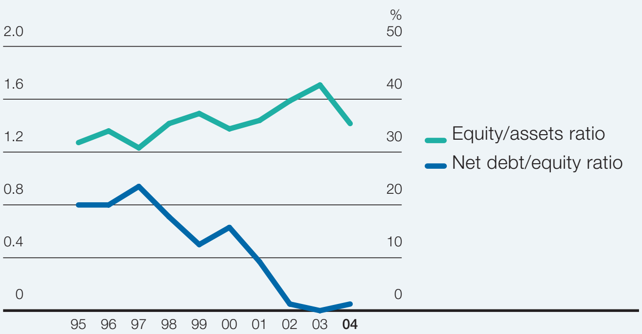
**Ratings**

| | Long-term debt | Outlook | Short-term debt | Short-term debt, Sweden |
|---|---|---|---|---|
| Moody's | Baa1 | Stable | P-2 | |
| Standard & Poor's | BBB+ | Stable | A-2 | K-1 |

## Net debt/equity and equity/assets ratios

The net debt/equity ratio increased to 0.05 (0.00). The equity/assets ratio decreased to 35.4% (42.7).

**Net debt/equity and equity/assets ratios**




**Net debt in relation to equity has been reduced significantly over the past years, but increased somewhat in 2004.**

## Equity and return on equity

Group equity as of December 31, 2004, amounted to SEK 23,410m (27,462), which corresponds to SEK 80.40 (89.40) per share. The decline refers mainly to the non-recurring charge of SEK 1,602m to opening equity at the beginning of the year following the implementation of the new Swedish accounting standard RR 29, Employee benefits, as well as redemption of shares.

Return on equity was 12.7% (17.3). Excluding items affecting comparability, return on equity was 17.9% (18.9).

## Financial risk management

The Group is exposed to a number of risks relating to financial instruments, including, for example liquid funds, accounts receivables, customer financing receivables, accounts payables, borrowings, and derivative instruments. The risks associated with these instruments are, primarily:

- Interest-rate risk on liquid funds and borrowings
- Financing risks in relation to the Group's capital requirements
- Foreign-exchange risk on earnings and net investments in foreign subsidiaries
- Commodity-price risk affecting the expenditure on raw material and components for goods produced
- Credit risk relating to financial and commercial activities

The Board of Directors of Electrolux has approved a financial policy and a credit policy for the Group to manage and control these risks. Each business sector has specific financial and credit policies approved by each sector board. The above-mentioned risks are amongst others managed by the use of derivative financial instruments according to the limitations stated in the Financial Policy. The Financial Policy also describes the management of risks relating to pension fund assets.

Management of financial risks has largely been centralized to Group Treasury in Stockholm, Sweden. Local financial issues are managed by four regional treasury centers located in Europe, North America, Asia/Pacific and Latin America. Measurement of risk in Group Treasury is performed by a separate risk controlling function on a daily basis. Furthermore, there are guidelines in the Group's policies and procedures for managing operating risk relating to financial instruments by, e.g., segregation of duties and power of attorney.

Proprietary trading in currency, commodities and interest-bearing instruments is permitted within the framework of the Financial Policy. This trading is primarily aimed at maintaining a high quality of information flow and market knowledge to contribute to the proactive management of the Group's financial risks.

The Credit Policy for the Group ensures that the management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts.

For more detailed information on:

- Accounting principles for financial instruments, see Note 1 on page 44
- Financial risk management, see Note 2 on page 48
- Financial instruments, see Note 18 on page 56



For definitions, see page 81.

## Change in consolidated equity

| Amounts in SEKm, unless otherwise stated | Share capital | Restricted reserves | Retained earnings | Total |
|---|---|---|---|---|
| **Closing balance Dec. 31, 2001** | **1,831** | **13,438** | **13,595** | **28,864** |
| Translation differences [1] | — | — | –1,786 | –1,786 |
| Minimum liability, US pensions [2] | — | — | –1,335 | –1,335 |
| Transfers between restricted and unrestricted equity | — | 712 | –712 | — |
| Net income | — | — | 5,095 | 5,095 |
| Cancellation of shares | –137 | 137 | — | — |
| Dividend payment | — | — | –1,483 | –1,483 |
| Repurchase of shares | — | — | –1,703 | –1,703 |
| Dividends to minority shareholders | — | — | –23 | –23 |
| **Closing balance Dec. 31, 2002** | **1,694** | **14,287** | **11,648** | **27,629** |
| Translation differences [1] | — | — | –1,259 | –1,259 |
| Minimum liability, US pensions [2] | — | — | –123 | –123 |
| Transfers between restricted and unrestricted equity | — | –2,649 | 2,649 | — |
| Net income | — | — | 4,778 | 4,778 |
| Cancellation of shares | –73 | 73 | — | — |
| Dividend payment | — | — | –1,894 | –1,894 |
| Repurchase of shares [3] | — | — | –1,669 | –1,669 |
| **Closing balance Dec. 31, 2003** | **1,621** | **11,711** | **14,130** | **27,462** |
| Adjustment of opening balance [4] | — | — | –1,602 | –1,602 |
| Translation differences [1] | — | — | –451 | –451 |
| Transfers between restricted and unrestricted equity | — | –651 | 651 | — |
| Net income | — | — | 3,148 | 3,148 |
| Cancellation of shares | –76 | 76 | — | — |
| Dividend payment | — | — | –1,993 | –1,993 |
| Repurchase of shares [3] | — | — | –112 | –112 |
| Redemption of shares | — | — | –3,042 | –3,042 |
| **Closing balance Dec. 31, 2004** | **1,545** | **11,136** | **10,729** | **23,410** |

1) The net of assets and liabilities in foreign subsidiaries constitutes a net investment in foreign currency, which generates a translation difference in connection with consolidation. For more information on Exposure from net investments, see Note 2 Financial risk management, section "Foreign exchange risk", on page 48.

2) In case of underfunding of pension liabilities, US accounting rules require companies to record a minimum liability in the accounts. For more information on pension liabilities, see Note 23 Provision for pensions and similar commitments, on page 60.

3) Net after divestment of shares under the employee stock option program.

4) Non-recurring effect of implementing the new accounting standard RR 29, Employee benefits.

# Cash flow

- **Operating cash flow increased to SEK 3,224m (2,866), mainly due to lower working capital**
- **The improvement in working capital referred mainly to an increase in accounts payable and a decrease in accounts receivable**
- **Capital expenditure increased to SEK 4,515m, as against SEK 3,463m in 2003**

## Operating cash flow

Operating cash flow generated by business operations after financial items and taxes was SEK 3,224m as compared to SEK 2,866m in 2003, after adjustment for proceeds from divested operations.

The improvement is due mainly to lower working capital with an increase in accounts payable and a decrease in accounts receivable. Lower spending on restructuring also had a positive impact.

Cash flow was negatively impacted by a decline in income, increased capital expenditure, and a payment of approximately SEK 300m referring to the US pension fund.

**Cash flow**

| SEKm | 2004 | 2003 | 2002 |
|---|---|---|---|
| Cash flow from operations, excluding change in operating assets and liabilities | 7,140 | 7,150 | 9,051 |
| Change in operating assets and liabilities | 1,442 | –857 | 1,854 |
| Capital expenditure in tangible fixed assets | –4,515 | –3,463 | –3,335 |
| Other | –843 | 36 | 95 |
| **Operating cash flow** | **3,224** | **2,866** | **7,665** |
| Divestment of operations | — | 857 | 2,229 |
| **Cash flow from operations and investments** | **3,224** | **3,723** | **9,894** |

**Operating cash flow**


**Operating cash flow improved in 2004, mainly due to lower working capital.**

## Capital expenditure

Capital expenditure in tangible fixed assets in 2004 increased to SEK 4,515m (3,463), of which SEK 297m (373) refers to Sweden. Capital expenditure corresponded to 3.7% (2.8) of net sales. The increase compared to the previous year referred to Consumer Durables and investments in new plants within appliances in North America and Europe. Capital expenditure within Professional Products referred mainly to professional outdoor products and investments to improve production efficency and development of environmental efficient products.

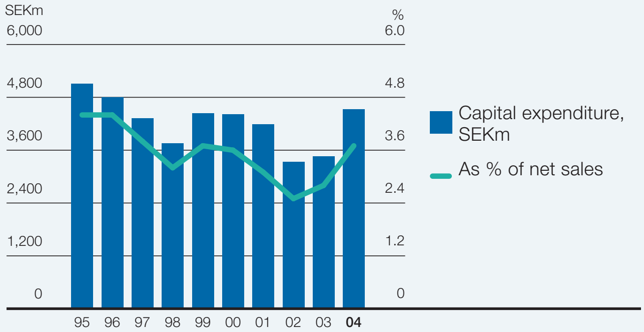
Approximately 45% of total capital expenditure in 2004 referred to new products. Major projects included development of new products within the washing and cooking product areas in North America and Europe. Another major project was development of a new platform for tractors within consumer outdoor products in North America.

Approximately 20% of total capital expenditure was attributable to rationalization and replacement of existing production equipment. About 15% referred to expansion of capacity within the appliance operation in Eastern Europe and Asia.

**Capital expenditure, by business area**

| SEKm | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Consumer Durables** | | | |
| Europe | 1,561 | 1,202 | 1,273 |
| *% of net sales* | *3.7* | *2.7* | *2.8* |
| North America | 1,439 | 618 | 477 |
| *% of net sales* | *4.7* | *1.9* | *1.4* |
| Rest of the world | 438 | 470 | 406 |
| *% of net sales* | *3.2* | *3.7* | *2.7* |
| Consumer Outdoor | 517 | 560 | 566 |
| *% of net sales* | *2.9* | *3.3* | *3.1* |
| **Professional Products** | | | |
| Indoor | 144 | 278 | 295 |
| *% of net sales* | *2.2* | *3.4* | *2.7* |
| Outdoor | 393 | 283 | 227 |
| *% of net sales* | *4.1* | *2.9* | *2.6* |
| **Other** | **23** | **52** | **91** |
| **Total** | **4,515** | **3,463** | **3,335** |
| *% of net sales* | *3.7* | *2.8* | *2.5* |

**Capital expenditure**




**Capital expenditure increased by 30.4% to SEK 4,515m in 2004, corresponding to 3.7% of net sales.**

## Costs for research and development

Costs for Research and Development in 2004, including capitalization of SEK 486m (344), increased to SEK 2,052m (1,628), corresponding to 1.7% (1.3) of net sales.

R&D projects during the year mainly referred to new products and design projects within appliances including development of new platforms. Major projects were new products within cooking and washing in North America and new products within the floor-care operation.



For definitions, see page 81.

## Consolidated cash flow statement

| Amounts in SEKm, unless otherwise stated | Note | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| **Operations** | | | | |
| Income after financial items | | 4,359 | 7,006 | 7,545 |
| Depreciation and amortization | | 3,178 | 3,353 | 3,854 |
| Capital gain/loss included in operating income | | — | –8 | –1,910 |
| Restructuring provisions | | 1,224 | –1,410 | 1,551 |
| Provision for pension litigation | | — | — | –913 |
| Change in accrued and prepaid interest | | 52 | 26 | –49 |
| | | **8,813** | **8,967** | **10,078** |
| Taxes paid | | –1,673 | –1,817 | –1,027 |
| **Cash flow from operations, excluding change in operating assets and liabilities** | | **7,140** | **7,150** | **9,051** |
| Change in operating assets and liabilities | | | | |
| Change in inventories | | –1,516 | –746 | –706 |
| Change in accounts receivable | | –5 | –1,624 | 28 |
| Change in other current assets | | 235 | –136 | 804 |
| Change in operating liabilities and provisions | | 2,728 | 1,649 | 1,728 |
| **Cash flow from operations** | | **8,582** | **6,293** | **10,905** |
| **Investments** | | | | |
| Acquisition of operations | **Note 27** | — | — | –1,542 |
| Divestment of operations | **Note 27** | — | 857 | 3,771 |
| Machinery, buildings, land, construction in progress, etc. | | –4,515 | –3,463 | –3,335 |
| Capitalization of product development and software | | –669 | –470 | –195 |
| Other | | –174 | 506 | 290 |
| **Cash flow from investments** | | **–5,358** | **–2,570** | **–1,011** |
| **Total cash flow from operations and investments** | | **3,224** | **3,723** | **9,894** |
| **Financing** | | | | |
| Change in short-term loans | | 2,225 | 1,099 | –2,096 |
| Change in long-term loans | | –4,099 | –2,579 | –2,061 |
| Dividend | | –1,993 | –1,894 | –1,483 |
| Redemption and repurchase of shares | | –3,154 | –1,669 | –1,703 |
| **Cash flow from financing** | | **–7,021** | **–5,043** | **–7,343** |
| Total cash flow | | –3,797 | –1,320 | 2,551 |
| Liquid funds at beginning of year | | 12,602 | 14,300 | 12,374 |
| Exchange-rate differences referring to liquid funds | | –103 | –378 | –625 |
| Liquid funds at year-end | | 8,702 | 12,602 | 14,300 |
| **Change in net borrowings** | | | | |
| **Total cash flow, excluding change in loans** | | **–1,923** | **160** | **6,708** |
| **Net borrowings at beginning of year** | | **101** | **–1,398** | **–10,809** |
| **Exchange-rate differences referring to net borrowings** | | **681** | **1,339** | **2,703** |
| **Net borrowings at year-end** | | **–1,141** | **101** | **–1,398** |

# Consumer Durables

- **Industry shipments of appliances higher in both Europe and North America**
- **Operating income for appliances in Europe somewhat lower for comparable units, margin in line with 2003**
- **Good sales growth, unchanged operating income in USD for appliances in North America despite higher material costs**
- **Continued good performance for outdoor products**
- **Substantial downturn in income for floor-care products, particularly in the US, and for appliances in Asia/Pacific**
- **Restructuring within several operations to improve profitability**
- **Increased investments in brand-building and product development**

Consumer Durables comprise mainly major appliances, i.e., refrigerators, freezers, cookers, dryers, washing machines, dishwashers, room air-conditioners and microwave ovens, as well as floor-care products and garden equipment.

In 2004, major appliances accounted for 76% (76) of sales, while outdoor products accounted for 17% (16) and floor-care products for 7% (8).

## Market position

Electrolux has leading market positions in core appliances, floor-care products and garden equipment in both Europe and North America.

The Group is the leading appliances producer in Australia, and has substantial market shares in this product category in Brazil and India, as well as a significant market presence in China.

| Estimated market shares, units*) | Europe | USA |
|---|---|---|
| Core appliances | No. 1 with approx. 20% market share | No. 3 with approx. 23% market share |
| Floor-care products | No. 1 with approx. 15% market share | No. 3 with approx. 21% market share |
| Consumer outdoor products | Leading position | Leading position |

***) Including private label.**

## Operations in Europe

**Key data[1)]**

| Consumer Durables, Europe<br>SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 42,703 | 44,267 | 45,128 |
| Operating income | 3,124 | 3,289 | 3,136 |
| Operating margin, % | 7.3 | 7.4 | 6.9 |
| Net assets | 6,121 | 5,873 | 6,613 |
| Return on net assets, % | 46.1 | 46.1 | 41.2 |
| Capital expenditure | 1,561 | 1,202 | 1,273 |
| Average number of employees | 26,146 | 27,788 | 29,837 |

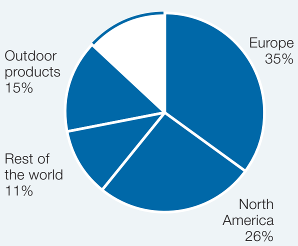
**1) Excluding items affecting comparability.**

### Major appliances

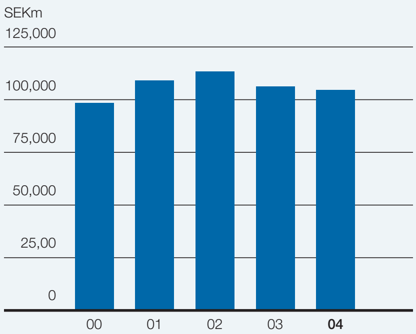
Total industry shipments of core appliances in Europe in 2004 increased in volume by approximately 3.8% over 2003. Western Europe showed an increase of about 2%, while the increase in Eastern Europe was almost 9%. A total of 78.1 (73.1) million units of appliances (excluding microwave owens) were estimated to have been shipped in the European market during 2004. Of these, a total of 56.4 (55.0) million units referred to Western Europe.

Group sales of appliances in Europe for the full year were somewhat lower than in 2003, mainly as a result of the divestment of Vestfrost in 2003, and lower volumes in Western Europe, particularly in Germany. Sales in Eastern Europe showed a continued positive trend. Operating income and margin declined as a result of lower volumes, higher investments in brand-building and increased costs for materials, particularly in the fourth quarter.

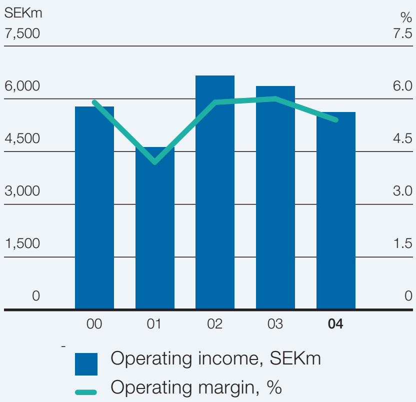
**Share of total Group sales 87%**




**Net sales**




**Operating income and margin**






For definitions, see page 81.

*Investments in new plants*

In order to increase the Group's production base in Eastern Europe, decisions were taken to invest approximately SEK 500m in a new plant for washing machines with an annual capacity of 600,000 units, and approximately SEK 275m in a new plant for dishwashers with an annual capacity of 400,000 units. Both factories will be located in Poland with start-up planned for 2005/2006.

In early January 2005, production started at a new fridge-freezer plant in Nyíregyháza, Hungary, with an annual capacity of 560,000 units.

*Continued efforts to build the Electrolux brand*

Efforts continued to strengthen the Electrolux brand through double-branding with strong local brands. In 2004 double-branding was implemented for REX, the market leader in Italy, as well as for Zanussi and Juno in Germany.

As of 2005 all products sold under the AEG brand will be double-branded, as will products from Husqvarna and Voss.

*Restructuring*

In November 2004, it was decided that the cooker plant in Reims, France, would be closed at the end of the first quarter of 2005, as part of the ongoing consolidation of production in Europe. The plant has approximately 240 employees. The cost of the closure, including write-down of assets and other related costs, was SEK 289m, which was charged against operating income in the fourth quarter within items affecting comparability.

### Floor-care products

Market demand for floor-care products in Europe rose by approximately 8% in 2004. The increase in demand referred primarily to the low-price segments. Group sales declined in comparison with the previous year. Operating income and margin declined as a result of lower volumes and downward pressure on prices. Costs related to transfer of production from Sweden to Hungary also had a negative impact.

*Restructuring*

A decision was taken in May 2004 to close the vacuum-cleaner plant in Västervik, Sweden, and transfer production to the plant in Hungary. The cost for closing the plant is estimated at SEK 220m, of which SEK 167m and SEK 20m were included in items affecting comparability in the second and third quarter respectively, and the remaining part was taken in operating income in the fourth quarter of 2004.

**Quick facts – Europe**

| Products | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Appliances | Electrolux, AEG**, Zanussi*, REX* | Italy, Hungary, Sweden, Germany | Bosch-Siemens, Whirlpool, Merloni |
| Floor-care products | Electrolux, AEG** | Hungary | Bosch-Siemens, Miele, Philips, Dyson |

* Double-branded with Electrolux as of 2004.

** Double-branded with Electrolux as of 2005.

## Operations in North America

### Key data[1)]

| Consumer Durables, North America SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 30,767 | 32,247 | 35,245 |
| Operating income | 1,106 | 1,583 | 2,027 |
| Operating margin, % | 3.6 | 4.9 | 5.8 |
| Net assets | 6,619 | 7,683 | 8,678 |
| Return on net assets, % | 14.3 | 18.8 | 20.4 |
| Capital expenditure | 1,439 | 618 | 477 |
| Average number of employees | 16,329 | 15,249 | 15,101 |

1) Excluding items affecting comparability.

### Major appliances

In the US, industry shipments of core appliances in 2004 increased in volume by approximately 8%, while shipments of major appliances, i.e. including room air-conditioners and microwave ovens, rose by approximately 6%. Total industry shipments in 2004 amounted to 47.1 (43.5) million units, excluding room air-conditioners and microwave ovens.

Group sales of core appliances in North America showed good growth in USD, but declined in SEK. Operating income for the full year in USD was in line with 2003, despite higher costs for materials and increased investments in product innovations and brand-building. Sales in the fourth quarter were particularly strong and showed a significant increase in SEK. Operating income in the fourth quarter increased substantially and margin improved, as a result of higher volumes, improved productivity and a positive pricing trend.

*Restructuring*

In January 2004, the decision was taken to discontinue production of refrigerators at the factory in Greenville, Michigan, in the US. Production of the majority of products manufactured in Greenville will be moved to a new factory, which is being built in Mexico. The Group will invest SEK 1,200m in the plant, which will have an annual capacity of 1,600,000 units. Start-up of production is planned for in 2005. The cost of closing the plant in Greenville is estimated at SEK 1,100m, of which SEK 979m was charged against operating income in the first quarter of 2004 within items affecting comparability.

*Launch of Electrolux brand*

In 2004 the Electrolux brand was introduced for appliances in the US through the launch of the Electrolux ICON™ product range for the premium segment. This product range will be expanded in 2005 and 2006.

**Quick facts – North America**

| Products | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Appliances | Electrolux, Frigidaire | USA, Canada, Mexico | Whirlpool, General Electric, Maytag |
| Floor-care products | Electrolux, Eureka | Mexico | Hoover, Bissel, Dyson, Royal |

### Floor-care products

The market for floor-care products in the US increased by approximately 4% in volume over the previous year. Group sales showed a marked decline. Operating income was substantially lower than in 2003 as a result of downward pressure on prices and lower volumes particularily in the lower price segments. Income in the fourth quarter was positive, following two weak quarters, as a result of implemented restructuring.

*Restructuring*

A restructuring program was initiated in the second quarter which included closure of the plant in El Paso, Texas, and transfer of production to the Group's floor-care plant in Mexico. The cost of the program amounted to approximately SEK 153m, which was taken in the third quarter within items affecting comparability. The program was largely finalized during the fourth quarter of 2004 and affected about 850 employees.

## Operations in Rest of the world

**Key data[1)]**

| Consumer Durables, Rest of the world<br>SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 13,479 | 12,544 | 14,796 |
| Operating income | –159 | 0 | 55 |
| Operating margin, % | –1.2 | 0.0 | 0.4 |
| Net assets | 5,062 | 4,420 | 4,114 |
| Return on net assets, % | –3.5 | 0.0 | 1.0 |
| Capital expenditure | 438 | 470 | 406 |
| Average number of employees | 13,547 | 15,389 | 17,484 |

1) Excluding items affecting comparability.

### Major appliances

*Brazil*

The market for core appliances in Brazil showed a strong upturn for the year as a whole. Group sales of appliances rose substantially on the basis of strong demand, increased prices and new product launches. Operating income improved and was positive.

*India and China*

Group sales of appliances in India increased in comparison with the previous year, mainly within air-conditioners and microwave ovens, which have been added to the product offering. Operating income for the Indian operation improved substantially, but was still negative.

Group sales of appliances in China declined from the previous year. Operating income for the Chinese operation showed a substantial downturn in the fourth quarter and the operating loss for the full year was larger than in 2003. The negative trend in income in the fourth quarter was mainly due to an increase of the provision for warranties related to prior years. Lower volumes and downward pressure on prices also had a negative impact on operating income for the full year.

*Australia*

The market for appliances in Australia increased in volume. Sales for the Group's Australian operation were largely unchanged for the year as a whole. Operating income showed a substantial downturn for the full year, but improved considerably in the fourth quarter as a result of implemented restructuring and new product launches. Operating income was negatively impacted by costs for restructuring in the amount of approximately SEK 100m. This in addition to the restructuring charge of SEK 103m that was reported in the third quarter within items affecting comparability.

*Brand consolidation*

In 2004, the three brands, Chef, Dishlex and Kelvinator in Australia, were double-branded with Electrolux, and the two remaining local brands, Westinghouse and Simpson, were given a more distinctive role in the portfolio. In parallel, a focused marketing program was launched, resulting in a clear strengthening of the key brands.

**Quick facts – Rest of the world**

| Products | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Appliances | Electrolux, Westinghouse, Simpson | Australia, Brazil, China, India, Thailand | Whirlpool, Fisher & Paykel, LG, Haier, Samsung, Bosch-Siemens |
| Floor-care products | Electrolux, Volta, AEG* | Brazil | Dyson, LG, Matsushita, SEB Group, Philips, Samsung |

* Double-branded with Electrolux as of 2005.

## Consumer Outdoor Products

**Key data[1)]**

| Outdoor Products<br>SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 17,579 | 17,223 | 18,229 |
| Operating income | 1,552 | 1,493 | 1,445 |
| Operating margin, % | 8.8 | 8.7 | 7.9 |
| Net assets | 4,578 | 4,498 | 5,068 |
| Return on net assets, % | 26.8 | 25.6 | 22.8 |
| Capital expenditure | 517 | 560 | 566 |
| Average number of employees | 6,041 | 5,633 | 4,415 |

1) Excluding items affecting comparability.

Demand for consumer outdoor products in Europe in 2004 is estimated to have increased somewhat over the previous year.

Sales for the Group's European operation showed good growth. Operating income and margin improved considerably as a result of higher sales of products imported from the Group's US operation, an improved product mix and lower operating costs.

Both sales and operating income for the Group's North American operation increased somewhat in USD but declined in SEK. Operating margin was largely unchanged in comparison with 2003.

**Quick facts – Consumer Outdoor Products**

| Outdoor power equipment | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Europe | Husqvarna, Flymo, Partner, McCulloch | Sweden, UK, Italy | GGP |
| North America | Husqvarna, Poulan, Poulan Pro, Weed Eater | USA | Toro, John Deere, MTD |



For definitions, see page 81.

# Professional Products

- **Continued weak market demand for food-service equipment and laundry equipment**
- **Decline in sales for Indoor Products refers mainly to divestments, income improved somewhat for comparable units**
- **Higher demand for outdoor products in most markets**
- **Strong sales growth in chainsaws**
- **Income for Outdoor Products negatively impacted by exchange-rate effects, but margin remained high**

The Professional Products business area includes products for both indoor and outdoor use. Operations within Indoor Products comprise food-service equipment for hotels, restaurants and institutions, as well as laundry equipment for apartment-house laundry rooms, launderettes, hotels and other professional users.

Operations within Outdoor Products comprise mainly high-performance chainsaws, clearing saws and lawn and garden equipment. The majority of these products are sold under the Husqvarna brand. This business area also includes power cutters, diamond tools and related equipment for cutting of, e.g., concrete and stone.

## Market position

| Product area | Market position |
|---|---|
| Food-service equipment | World's third largest producer of food-service equipment, leading position in European market. |
| Laundry equipment | One of the leaders in the global market. Largest producer in Europe. |
| Chainsaws | Husqvarna and Jonsered are among the top three worldwide brands for professional chainsaws, with a global market share of about 40% in the professional segment. |
| Lawn and garden equipment | Operations refer mainly to North America. Global market share of less than 10%. |
| Power cutters and diamond tools | Electrolux is one of the world's largest producers of diamond tools and related equipment for the construction and stone industries. |

## Professional Indoor Products

**Key data[1)]**

| SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 6,440 | 8,113 | 10,887 |
| Operating income | 442 | 556 | 753 |
| Operating margin, % | 6.9 | 6.9 | 6.9 |
| Net assets | 1,018 | 974 | 1,630 |
| Return on net assets, % | 41.7 | 38.3 | 22.0 |
| Capital expenditure | 144 | 278 | 295 |
| Average number of employees | 3,595 | 6,126 | 7,995 |

**1) Excluding items affecting comparability.**

Overall, sales of Professional Indoor Products were in line with the previous year, after adjustment for divestments. Operating income and margin improved somewhat for comparable units.

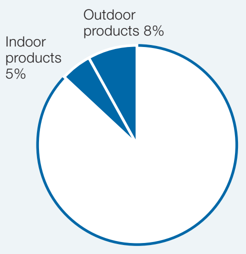
### Food-service equipment

Demand for food-service equipment in 2004 is estimated to have been somewhat lower than in the previous year. Group sales for the year were largely unchanged. Operating income declined slightly, mainly due to the costs of entering the US market.

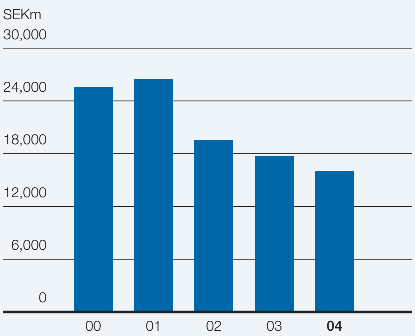
### Laundry equipment

Group sales of laundry equipment in local currency were in line with the previous year. Operating income improved somewhat on the basis of implemented price increases and lower production costs, despite the negative impact of changes in exchange rates.

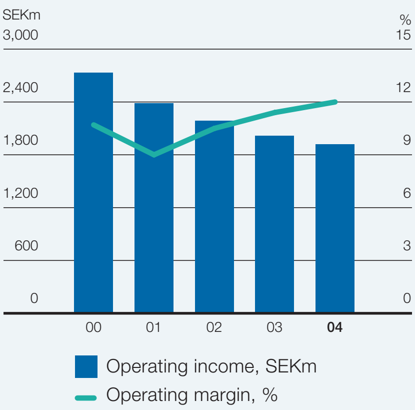
**Share of total Group sales 13%**




**Net sales**




**Operating income and margin**



*Restructuring*

A decision was taken during the year to close the factory for tumble dryers in Tommerup, Denmark. Production will gradually be transferred to a new factory in Thailand and to a plant in Sweden. The cost of the closure amounts to SEK 49m which was charged against operating income in the fourth quarter within items affecting comparability. The transfer will start at the beginning of 2006 and is scheduled for completion at the end of 2006, when all production at Tommerup will be discontinued. Approximately 180 employees will be affected.

*Brand consolidation*

The transition of the three main brands for laundry products, Dubix, Nyborg and Wascator, to Electrolux was completed during the year.

**Quick facts – Indoor Products**

| Products | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Food-service equipment | Electrolux, Zanussi Professional, Dito*, Molteni | Italy, France, Switzerland | Enodis, ITW-Hobart, Franke, Ali Group |
| Laundry equipment | Electrolux | Sweden, Denmark, France | IPSO, Alliance, Miele, Primus |

*** Double-branded with Electrolux.**

## Professional Outdoor Products

**Key data[1)]**

| SEKm, unless otherwise stated | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net sales | 9,623 | 9,596 | 8,719 |
| Operating income | 1,479 | 1,462 | 1,431 |
| Operating margin, % | 15.4 | 15.2 | 16.4 |
| Net assets | 3,869 | 4,117 | 3,746 |
| Return on net assets, % | 35.6 | 35.0 | 49.0 |
| Capital expenditure | 393 | 283 | 227 |
| Average number of employees | 5,616 | 5,759 | 5,781 |

**1) Excluding items affecting comparability.**

Demand for professional chainsaws in 2004 is estimated to have increased in most major markets. Group sales showed strong growth over the previous year.

Group sales of commercial lawn and garden equipment declined for the full year, mainly due to lower pre-season sales than in 2003. Overall, sales of construction equipment in local currency were in line with the previous year, showing an increase in North America and a decrease in Europe, Asia and Australia.

Total sales of Professional Outdoor Products increased in local currency. Operating income and margin were largely unchanged. Margin was negatively impacted by changes in exchange rates.

**Quick facts – Outdoor Products**

| Products | Key brands | Location of major plants | Major competitors |
|---|---|---|---|
| Professional chainsaws and lawn and garden equipment | Husqvarna, Jonsered | Sweden, USA | Stihl, Echo, Toro |
| Power cutters and diamond tools | Partner Industrial Products, Dimas, Diamant Boart | USA, Sweden, Greece, Spain, Portugal | Tyrolit, Saint Gobain, Ehwa |

## Change in segment reporting in 2005

As of 2005, the Group's reporting structure will be changed to comprise Indoor Products and Outdoor Products instead of as previously Consumer Durables and Professional Products.

Indoor Products comprise operations in appliances and floor-care products, as well as the professional operations in food-service equipment and laundry equipment.

Outdoor Products comprise garden equipment for the consumer market and professional outdoor products.

There will be no changes of the individual segments other than for the Rest of the world segment which will be divided into Latin America and Asia/Pacific.

The new reporting structure is shown on page 79.



For definitions, see page 81.

## Operations by business area

| SEKm, unless otherwise stated | 2004 | Change, % | 2003 | Change, % | 2002 |
|---|---|---|---|---|---|
| **Consumer Durables** | | | | | |
| **Europe** | | | | | |
| Net sales | 42,703 | –3.5 | 44,267 | –1.9 | 45,128 |
| Operating income | 3,124 | –5.0 | 3,289 | 4.9 | 3,136 |
| *Margin, %* | *7.3* | | *7.4* | | *6.9* |
| **North America** | | | | | |
| Net sales | 30,767 | –4.6 | 32,247 | –8.5 | 35,245 |
| Operating income | 1,106 | –30.1 | 1,583 | –21.9 | 2,027 |
| *Margin, %* | *3.6* | | *4.9* | | *5.8* |
| **Rest of the world** | | | | | |
| Net sales | 13,479 | 7.5 | 12,544 | –15.2 | 14,796 |
| Operating income | –159 | — | 0 | –100 | 55 |
| *Margin, %* | *–1.2* | | *0.0* | | *0.4* |
| **Outdoor Products** | | | | | |
| Net sales | 17,579 | 2.1 | 17,223 | –5.5 | 18,229 |
| Operating income | 1,552 | 4.0 | 1,493 | 3.3 | 1,445 |
| *Margin, %* | *8.8* | | *8.7* | | *7.9* |
| **Total Consumer Durables** | | | | | |
| Net sales | 104,528 | –1.6 | 106,281 | –6.3 | 113,398 |
| Operating income | 5,623 | –11.7 | 6,365 | –4.5 | 6,663 |
| *Margin, %* | *5.4* | | *6.0* | | *5.9* |
| **Professional Products** | | | | | |
| **Indoor** | | | | | |
| Net sales | 6,440 | –20.6 | 8,113 | –25.5 | 10,887 |
| Operating income | 442 | –20.5 | 556 | –26.2 | 753 |
| *Margin, %* | *6.9* | | *6.9* | | *6.9* |
| **Outdoor** | | | | | |
| Net sales | 9,623 | 0.3 | 9,596 | 10.1 | 8,719 |
| Operating income | 1,479 | 1.2 | 1,462 | 2.2 | 1,431 |
| *Margin, %* | *15.4* | | *15.2* | | *16.4* |
| **Total Professional Products** | | | | | |
| Net sales | 16,063 | –9.3 | 17,709 | –9.7 | 19,606 |
| Operating income | 1,921 | –4.8 | 2,018 | –7.6 | 2,184 |
| *Margin, %* | *12.0* | | *11.4* | | *11.1* |
| Other net sales | 60 | | 87 | | 146 |
| Common Group costs, etc. | –870 | | –745 | | –683 |
| Items affecting comparability | –1,960 | | –463 | | –434 |
| **Total** | | | | | |
| Net sales | 120,651 | –2.8 | 124,077 | –6.8 | 133,150 |
| Operating income before items affecting comparability | 6,674 | –12.6 | 7,638 | –6.5 | 8,165 |
| *Margin, %* | *5.5* | | *6.2* | | *6.1* |
| Operating income | 4,714 | | 7,175 | –7.2 | 7,731 |
| *Margin, %* | *3.9* | | *5.8* | | *5.8* |

## Net sales and operating income compared to 2003

| Change, % | Net sales | Net sales in comparable currency | Operating income | Operating income in comparable currency |
|---|---|---|---|---|
| **Consumer Durables** | | | | |
| Europe | –3.5 | –3.3 | –5.0 | –4.9 |
| North America | –4.6 | 4.2 | –30.1 | –24.6 |
| Rest of the world | 7.5 | 10.3 | N/A | N/A |
| Outdoor Products | 2.1 | 9.2 | 4.0 | 12.4 |
| **Total Consumer Durables** | **–1.6** | **2.6** | **–11.7** | **–8.4** |
| **Professional Products** | | | | |
| Indoor | –20.6 | –19.8 | –20.5 | –20.7 |
| Outdoor | 0.3 | 3.8 | 1.2 | 2.8 |
| **Total Professional Products** | **–9.3** | **–7.0** | **–4.8** | **–3.7** |
| **Total** | **–2.8** | **1.2** | **–12.6** | **–9.8** |

# Distribution of funds to shareholders

## Proposed dividend

The Board of Directors proposes an increase of the dividend for 2004 to SEK 7.00 (6.50) per share, for a total payment of SEK 2,038m (1,993). The proposed dividend corresponds to 47% (39) of net income per share for the year, excluding items affecting comparability.

The Group's goal is for the dividend to correspond to at least 30% of net income, excluding items affecting comparability. This is a change from the previous policy of 30–50% of net income.

**For more information on dividend payment, see page 73.**

## Spin-off of Outdoor Products

The Board intends to spin-off the Group's Outdoor Products operation as a separate unit to create the best possible framework for continued profitable growth for this operation, as well as to create value for shareholders.

The aim is to achieve a spin-off in a cost-efficient way, which will be finalized no later than mid-2006.

In 2004, the Outdoor Products operation, i.e., both consumer and professional outdoor products, had total sales of approximately SEK 27 billion, an operating income of approximately SEK 3 billion and about 11,500 employees.

## Redemption of shares in 2004

In April 2004, the Annual General Meeting approved a proposed redemption of shares that entitled shareholders to redeem every twentieth share against cash payment of SEK 200. The decision was made on the basis of the Group's strong balance sheet and the ambition to contribute to increased shareholder value. Payment for the redeemed shares was made to the shareholders on June 30, 2004.

A total of 15,179,692 shares were tendered for redemption, corresponding to a value of over SEK 3 billion. The redemption reduced the Electrolux share capital by SEK 76m, corresponding to a par value of SEK 5 per redeemed share. Following redemption, the Electrolux share capital is SEK 1,545m, corresponding to 9,502,275 A-shares and 299,418,033 B-shares, or a total of 308,920,308 shares.

## Proposed renewed mandate for share repurchases

The Annual General Meeting in 2004 authorized the Board of Directors to acquire and transfer own shares during the period up to the next Annual General Meeting in April 2005. Shares of series A and/or B may be acquired on the condition that, following each repurchase transaction, the company owns a maximum of 10% of the total number of shares. As of February 14, 2005, the Group owned a total of 17,739,400 B-shares, equivalent to 5.7% of the total number of outstanding shares.

The Board of Directors has decided to propose that the Annual General Meeting approve a renewed mandate for the repurchase of a maximum of 10% of the total number of shares. This authorization would cover the period up to the Annual General Meeting in 2006. The details of the proposal will be communicated after they have been determined by the Board.

## Repurchases of own shares in 2004 and 2005

During 2004, Electrolux repurchased 750,000 own B-shares for a total of SEK 114m, corresponding to an average price of SEK 152 per share. During the year, senior managers purchased 10,600 B-shares from Electrolux under the terms of the employee stock option programs for a total of approximately SEK 2m, corresponding to an average price of SEK 170 per share. As of December 31, 2004, the company owned a total of 17,739,400 B-shares, which is equivalent to 5.7% of the total number of outstanding shares.

**Repurchase of own shares 2002–2004**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Repurchased shares | 750,000 | 11,331,828 | 11,246,052 |
| Amount paid, SEKm | 114 | 1,688 | 1,703 |
| Price per share, SEK | 152 | 149 | 151 |
| Shares held by Electrolux | 17,739,400 | 17,000,000 [1)] | 20,394,052 [1)] |
| % of outstanding shares | 5.7 | 5.2 | 6.0 |

1) After cancellation of shares.

The purpose of the share repurchase program is to enable adapting the capital structure of the Group and thereby contribute to increased shareholder value, or to use the repurchased shares in conjunction with the financing of potential acquisitions and the Group's long-term incentive programs.

**Redemption and repurchase of shares in 2004 and 2005**

| | Number of outstanding A-shares | Number of outstanding B-shares | Number of shares held by Electrolux | Number of shares held by other shareholders |
|---|---|---|---|---|
| Number of shares as of January 1, 2004 | 10,000,000 | 314,100,000 | 17,000,000 | 307,100,000 |
| Shares sold to senior managers in 1st quarter under the stock option programs | — | — | –10,600 | 10,600 |
| Redemption of shares in June, 2004 | –497,725 | –14,681,967 | — | –15,179,692 |
| Repurchase of shares in 2004 | — | — | 750,000 | –750,000 |
| **Total number of shares as of December 31, 2004** | **9,502,275** | **299,418,033** | **17,739,400** | **291,180,908** |
| Repurchase of shares in January, 2005 | — | — | — | — |
| **Total number of shares as of February 14, 2005** | **9,502,275** | **299,418,033** | **17,739,400** | **291,180,908** |

# Other facts

## Long term incentive programs

Over the years, Electrolux has implemented several long-term incentive programs for senior managers. These programs are intended to attract, retain and motivate managers by providing long-term incentives through benefits linked to the company share price. They have been designed to align management incentives with shareholder interests.

**For a detailed description of all programs and related costs, see Note 28 on page 65.**

## Performance-based Share Program in 2004

In 2004, the Group introduced a new annual long-term incentive program for almost 200 senior managers and key employees. The program is a performance-based share program based on value-creation targets for the Group that are established by the Board, and involves an allocation of shares if these targets have been reached or exceeded after a three-year period. The program comprises B-shares.

Allocation of shares under the program is determined on the basis of three levels of value creation, calculated according to the Group's previously adopted definition of this concept. The three levels are "entry", "target" and "stretch". "Entry" is the minimum level that must be reached to enable allocation. "Stretch" is the maximum level for allocation and may not be exceeded regardless of the value created during the period. The shares will be allocated after the three-year period and will be free of charge. Participants are permitted to sell allocated shares to cover personal income tax, but the remaining shares must be held for two years.

## Proposal for a Performance-based Share Program in 2005

The Board of Directors will present a proposal at the Annual General Meeting for a Performance Share Program for 2005, which is based on the same parameters as the Share Program 2004.

The estimated total cost of the program over a three-year period is at the same level as the cost for the 2004 program.

## Asbestos litigation in the US

Litigation and claims related to asbestos are pending against the Group in the US. Almost all of the cases refer to externally supplied components used in industrial products manufactured by discontinued operations prior to the early 1970s. Many of the cases involve multiple plaintiffs who have made identical allegations against many other defendants who are not part of the Electrolux Group.

As of December 31, 2004, the Group had a total of 842 (584) cases pending, representing approximately 16,200 (approximately 21,000) plaintiffs. During 2004, 457 new cases with approximately 5,600 plaintiffs were filed and 199 pending cases with approximately 10,500 plaintiffs were resolved. Approximately 15,100 of the plaintiffs relate to cases pending in the state of Mississippi.

Electrolux believes its predecessor companies may have had insurance coverage applicable to some of the cases during some of the relevant years. Electrolux is currently in discussions with those insurance carriers.

Additional lawsuits may be filed against Electrolux in the future. It is not possible to predict either the number of future claims or the number of plaintiffs that any future claims may represent. In addition, the outcome of asbestos claims is inherently uncertain and always difficult to predict and Electrolux cannot provide any assurances that the resolution of these types of claims will not have a material adverse effect on its business or on results of operations in the future.

## Settlement of US vacuum-cleaner lawsuit

In May 2004, a settlement agreement was reached in a lawsuit regarding upright vacuum cleaners in the US. According to the terms of the settlement, Electrolux paid the plaintiff USD 30m. Including legal expenses this amounted to SEK 239m, which was charged against operating income within items affecting comparability.

## De-listing from NASDAQ

The Board of Directors has decided to delist the Group's ADRs, (ELUX), from the NASDAQ Stock Market in the US. The ADR program will be maintained, and trading in these receipts will be transferred to the US over-the-counter market.

The majority of the trading in Electrolux shares is on the Stockholm Stock Exchange. Trading volume in ADRs is low and does not justify a listing. In addition, capital markets are becoming increasingly global which reduces the need for listings on multiple exchanges. The majority of the Electrolux shareholders in the US owns shares, not ADRs.

The Group will continue to submit an annual report on Form 20-F and interim reports on Form 6-K to the US Securities and Exchange Commission (SEC).

Electrolux shares have been listed on NASDAQ since 1987. One ADR corresponds to two B-shares. In addition to the Stockholm Stock Exchange, Electrolux shares are listed on the London Stock Exchange.

## Implementation of the WEEE Directive

In December 2002, the European Union adopted the WEEE (Waste Electrical and Electronic Equipment) Directive, which stipulates that as of August 2005, producers are responsible for the management and financing of treatment, recycling and disposal of waste electrical and electronic products deposited at collection facilities. The Directive should have been integrated in national legislations not later than August 2004, but by the end of January 2005 most EU countries had not done so.

### Historical and future waste

Cost for producer responsibility refers to products sold before August 2005, i.e., historical waste, as well as products sold after August 2005, i.e., future waste.

For historical waste, manufacturers and importers are collectively responsible for treatment, recycling and disposal in proportion to their market share. This is known as collective producer responsibility.

For future waste, the Directive stipulates that manufacturers and importers must each finance treatment, recycling and disposal with respect to their own products, which is known as individual producer responsibility. For household appliances these costs are normally payable 12 to 15 years after actual sale according to studies by the European Commission. Therefore, financial guarantees must be provided to ensure that sufficient funds are available even if a producer or importer should withdraw from the market or go bankrupt.

### Cost of compliance

Annual sales of Electrolux include approximately 20 million products that are covered by the WEEE Directive. These products include large and small household appliances, floor-care equipment and electrical outdoor equipment.

Electrolux will incur costs for managing and recycling historical waste equipment, and also intends to make provisions for costs related to future waste. The extent of the cost will depend on a number of factors which at present cannot be accurately quantified. These factors include administration, recycling and treatment costs, including the market price of scrap metal, disposal costs for non-recyclable material and components of equipment as well as collection costs per unit and collection rates, which may vary for different countries.

The following assumptions have been made in order to enable preliminary calculations of annual costs for Electrolux, despite uncertainty regarding the basic factors. Preliminary estimates of the annual cost for Electrolux involve the following assumptions:

- The producers' responsibility for management of waste starts at collection facilities.
- The average collection rates in EU member states are 70% for refrigerators and freezers, and 50% for other large household appliances. However, these rates are highly uncertain.
- Projected future fees for recycling, including transportation from collection facilities, are based on internal estimates derived from information supplied by waste management companies.

On the basis of these assumptions, the estimated annual cost of historical waste for Electrolux when the Directive is fully implemented will be approximately SEK 600m. The Directive does not require producers to provide financial guarantees for historical waste. No provisions related to recycling of historical waste are made in the balance sheet.

Electrolux intends to make provisions for the anticipated cost of future waste on the basis of estimates of future recycling costs, discounted over anticipated product life-cycles. Using the same assumptions as for historical waste, and assuming an average lifetime of 12 years and a discount rate corresponding to prevailing market interest rates, the estimated annual cost for future waste will be approximately SEK 600m.

The above cost estimates are highly uncertain and could vary considerably. Electrolux participates in the European Recycling Platform and thus has access to more efficient recycling systems, which is expected to reduce these costs. Product development that enables more efficient recycling will also contribute to cost reductions.

### Compensation for WEEE-related costs

Electrolux intends to achieve full compensation for costs incurred under the WEEE Directive. Costs related to recycling of both historical and future waste will be added to the price of products.

The Directive allows producers to show the recycling cost for historical waste separately as a visible fee. It is expected that this will improve the potential for off-setting the cost.

Experience of the introduction in Sweden in 2001, of a similar requirement of producer responsibility, shows that there was no effect on overall demand or the profitability for Electrolux products. Consumers did not appear to forego purchases in response to price increases intended to compensate for the increase in cost. However, it is too early to tell whether consumer and purchasing patterns across the EU member states after implementation of the Directive will resemble those in Sweden in 2001.

### Implementation of the RoHS Directive

The European Union also has adopted the "Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment", known as the RoHS Directive. This Directive, which has not yet been implemented in the national legislation of several Member States, will ban placement in the EU market of electrical or electronic equipment containing lead, mercury, cadmium, hexavalent chromium and two groups of brominated flame retardants (PBB and PBDE) from July 1, 2006, with a limited number of exceptions.

Almost all Electrolux electrical products must be modified to some extent to fulfill the RoHS Directive, as some of the banned substances are commonly used at present. Electrolux continues its comprehensive program to identify cost-effective alternative components and manufacturing methods in order to comply with the RoHS Directive. The Group's suppliers have been informed and phase-out programs are in place. Electrolux will not accept deliveries containing any of the RoHS substances after July 1, 2005.

## Employees

The average number of employees in 2004 was 72,382 (77,140), of whom 6,549 (6,635) were in Sweden. At year-end, the total number of employees was 74,098 (74,989).

**Change in average number of employees**[1)]

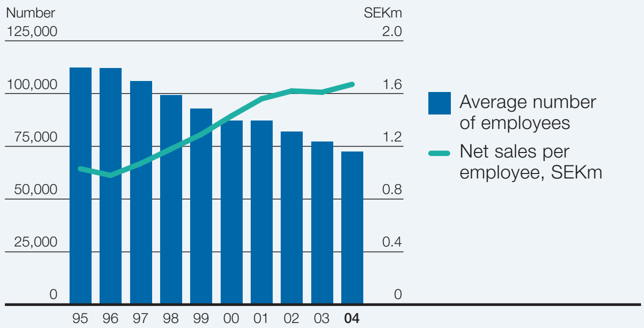
| | |
|---|---|
| Average number of employees in 2003 | 77,140 |
| Number of employees in operations divested in 2003 | –3,014 |
| Restructuring programs | –3,398 |
| Other changes | 1,654 |
| Average number of employees in 2004 | 72,382 |

**1) Full-time equivalents.**

Salaries and remuneration in 2004 amounted to SEK 17,014m (17,154), of which SEK 2,028m (2,014) refers to Sweden.

**See also Note 28 on page 62.**

**Employees**




**The average number of employees decreased to 72,382 in 2004, as a result of divestments and structural changes.**

## Environmental activities

Electrolux operates 96 manufacturing facilities in 25 countries. Manufacturing operations mainly comprise assembly of components made by suppliers. Other processes include metalworking, molding of plastics, painting, enameling and to some extent casting of parts.

Chemicals, such as lubricants and cleaning fluids, are used as process aids and chemicals used in products include insulation materials, paint and enamel. The production processes generate an environmental impact in the form of water and airborne emissions, solid waste and noise.

Studies of the total environmental effect of the Group's products during their entire lifetime, i.e., through production and use to disposal, indicate that the greatest environmental impact is generated when the products are used. The stated Electrolux strategy is to develop and actively promote increased sales of products with lower environmental impact.

**Mandatory permits and notification in Sweden and elsewhere**

Electrolux operates 14 plants in Sweden. Permits are required by Swedish authorities for eight of these plants, which account for approximately 11% of the total value of the Group's production. Six plants are required to submit notification. The permits cover, e.g., thresholds or maximum permissible values for air and waterborne emissions and for noise. No significant non-compliance with Swedish environmental legislation was reported in 2004.

Manufacturing units in other countries adjust their operations, apply for necessary permits and report to the authorities in accordance with local legislation. The Group follows a precautionary policy with reference to both acquisitions of new plants and continuous operations. Potential non-compliance, disputes or items that pose a material financial risk are reported to the Group in accordance with Group policy. These routines did not disclose any significant items during the year.

Electrolux products are affected by legislation in various markets, principally involving limits for energy consumption (white goods) and emissions (outdoor products powered by gasoline). Electrolux continuously monitors changes in legislation, and product development and manufacturing are adjusted well in advance to reflect these changes.

## Board of Directors' activities in 2004

Seven ordinary and four additional Board meetings were held during the year. Six of the ordinary meetings were held in Stockholm, Sweden, and one in Hungary, where the Board visited the Group's production center for refrigerators, freezers and floor-care products.

In the course of the year, the Board reviewed the Group's results and financial position on an ongoing basis, as well as the outlook presented by the President at each meeting. The Board also dealt regularly with questions related to acquisitions and divestments, establishment of new operations, investments and the Group's strategic direction, including strategies for branding, design, relocation of purchasing and production as well as development and launching of new products.

**Remuneration committee**

Seven meetings were held in 2004. Special consideration was given to the new annual long-term share program and a new supplementary pension plan for some of the Swedish members of Group Management.

**For more information, see Corporate Governance on page 88.**

**Audit committee**

Three meetings were held in 2004. Key topics at these meetings included review of the financial statements as well as review and pre-approval of audit and permissible non-audit services provided by the external auditor, and the scope and costs of these services.

**For more information about the composition of the Board, the principles for the working procedures of the Board, and the various committees, see the section on Corporate Governance on page 88.**

**Nomination procedure for election of Board members**

According to the nomination procedure for election of Board members that was approved by the Annual General Meeting in April 2004, the Chairman of the Board shall contact at least three of the largest shareholders during the fourth quarter of the year.

The shareholder representatives contacted were Anders Scharp of Investor, Ramsay J. Brufer of Alecta Mutual Pension Insurance, Marianne Nilsson of Robur Investment Funds and Carl Rosén of Second Swedish National Pension Fund. These representatives have held four meetings to evaluate the Board's activities, the composition of the Board, Directors' fees and possible requirements for special expertise on the Board. They have jointly and under the leadership of the Chairman prepared a proposal for members of the Board of Directors and the remuneration to the Board of Directors which will be presented to the AGM for approval.

The names of the above shareholder representatives were made public on October 20, 2004, in the Electrolux Interim report July–September, 2004.

The names of the nominees and remuneration are given in the written notice of the Annual General Meeting.

# Parent Company

The Parent Company comprises the functions of the Group's head office, as well as five companies operating on a commission basis for AB Electrolux.

Net sales for the Parent Company in 2004 amounted to SEK 6,802m (6,713), of which SEK 3,949m (3,882) referred to sales to Group companies and SEK 2,853m (2,831) to external customers. After appropriations of SEK –6m (–143) and taxes of SEK 434m (362), net income for the year amounted to SEK 2,214m (5,836).

Undistributed earnings in the Parent Company at year-end amounted to SEK 13,119m.

Net financial exchange-rate differences during the year amounted to SEK –35m (341), of which SEK 51m (–29) comprised realized exchange-rate gains on loans intended as hedges for foreign net investments, while SEK –152m (361) comprised exchange-rate losses on derivative contracts for the same purpose.

These differences on Group income do not normally generate any effect, as exchange-rate differences are offset against translation differences, i.e., the change in equity arising from the translation of net assets in foreign subsidiaries at year-end rates.

Group contributions in 2004 amounted to SEK 1,231m (1,139). Group contributions net after taxes amounted to SEK 886m (820) and are reported in retained earnings. See change in equity on the next page.

**For information on the number of employees, salaries and remuneration, see Note 28 on page 62. For information on shareholdings and participations, see Note 30 on page 67.**

## Income statement

| Amounts in SEKm, unless otherwise stated | Note | 2004 | 2003 |
|---|---|---|---|
| Net sales | | 6,802 | 6,713 |
| Cost of goods sold | | –6,116 | –5,848 |
| **Gross operating income** | | **686** | **865** |
| Selling expenses | | –660 | –660 |
| Administrative expenses | | –741 | –621 |
| Other operating income | Note 5 | 60 | 1,840 |
| Other operating expenses | Note 6 | –897 | –912 |
| **Operating income** | Note 28 | **–1,552** | **512** |
| Financial income | Note 9 | 4,428 | 5,867 |
| Financial expenses | Note 9 | –1,090 | –762 |
| **Income after financial items** | | **1,786** | **5,617** |
| Appropriations | Note 22 | –6 | –143 |
| **Income before taxes** | | **1,780** | **5,474** |
| Taxes | Note 10 | 434 | 362 |
| **Net income** | | **2,214** | **5,836** |

## Balance sheet

| Amounts in SEKm, unless otherwise stated | Note | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|---|
| **Assets** | | | |
| **Fixed assets** | | | |
| Intangible assets | Note 13 | 706 | 580 |
| Tangible assets | Note 14 | 473 | 533 |
| Financial assets | Note 15 | 28,223 | 28,723 |
| Deferred tax assets | | 120 | 105 |
| **Total fixed assets** | | **29,522** | **29,941** |
| **Current assets** | | | |
| Inventories, etc. | Note 16 | 462 | 409 |
| Current receivables | | | |
| Receivables from subsidiaries | | 4,238 | 4,205 |
| Accounts receivables | | 363 | 388 |
| Tax refund claim | | 66 | — |
| Other receivables | | 115 | 181 |
| Prepaid expenses and accrued income | | 99 | 149 |
| | | **4,881** | **4,923** |
| Liquid funds | | | |
| Short-term investments | | 3,171 | 6,946 |
| Cash and cash equivalents | | 1,535 | 1,821 |
| | | **4,706** | **8,767** |
| **Total current assets** | | **10,049** | **14,099** |
| **Total assets** | | **39,571** | **44,040** |
| **Assets pledged** | Note 19 | **5** | **5** |
| **Equity and liabilities** | | | |
| **Equity** | Note 20 | | |
| Share capital | Note 21 | 1,545 | 1,621 |
| Statutory reserve | | 3,017 | 2,941 |
| Retained earnings | | 10,905 | 9,336 |
| Net income | | 2,214 | 5,836 |
| | | **17,681** | **19,734** |
| **Untaxed reserves** | Note 22 | **768** | **756** |
| **Provisions** | | | |
| Provisions for pensions and similar commitments | Note 23 | 269 | 251 |
| Other provisions | Note 24 | 279 | 247 |
| | | **548** | **498** |
| **Financial liabilities** | | | |
| Payable to subsidiaries | | 10,934 | 11,744 |
| Bond loans | | 2,829 | 5,954 |
| Mortgages, promissory notes, etc. | | 518 | 1,449 |
| Short-term loans | | 4,291 | 1,799 |
| | | **18,572** | **20,946** |
| **Operating liabilities** | | | |
| Payable to subsidiaries | | 544 | 490 |
| Accounts payable | | 451 | 505 |
| Other liabilities | | 71 | 85 |
| Accrued expenses and prepaid income | Note 25 | 936 | 1,026 |
| | | 2,002 | 2,106 |
| **Total equity and liabilities** | | **39,571** | **44,040** |
| **Contingent liabilities** | Note 26 | **1,396** | **1,976** |

## Change in equity

| Amounts in SEKm, unless otherwise stated | Share capital | Restricted reserves | Retained earnings | Total |
|---|---|---|---|---|
| **Closing balance** | | | | |
| **Dec. 31, 2002** | **1,694** | **2,868** | **12,079** | **16,641** |
| Net income | — | — | 5,836 | 5,836 |
| Dividend payment | — | — | –1,894 | –1,894 |
| Repurchase of shares | — | — | –1,669 | –1,669 |
| Cancellation of B-shares and reduction of share capital | –73 | 73 | — | — |
| Group contributions | — | — | 820 | 820 |
| **Closing balance** | | | | |
| **Dec. 31, 2003** | **1,621** | **2,941** | **15,172** | **19,734** |
| Net income | — | — | 2,214 | 2,214 |
| Dividend payment | — | — | –1,993 | –1,993 |
| Repurchase of shares, net | — | — | –112 | –112 |
| Cancellation of A- and B-shares and reduction of share capital | –76 | 76 | — | — |
| Redemption of A- and B-shares | — | — | –3,042 | –3,042 |
| Group contributions | — | — | 886 | 886 |
| Write-down of revaluation fund | — | — | –6 | –6 |
| **Closing balance** | | | | |
| **Dec. 31, 2004** | **1,545** | **3,017** | **13,119** | **17,681** |

## Cash flow statement

| Amounts in SEKm, unless otherwise stated | 2004 | 2003 |
|---|---|---|
| **Operations** | | |
| Income after financial items | 1,786 | 5,617 |
| Depreciation according to plan charged against above income | 166 | 164 |
| Capital gain/loss included in operating income | 758 | –824 |
| | **2,710** | **4,957** |
| Taxes paid | –15 | –20 |
| **Cash flow from operations, excluding change in operating assets and liabilities** | **2,695** | **4,937** |
| Change in operating assets and liabilities | | |
| Change in inventories | –53 | –35 |
| Change in accounts receivable | 25 | 199 |
| Change in current intra-Group balances | 1,252 | 700 |
| Change in other current assets | 116 | 12 |
| Change in current liabilities and provisions | –108 | 27 |
| **Cash flow from operations** | **3,927** | **5,840** |
| **Investments** | | |
| Change in shares and participations | –1,526 | 3,445 |
| Machinery, buildings, land, construction in progress, etc. | –289 | –181 |
| Other | 1,348 | 2,904 |
| **Cash flow from investments** | **–467** | **6,168** |
| **Total cash flow from operations and investments** | **3,460** | **12,008** |
| **Financing** | | |
| Change in short-term loans | 2,492 | 1,267 |
| Change in long-term loans | –4,866 | –9,035 |
| Dividend | –1,993 | –1,894 |
| Redemption and repurchase of shares | –3,154 | –1,669 |
| **Cash flow from financing** | **–7,521** | **–11,331** |
| Total cash flow | –4,061 | 677 |
| Liquid funds at beginning of year | 8,767 | 8,090 |
| Liquid funds at year-end | 4,706 | 8,767 |
| **Change in net borrowings** | | |
| **Total cash flow, excluding change in loans** | **–1,687** | **8,445** |
| **Net borrowings at beginning of year** | **–12,179** | **–20,624** |
| **Net borrowings at year-end** | **–13,866** | **–12,179** |

# Notes to the financial statements

Amounts in SEKm, unless otherwise stated

## Contents



## Note 1 Accounting and valuation principles

### Basis of preparation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Sweden, thereby applying the standards of the Swedish Financial Accounting Standards Council. These accounting principles differ in certain significant respects from those in the US. Certain non-US GAAP measures are used in this annual report, e.g., value creation. For a description of significant differences, see Note 31 on page 68. In the interest of achieving comparable financial information within the Group, Electrolux companies apply uniform accounting rules as defined in the Electrolux Accounting Manual, irrespective of national legislation.

The following should be noted:

- As of January 1, 2004, Electrolux applies the new standard from the Swedish Financial Accounting Standards Council, RR 29, "Employee Benefits". RR 29 stipulates how the company shall account for and report employee benefits. The main differences between RR 29 and the earlier accounting standards refer to defined benefit post-employment plans. RR 29 requires that liabilities for these plans are calculated according to the Projected Unit Credit Method and reduced by the market value of the plan assets. RR 29 also requires that the cost of the benefits be expensed in the period in which the benefits are earned. The implementation of RR 29 had a one-time effect of SEK 1,602m, net of taxes, that has been charged to opening balance of retained earnings as a change in accounting principles.
- As of January 1, 2005, Electrolux will apply International Financial Reporting Standards (IFRS, previously IAS). Swedish accounting principles have in recent years been successively adapted to IFRS. The approximate effects of the transition are described on page 80.
- Computation of net debt/equity, and equity/assets includes minority interests in adjusted shareholders' equity. Definitions of these ratios are provided on page 81.

#### Principles applied for consolidation

The consolidated financial statements have been prepared in accordance with Standard RR 1:00 of the Swedish Financial Accounting Standards Council applying the purchase method, whereby the assets and liabilities in a subsidiary on the date of acquisition are evaluated to determine the acquisition value to the Group. Any differences between the acquisition price and the market value of the acquired net assets are reported as goodwill or negative goodwill. The consolidated income for the Group includes the income statements for the Parent Company and its direct and indirect owned subsidiaries after

- elimination of intra-group transactions and unrealized profits in stock, and
- depreciation and amortization of Group goodwill and other acquired surplus values.

#### Segment reporting

The Group's primary segments (business areas) basically follow the internal management of the Group and are based on the different business models for end-customers, consumers and professional users, and further divided on product categories. The secondary segments are based on the Group's consolidated sales per market.

The segments are responsible for the operating result and the net assets used in their businesses, whereas finance net and taxes as well as net borrowings and equity are not reported per segment. The operating results and net assets of the segments are consolidated using the same principles as for the total Group. The segments consist of separate legal units as well as divisions in multi-segment legal units where

**Note 1** continued

some allocations of costs and net assets are made. Operating costs not included in the segments are shown under Group Common costs and include mainly costs for corporate functions.

Sales between segments are made on market conditions with arms-length principles.

**Definition of Group companies**

The consolidated financial statements include AB Electrolux and all companies in which the Parent Company at year-end directly or indirectly owns more than 50% of the voting rights referring to all shares and participations, or otherwise exercises decisive control.

The following applies to acquisitions and divestments during the year:

- Companies acquired during the year have been included in the consolidated income statement as of the date of acquisition.
- Companies divested during the year have been included in the consolidated income statement up to and including the date of divestment.

At year-end 2004, the Group comprised 358 (353) operating units, and 276 (284) companies.

**Associated companies**

Investments in associated companies, i.e., those in which the Parent Company directly or indirectly owned 20–50% of the voting rights at year-end, or otherwise exercised significant influence, have been reported according to the equity method. This means that the Group's share of income before taxes in an associated company is reported as part of the Group's operating income and the Group's share of taxes is reported as part of the Group's taxes. Investments in such a company are reported at a value corresponding to the Group's share of the company's equity, adjusted for possible over- and undervalue. Joint ventures are reported according to the equity method.

**Related party transactions**

All transactions with related parties are carried out on an arms-length basis.

**Translation of financial statements in foreign subsidiaries**

According to RR 8, "Effects of changes in exchange rates", foreign subsidiaries can be classified as either foreign operations that are integral to the operations of the reporting entity, or as independent foreign entities. The method used to translate the financial statements of a foreign subsidiary depends on how it is classified. An independent entity accumulates cash and other monetary items, incurs expenses and generates income, all substantially in its local currency. Electrolux subsidiaries are classified as independent foreign entities. Based on this classification, the balance sheets of foreign subsidiaries have been translated into Swedish kronor at year-end rates. Income statements have been translated at the average rates for the year. Translation differences thus arising have been taken directly to equity.

Prior to consolidation, the financial statements of subsidiaries in countries with highly inflationary economies have been remeasured into their functional currency and the exchange-rate differences arising from that remeasurement have been charged to income. The remeasured financial statements have then been translated into Swedish kronor following the same method as for other independent foreign entities. Consequently, changes in equity due to high inflation are reported in the consolidated income statement.

**Hedging of net investment**

The Parent Company uses foreign exchange derivative contracts and loans in foreign currencies in hedging certain net foreign investments. Exchange-rate differences related to these contracts and loans have been charged to Group equity after deduction of taxes, to the extent to which there are corresponding translation differences.

## General accounting and valuation principles

**Revenue recognition**

Sales are recorded net of VAT (Value-Added Tax), specific sales taxes, returns and trade discounts. Revenues arise almost exclusively from sales of finished products. Sales are recognized when the significant risks and rewards connected with ownership of the goods have been transferred to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods and when the amount of revenue can be measured reliably. This means that sales are recorded when goods have been put at the disposal of the customers in accordance with agreed terms of delivery. Revenues from services are recorded when the service has been performed.

**Government grants**

Government grants are recognized when there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grants will be received. Grants related to assets are included in the balance sheet as "prepaid income" and recognized as income over the useful life of the asset. In the income statement, grants are deducted in reporting the related expense. In 2004, grants recognized in the income statement amounted to SEK 36m (55).

**Other operating income and expenses**

These items include profits and losses arising from the sale of fixed assets and the divestment of operations, as well as the share of income in associated companies. Other operating expenses also include amortization of goodwill. See Notes 5 and 6 on page 51.

**Items affecting comparability**

This item includes events and transactions with significant effects in comparing income for the current period with previous periods, including:

- Capital gains and losses from divestments of product groups or major units
- Close-down or significant down-sizing of major units or activities
- Restructuring initiatives with a set of activities aimed at reshaping a major structure or process
- Significant impairment
- Other major non-recurring costs or income

**Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred.

**Taxes**

Taxes include current and deferred taxes applying the liability method. Deferred taxes are calculated using enacted tax rates. Taxes incurred by the Electrolux Group are affected by appropriations and other taxable (or tax-related) transactions in the individual Group companies. They are also affected by utilization of tax losses carried forward referring to previous years or to acquired companies. This applies to both Swedish

Amounts in SEKm, unless otherwise stated

## Note 1 continued

and foreign Group companies. Deferred tax assets on tax losses and temporary differences are recognized only if it is probable that they will be utilized in the near future. Deferred tax and deferred tax liabilities are shown net when they refer to the same taxation authority and when a company or a group of companies, through tax consolidation schemes etc., have a legally enforceable right to set off tax assets against tax liabilites.

A comparison of the Group's theoretical and actual tax rates and other disclosures are provided in Note 10 on page 53.

**Financial assets and liabilities in foreign currency**

In the individual subsidiaries' accounts, assets and liabilities denominated in foreign currency are valued at year-end exchange rates. Exchange-rate differences arising from commercial receivables and liabilities in foreign currency are included in operating income. Exchange-rate differences arising from financial assets and liabilities are included in financial items in the profit and loss statement. Foreign currency derivatives used for hedging financial assets and liabilities are valued at year-end exchange rates and the interest in the contracts is accrued and included in the income statement.

**Intangible fixed assets**

*Acquisition goodwill*

Acquisition goodwill is reported as an intangible asset and amortized over the estimated useful life, which is usually 10–20 years.

It is generally difficult to refer the acquisitions to the functions in the income statement in a logical way and the goodwill amortization is therefore included in Other operating expenses. Over the last few decades, Electrolux has made a large number of acquisitions. For four of them Electrolux applies an amortization period of 40 years, i.e., for the goodwill arising from the major strategic acquisitions of Zanussi, White Consolidated Industries, American Yard Products and Email. These acquisitions have given Electrolux major market shares in Europe, North America and Australia as well as a leading global position.

The industry in which the Group operates is relatively stable, and large market shares are a key success factor as they enable economies of scale and create barriers to entry by new competitors. Zanussi, White Consolidated Industries and American Yard Products were acquired in the late 1980s, when useful lives of 40 years were in accordance with current international practice. Experience of these acquisitions clearly indicates useful lives of well over 40 years, which supported the decision to assign a useful life of 40 years for the acquisition of Email in 2001. The value of goodwill is continuously monitored, and impairment tests indicate that the assigned useful lives are clearly sustainable for these acquisitions. Amortization of goodwill for these four acquisitions in 2004 amounted to SEK 101m (105).

A useful life of 20 years has been assigned for the goodwill arising from the strategic acquisition of Diamant Boart in 2002.

*Trademarks*

The right to use the Electrolux brand in North America, acquired in May 2000, is amortized over 40 years in the consolidated accounts. To build fewer but stronger brands is one of the Group's key strategies and this acquisition gives Electrolux the right to use the Electrolux brand worldwide. Although the useful life is regarded as indefinite, it was established at 40 years in 2000 to be consistent with the useful lives of the strategic acquisitions made in North America.

*Capitalized development expenses*

Electrolux capitalizes certain development expenses for new products and expenses for developed and/or acquired software provided that the level of certainty of their future economic benefits and useful life is high. Capitalization has been limited to development projects initiated after January 1, 2002.

**Tangible fixed assets**

Tangible fixed assets are stated at historical cost less straight-line accumulated depreciation, which is based on the estimated useful life of the asset. These are:

| | |
|---|---|
| Buildings | 10–40 years |
| Machinery and technical installations | 3–15 years |
| Other equipment | 3–10 years |

The Parent Company reports additional fiscal depreciation, permitted by Swedish tax law, as "appropriations" in the income statement. In the balance sheet, these are included in "untaxed reserves". See Note 22 on page 59.

**Financial fixed assets**

Financial assets are initially recognized at proceeds paid, net of transaction costs incurred. After initial recognition short-term investments and derivatives, used for hedging these investments, are valued at the lowest of cost or market value on a portfolio basis. Long-term investments held to maturity are valued at amortized cost using the effective interest method.

Shares and participations in associated companies are accounted for according to the equity method.

**Impairment**

At each balance sheet date, the Group assesses whether there is any indication that any of the company's fixed assets are impaired. If any such indication exists, the company estimates the recoverable amount of the asset. An impairment loss is recognized by the amount of which the carrying amount of an asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. The value in use of an asset is mostly estimated using the discounted cash-flows method. The discount rates used in 2004 were in the range of 11 to 28%. For the purposes of assessing impairment, assets are grouped in cash-generating units, which are the smallest identifiable groups of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Leasing**

The Group generally owns its production facilities. The Group rents some warehouse and office premises under leasing agreements and has also leasing contracts for certain office equipment.

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Most leasing agreements in the Group are operational leases and the costs recognized directly in the income statement in the corresponding period.

Leases of land and buildings, where the Group has substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Assets under financial leases are recognized in the balance sheet and

## Note 1 continued

the future leasing payments are recognized as a loan. Expenses for the period correspond to depreciation of the leased asset and interest cost for the loan.

The revised standard from the Swedish Financial Accounting Standard Council RR 6:99, "Leases", came into effect on January 1, 2000. Electrolux then chose the alternative not to reconsider the classification of leases entered into before January 1, 1997.

### Inventories

Inventories are valued at the lower of acquisition cost and market value. Acquisition cost is computed according to the first-in, first-out method (FIFO) or weighted average method. Appropriate provisions have been made for obsolescence.

### Accounts receivable

The Group records provisions for bad debts based upon a formula with 50% for receivables past due by 6 months and with 100% for receivables overdue by 12 months. In conjunction with the formula based provision, the Group reviews the bad debt provision each period end to ensure that the provision is appropriate given the perceived risks. In addition, all expected losses are independently reserved. When foreign currency contracts intended as hedges for the cross-border flow of goods and services have been arranged, accounts receivable are valued at contract rates.

### Liquid funds

Liquid funds comprise cash on hand, bank deposits and other short-term highly liquid investments, of which the majority have original maturity of three months or less.

### Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions for warranty are recognized at the date of sale of the products covered by the warranty and are calculated based on historical data for similar products.

Restructuring provisions are recognized when the company has adopted a detailed formal plan for the restructuring and the plan has been communicated to those affected by the restructuring.

### Post-employment benefits

Starting 2004, Electrolux applies RR 29 "Employee benefits", for the accounting of its post-employment benefits. RR 29 classifies post-employment benefit plans as either defined contribution or defined benefit plans.

Under a defined contribution plan, the company pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Contributions are expensed as paid. The accounting for defined contribution plans has not been affected by the adoption of RR 29.

All other post-employment benefit plans are defined benefit plans. In accordance with RR 29, the company shall use the Projected Unit Credit Method to measure the present value of its obligations and costs. The calculations shall be made annually using actuarial assumptions determined close to the balance sheet date. Changes in the present value of obligations due to revised actuarial assumptions are treated as actuarial gains or losses and are amortized over the employees' expected average remaining working lifetime in accordance with the corridor method. Differences between expected and actual return on plan assets are treated as actuarial gains or losses.

Net provisions for post-employment benefits in the balance sheet represent the present value of the Group's obligations at year-end less market value of plan assets, unrecognized actuarial gains and losses and unrecognized past-service costs.

### Borrowings

Borrowings are initially recognized at proceeds received, net of transaction costs incurred. After initial recognition, borrowings are valued at amortized cost using the effective interest method. Gains and losses are recorded in the income statement when borrowings are derecognized, as well as through the amortization process. When interest-rate swaps are used for hedging of loans, the interest is accrued and recorded in the income statement as interest expense.

### Derivatives

Derivatives are initially recognized in the balance sheet at cost when a premium is received or paid, otherwise they are kept off-balance. Foreign currency and interest-rate derivatives held for trading are valued at the lowest of cost or market value on a portfolio basis.

In the Parent Company and the regional treasury centers, foreign currency derivatives (internal and external) used for hedging of transaction exposure are valued at the lowest of cost or market value on a portfolio basis. In other Group companies, foreign currency derivatives used for hedging of transaction exposure are kept off-balance in accordance with deferral hedge accounting.

In the Parent Company and the regional treasury centers, foreign commodity derivatives (internal and external) used for hedging of forecasted purchases are valued at the lowest of cost or market value on a portfolio basis. In other Group companies commodity derivatives used for hedging of forecasted purchases are kept off-balance in accordance with deferral hedge accounting.

### Accounts payable

When foreign currency contracts intended as hedges for the cross-border flow of goods and services have been arranged, accounts payable are valued at contract rates.

### Employee stock options

For the employee stock option programs, the Group provides for employer contributions expected to be paid when the options are exercised. The provision is periodically revalued.

### Cash flow

The cash-flow statement has been prepared according to the indirect method.

### Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Amounts in SEKm, unless otherwise stated

# Note 2 Financial risk management

## Financial risk management

The Group is exposed to a number of risks relating to financial instruments including, for example, liquid funds, accounts receivables, customer financing receivables, payables, borrowings, and derivative instruments. The risks associated with these instruments are, primarily:

- Interest-rate risk on liquid funds and borrowings
- Financing risks in relation to the Group's capital requirements
- Foreign-exchange risk on earnings and net investments in foreign subsidiaries
- Commodity-price risk affecting the expenditure on raw material and components for goods produced
- Credit risk relating to financial and commercial activities

The Board of Directors of Electrolux has approved a financial policy as well as a credit policy for the Group to manage and control these risks. Each business sector has specific financial and credit policies approved by each sector-board (hereinafter all policies are referred to as "the Financial Policy"). These risks are to be managed by amongst others the use of derivative financial instruments according to the limitations stated in the Financial Policy. The Financial Policy also describes the management of risks relating to pension fund assets.

The management of financial risks has largely been centralized to Group Treasury in Stockholm. Local financial issues are managed by four regional treasury centers located in Europe, North America, Asia/Pacific and Latin America. Measurement of risk in Group Treasury is performed by a separate risk controlling function on a daily basis. Furthermore, there are guidelines in the Group's policies and procedures for managing operating risk relating to financial instruments by, e.g., segregation of duties and power of attorney.

Proprietary trading in currency, commodities and interest-bearing instruments is permitted within the framework of the Financial Policy. This trading is primarily aimed at maintaining a high quality of information flow and market knowledge to contribute to the proactive management of the Group's financial risks.

### Interest-rate risk on liquid funds and borrowings

Interest-rate risk refers to the adverse effects of changes in interest rates on the Group's income. The main factors determining this risk include the interest-fixing period.

### Liquid funds

Liquid funds consist of cash on hand, bank deposits and other short-term investments. Electrolux goal is that the level of liquid funds corresponds to at least 2.5% of net sales. In addition, net liquid funds (defined as liquid funds less short-term borrowings) shall exceed zero, taking into account fluctuations arising from acquisitions, divestments and seasonal variations. Investment of liquid funds is mainly made in interest-bearing instruments with high liquidity and with issuers with a long-term rating of at least A- as defined by Standard & Poor's or similar.

### Interest-rate risk in liquid funds

Group Treasury manages the interest-rate risk of the investments in relation to a benchmark position defined as a one-day holding period. Any deviation from the benchmark is limited by a risk mandate. Derivative financial instruments like Futures and Forward-Rate Agreements are used to manage the interest-rate risk. The holding periods of investments are mainly short-term. The major portion of the investments is made with maturities between 0 and 3 months. A downward shift in the yield curves of one-percentage point would reduce the Group's interest income by approximately SEK 70m. For more information, see Note 18 on page 56.

### Borrowings

The debt financing of the Group is managed by Group Treasury in order to ensure efficiency and risk control. Debt is primarily taken up at the Parent Company level and transferred to subsidiaries as internal loans or capital injections. In this process various swap instruments are used to convert the funds to the required currency. Short-term financing is also undertaken locally in subsidiaries where there are capital restrictions. The Group's borrowings contain no terms (financial triggers) for premature cancellation based on rating. For more information, see Note 18 on page 56.

### Interest-rate risk in long-term borrowings

The Financial Policy states that the benchmark for the long-term loan portfolio is an average interest-fixing period of one year. Group Treasury can choose to deviate from this benchmark on the basis of a risk mandate established by the Board of Directors. However, the maximum fixed-rate period is three years. Derivatives, such as interest-rate swap agreements, are used to manage the interest-rate risk by changing the interest from fixed to floating or vice versa. On the basis of 2004 volumes and interest fixing, a one-percentage point shift in interest rates paid would impact the Group's interest expenses by approximately SEK +/–20m in 2005. This calculation is based on a parallel shift of all yield curves simultaneously by one-percentage point. Electrolux acknowledges that the calculation is an approximation and does not take into consideration the fact that the interest rates on different maturities and different currencies might change differently.

### Credit ratings

Electrolux has Investment Grade ratings from Moody's and Standard & Poor's. The long-term ratings from both rating institutions remained unchanged during the year.

**Ratings**

| | Long-term debt | Outlook | Short-term debt | Short-term debt, Sweden |
|---|---|---|---|---|
| Moody's | Baa1 | Stable | P-2 | |
| Standard & Poor's | BBB+ | Stable | A-2 | K-1 |

## Financing risk

Financing risk refers to the risk that financing of the Group's capital requirements and refinancing of existing loans could become more difficult or more costly. This risk can be decreased by ensuring that maturity dates are evenly distributed over time, and that total short-term borrowings do not exceed liquidity levels. The net borrowings (i.e., total interest-bearing liabilities less liquid funds), excluding seasonal variances, shall be long-term according to the Financial Policy. The Group's goals for long-term debts include an average time to maturity of at least two years, and an evenly spread of maturities. A maximum of 25% of the borrowings are normally allowed to mature in a 12-month period. Exceptions are made when the net borrowing position of the Group is small. For more information, see Note 18 on page 56.

## Foreign-exchange risk

Foreign-exchange risk refers to the adverse effects of changes in foreign-exchange rates on the Group's income and equity. In order to manage

**Note 2** continued

such effects, the Group covers these risks within the framework of the Financial Policy. The Group's overall currency exposure is managed centrally.

The major currencies that Electrolux is exposed to are the US dollar, the euro, the Canadian dollar, and the British pound. Other significant exposures are the Norwegian krona, the Australian dollar and various Eastern European currencies.

#### Transaction exposure from commercial flows

The Group's financial policy stipulates the hedging of forecasted sales in foreign currencies, taking into consideration the price fixing periods and the competitive environment. The business sectors within Electrolux have varying policies for hedging depending on their commercial circumstances. The sectors define a hedging horizon between 6 up to 12 months of forecasted flows. Hedging horizons outside this period are subject to approval from Group Treasury. The Financial Policy permits the operating units to hedge invoiced and forecasted flows from 75% to 100%. The maximum hedging horizon is up to 18 months. Group subsidiaries cover their risks in commercial currency flows mainly through the Group's four regional treasury centers. Group Treasury thus assumes the currency risks and covers such risks externally by the use of currency derivatives.

The Group's geographically widespread production reduces the effects of changes in exchange rates. The table on page 58 shows the distribution of the Group's sales and operating expenses in major currencies. As the table indicates, there was a good currency balance during the year in the US dollar and the euro. For more information on exposures and hedging, see Note 18 on page 56.

#### Translation exposure from consolidation of entities outside Sweden

Changes in exchange rates also affect the Group's income in connection with translation of income statements of foreign subsidiaries into Swedish kronor. Electrolux does not hedge such exposure. The translation exposures arising from income statements of foreign subsidiaries are included in the sensitivity analysis mentioned below.

#### Foreign-exchange sensitivity from transaction and translation exposure

Electrolux is particularly exposed to changes in exchange rates between Swedish kronor and the US dollar, the euro, the Canadian dollar and the British pound. For example, a change up or down by 10% in the value of each of the USD, EUR, CAD, and GBP against the SEK would affect the Group's income after financial items for one year by approximately SEK +/–400m, as a static calculation. The model assumes the distribution of earnings and costs effective at year-end 2004 and does not include any dynamic effects, such as changes in competitiveness or consumer behavior arising from such changes in exchange rates.

#### Exposure from net investments (balance sheet exposure)

The net of assets and liabilities in foreign subsidiaries constitutes a net investment in foreign currency, which generates a translation difference in connection with consolidation. In order to limit negative effects on Group equity resulting from translation differences, hedging is implemented on the basis of borrowings and foreign-exchange derivative contracts. This means that the decline in value of a net investment, resulting from a rise in the exchange rate of the Swedish krona, is offset by the exchange gain on the Parent Company's borrowings and foreign-exchange derivative contracts, and vice versa. Hedging of the Group's net investments is implemented within the Parent Company in Sweden. The Financial Policy stipulates the extent to which the net investments can be hedged and also sets the benchmark for risk measurement. Group Treasury is allowed to deviate from the benchmark under a given risk mandate.

## Commodity-price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is exposed to fluctuations in commodity prices through agreements with suppliers, whereby the price is linked to the raw material price on the world market. This exposure can be divided into direct commodity exposure, which refers to pure commodity exposures, and indirect commodity exposures, which is defined as exposure arising from only part of a component. The Group hedges only a limited number of materials that are exchange-traded on the world market, through commodity forwards and futures. The hedged materials are copper, aluminum, nickel and zinc. The hedging horizon depends on the business environment and is defined within each business sector. Commodity-price risk is also managed through contracts with the suppliers.

## Credit risk

#### Credit risk in financial activities

Exposure to credit risks arises from the investment of liquid funds, and as counterpart risks related to derivatives. In order to limit exposure to credit risk, a counterpart list has been established which specifies the maximum permissible exposure in relation to each counterpart. The Group strives for arranging master netting agreements (ISDA) with the counterparts for derivative transactions and has established such agreements with the majority of the counterparts.

#### Credit risk in accounts receivable

Electrolux sells to a substantial number of customers in the form of large retailers, buying groups, independent stores and professional users. Sales are made on the basis of normal delivery and payment terms, if they are not included in Customer Financing operations in the Group. Customer Financing solutions are also arranged outside the Group. The Credit Policy of the Group ensures that management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts. The Board of Directors decides on customer credit limits that exceed SEK 300m. There is a concentration of credit exposures on a number of customers in, primarily, USA and Europe. For more information, see Note 17 on page 56.

Amounts in SEKm, unless otherwise stated

# Note 3 Segment information

## Business areas

Electrolux products are classified in three areas, i.e., Consumer Durables, Professional Indoor Products and Professional Outdoor Products. These areas form the basis for the Group's primary segment information.

The Consumer Durables business area comprises mainly white goods. It also includes floor-care products as well as garden equipment and light-duty chainsaws. Professional Indoor Products comprise food-service equipment and laundry equipment for professional users. Professional Outdoor Products comprise mainly high-performance chainsaws and professional lawn and garden equipment, as well as power cutters and diamond tools.

Within Consumer Durables, the white-goods operation is managed regionally while floor-care products is managed globally. Consumer Outdoor Products is together with Professional Outdoor Products managed globally. In the Group's external financial reporting, floor-care products is reported together with white goods within the respective geographical regions, since these products are sold in the same markets and to a large extent to the same retailers, and are therefore exposed to similar risks. Consumer Outdoor Products is reported separately, due to the unified management for all Outdoor Products.

Financial information related to the above business areas is reported below.

| | Net sales | | | Operating income | | |
|---|---|---|---|---|---|---|
| **Business area** | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Europe | 42,703 | 44,267 | 45,128 | 3,124 | 3,289 | 3,136 |
| North America | 30,767 | 32,247 | 35,245 | 1,106 | 1,583 | 2,027 |
| Rest of the world | 13,479 | 12,544 | 14,796 | –159 | — | 56 |
| Consumer Outdoor Products | 17,579 | 17,223 | 18,229 | 1,552 | 1,493 | 1,445 |
| **Total Consumer Durables** | **104,528** | **106,281** | **113,398** | **5,623** | **6,365** | **6,664** |
| Professional Indoor Products | 6,440 | 8,113 | 10,887 | 442 | 556 | 753 |
| Professional Outdoor Products | 9,623 | 9,596 | 8,719 | 1,479 | 1,462 | 1,431 |
| **Total Professional Products** | **16,063** | **17,709** | **19,606** | **1,921** | **2,018** | **2,184** |
| Other | 60 | 87 | 146 | — | — | — |
| Common Group costs | — | — | — | –870 | –745 | –683 |
| Items affecting comparability | — | — | — | –1,960 | –463 | –434 |
| **Total** | **120,651** | **124,077** | **133,150** | **4,714** | **7,175** | **7,731** |

| | Assets | | Liabilities | | Capital expenditure | | Cash flow 1) | |
|---|---|---|---|---|---|---|---|---|
| **Business area** | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Europe | 23,421 | 23,237 | 17,300 | 17,450 | 1,561 | 1,202 | 2,531 | 3,280 |
| North America | 11,833 | 11,652 | 5,214 | 3,948 | 1,439 | 618 | 886 | 961 |
| Rest of the world | 8,176 | 7,780 | 3,114 | 3,095 | 438 | 470 | –855 | –151 |
| Consumer Outdoor Products | 7,903 | 7,451 | 3,325 | 2,776 | 517 | 560 | 1,315 | 1,371 |
| **Total Consumer Durables** | **51,333** | **50,120** | **28,953** | **27,269** | **3,955** | **2,850** | **3,877** | **5,461** |
| Professional Indoor Products | 3,123 | 3,242 | 2,105 | 2,243 | 144 | 278 | 400 | 370 |
| Professional Outdoor Products | 5,703 | 5,774 | 1,834 | 1,661 | 393 | 283 | 1,656 | 861 |
| **Total Professional Products** | **8,826** | **9,016** | **3,939** | **3,904** | **537** | **561** | **2,056** | **1,231** |
| Other 2) | 3,137 | 3,442 | 3,396 | 3,373 | 23 | 52 | 3 | 15 |
| Items affecting comparability | 2,145 | 882 | 5,381 | 2,492 | — | — | –736 | –1,024 |
| | **65,441** | **63,460** | **41,669** | **37,038** | **4,515** | **3,463** | **5,200** | **5,683** |
| Liquid assets | 8,702 | 12,602 | — | — | — | — | — | — |
| Interest-bearing receivables | 789 | 966 | — | — | — | — | — | — |
| Interest-bearing liabilities | — | — | 9,843 | 12,502 | — | — | — | — |
| Equity | — | — | 23,420 | 27,488 | — | — | — | — |
| Financial items | — | — | — | — | — | — | –303 | –143 |
| Taxes paid | — | — | — | — | — | — | –1,673 | –1,817 |
| **Total** | **74,932** | **77,028** | **74,932** | **77,028** | **4,515** | **3,463** | **3,224** | **3,723** |

1) Cash flow from operations and investments.
2) Includes common Group services such as Holding and Treasury as well as customer financing activities.

## Note 3 continued

The business areas are responsible for the management of the operational assets and their performance is measured at the same level, while the financing is managed by Group Treasury at Group or country level. Consequently, liquid assets, interest-bearing receivables, interest-bearing liabilities and equity are not allocated to the business segments.

In the internal management reporting, items affecting comparability are not included in the business areas. The table specifies the business areas to which they correspond.

**Items affecting comparability**

| | Impairment/restructuring | | Other | |
|---|---|---|---|---|
| **Business area** | **2004** | **2003** | **2004** | **2003** |
| Europe | –437 | — | — | — |
| North America | –1,132 | — | –239 | — |
| Rest of the world | –103 | — | — | — |
| Consumer Outdoor Products | — | — | — | — |
| **Total Consumer Durables** | **–1,672** | **—** | **–239** | **—** |
| Professional Indoor | –49 | — | — | –378 |
| Professional Outdoor | — | — | — | — |
| **Total Professional Products** | **–49** | **—** | **—** | **–378** |
| Other | — | –85 | — | — |
| **Total** | **–1,721** | **–85** | **–239** | **–378** |

Inter-segment sales exist only within Consumer Durables with the following split:

| | 2004 | 2003 |
|---|---|---|
| Europe | 1,012 | 1,061 |
| North America | 559 | 551 |
| Rest of the world | 45 | 40 |
| **Eliminations** | **–1,616** | **–1,652** |

**Geographical segments**

The Group's business segments operate mainly in three geographical areas of the world; Europe, North America and Rest of the world. Sales by market are presented below and show the Group's consolidated sales by geographical market, regardless of where the goods were produced.

**Sales, by market**

| | 2004 | 2003 |
|---|---|---|
| Europe | 57,383 | 59,460 |
| North America | 46,983 | 49,205 |
| Rest of the world | 16,285 | 15,412 |
| **Total** | **120,651** | **124,077** |

**Assets and capital expenditure, by geographical area**

| | Assets | | Capital expenditure | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Europe | 50,754 | 53,954 | 2,037 | 1,820 |
| North America | 19,035 | 18,597 | 1,483 | 1,157 |
| Rest of the world | 5,143 | 4,477 | 995 | 486 |
| **Total** | **74,932** | **77,028** | **4,515** | **3,463** |

## Note 4 Net sales and operating income

Net sales in Sweden amounted to SEK 4,294m (4,307). Exports from Sweden during the year amounted to SEK 9,816m (9,463), of which SEK 7,970m (7,688) was to Group subsidiaries. Revenue rendered from service activities amounted to SEK 1,209m (848).

Operating income includes net exchange-rate differences in the amount of SEK 249m (225). The Group's Swedish factories accounted for 7.5% (7.6) of the total value of production. Costs for research and development amounted to SEK 1,566m (1,322) and are included in Cost of goods sold.

## Note 5 Other operating income

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2004** | **2003** | **2002** |
| Gain on sale of | | | | | | |
| Tangible fixed assets | 91 | 99 | 62 | — | — | — |
| Operations and shares | — | 31 | 73 | 60 | 1,840 | 77 |
| **Total** | **91** | **130** | **135** | **60** | **1,840** | **77** |

## Note 6 Other operating expenses

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2004** | **2003** | **2002** |
| Loss on sale of | | | | | | |
| Tangible fixed assets | –10 | –24 | –43 | — | — | — |
| Operations and shares | –42 | –13 | –23 | –897 | –912 | –2,209 |
| Shares of income in associated companies | 27 | –32 | 24 | — | — | — |
| Amortization on goodwill | –155 | –182 | –230 | — | — | — |
| **Total** | **–180** | **–251** | **–272** | **–897** | **–912** | **–2,209** |

Amounts in SEKm, unless otherwise stated

## Note 7 Items affecting comparability

| | Group | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Capital gain, Leisure appliances | — | — | 1,800 |
| Other capital gains | — | — | 110 |
| Capital loss, Compressors | — | –85 | — |
| Provision loan guarantees | — | –293 | — |
| Vacuum-cleaner lawsuit, USA | –239 | — | — |
| Restructuring and impairment | –1,760 | –85 | –2,344 |
| Unused restructuring provisions reversed | 39 | — | — |
| **Total** | **–1,960** | **–463** | **–434** |

Items affecting comparability in 2004 include costs for the closure of the following plants; The vacuum-cleaner plant in El Paso, USA; the refrigerator plant in Greenville, USA; the vacuum-cleaner plant in Västervik, Sweden; the cooker plant in Reims, France; and the tumble dryer factory in Tommerup, Denmark. Items affecting comparability also include costs relating to restructuring measures implemented within the Australian appliance operation as well as a settlement of a vacuum-cleaner lawsuit in the US. In 2004, unused amounts from previous restructuring programs have been reversed.

**The items are further described in the Report by the Board of Directors on page 24.**

## Note 8 Leasing

At December 31, 2004, the Electrolux Group's financial leases, recognized as tangible assets, consist of:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Acquisition costs** | | | |
| Buildings and land | 380 | 317 | 320 |
| Machinery and other equipment | 6 | 4 | 4 |
| **Closing balance Dec. 31** | **386** | **321** | **324** |
| **Accumulated depreciation** | | | |
| Buildings and land | 121 | 114 | 107 |
| Machinery and other equipment | 2 | 1 | 1 |
| **Closing balance Dec. 31** | **123** | **115** | **108** |
| **Net book value Dec. 31** | **263** | **206** | **216** |

The future amount of minimum lease payment obligations are distributed as follows:

| | Operating leases | Financial leases |
|---|---|---|
| 2005 | 896 | 55 |
| 2006–09 | 1,860 | 46 |
| 2010– | 689 | 47 |
| **Total** | **3,445** | **148** |

Expenses in 2004 for rental payments (minimum leasing fees) amounted to SEK 1,020m (SEK 1,016m in 2003 and SEK 1,043m in 2002).

### Operating leases

Among the Group's operating leases there are no material contingent expenses, nor any restrictions.

### Financial leases

Within the Electrolux Group there are no financial non-cancellable contracts that are being subleased. There are no contingent expenses in the period´s results, nor any restrictions in the contracts related to leasing of facilities. The financial leases of facilities contain purchase options by the end of the contractual time. Today´s value of the future lease payments are SEK 142m.

## Note 9 Financial income and expenses

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| **Financial income** | | | | | | |
| Interest income and similar items | | | | | | |
| From subsidiaries | — | — | — | 422 | 375 | 521 |
| From others | 580 | 794 | 942 | 106 | 314 | 420 |
| Dividends | | | | | | |
| From subsidiaries | — | — | — | 3,891 | 5,175 | 4,508 |
| From others | 3 | — | 5 | 9 | 3 | 10 |
| **Total financial income** | **583** | **794** | **947** | **4,428** | **5,867** | **5,459** |
| **Financial expenses** | | | | | | |
| Interest expense and similar items | | | | | | |
| To subsidiaries | — | — | — | –337 | –518 | –736 |
| To others | –1,003 | –949 | –1,182 | –718 | –585 | –586 |
| Exchange-rate differences | | | | | | |
| On loans and forward contracts as hedges for foreign net investments | — | — | — | –101 | 332 | 672 |
| On other loans and borrowings, net | 65 | –14 | 49 | 66 | 9 | 22 |
| **Total financial expenses** | **–938** | **–963** | **–1,133** | **–1,090** | **–762** | **–628** |

Interest income includes income from the Group's Customer Financing operations in the amount of SEK 108m (123). Premiums on forward contracts intended as hedges for foreign net investments have been amortized as interest in the amount of SEK –327m (–43).

## Note 10 Taxes

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Current taxes | –1,305 | –1,945 | –1,772 | 419 | 257 | –30 |
| Deferred taxes | 100 | –270 | –676 | 15 | 105 | — |
| Group share of taxes in associated companies | –5 | –11 | –11 | — | — | — |
| **Total** | **–1,210** | **–2,226** | **–2,459** | **434** | **362** | **–30** |

Current taxes include additional costs of SEK 96m related to previous years. Deferred taxes include a positive effect of SEK 26m due to changes in tax rates.

### Theoretical and actual tax rates

| | Group | | |
|---|---|---|---|
| % | 2004 | 2003 | 2002 |
| Theoretical tax rate | 35.1 | 35.6 | 37.2 |
| Losses for which deductions have not been made | 6.5 | 3.0 | 4.6 |
| Non-taxable income statement items, net | –0.2 | 4.1 | –8.7 |
| Timing differences | –3.5 | –5.8 | –3.2 |
| Utilized tax loss carry-forwards | 1.0 | –2.8 | –0.8 |
| Dividend tax | 0.4 | 0.2 | 0.4 |
| Other | –11.5 | –2.5 | 3.1 |
| **Actual tax rate** | **27.8** | **31.8** | **32.6** |

The theoretical tax rate for the Group is calculated on the basis of the weighted total Group net sales per country, multiplied by the local statutory tax rates. In addition, the theoretical tax rate is adjusted for the effect of non-deductible amortization of goodwill.

### Changes in deferred taxes

| | |
|---|---|
| Net deferred tax assets and liabilities Dec. 31, 2003 | 658 |
| Deferred taxes in acquired/divested operations | — |
| Deferred taxes recognized in equity | 26 |
| Deferred taxes recognized in the income statement | 100 |
| Deferred tax on opening balance adjustment for pensions | 1,035 |
| Exchange-rate differences | –133 |
| **Net deferred tax assets and liabilities Dec. 31, 2004** | **1,686** |

As of December 31, 2004, the Group had tax loss carry-forwards and other deductible temporary differences of SEK 4,245m (1,741), which have not been included in computation of deferred tax assets. Of those tax loss carry-forwards, SEK 70m expire in 2005, SEK 220m between 2006 and 2008 and SEK 3,955m in 2009 or later.

As of December 31, 2004, the Group had accumulated deferred taxes recognized in equity of SEK 55m (29).

### Deferred tax assets and liabilities

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets | | | Liabilities | | | Net | | |
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Fixed assets[1] | 372 | 412 | 358 | 1,550 | 1,631 | 1,559 | –1,178 | –1,219 | –1,201 |
| Inventories | 300 | 288 | 197 | 532 | 537 | 495 | –232 | –249 | –298 |
| Current receivables | 189 | 168 | 126 | 152 | 130 | 19 | 37 | 38 | 107 |
| Liquid funds | — | — | — | — | 51 | — | — | –51 | — |
| Provisions for pensions and similar commitments | 2,221 | 1,439 | 1,063 | 458 | 414 | — | 1,763 | 1,025 | 1,063 |
| Other provisions | 647 | 562 | 719 | 308 | 367 | 282 | 339 | 195 | 437 |
| Financial and operating liabilities | 811 | 708 | 739 | 21 | 68 | — | 790 | 640 | 739 |
| Other items | — | — | 9 | 102 | 107 | 352 | –102 | –107 | –343 |
| Recognized unused tax losses | 269 | 386 | 489 | — | — | — | 269 | 386 | 489 |
| Tax assets and liabilities | 4,809 | 3,963 | 3,700 | 3,123 | 3,305 | 2,707 | 1,686 | 658 | 993 |
| Set-off of tax | –1,872 | –2,049 | –709 | –1,872 | –2,049 | –709 | — | — | — |
| **Net deferred tax assets and liabilities** | **2,937** | **1,914** | **2,991** | **1,251** | **1,256** | **1,998** | **1,686** | **658** | **993** |

1) Of which a net of SEK 33m refers to shares and participations.

### Parent Company

The deferred tax assets in the Parent Company amounted to SEK 120m (105) and relate to temporary differences. The Group accounts include deferred tax liabilities of SEK 230m (227) related to untaxed reserves in the Parent Company.

## Note 11 Minority interests

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Minority interests in | | | |
| Income after financial items | –1 | –9 | 2 |
| Taxes | 0 | 7 | 7 |
| **Net income** | **–1** | **–2** | **9** |

## Note 12 Net income per share

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income, SEKm | 3,148 | 4,778 | 5,095 |
| Number of shares[1] | | | |
| basic | 298,314,025 | 313,270,489 | 327,093,373 |
| diluted | 298,627,079 | 313,587,839 | 327,340,923 |
| Net income per share, SEK | | | |
| basic | 10.55 | 15.25 | 15.58 |
| diluted | 10.54 | 15.24 | 15.57 |

1) Weighted average number of shares outstanding during the year, after repurchase of own shares.

Amounts in SEKm, unless otherwise stated

## Note 13 Intangible assets

| | Group | | | | | Parent Company |
|---|---|---|---|---|---|---|
| | Goodwill | Product development | Software | Other | Total | Brands, etc. |
| **Acquisition costs** | | | | | | |
| **Closing balance Dec. 31, 2002** | **6,479** | **176** | **19** | **758** | **7,432** | **665** |
| Acquired during the year | –25 | — | — | 14 | –11 | 3 |
| Development | — | 344 | 126 | — | 470 | — |
| Reclassification [1)] | –108 | — | — | 186 | 78 | — |
| Sold during the year | –32 | — | — | –22 | –54 | — |
| Fully amortized | –647 | — | — | –13 | –660 | — |
| Exchange-rate differences | –637 | –5 | –1 | –22 | –665 | — |
| **Closing balance Dec. 31, 2003** | **5,030** | **515** | **144** | **901** | **6,590** | **668** |
| Acquired during the year | 41 | — | — | 232 | 273 | 166 |
| Development | — | 486 | 183 | — | 669 | 3 |
| Reclassification | — | — | — | — | — | — |
| Sold during the year | — | — | — | — | — | — |
| Fully amortized | –6 | — | — | –26 | –32 | — |
| Exchange-rate differences | –328 | –32 | –16 | –14 | –390 | — |
| **Closing balance Dec. 31, 2004** | **4,737** | **969** | **311** | **1,093** | **7,110** | **837** |
| **Accumulated amortization according to plan** | | | | | | |
| **Closing balance Dec. 31, 2002** | **2,311** | **5** | **2** | **186** | **2,504** | **54** |
| Amortization for the year | 182 | 38 | 5 | 57 | 282 | 34 |
| Sold and acquired during the year | –32 | — | — | –1 | –33 | — |
| Fully amortized | –647 | — | — | –13 | –660 | — |
| Impairment | — | — | — | — | — | — |
| Exchange-rate differences | –284 | — | — | –1 | –285 | — |
| **Closing balance Dec. 31, 2003** | **1,530** | **43** | **7** | **228** | **1,808** | **88** |
| Amortization for the year | 155 | 119 | 35 | 63 | 372 | 43 |
| Sold and acquired during the year | — | — | — | — | — | — |
| Fully amortized | –6 | — | — | –26 | –32 | — |
| Impairment | — | — | — | — | — | — |
| Exchange-rate differences | –102 | –3 | –3 | –7 | –115 | — |
| **Closing balance Dec. 31, 2004** | 1,577 | 159 | 39 | 258 | 2,033 | 131 |
| **Net book value Dec. 31, 2003** | **3,500** | **472** | **137** | **673** | **4,782** | **580** |
| **Net book value Dec. 31, 2004** | **3,160** | **810** | **272** | **835** | **5,077** | **706** |

**1) Final purchase-price allocation of Diamant Boart International.**

As described in Note 1, goodwill from four major acquisitions is amortized over 40 years. The goodwill amortization for these amounted to SEK 101m (105).

Accumulated impairments on goodwill were at year-end SEK 143m (143) and on other intangibles SEK 1m (1).

## Note 14 Tangible fixed assets

| **Group** | Land and land improvements | Buildings | Machinery and technical installations | Other equipment | Construction in progress and advances | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | |
| **Closing balance Dec. 31, 2002** | **1,532** | **10,048** | **35,948** | **2,852** | **1,078** | **51,458** |
| Acquired during the year | 8 | 225 | 832 | 258 | 2,140 | 3,463 |
| Corporate acquisitions | — | — | — | — | — | — |
| Corporate divestments | –68 | –749 | –4,058 | –290 | –38 | –5,203 |
| Transfer of work in progress and advances | 15 | 218 | 1,555 | –1 | –1,787 | — |
| Sales, scrapping, etc. | –62 | –355 | –2,301 | –297 | — | –3,015 |
| Exchange-rate differences | –56 | –750 | –2,780 | –129 | –188 | –3,903 |
| **Closing balance Dec. 31, 2003** | **1,369** | **8,637** | **29,196** | **2,393** | **1,205** | **42,800** |
| Acquired during the year | 69 | 227 | 743 | 209 | 3,267 | 4,515 |
| Corporate acquisitions | — | — | — | — | — | — |
| Corporate divestments | — | — | — | — | — | — |
| Transfer of work in progress and advances | 10 | 86 | 1,896 | 30 | –2,022 | — |
| Sales, scrapping, etc. | –50 | –264 | –1,130 | –164 | –15 | –1,623 |
| Exchange-rate differences | –28 | –278 | –1,109 | –44 | –246 | –1,705 |
| **Closing balance Dec. 31, 2004** | **1,370** | **8,408** | **29,596** | **2,424** | **2,189** | **43,987** |

## Note 14 continued

| Group | Land and land improvements | Buildings | Machinery and technical installations | Other equipment | Construction in progress and advances | Total |
|---|---|---|---|---|---|---|
| **Accumulated depreciation according to plan** | | | | | | |
| **Closing balance Dec. 31, 2002** | **205** | **5,171** | **25,977** | **1,917** | **—** | **33,270** |
| Depreciation for the year | 11 | 387 | 2,423 | 249 | — | 3,070 |
| Corporate divestments | –36 | –454 | –3,252 | –124 | — | –3,866 |
| Sales, scrapping, etc. | –12 | –226 | –2,240 | –252 | — | –2,730 |
| Impairment | — | — | 12 | 1 | — | 13 |
| Exchange-rate differences | –15 | –413 | –2,086 | –81 | — | –2,595 |
| **Closing balance Dec. 31, 2003** | **153** | **4,465** | **20,834** | **1,710** | **—** | **27,162** |
| Depreciation for the year | 8 | 280 | 2,278 | 240 | — | 2,806 |
| Corporate divestments | — | — | — | — | — | — |
| Sales, scrapping, etc. | –1 | –216 | –1,110 | –150 | — | –1,477 |
| Impairment | 12 | 141 | 450 | — | — | 603 |
| Exchange-rate differences | –6 | –158 | –945 | –31 | — | –1,140 |
| **Closing balance Dec. 31, 2004** | **166** | **4,512** | **21,507** | **1,769** | **—** | **27,954** |
| **Net book value Dec. 31, 2003** | **1,216** | **4,172** | **8,362** | **683** | **1,205** | **15,638** |
| **Net book value Dec. 31, 2004** | **1,204** | **3,896** | **8,089** | **655** | **2,189** | **16,033** |

In 2004, tangible fixed assets in operations within Consumer Durables Europe, North America and Rest of the world were impaired. The book values for land were SEK 1,160m (1,160).

The tax assessment value for Swedish Group companies was for buildings SEK 329m (328), and land SEK 75m (74).

The corresponding book values for buildings were SEK 180m (186), and land SEK 21m (21). Accumulated write-ups on buildings and land were at year-end SEK 134m (134). Accumulated impairments on buildings and land were at year-end SEK 549m (400) and on machinery and other equipment SEK 623m (254).

| Parent Company | Land and land improvements | Buildings | Machinery and technical installations | Other equipment | Construction in progress and advances | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | |
| **Closing balance Dec. 31, 2002** | **7** | **74** | **1,340** | **304** | **29** | **1,754** |
| Acquired during the year | — | — | 70 | 99 | 9 | 178 |
| Transfer of work in progress and advances | — | — | 1 | — | –1 | — |
| Sales, scrapping, etc. | — | — | –127 | –48 | — | –175 |
| **Closing balance Dec. 31, 2003** | **7** | **74** | **1,284** | **355** | **37** | **1,757** |
| Acquired during the year | — | — | 66 | 16 | 38 | 120 |
| Transfer of work in progress and advances | — | — | 17 | — | –17 | — |
| Sales, scrapping, etc. | –1 | –16 | –307 | –32 | — | –356 |
| **Closing balance Dec. 31, 2004** | **6** | **58** | **1,060** | **339** | **58** | **1,521** |
| **Accumulated depreciation according to plan** | | | | | | |
| **Closing balance Dec. 31, 2002** | **2** | **64** | **1,011** | **152** | **—** | **1,229** |
| Depreciation for the year | — | 2 | 95 | 33 | — | 130 |
| Sales, scrapping, etc. | — | — | –123 | –12 | — | –135 |
| **Closing balance Dec. 31, 2003** | **2** | **66** | **983** | **173** | **—** | **1,224** |
| Depreciation for the year | — | 2 | 85 | 35 | — | 122 |
| Sales, scrapping, etc. | — | –15 | –254 | –29 | — | –298 |
| **Closing balance Dec. 31, 2004** | **2** | **53** | **814** | **179** | **—** | **1,048** |
| **Net book value Dec. 31, 2003** | **5** | **8** | **301** | **182** | **37** | **533** |
| **Net book value Dec. 31, 2004** | **4** | **5** | **246** | **160** | **58** | **473** |

Tax assessment value for buildings was SEK 95m (95), and land SEK 20m (20). The corresponding book values for buildings were SEK 5m (8), and land SEK 4m (5). Undepreciated write-ups on buildings and land were SEK 2m (2).

## Note 15 Financial fixed assets

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Participations in associated companies | 196 | 185 | 167 | — | — | — |
| Participations in other companies | 46 | 55 | 167 | 96 | 96 | 141 |
| Shares in subsidiaries | — | — | — | 22,512 | 21,663 | 24,200 |
| Long-term receivables in subsidiaries | — | — | — | 5,576 | 6,936 | 9,645 |
| Long-term holdings in securities | 168 | 149 | 175 | — | — | — |
| Other receivables | 1,002 | 887 | 1,082 | 39 | 28 | 223 |
| **Total** | **1,412** | **1,276** | **1,591** | **28,223** | **28,723** | **34,209** |

**A specification of shares and participations is provided in Note 30 on page 67.**

Amounts in SEKm, unless otherwise stated

## Note 16 Inventories

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Raw materials | 3,787 | 3,111 | 4,017 | 118 | 118 | 147 |
| Products in progress | 493 | 598 | 778 | 105 | 47 | 15 |
| Finished products | 11,490 | 11,313 | 11,153 | 239 | 244 | 212 |
| Advances to suppliers | 63 | 37 | 71 | — | — | — |
| Advances from customers | –91 | –114 | –405 | — | — | — |
| **Total** | **15,742** | **14,945** | **15,614** | **462** | **409** | **374** |

## Note 17 Accounts receivable

At year-end 2004, accounts receivable, net of provisions for doubtful accounts, amounted to SEK 20,627m (21,172), representing the maximum possible exposure to customer defaults. The book value of accounts receivable is considered to represent fair value. The total provision for bad debts at year-end was SEK 730m (1,012). Electrolux has a significant concentration on a number of major customers primarily in the US and Europe. Receivables concentrated to customers with credit limits amounting to SEK 300m or more represent 31.5% of the total accounts receivable.

## Note 18 Financial instruments

Financial instruments is defined in accordance with the Swedish Financial Accounting Standard Council's standard RR 27, which is based on IAS 32. Additional and complementary information is presented in the following notes to the Annual Report: Note 1, "Accounting and valuation principles", discloses the accounting and valuation policies adopted and Note 2, "Financial risk management", describes the Group's risk policies in general and regarding the principal financial instruments of Electrolux in more detail. Note 17, "Accounts receivable", describes the accounts receivables and related credit risks. The information in this note highlights and describes the principal financial instruments of the Group regarding specific major terms and conditions when applicable, and the exposure to risk and the fair values at year-end.

### Liquid funds

Liquid funds consist of cash on hand, bank deposits and other short-term investments, of which the majority have original maturity of three months or less. The table below presents the key data of liquid funds. The book value of liquid funds is approximately equal to fair value.

**Liquidity profile**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Investments with maturities over three months | 265 | 3,783 | 7,602 |
| Investments and deposits with maturities up to three months | 7,675 | 8,207 | 6,698 |
| Fair value derivative assets included in short-term investments | 762 | 612 | — |
| **Liquid funds** | **8,702** | **12,602** | **14,300** |
| % of annualized net sales | 7.7 | 11.3 | 11.8 |
| **Net liquidity** | **2,799** | **8,593** | **12,682** |
| Fixed-interest term, days | 61 | 64 | 48 |
| Effective yield, % (average per annum) | 2.4 | 4.4 | 4.4 |

For 2004, liquid funds amounted to 7.7% (11.3) of annualized net sales. The net liquidity is calculated by deducting short-term loans from liquid funds. As from year 2003, long-term borrowings maturing within 12 months are included in short-term loans.

### Interest-bearing liabilities

At year-end 2004, the Group's total interest-bearing liabilities amounted to SEK 9,843m (12,501), of which SEK 3,940m (8,173) referred to long-term loans. Long-term loans with maturities within 12 months, SEK 3,896m, are reported as short-term loans in the Group's balance sheet. A significant portion of the outstanding long-term borrowings has been made under Electrolux global medium term note program. This program allows for borrowings up to EUR 2,000m. As of December 31, 2004, Electrolux utilized approximately EUR 627m (630) of the capacity of the program.

The majority of total long-term borrowings, SEK 7,187m, are taken up at the parent company level. Given the strong liquidity, Electrolux does not currently maintain any committed credit facilities for short-term borrowings, other than as back-up facility for the European commercial-paper program, which amounts to EUR 150m. Electrolux expects to meet any future requirements for short-term borrowings through bilateral bank facilities and capital-market programs such as commercial-paper programs.

At year-end 2004, the average interest-fixing period for long-term borrowings was 1.3 years (1.1). The calculation of the average interest-fixing period includes the effect of interest-rate derivatives used to manage the interest-rate risk of the debt portfolio. The interest rate at year-end for the total borrowings was 4,9% (4.9).

The fair value of the interest-bearing loans including swap transactions used to manage the interest fixing was approximately SEK 10,127m. The loans and the interest-rate swaps are valued marked-to-market in order to calculate the fair value.

The table on the following page sets out the carrying amount of the Group's interest-bearing liabilities that are exposed to fixed and floating interest-rate risk.

## Note 18 continued

### Interest-bearing liabilities

| Issue/maturity dates | Description of loan | Interest rate, % | Currency | Nominal value (in currency) | Total book value Dec. 31, 2004 | 2003 |
|---|---|---|---|---|---|---|
| **Bond loans** | | | | | | |
| **Fixed rate[1]** | | | | | | |
| 2001–2008 | Global MTN Program | 6.0000 | EUR | 268 | 2,400 | 2,416 |
| 2001–2008 | Global MTN Program | 6.0000 | EUR | 32 | 288 | 290 |
| 1998–2008 | SEK MTN Program | 4.2303 | SEK | 85 | 85 | 85 |
| 2000–2005 | Global MTN Program[2] | 6.1250 | EUR | 300 | — | 2,712 |
| 2001–2005 | SEK MTN Program[2] | 5.3000 | SEK | 200 | — | 200 |
| **Floating rate** | | | | | | |
| 1998–2005 | Global MTN Program | Floating | USD | 25 | — | 181 |
| 1997–2027 | Industrial Development Revenue Bonds | Floating | USD | 10 | 66 | 73 |
| **Total bond loans** | | **—** | **—** | **—** | **2,839** | **5,957** |
| **Other long-term loans** | | | | | | |
| | Fixed Rate Loans | — | — | — | 457 | 1,901 |
| | Floating Rate Loans | — | — | — | 644 | 315 |
| **Total other long-term loans** | | **—** | **—** | **—** | **1,101** | **2,216** |
| **Total long-term loans** | | **—** | **—** | **—** | **3,940** | **8,173** |
| **Short-term loans** | | | | | | |
| **Short-term part of long-term loans** | | | | | | |
| 2000–2005 | Global MTN Program[2] | 6.1250 | EUR | 300 | 2,695 | — |
| 2001–2005 | SEK MTN Program[2] | 5.3000 | SEK | 200 | 200 | — |
| 1998–2005 | Global MTN Program[2] | Floating | USD | 25 | 165 | — |
| 2001–2004 | SEK MTN Program | 3.3820 | SEK | 170 | — | 170 |
| 1996–2004 | Bond Loan FRF 1,000m | 6.5000 | FRF | 690 | — | 952 |
| | Other long-term loans | — | — | — | 836 | 1,292 |
| **Other short-term loans** | | | | | | |
| | Bank borrowings and commercial papers | — | — | — | 1,643 | 1,316 |
| | Fair value of derivative liabilities | — | — | — | 364 | 279 |
| **Total short-term loans** | | **—** | **—** | **—** | **5,903** | **4,009** |
| **Interest-bearing pensions** | | **—** | **—** | **—** | **—** | **319** |
| **Total interest-bearing liabilities** | | **—** | **—** | **—** | **9,843** | **12,501** |

1) The interest-rate fixing profile of the loans has been adjusted from fixed to floating with interest-rate swaps.
2) Long-term loans with maturities within 12 months are classified as short-term loans in the Group's balance sheet.

The average maturity of the Group's long-term borrowings (including long-term loans with maturities within 12 months) was 2.2 years (2.7) at the end of 2004. As a result of the Group's positive cash flow, no additional long-term funding was undertaken in 2004. A net total of SEK 1,836m in loans, originating essentially from long-term loans, matured or were amortized. Short-term loans pertain primarily to countries with capital restrictions. The table below presents the repayment schedule of long-term borrowings.

### Repayment schedule of long-term borrowings, as at December 31,

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011– | Total |
|---|---|---|---|---|---|---|---|---|
| Debenture and bond loans | — | — | — | 2,773 | — | — | 66 | 2,839 |
| Bank and other loans | — | 410 | 36 | 16 | 24 | 4 | 611 | 1,101 |
| Short-term part of long-term loans | 3,896 | — | — | — | — | — | — | 3,896 |
| **Total** | **3,896** | **410** | **36** | **2,789** | **24** | **4** | **677** | **7,836** |

### Other interest-bearing investments

Interest-bearing receivables from customer financing amounting to SEK 745m (874) are included in the item Other receivables in the Group's balance sheet. The Group's customer financing activities are performed in order to provide sales support and are directed mainly to independent retailers in the US and in Scandinavia. The majority of the financing is shorter than 12 months. There is no major concentration of credit risk related to customer financing. Collaterals and the right to repossess the inventory also reduce the credit risk in the financing operations. The income from customer financing is subject to interest-rate risk. This risk is immaterial to the Group.

Amounts in SEKm, unless otherwise stated

## Note 18 continued

### Commercial flows

The table below shows the forecasted transaction flows (imports and exports) for the 12-month period of 2005 and hedges at year-end 2004.

The hedged amounts during 2005 are dependent on the hedging policy for each flow considering the existing risk exposure. Gross hedging of flows above 12 months and up to 18 months, not shown in the table, amounts to SEK 474m and this hedging refers mainly to USD/SEK and EUR/SEK.

| | GBP | CAD | AUD | NOK | CZK | CHF | HUF | SEK | EUR | USD | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Inflow of currency (long position) | 3,700 | 2,570 | 1,350 | 1,140 | 860 | 860 | 960 | 1,970 | 5,480 | 1,910 | 4,470 | 25,270 |
| Outflow of currency (short position) | –170 | –190 | –270 | –200 | — | –60 | –2,480 | –4,880 | –9,570 | –6,510 | –940 | –25,270 |
| Gross transaction flow | 3,530 | 2,380 | 1,080 | 940 | 860 | 800 | –1,520 | –2,910 | –4,090 | –4,600 | 3,530 | — |
| Hedge | –1,580 | –1,840 | –710 | –560 | –590 | –580 | 870 | 2,390 | 1,240 | 2,850 | –1,490 | — |
| **Net transaction flow** | **1,950** | **540** | **370** | **380** | **270** | **220** | **–650** | **–520** | **–2,850** | **–1,750** | **2,040** | **—** |

The effect of hedging on operating income during 2004 amounted to SEK –76m (69). At year-end 2004, unrealized exchange-rate losses on forward contracts amounted to SEK –20m (47), all of which will mature in 2005.

### Derivative financial instruments

The tables below present the fair value and nominal amounts of the Group's derivative financial instruments for managing of financial risks and proprietary trading. The fair value of financial instruments used for proprietary trading at the end of 2004 was SEK 4m (6).

### Fair value

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Positive MV | Negative MV | Net MV | Positive MV | Negative MV | Net MV |
| Interest-rate swaps | 290 | –66 | 224 | 364 | –145 | 219 |
| Cross currency interest-rate swaps | 21 | –10 | 11 | 15 | –16 | –1 |
| Forward-rate agreements and futures | 9 | –9 | — | 10 | –10 | — |
| Foreign exchange derivatives (Forwards and Options) | 828 | –534 | 294 | 759 | –319 | 440 |
| Commodity derivatives | — | — | — | 9 | –4 | 5 |
| **Total** | **1,148** | **–619** | **529** | **1,157** | **–494** | **663** |

Valuation of derivative financial instruments at market value (MV), presented in the table above, is done at the most accurate market prices available. This means that instruments, which are quoted on the market, such as for instance the major bond and interest-rate future markets, are all marked-to-market with the current spot mid-price. The foreign-exchange spot mid-rate is then used to convert the market value into Swedish kronor, before it is discounted back to the valuation date. For instruments where no reliable price is available on the market, cash flows are discounted using the deposit/swap curve of the cash-flow currency. In the event that no proper cash flow schedule is available, for instance as in the case with forward-rate agreements, the underlying schedule is used for valuation purposes. To the extent option instruments are used, the valuation is based on the Black-Scholes formula. All valuations are done at mid-prices, e.g., the average of bid and ask prices are used.

### Nominal amounts

| | 2004 | 2003 |
|---|---|---|
| **Interest-rate swaps** | | |
| Maturity shorter than 1 year | 5,600 | 8,219 |
| Maturity 2–5 years | 4,760 | 9,188 |
| Maturity 6–10 years | — | — |
| **Total interest-swaps** | **10,360** | **17,407** |
| Cross currency interest-rate swaps | 75 | 245 |
| Forward-rate agreements | 15,751 | 35,625 |
| Foreign-exchange derivatives (Forwards and Options) | 18,104 | 12,603 |
| Commodity derivatives | — | 21 |
| **Total** | **44,290** | **65,901** |

## Note 19 Assets pledged for liabilities to credit institutions

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Real-estate mortgages | 126 | 418 | 1,090 | — | — | — |
| Corporate mortgages | — | — | 9 | — | — | — |
| Receivables | — | — | 124 | — | — | — |
| Inventories | — | — | 238 | — | — | — |
| Other | 11 | 5 | 447 | 5 | 5 | 5 |
| **Total** | **137** | **423** | **1,908** | **5** | **5** | **5** |

The sharp reduction of pledged assets in 2003 was mainly due to that the company in India ceased pledging assets, the divestment of the compressor unit in China and renegotiations of bank loans in Germany.

## Note 20 Equity

Unrestricted consolidated earnings amount to SEK 10,729m. No allocation to restricted reserves is required. The accumulated translation differences charged to equity since January 1, 1998, amount to SEK –2,034m (–1,583). Translation differences in 2004 amount to SEK –451m and have been reduced by SEK 41m, net of taxes, through equity hedging. The equity method reserve amounted to SEK 74m (62).

Retained earnings is the sum of the free reserves of the Parent Company and that portion of each subsidiary's equity that could be paid as dividend without requiring the Parent Company to write down the book value of the subsidiary. The remaining portion of equity is recognized as restricted reserves.

## Note 21 Share capital and number of shares

| | Value at par |
|---|---|
| On December 31, 2004, the share capital comprised | |
| 9,502,275 A-shares, par value SEK 5 | 48 |
| 299,418,033 B-shares, par value SEK 5 | 1,497 |
| **Total** | **1,545** |

A-shares carry one vote and B-shares one-tenth of a vote.

| Number of shares | Owned by Electrolux | Owned by other shareholders | Total |
|---|---|---|---|
| **Shares at Dec. 31, 2003** | | | |
| A-shares | — | 10,000,000 | 10,000,000 |
| B-shares | 17,000,000 | 297,100,000 | 314,100,000 |
| **Repurchased shares** | | | |
| A-shares | — | — | — |
| B-shares | 750,000 | –750,000 | — |
| **Cancelled shares** | | | |
| A-shares | — | –497,725 | –497,725 |
| B-shares | | –14,681,967 | –14,681,967 |
| **Sold shares** | | | |
| A-shares | — | — | — |
| B-shares | –10,600 | 10,600 | — |
| **Shares at Dec. 31, 2004** | | | |
| A-shares | — | 9,502,275 | 9,502,275 |
| B-shares | 17,739,400 | 281,678,633 | 299,418,033 |

As of December 31, 2004, Electrolux had repurchased 17,739,400 B-shares, with a total par value of SEK 89m. The average number of shares during the year has been 298,314,025 (313,270,489).

## Note 22 Untaxed reserves, Parent Company

| | Dec. 31, 2004 | Appropriations | Dec. 31, 2003 | Appropriations | Dec. 31, 2002 |
|---|---|---|---|---|---|
| Accumulated depreciation in excess of plan on | | | | | |
| Brands | 527 | 122 | 405 | 99 | 306 |
| Machinery and equipment | 219 | –46 | 265 | –11 | 276 |
| Buildings | 20 | 8 | 12 | –1 | 13 |
| Exchange-rate reserve | — | — | — | –11 | 11 |
| Other financial reserves | 2 | –2 | 4 | –3 | 7 |
| Tax-allocation reserve | — | –70 | 70 | 70 | — |
| **Total** | **768** | **12** | **756** | **143** | **613** |

Other financial reserves include fiscally permissible appropriations referring to receivables in subsidiaries in politically and economically unstable countries.

Amounts in SEKm, unless otherwise stated

# Note 23 Provisions for pensions and similar commitments

**Post-employment benefits**

The Group sponsors pension plans in many of the countries in which it has significant activities. Pension plans can be defined contribution or defined benefit plans or a combination of both, and follow, in general, the local practices. Under defined benefit pension plans, the company enters into a commitment to provide pension benefits based upon final or career average salary, employment period or other factors that are not known until the time of retirement. Under defined contribution plans, the company makes periodic payments to independent authorities or investment plans and the level of benefits depends on the actual return on those investments.

In some countries and following local regulations, the companies make provisions for obligatory severance payments. These provisions cover the Group's commitment to pay employees a lump sum upon reaching retirement age, or upon the employees' dismissal or resignation. These plans are listed below as Other post-employment benefits.

In addition to providing pension benefits, the Group provides other post-employment benefits, primarily health-care benefits, for some of its employees in certain countries (US). These plans are listed below as Other post-employment benefits.

The Group's major defined benefit plans cover employees in the US, UK, Switzerland, Germany and Sweden. The German plan is unfunded and the plans in the US, UK, Switzerland and Sweden are funded.

A small number of the Group's employees in Sweden is covered by a multi-employer defined benefit pension plan administered by Alecta. It has not been possible to obtain the necessary information for the accounting of this plan as a defined benefit plan, and therefore, it has been accounted as a defined contribution plan.

The methods for calculating and accounting for pension costs and pension liabilities differ from country to country. For the years 2002 and 2003, the companies reported according to local rules, and the reported figures were included in the consolidated accounts of the Group.

In case of underfunding, US rules require the companies to record an additional minimum liability. Following these rules, the Group recorded in 2002 an additional pre-tax pension liability of USD 245m, equivalent to SEK 2,154m, at year-end exchange rate and which, after deduction of deferred taxes, resulted in a charge to equity of SEK 1,335m. In 2003, the additional minimum liability increased to a pre-tax pension liability of USD 272m, equivalent to SEK 1,976m at year-end exchange rate. After deduction of deferred taxes and adjustment for changes in exchange rates, the increase resulted in a charge to equity of SEK 123m.

As of January 1, 2004, the Group applies the Swedish Financial Accounting Standard Council's standard RR 29, "Employee benefits", for the accounting of its defined benefit pension plans and other employee benefits around the world. This accounting standard is similar in most respects to the International Accounting Standard No. 19, "Employee benefits". Under RR 29, the net liability of the defined benefit pension plans in each country is determined based on consistent and comparable principles and assumptions. A transitional liability was determined as of January 1, 2004, based on the difference between the previously used accounting principles and RR 29. The difference between the Group's net pension liability as of December 31, 2003, and the Group's opening balance under RR 29 as of January 1, 2004, has been adjusted through a decrease in shareholders' equity. Figures for 2002 and 2003 have not been restated.

Below are set out schedules which show the obligations of the plans in the Electrolux Group assessed under RR 29, the assumptions used to determine these obligations and the assets relating to the benefit plans, as well as the amounts recognized in the income statement and balance sheet. The schedules also include a reconciliation of changes in net provisions during the year. The Group's policy for recognizing actuarial gains and losses is to recognize in the profit and loss that portion of the cumulative unrecognized gains or losses in each plan that exceeds 10% of the greater of the defined benefit obligation and the plan assets. These gains or losses in each plan are recognized on a straight-line basis over the expected average remaining working lifetime of the employees participating in the plans.

**Expense for post-employment benefits**

| | 2004 |
|---|---|
| Service cost | 409 |
| Interest cost | 1,112 |
| Expected return on plan assets | –839 |
| Amortization of actuarial losses | — |
| Amortization of past service cost | 14 |
| Effect of any curtailments and settlements | –5 |
| Effect of limit on assets | 7 |
| **Expense for defined benefit plans** | **698** |
| Expense for defined contribution plans | 149 |
| **Total expense for post-employment benefits** | **847** |
| Actual return on net assets | –931 |

Total expense for post-employment benefits has been recognized as operating expense and classified as manufacturing, selling or administrative expense depending on the function of the employee.

**Specification of net provisions for post-employment benefits at December 31, 2004**

| | Pensions | Other post-employment benefits |
|---|---|---|
| Present value of obligations for unfunded plans | 3,131 | 3,678 |
| Present value of obligations for funded plans | 14,582 | 180 |
| Fair value of plan assets | –12,234 | –180 |
| Unrecognized actuarial losses | –1,233 | –340 |
| Unrecognized past service cost | –28 | — |
| Assets not recognized due to limit on assets | 47 | — |
| **Net provisions for post-employment benefits** | **4,265** | **3,338** |
| Whereof reported as | | |
| Prepaid pension cost | 249 | — |
| Provisions for pensions and similar commitments | 4,514 | 3,338 |

**Weighted-average actuarial assumptions**

| % | Jan. 1, 2004 | Dec. 31, 2004 |
|---|---|---|
| Discount rate | 5.5 | 5.1 |
| Expected long-term return on assets | 7.0 | 7.3 |
| Expected salary increases | 3.0 | 3.8 |
| Medical cost trend rate, current year | 10.0 | 10.0 |

**Reconciliation of changes in net provisions**

| | Pensions | Other post-employment benefits |
|---|---|---|
| Provisions for pensions and similar commitments at December 31, 2003 | 3,076 | 2,602 |
| Other pension-related net liabilities | 115 | — |
| Net provisions for pensions and similar commitments at December 31, 2003 | 3,191 | 2,602 |
| Change in accounting principles | 1,599 | 1,038 |
| Net liability at January 1, 2004 | 4,790 | 3,640 |
| Pension expense | 476 | 222 |
| Cash contributions and benefits paid directly by the company | –894 | –278 |
| Exchange differences | –107 | –246 |
| **Net provisions for post-employment benefits** | **4,265** | **3,338** |

**Note 23** continued

**Parent Company**
According to Swedish accounting principles adopted by the Parent Company, defined benefit liabilities are calculated based upon officially provided assumptions which differ from the assumptions used under RR 29. The benefits are secured by contributions to a separate fund or recorded as a liability in the balance sheet. At December 31, 2004, the Parent Company reported a pension liability of SEK 269m (251 and 245 in 2003 and 2002 respectively).

## Note 24 Other provisions

| | Group | | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Provisions for restructuring | | Warranty commit- | | | | Warranty commit- | | |
| | Acquisitions | Other | ments | Other | Total | Provisions for restructuring | ments | Other | Total |
| **Closing balance Dec. 31, 2002** | **154** | **1,793** | **1,418** | **2,217** | **5,582** | **197** | **81** | **82** | **360** |
| Provisions made | — | — | 1,271 | 1,094 | 2,365 | — | — | — | — |
| Provisions used | –136 | –1,280 | –957 | –684 | –3,057 | –103 | –9 | –1 | –113 |
| Unused amounts reversed | — | — | –83 | –45 | –128 | — | — | — | — |
| Exchange-rate differences | –1 | –62 | –87 | –185 | –335 | — | — | — | — |
| **Closing balance Dec. 31, 2003** | **17** | **451** | **1,562** | **2,397** | **4,427** | **94** | **72** | **81** | **247** |
| Provisions made | — | 1,203 | 992 | 393 | 2,588 | 182 | 70 | 11 | 263 |
| Provisions used | –4 | –463 | –876 | –332 | –1,675 | –127 | –75 | –21 | –223 |
| Unused amounts reversed | — | –39 | –79 | –50 | –168 | — | — | –8 | –8 |
| Exchange-rate differences | — | –58 | –49 | –104 | –211 | — | — | — | — |
| **Closing balance Dec. 31, 2004** | **13** | **1,094** | **1,550** | **2,304** | **4,961** | **149** | **67** | **63** | **279** |

Provisions for restructuring represent the expected costs to be incurred in the coming years as a consequence of the Group's decision to close some factories, rationalize production and reduce personnel, both for newly acquired and previously owned companies. The amounts are based on management's best estimates and are adjusted when changes to these estimates are known. The majority of restructuring plans are expected to be completed during 2005, and the amounts have not been discounted. Provisions for warranty commitments are recognized as a consequence of the Group's policy to cover the cost of repair of defective products. Warranty is normally granted for 1 to 2 years after the sale. Other provisions include mainly provisions for tax, environmental or other claims, none of which is material to the Group.

## Note 25 Accrued expenses and prepaid income

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Accrued holiday pay | 1,150 | 1,139 | 1,214 | 172 | 176 | 172 |
| Other accrued payroll costs | 1,280 | 1,267 | 1,217 | 245 | 182 | 136 |
| Accrued interest expenses | 168 | 202 | 199 | 158 | 173 | 149 |
| Prepaid income | 483 | 637 | 1,040 | — | 7 | 3 |
| Other accrued expenses | 4,921 | 4,779 | 4,589 | 361 | 488 | 344 |
| **Total** | **8,002** | **8,024** | **8,259** | **936** | **1,026** | **804** |

Other accrued expenses include accruals for fees, advertising and sales promotion, bonuses, extended warranty, rebates and other items.

Amounts in SEKm, unless otherwise stated

## Note 26 Contingent liabilities

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Discounted bills | — | — | 10 | — | — | — |
| Accounts receivable, with recourse | 468 | 370 | 182 | — | — | — |
| Guarantees and other commitments | | | | | | |
| On behalf of subsidiaries | — | — | — | 1,317 | 1,804 | 2,129 |
| Other | 855 | 728 | 666 | 55 | 146 | 112 |
| Employee benefits in excess of reported liabilities | — | 81 | 91 | 24 | 26 | 30 |
| **Total** | **1,323** | **1,179** | **949** | **1,396** | **1,976** | **2,271** |

In addition to the above contingent liabilities, guarantees for fulfillment of contractual undertakings are given as part of the Group's normal course of business. There was no indication at year-end that payment will be required in connection with any contractual guarantees.

Electrolux has, jointly with the state-owned company AB Swedecarrier, issued letters of support for loans and leasing agreements totaling SEK 1,412m in the associated company Nordwaggon AB.

## Note 27 Acquired and divested operations

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Acquisitions | | | Divestments | | | Net | | |
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Fixed assets | — | — | 654 | — | –1,600 | –1,407 | — | –1,600 | –753 |
| Inventories | — | — | 605 | — | –482 | –651 | — | –482 | –46 |
| Receivables | — | — | 610 | — | –1,146 | –1,280 | — | –1,146 | –670 |
| Other current assets | — | — | 22 | — | –98 | –267 | — | –98 | –245 |
| Liquid funds | — | — | 203 | — | –389 | –76 | — | –389 | 127 |
| Loans | — | — | –789 | — | 870 | 746 | — | 870 | –43 |
| Other liabilities and provisions | — | — | –907 | — | 1,531 | 1,744 | — | 1,531 | 837 |
| Purchase price | — | — | –1,745 | — | 1,246 | 3,846 | — | 1,246 | 2,101 |
| Liquid funds in acquired/divested operations | — | — | 203 | — | –389 | –75 | — | –389 | 128 |
| **Effect on Group liquid funds** | **—** | **—** | **–1,542** | **—** | **857** | **3,771** | **—** | **857** | **2,229** |

The assets and liabilities in 2003 refer to the divestments of Compressors and Vestfrost.

The acquired and divested assets and liabilities in 2002 refer mainly to the acquisition of Diamant Boart International and the divestments of the remaining part of the Leisure appliance product line, the European motor operation and Zanussi Metallurgica.

## Note 28 Employees, salaries, remunerations and employer contributions

In 2004, the average number of employees was 72,382 (77,140), of whom 48,039 (51,240) were men and 24,343 (25,900) women. A detailed specification of the average number of employees by country has been submitted to the Swedish Companies Registration Office and is available on request from AB Electrolux, Investor Relations and Financial Information. See also Electrolux website www.electrolux.com/ir

**Average number of employees, by geographical area**

| | Group | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Europe | 35,623 | 39,514 | 42,601 |
| North America | 21,547 | 21,169 | 20,117 |
| Rest of the world | 15,212 | 16,457 | 19,253 |
| **Total** | **72,382** | **77,140** | **81,971** |

**Salaries, other remuneration and employer contributions**

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Salaries and remuneration | Employer contributions | Salaries and remuneration | Employer contributions | Salaries and remuneration | Employer contributions |
| Parent Company | 1,140 | 659 | 1,081 | 647 | 993 | 559 |
| (of which pension costs) | | (187)[1] | | (194)[1] | | (196)[1] |
| Subsidiaries | 15,874 | 4,983 | 16,073 | 4,958 | 18,415 | 5,764 |
| (of which pension costs) | | (660) | | (713) | | (713) |
| **Group total** | **17,014** | **5,642** | **17,154** | **5,605** | **19,408** | **6,323** |
| **(of which pension costs)** | | **(847)** | | **(907)** | | **(909)** |

1) Includes a net cost reduction of SEK 3m in 2004, costs of SEK 1m in 2003 and SEK 19m in 2002, referring to the President and his predecessors.

## Note 28 continued

### Salaries and remuneration for Board members, senior managers and other employees, by geographical area

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Board members and senior managers | Other employees | Board members and senior managers | Other employees | Board members and senior managers | Other employees |
| **Sweden** | | | | | | |
| Parent Company | 34 | 1,106 | 45 | 1,036 | 32 | 961 |
| Other | 30 | 858 | 30 | 903 | 24 | 887 |
| **Total Sweden** | **64** | **1,964** | **75** | **1,939** | **56** | **1,848** |
| EU, excluding Sweden | 127 | 7,157 | 129 | 7,721 | 156 | 8,737 |
| Rest of Europe | 16 | 571 | 35 | 655 | 37 | 692 |
| North America | 37 | 5,311 | 48 | 5,196 | 39 | 6,047 |
| Latin America | 17 | 323 | 19 | 271 | 18 | 328 |
| Asia | 25 | 368 | 24 | 232 | 31 | 371 |
| Africa | — | 33 | — | 30 | — | 23 |
| Oceania | 8 | 993 | 11 | 769 | 8 | 1,017 |
| **Total outside Sweden** | **230** | **14,756** | **266** | **14,874** | **289** | **17,215** |
| **Group total** | **294** | **16,720** | **341** | **16,813** | **345** | **19,063** |

Of the Board members and senior managers in the Group, 216 were men and 24 women, of whom 12 men and 7 women in the Parent Company.

### Employee absence due to illness

| % | Full year 2004 | | Second half of 2003 | |
|---|---|---|---|---|
| | Employees in the Parent Company | All employees in Sweden | Employees in the Parent Company | All employees in Sweden |
| **Total absence due to illness, as a percentage of total normal working hours** | **8.3** | **6.7** | **8.0** | **6.6** |
| of which 60 days or more | 59.7 | 53.5 | 57.9 | 54.5 |
| **Absence due to illness, by category**[1] | | | | |
| Women | 11.8 | 10.3 | 10.9 | 9.8 |
| Men | 6.5 | 5.4 | 6.5 | 5.4 |
| 29 years or younger | 5.1 | 4.5 | 5.5 | 4.6 |
| 30–49 years | 9.5 | 7.4 | 8.7 | 7.2 |
| 50 years or older | 8.4 | 7.1 | 9.1 | 7.7 |

1) % of total normal working hours within each category respectively.

In accordance with the regulations in the Swedish Annual Accounts Act in effect as of July 1, 2003, absence due to illness for employees in the Parent Company and the Group's employees in Sweden is reported in the table above. The Parent Company comprises the Group's head office as well as a number of units and plants, and employs approximately half of the Group's employees in Sweden.

## Remuneration to the Board of Directors, the President and other members of Group Management

### Compensation to the Board of Directors

The Annual General Meeting (AGM) determines the total compensation to the Board of Directors for a period of one year until the next AGM. The Board allocates a portion of this compensation for committee work, and the rest is distributed exclusively to members who are not employed by the Group. Compensation is paid quarterly. Compensation paid in 2004 refers to 2/4 of the compensation authorized by the AGM in 2003, and 2/4 of the compensation authorized by the AGM in 2004. Total compensation paid in 2004 amounted to SEK 3,725,000, of which SEK 3,375,000 referred to ordinary compensation and SEK 350,000 to committee work. For distribution of compensation by Board member, see table below.

### Compensation to the Board members in 2004, ´000 SEK

| Member of the Board | Ordinary compensation | Compensation for committee work | Total compensation |
|---|---|---|---|
| Rune Andersson, Chairman up to the AGM | 500 | – | 500 |
| Michael Treschow, Chairman as of the AGM | 775 | – | 775 |
| Jacob Wallenberg, Deputy Chairman up to the AGM | 175 | – | 175 |
| Peggy Bruzelius, Deputy Chairman as of the AGM | 350 | 150 | 500 |
| Louis R. Hughes[1] | 350 | 75 | 425 |
| Thomas Halvorsen | 350 | 75 | 425 |
| Barbara R. Thoralfsson | 350 | 25 | 375 |
| Karel Vuursteen | 350 | 25 | 375 |
| Aina Nilsson Ström | 175 | — | 175 |
| Hans Stråberg | — | — | — |
| Ulf Carlsson | — | — | — |
| Bert Gustafsson | — | — | — |
| Annika Ögren | — | — | — |
| **Total** | **3,375** | **350** | **3,725** |

1) Louis R. Hughes left the Board of Directors on September 20, 2004.

Amounts in SEKm, unless otherwise stated

## Note 28 continued

### Remuneration Committee

The working procedures of the Board of Directors stipulate that remuneration to Group Management is proposed by a Remuneration Committee. The Committee comprises the Chairman of the Board and two additional Directors. As of the AGM in April, 2004, the Committee members were Michael Treschow (Chairman), Barbara R. Thoralfsson and Karel Vuursteen. In October 2004, Aina Nilsson Ström replaced Barbara R. Thoralfsson, who succeeded Louis R. Hughes in the Audit Committee.

The Remuneration Committee establishes principles for remuneration for the President and the other members of Group Management, subject to subsequent approval by the Board of Directors. Proposals submitted by the Remuneration Committee to the Board of Directors include targets for variable compensation, the relationship between fixed and variable salary, changes in fixed or variable salary, criteria for assessment of variable salary, long-term incentives, pension terms and other benefits.

A minimum of two meetings is convened each year and additional meetings are held when needed. Seven meetings were held during 2004.

### General principles for compensation within Electrolux

The overall principles for compensation within Electrolux are tied strongly to the position held, individual as well as team performance, and competitive compensation in the country of employment.

The overall compensation package for higher-level management comprises fixed salary, variable salary in the form of a short-term incentive based on annual performance targets, long-term incentives, and benefits such as pensions and insurance.

Electrolux strives to offer fair and competitive total compensation with an emphasis on “pay for performance”. Variable compensation thus represents a significant proportion of total compensation for higher-level management. Total compensation is lower if targets are not achieved.

In 2003, the Group introduced a uniform program for variable salary for management and other key positions. Variable salary is based on a financial target for value creation as well as non-financial targets. Each job level is linked to a target and a stretch level for variable salary, and the program is capped.

In 2004, Electrolux introduced a new performance-based long-term incentive program that replaced the option program for less than 200 senior managers of the Group. The performance share program is linked to targets for the Group’s value creation over a three-year period.

The vesting and exercise rights of the option programs launched up till 2003 will continue as scheduled.

### Terms of employment for the President

The compensation package for the President comprises fixed salary, variable salary based on annual targets, long-term incentive programs and other benefits such as pensions and insurance.

Base salary is revised annually per January 1. The annualized base salary for 2004, was SEK 7,600,000 (6,600,000), corresponding to an increase of 15.2% over 2003. Salary did not increase in 2003.

The variable salary is based on an annual target for value created within the Group. The variable salary is 70% of the annual base salary at target level, and capped at 110% at stretch level. Variable salary earned in 2004 was SEK 4,246,000 (288,000).

The President participates in the Group’s long-term incentive programs. The long-term incentive programs comprise the new performance-based long-term share program introduced in 2004, as well as previous option programs. For more information on these programs, see below.

The notice period for the company is 12 months, and for the President 6 months. There is no agreement for special severance compensation. The President is not eligible for fringe benefits such as a company car or housing.

### Pensions for the President

The President is covered by the Group’s pension policy. Retirement age for the President is 60. In addition to the retirement contribution, Electrolux provides disability and survivor benefits.

The retirement benefit is payable for life or a shorter period of not less than 5 years. The President determines the payment period at the time of retirement.

The President is covered by an alternative ITP-plan that is a defined contribution plan in which the contribution increases with age. In addition, he is covered by two supplementary defined contribution plans. The annual cost for retirement is approximately 35% of pensionable salary. Pensionable salary is calculated as the current fixed salary plus the average actual variable salary for the last three years. Pension costs in 2004 amount to SEK 3,683,000 (3,894,000).

### Compensation to Group Management

| | 2004 | | | | | 2003 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| '000 SEK, unless otherwise stated | Annual fixed salary[1] | Variable salary, earned 2004, paid 2005[2] | Pension cost | Long-term incentive[3] | Total | Annual fixed salary[1] | Variable salary, earned 2003, paid 2004 | Pension costs[4] | Value of options granted[5] | Total |
| President and CEO | 7,708 | 4,246 | 3,683 | 2,400 | 18,037 | 7,152 | 288 | 3,894 | 1,620 | 12,954 |
| Other members of Group Management[6] | 36,958 | 16,279 | 27,569[7] | 10,800 | 91,606 | 37,248 | 11,807 | 21,783 | 8,100 | 78,938 |
| **Total** | **44,666** | **20,525** | **31,252** | **13,200** | **109,643** | **44,400** | **12,095** | **25,677** | **9,720** | **91,892** |

1) Including vacation salary, paid vacation days and travel allowance.

2) The variable salary as estimated in early 2005, and may differ from the final amount.

3) Target value of Share Program 2004.

4) In addition to this amount, approximately SEK 604,500 has been booked as a contingent liability related to death and disability coverage for the President and CEO, and a total of approximately SEK 772,900 for the other members of Group Management.

5) The value is calculated with the Black-Scholes Options Valuation model at the date of grant with a volatility factor of 30% and dividend growth rate in line with the historical trend, resulting in SEK 27 per option. No reduction in value has been made for the absence of transferability and other restrictions inherent in employee stock option programs.

6) In 2004, other members of Group Management comprised 11 people up to October and 9 for the rest of the year. In 2003, other members of Group Management comprised 11 people. Salaries and other compensation to members of Group Management after leaving their function as a member of Group Management is not included.

7) During 2004, the supplementary pension plan for some of the Swedish members of Group Management was amended retroactively from 2002, resulting in an additional cost of SEK 5,800,000 in 2004. This was related to a change from a defined benefit to a defined contribution pension scheme.

## Note 28 continued

The company will finalize outstanding payments to the Alternative ITP-plan and one of the supplementary plans, provided that the President retains his position until age 60.

In addition to the retirement contribution, Electrolux provides disability benefits equal to 70% of pensionable salary, including credit for other disability benefits, plus survivor benefits maximized to 250 (150) Swedish base amounts, as defined by the Swedish National Insurance Act. The survivor benefit is payable over a minimum five-year period.

The capital value of pension commitments for the current President, prior Presidents and survivors is SEK 122m (127). In addition there are commitments regarding death and disability benefit of SEK 3m (3).

**Compensation for other members of Group Management**

Like the President, other members of Group Management receive a compensation package that comprises fixed salary, variable salary based on annual targets, long-term incentive programs and other benefits such as pensions and insurance.

Base salary is revised annually per January 1. The average base salary increase in 2004 was 5.7%, and 11.0%, with promotions included.

Variable salary for sector heads in 2004 is based on both financial and non-financial targets. The financial targets comprise the value created on sector and Group level. The non-financial target is focused on product innovation.

The target for variable salary for European-based sector heads is 45–50% of annual base salary, maximized to 90–100%. Corresponding figures for the US-based sector head are 100% and 150%.

Group staff heads receive variable salary based on value created for the Group and on performance objectives within their functions. The target variable salary is 30% of annual base salary, maximized to 55%.

The members of Group Management participate in the Group's long-term incentive programs. These programs comprise the new performance-based long-term share program introduced in 2004 as well as previous option programs. For more information on these programs, see below.

There is no agreement for special severance compensation.

The Swedish members of Group Management are not eligible for fringe benefits such as company cars or housing. For members of Group Management employed outside of Sweden, varying fringe benefits and conditions may apply, depending upon the country of employment.

**Pensions for other members of Group Management**

The members of Group Management are covered by the Group's pension policy.

The retirement age is 65 for one Swedish member of Group Management, and 60 for the others. Swedish members of Group Management are covered by the ITP-plan or the Alternative ITP-plan, as well as a supplementary plan.

The retirement benefit is payable for life or a shorter period of not less than 5 years. The participant determines the payment period at the time of retirement.

For members of Group Management employed outside of Sweden, varying pension terms and conditions apply, depending upon the country of employment. The earliest retirement age for a full pension is 62.

The Swedish members of Group Management are covered by an alternative ITP-plan that is a defined contribution plan where the contribution increases with age. The contribution is between 20% and 35% of pensionable salary, between 7.5 and 30 base amounts. The pensionable salary is calculated as the current fixed salary, plus the average variable salary for the last three years.

The Swedish members are also covered by a supplementary defined contribution plan. In 2004, the plan was revised retroactively from 2002. Following the revision, the premiums amount to 35% of the pensionable salary. In addition, four members are covered by individual additional contributions as a consequence of the switch of plans in 2001. In addition to the retirement contribution, Electrolux provides disability benefits equal to 70% of pensionable salary including credit for other disability benefits, plus survivor benefits maximized to 250 (150) base amounts. The survivor benefit is payable over a minimum five-year period.

One Swedish member of Group Management has chosen to retain a defined benefit pension plan on top of the ITP-plan. The retirement age for this member is 65 and the benefits are payable for life.

These benefits equal 32.5% of the portion of pensionable salary corresponding to 20–30 base amounts as defined by the Swedish National Insurance Act, 50% of the portion corresponding to 30–100 base amounts, and 32.5% of the portion exceeding 100 base amounts.

In addition, Electrolux provides disability and survivor benefits.

**Long-term incentive programs**

Over the years, Electrolux has implemented several long-term incentive programs (LTI) for senior managers. These programs are intended to attract, retain and motivate the participating managers by providing long-term incentives through benefits linked to the company's share price. They have been designed to align management incentives with shareholder interests. A detailed presentation of the different programs is given below.

**1998, 1999 and 2000 option programs**

In 1998, an annual program for employee stock options was introduced for approximately 100 senior managers. Options were allotted on the basis of value created according to the Group's model for value creation. If no value was created, no options were issued. The options can be used to purchase Electrolux B-shares at a strike price that is 15% higher than the average closing price of the Electrolux B-shares on the Stockholm Stock Exchange during a limited period prior to allotment. The options were granted also free of consideration. Annual programs with the same conditions were also launched in 1999 and 2000. The 1998 program expired on February 25, 2004.

**2001, 2002 and 2003 option programs**

In 2001, a new program for employee stock options was introduced for less than 200 senior managers. The options can be used to purchase Electrolux B-shares at a strike price that is 10% above the average closing price of the Electrolux B-shares on the Stockholm Stock Exchange during a limited period prior to allotment. The options were granted free of consideration. Annual programs with the same conditions were also launched in 2002 and 2003.

**Recalculation of option exercise price 2004**

In light of the redemption of shares in Electrolux in 2004, option exercise prices were recalculated in accordance with standard terms that are generally applied in Sweden for options and similar instruments. These terms were included in the option agreements.

Amounts in SEKm, unless otherwise stated

## Note 28 continued

### Options provided to Group Management 1999–2003

| | Number of options | | | |
|---|---|---|---|---|
| | Beginning of 2004 1) | Cancelled | Exercised | End of 2004 |
| President and CEO | 212,300 | –15,900 | — | 196,400 |
| Other members of Group Management | 1,001,400 | –53,600 | — | 947,800 |
| **Total** | **1,213,700** | **–69,500** | **—** | **1,144,200** |

1) Refers to holdings at the beginning of the year by members of Group Management as of December 31, 2004.

### Option programs 1998–2003

| | | Total number of outstanding options | | | | | |
|---|---|---|---|---|---|---|---|
| Program | Grant date | Beginning of 2004 | End of 2004 | Number of options per lot 1) | Strike price, SEK 2) | Expiration date | Vesting, years |
| 1998 | Feb. 25, 1999 | 455,000 | — | 10,600 | 170 | Feb. 25, 2004 | 1 |
| 1999 | Feb. 25, 2000 | 1,002,000 | 885,100 | 16,700 | 212.70 (216) | Feb. 25, 2005 | 1 |
| 2000 | Feb. 26, 2001 | 472,300 | 426,800 | 6,500 | 167.40 (170) | Feb. 26, 2006 | 1 |
| 2001 | May 10, 2001 | 2,365,000 | 2,215,000 | 15,000 | 174.30 (177) | May 10, 2008 | 3 3) |
| 2002 | May 6, 2002 | 2,805,000 | 2,670,000 | 15,000 | 188.10 (191) | May 6, 2009 | 3 3) |
| 2003 | May 8, 2003 | 2,700,000 | 2,670,000 | 15,000 | 161.50 (164) | May 8, 2010 | 3 3) |

1) The President and CEO was granted 4 lots, Group Management members 2 lots and all other senior managers 1 lot.
2) Strike prices were recalculated in 2004 in light of the redemption of shares (original prices in parentheses). For more information, see also page 65.
3) Of the 2001, 2002 and 2003 options, one third vests after 12 months, one third after 24 months and the final one third after 36 months.

### Change in number of options per program

| | Number of options 2003 | | | | | Number of options 2004 | | |
|---|---|---|---|---|---|---|---|---|
| Program | Jan. 1, 2003 | Granted | Exercised | Cancelled 1) | Dec. 31, 2003 | Exercised | Cancelled 1) | Dec. 31, 2004 |
| 1998 | 556,500 | — | 80,300 | 21,200 | 455,000 | 10,600 | 444,400 | — |
| 1999 | 1,068,800 | — | — | 66,800 | 1,002,000 | — | 116,900 | 885,100 |
| 2000 | 524,300 | — | 13,000 | 39,000 | 472,300 | — | 45,500 | 426,800 |
| 2001 | 2,475,000 | — | 20,000 | 90,000 | 2,365,000 | — | 150,000 | 2,215,000 |
| 2002 | 2,865,000 | — | — | 60,000 | 2,805,000 | — | 135,000 | 2,670,000 |
| 2003 | — | 2,745,000 | — | 45,000 | 2,700,000 | — | 30,000 | 2,670,000 |

1) Options are cancelled if not exercised, e.g., due to expiration at the end of the term of the options or before their term of expiration, normally because of termination of employment. Cancellation is governed by the provisions of the option program.

### Synthetic options 2000

In 2000, the Board granted Wolfgang König, Head of Major Appliances Europe until November 8, 2004, 118,400 synthetic employee stock options with the right to receive a cash amount for each option when exercised. This amount was calculated as the difference between the current share price and the strike price of SEK 145.70 (148). The options may be exercised until November 8, 2005. The options were allotted without consideration and as compensation for lost options with his former employer. This program is hedged with an equity swap. The annual cost is SEK 0.6m.

### Performance Share Program 2004

The Annual General Meeting 2004 approved a new annual long-term incentive program.

The program is based on value-creation targets for the Group that are established by the Board of Directors, and involves an allocation of shares if these targets are achieved or exceeded after a three-year period. The program comprises B-shares.

The program is in line with the Group's principles for remuneration based on performance, and is an integral part of the total compensation for Group Management and other senior managers. The program benefits the company's shareholders and also facilitates recruitment and retention of competent employees.

Allocation of shares under the program is determined on the basis of three levels of value creation, calculated according to the Group's previously adopted definition of this concept. The three levels are "entry", "target" and "stretch". "Entry" is the minimum level that must be reached to enable allocation. "Stretch" is the maximum level for allocation and may not be exceeded regardless of the value created during the period. The number of shares allocated at "stretch" is 50% greater than at "target". The shares will be allocated after the three-year period free of charge. Participants are permitted to sell the allocated shares to cover personal income tax, but the remaining shares must be held for two years.

The program covers almost 200 senior managers and key employees in more than 20 countries. Participants in the program comprise five groups, i.e., the President, other members of Group Management, and three groups of other senior managers and key employees.

### Number of shares distributed per individual performance target

| | Target number of B-shares 1) | Target value in SEK 2) |
|---|---|---|
| President and CEO | 18,228 | 2,400,000 |
| Other members of Group Management | 9,114 | 1,200,000 |
| Other senior managers, cat. C | 6,836 | 900,000 |
| Other senior managers, cat. B | 4,557 | 600,000 |
| Other senior managers, cat. A | 3,418 | 450,000 |

1) Each target value is subsequently converted into a number of shares. The number of shares is based on a share price of SEK 152.90, calculated as the average closing price of the Electrolux B-share on the Stockholm Stock Exchange during a period of ten trading days before the day participants were invited to participate in the program, less the present value of estimated dividend payments for the period until shares are allotted.
2) Total target value for all participants is SEK 111m.

## Note 28 continued

It was decided at the Annual General Meeting that the company's obligations under the program should be secured by repurchased shares.

The discounted value of the targeted number of shares in the 2004 performance share program as of the grant date was SEK 111m.

If the target level is attained, the total cost of the program over a three-year period is estimated at SEK 150m, including costs for employer contributions and the financing cost for the repurchased shares. If the maximum level (stretch) is attained, the cost is estimated at a maximum of SEK 240m. If the entry level for the program is not reached, the minimum cost will amount to SEK 17m, i.e., the financing cost for the repurchased shares. The distribution of repurchased shares under this program will result in an estimated maximum increase of 0.48% in the number of outstanding shares.

### Repurchased shares for the LTI-programs

The company uses repurchased Electrolux B-shares to meet the company's obligations under the stock option and share programs. The shares will be sold to option holders who wish to exercise their rights under the option agreement(s) and if performance targets are met will be distributed to share-program participants. Electrolux intends to sell additional shares on the market in connection with the exercise of options or distribution of shares under the share program in order to cover the cost of employer contributions. In 2004, the Annual General Meeting approved the sale of 1,313,010 shares to cover the employer contributions related to the LTI-programs delivered in 1999–2003. The estimated financing costs for hedging through repurchased shares was SEK 76m, calculated on an annual basis.

Assuming that all outstanding stock options allotted up to and including 2003 are exercised and that the targeted number of shares in the performance share program are distributed, a sale of previously repurchased shares will result in an increase of 3.64% in the number of outstanding shares. This includes the sale of shares to cover employer contributions.

### Accounting principles

The Group accounts for the employer contributions that are expected to be paid when the options are exercised or the shares distributed. A provision has been made for the value of the synthetic options granted to Wolfgang König in 2000. The value of the options was calculated according to the Black-Scholes model, and the provision covers related employer contributions. The provision is revalued periodically.

Starting in 2005, Electrolux will apply the IFRS 2 rules for Share-based Payment (see page 80).

## Note 29 Fees to auditors

PricewaterhouseCoopers (PwC) are appointed auditors for the period until the 2006 Annual General Meeting.

### Fees to auditors

| | Group | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| **PwC** | | | |
| Audit fees[1] | 46 | 45 | 38 |
| Audit-related fees[2] | 3 | 4 | 1 |
| Tax fees[3] | 10 | 9 | 9 |
| Other fees | — | — | — |
| **Total fees to PwC** | **59** | **58** | **48** |
| Audit fees to other audit firms | 2 | 3 | 4 |
| **Total fees to auditors** | **61** | **61** | **52** |

1) Audit fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the Company audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; internal control reviews; and employee benefit plan audits.

3) Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax planning and services.

## Note 30 Shares and participations

### Associated companies and joint ventures

| | Holding, % | Book value, equity method, SEKm |
|---|---|---|
| Eureka Forbes Ltd, India | 40.0 | 77 |
| Atlas Eléctrica, S.A., Costa Rica | 18.9 | 46 |
| Nordwaggon AB, Sweden | 50.0 | 37 |
| Sidème S.A., France | 39.3 | 15 |
| Viking Financial Services, USA | 50.0 | 13 |
| Diamant Boart S.A., Argentina | 46.7 | 4 |
| A/O Khimki Husqvarna, Russia | 50.0 | 2 |
| Diamant Boart Inc., The Philippines | 20.0 | 1 |
| Manson Tools AB, Sweden | 49.0 | 1 |
| e2 Home AB, Sweden | 50.0 | 0 |
| | | **196** |

Electrolux does not have unlimited liability for any of these companies.

### Other companies

| | Holding, % | Book value, SEKm |
|---|---|---|
| Veneta Factoring S.p.A., Italy | 10.0 | 20 |
| Philco Air Conditioning, China | 5.0 | 6 |
| Financeria Veneta S.A., Spain | 10.0 | 6 |
| Banca Popolare Friuladria S.p.A., Italy | 0,0 | 3 |
| Business Partners B.V., The Netherlands | 0.7 | 3 |
| Other | — | 8 |
| | | **46** |

Amounts in SEKm, unless otherwise stated

## Note 30 continued

| Subsidiaries | | Holding, % |
|---|---|---|
| **Major Group companies** | | |
| Australia | Electrolux Home Products Pty. Ltd | 100 |
| Austria | Electrolux Hausgeräte G.m.b.H. | 100 |
| | Electrolux Austria G.m.b.H. | 100 |
| Belgium | Electrolux Home Products Corp. N.V. | 100 |
| | Electrolux Belgium N.V. | 100 |
| | Diamant Boart International S.A. | 100 |
| Brazil | Electrolux do Brasil S.A. | 100 |
| Canada | Electrolux Canada Corp. | 100 |
| China | Electrolux Home Appliances (Hangzhou) Co. Ltd | 100 |
| | Electrolux (China) Home Appliance Co. Ltd | 100 |
| | Electrolux (Changsha) Appliance Co. Ltd | 100 |
| Denmark | Electrolux Home Products Denmark A/S | 100 |
| Finland | Oy Electrolux Ab Electrolux Kotitalouskoneet | 100 |
| France | Electrolux France SAS | 100 |
| | Electrolux Home Products France SAS | 100 |
| | Electrolux Professionnel SAS | 100 |
| Germany | Electrolux Deutschland GmbH | 100 |
| | AEG Hausgeräte GmbH | 100 |
| Hungary | Electrolux Lehel Hütögépgyár Kft | 100 |
| India | Electrolux Kelvinator Ltd | 90 |
| Italy | Electrolux Zanussi Italia S.p.A. | 100 |
| | Electrolux Professional S.p.A. | 100 |
| | Electrolux Italia S.p.A. | 100 |
| | Electrolux Home Products Italy S.p.A. | 100 |
| Luxembourg | Electrolux Luxembourg S.à r.l. | 100 |
| Mexico | Electrolux de Mexico, S.A. de CV | 100 |
| The Netherlands | Electrolux Associated Company B.V. | 100 |
| | Electrolux Holding B.V. | 100 |
| | Electrolux Home Products (Nederland) B.V. | 100 |
| Norway | Electrolux Home Products Norway AS | 100 |
| Spain | Electrolux España S.A. | 100 |
| | Electrolux Home Products España S.A. | 100 |
| | Electrolux Home Products Operations España S.L. | 100 |
| Sweden | Husqvarna AB | 100 |
| | Electrolux Laundry Systems Sweden AB | 100 |
| | Electrolux HemProdukter AB | 100 |
| | Electrolux Professional AB | 100 |
| | Electrolux Floor Care and Light Appliances AB | 100 |
| Switzerland | Electrolux Holding AG | 100 |
| | A+T Hausgeräte AG | 100 |
| United Kingdom | Electrolux Plc | 100 |
| | Electrolux Outdoor Products Ltd | 100 |
| | Electrolux Professional Ltd | 100 |
| USA | Electrolux Home Products Inc. | 100 |
| | Electrolux North America Inc. | 100 |
| | Electrolux Professional Inc. | 100 |
| | Electrolux Professional Outdoor Products Inc. | 100 |

A detailed specification of Group companies has been submitted to the Swedish Companies Registration Office and is available on request from AB Electrolux, Investor Relations and Financial Information.

## Note 31 US GAAP information

The consolidated financial statements have been prepared in accordance with Swedish accounting standards (Swedish GAAP), which differ in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). Following is a description of those differences that have a significant effect on net income and shareholders' equity. The Group also submits an annual report on Form 20-F to the US Securities and Exchange Commission (SEC).

### Acquisitions

According to Swedish accounting standards, prior to 1996, the tax benefit arising from realized pre-acquisition loss carry-forwards of an acquired subsidiary could be recognized in earnings as a reduction of current tax expenses when utilized. Under US GAAP, the benefits arising from such loss carry-forwards are required to be recorded as a component of purchase accounting, usually as a reduction of goodwill. From 1996, these differences no longer exist. Up to 2001, acquisition provisions could be established under Swedish accounting standards for restructuring costs related to other subsidiaries affected by the acquisition. These provisions are reversed to goodwill under US GAAP. From 2001, these differences no longer exist.

### Goodwill and other intangible assets

Under Swedish GAAP, all intangible assets including goodwill must be amortized over the expected useful life of the asset. Assigning indefinite useful life is not permitted.

According to the US accounting standard SFAS 142, "Goodwill and

## Note 31 continued

Other Intangible Assets", applicable as from January 1, 2002, acquisition goodwill and other intangible assets that have indefinite useful lives are not amortized, but are instead tested for impairment at least annually at a reporting unit level. Consequently, amortization of goodwill recorded under Swedish GAAP has been reversed for US GAAP purposes. Amortization has also been reversed for intangible assets recognized under Swedish GAAP that have been assigned indefinite lives under SFAS 142, such as the acquisition of the right to use the Electrolux trademark in North America. The goodwill and the intangible assets with assigned indefinite lives have been tested for impairment in accordance with the methods prescribed in SFAS 142. Prior to the adoption of SFAS 142, the Group applied the discounted approach under APB 17 in order to test these assets for impairment. No impairment charges were recorded as a result of annual tests performed in December, 2004.

Under Swedish GAAP, intangible assets acquired in a business combination can be recorded separately from goodwill only if they, based on a control-oriented framework, meet the definition and recognition criteria for an intangible asset. SFAS 141 requires recognition of identifiable intangible assets based on separability and contractually related criteria. The purchase price allocation for Diamant Boart, acquired 2002, was finalized during 2003 and intangible assets were recognized in compliance with both Swedish GAAP and US GAAP. No major acquisitions were made during 2004.

**Product development costs**

Prior to 2002, Swedish GAAP allowed capitalization of both research and development costs; however, the majority of Swedish corporations, including Electrolux, did not capitalize such costs. Beginning 2002, product development costs associated with the creation of intangible assets should be capitalized under Swedish GAAP if the following can be demonstrated:

1. the technical feasibility of completing the intangible asset,
2. the intention to complete it,
3. the ability to use or sell the intangible asset,
4. how the asset will generate future economic benefits, and
5. the ability to measure reliably the expenditure attributable to the intangible asset during the development.

US GAAP requires that research and development costs be expensed as incurred, except for certain costs associated with the development of software, as discussed below.

**Software development**

Prior to 2002, all costs related to the development of software for internal use were generally expensed as incurred under Swedish GAAP. Under US GAAP, direct internal and external costs incurred during the application development stage should be capitalized, whereas, internal and external costs incurred during the preliminary project stage and the post-implementation stage should be expensed as incurred. As from 2002, Swedish GAAP is in all material aspects in line with US GAAP.

**Restructuring and other provisions**

Up until December 31, 2002, the recognition of restructuring cost under US GAAP, as specified in EITF 94-3, was deferred until a commitment date was established. This was usually the date on which management, having appropriate level of authority, committed the Group to the restructuring plan, identified all significant actions, including the method of disposition and the expected date of completion, and, in the case of employee terminations, specified the severance arrangements and communicated them to employees. Prior to 2002, the guidance under Swedish GAAP was not as prescriptive and, in certain circumstances, allowed for earlier recognition. Additionally, US GAAP was more prescriptive than Swedish GAAP regarding the types of costs which were allowed to be classified as restructuring cost, specifically those which were a direct result of the restructuring and which were not associated with the ongoing activities of the Group. As from 2002, Swedish GAAP was in all material aspects in line with EITF 94-3.

In January 2003, SFAS 146, "Accounting for costs Associated with Exit or Disposal Activities", was adopted under US GAAP. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than at the date of an entity's commitment to an exit plan, further the standard restricts what type of costs that can be included in the restructuring provision. The restructuring costs in 2004 have been adjusted in accordance with SFAS 146.

The SFAS 146 nullifies EITF 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. All restructuring activities initiated prior to January 1, 2003, continue to be accounted for in accordance with EITF 94-3 under US GAAP.

**Pensions and other post-employment benefits**

As of January 1, 2004, accounting for pensions and other post-service benefits is adopted in accordance with RR 29, "Employee Benefits" which in all material aspects is similar to IAS 19, "Employee Benefits". Prior to 2004, these benefits were recognized according to local laws and accounting principles in each country. The American accounting principles, US GAAP, are defined in SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers Accounting for Post-retirement Benefits Other than Pensions". A part of the prior differences, in particular the use of actuarial assumptions regarding future increase in salary, discount methods and inflation, and the recognition of the net provisions in the balance sheet, have been reduced through the adoption of RR 29. Consequently, the transition adjustment under RR 29 has offset a major part of the previous US GAAP differences and thus reduced the US GAAP reconciliation adjustment. The remaining material differences between RR 29 and US GAAP which affect the Group are:

- Different dates of implementation cause significant differences in accumulated actuarial gains and losses. SFAS 87 was implemented in 1987 for US plans and in 1989 for non-US plans. SFAS 106 was implemented in 1993.
- Under RR 29, the estimated return on plan assets is based on actual market values, while US GAAP allows market-related values as the basis for estimation of the return on assets.
- Under RR 29, the past service cost and expenses resulting from plan amendments are recognized immediately if vested or amortized until vested. Under US GAAP, prior service cost is generally recognized over the average remaining service life of the plan participants.
- Under US GAAP, an additional minimum liability should be recognized if the accumulated benefit obligation exceeds the sum of the fair value of plan assets and unrecognized prior service costs. A minimum liability is not required under RR 29.

In 2004, the US subsidiaries have been affected by The Medicare Prescription Drug, Improvement and Modernization Act of 2003. This change in legislation causes a reduction in the companies' obligation under FAS 106. This reduction has been treated as an actuarial gain.

Amounts in SEKm, unless otherwise stated

## Note 31 continued

### Derivatives and hedging

Effective January 1, 2001, the Group adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”, and SFAS 138, “Accounting for Certain Derivative Instruments and Certain Hedging Transactions, an Amendment to FASB Statement 133”, for US GAAP reporting purposes. These statements establish accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet at fair value as either assets or liabilities, and requires the Group to designate, document and assess the effectiveness of a hedge to qualify for hedge accounting treatment. Under Swedish GAAP, unrealized gains and losses on hedging instruments used to hedge future cash flows are deferred and recognized in the same period that the hedged transaction is recognized.

In accordance with the transition provisions of SFAS 133, the Group recorded a net transition loss of approximately SEK 24m in accumulated other comprehensive income and SEK 4m net loss in earnings to recognize the fair value of derivative and hedging instruments. Substantially, all of the transition adjustment recognized in accumulated other comprehensive income has been recognized in earnings as of December 31, 2001. The subsequent adjustments from Swedish GAAP to US GAAP represent marked-to-market effects and recognition of items not qualifying for hedge accounting treatment under US GAAP.

Prior to the adoption of SFAS 133 and SFAS 138, management decided not to designate any derivative instruments as hedges for US GAAP reporting purposes except for certain instruments used to hedge the net investments in foreign operations. Consequently, derivatives used for the hedging of future cash flows, fair-value hedges and trading purposes are marked-to-market in accordance with US GAAP. This increases the volatility of the income statement under US GAAP as a result of the deviation in accounting standards between Sweden and the United States.

### Securities

According to Swedish accounting standards, debt and equity securities held for trading purposes are reported at the lower of cost or market. Financial assets and other investments, that are to be held to maturity, are valued at acquisition cost. In accordance with US GAAP and SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities,” holdings are classified, according to management’s intention, as either “held-to-maturity,” “trading,” or “available for sale”. Debt securities classified as “held-to-maturity” are reported at amortized cost. Trading securities are recorded at fair value, with unrealized gains and losses included in current earnings. Debt and marketable equity securities that are classified as available for sale are recorded at fair value, with unrealized gains and losses reported as a separate component of shareholders’ equity. Electrolux classifies its debt and equity securities as “held for trading” and “available for sale”.

### Discontinued operations

Under Swedish GAAP, the divestment of a segment or a major part of a segment requires segregating information about the divested operations from the continuing operations. None of the divestments made by Electrolux during the three years ended 2004 were of that magnitude.

Under US GAAP, the definition of a discontinued operation changed in 2002 with the adoption of SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Under SFAS 144, each of the following 2003 and 2002 divestments are accounted for as discontinued operations: Vestfrost, the compressor operation, Zanussi Metallurgica, the European motor operation, the Mexican compressor plant, the European home comfort operation and the remainder of the leisure appliance product line. Accordingly, the results of operations for 2003 and 2002 relating to these divestments, including any loss for write-down to fair value less cost to sell, and any gain or loss on disposal are required to be reclassified as discontinued operations. Additionally, US GAAP also requires the results of operations of these divestments for prior years to be reclassified from continuing operations to discontinued operations. The following table sets forth the amounts reflected as discontinued operations in 2003 and 2002, and the amounts reclassified from continuing to discontinued operations, with respect to these divestments, under US GAAP. No major divestments were made during 2004.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Net sales | — | 2,436 | 4,828 |
| Operating income | — | 62 | 1,396 |
| Net income | — | 2 | 1,088 |

### Revaluation of assets

In accordance with Swedish GAAP, Electrolux has written up certain land and buildings to values in excess of the acquisition cost. Such revaluation is not permitted in accordance with US GAAP.

### Stock-based compensation

Electrolux has several compensatory employee stock option programs, which are offered to senior managers. As a consequence of the decision taken by the Annual General Meeting to use treasury shares when the options are exercised, the Group has in 2002 dissolved the liability that had previously been recognized for Swedish GAAP purposes. For US GAAP purposes, Electrolux records a liability in respect of accrued compensation for its variable plans. According to Swedish accounting practice, employers shall record provisions for related social fees at the time the options are granted. US GAAP provides that the employer payroll taxes due upon exercise of stock options must be recognized as an expense at the exercise date of the option.

### Guarantees

In November 2002, the FASB issued FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”. The initial recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. Swedish GAAP does not require recognition of the fair value of a guarantee. There was no material impact on the Group’s consolidated financial statements as a result of adopting FIN 45.

### Adjustments not affecting equity or income

*Receivables sold with recourse*

Under Swedish GAAP, receivables that are sold with recourse are reported as a contingent liability. US accounting standard SFAS 140 permits the derecognizing of such assets only if the transferor has effectively surrendered control over the transferred assets. The amounts are therefore reclassified and reported as accounts receivables and loans for US GAAP purposes.

*Reclassifications*

In accordance with Swedish GAAP, Electrolux has recorded advances received from customers as a reduction to inventory. Under US GAAP, such items have been classified as a current liability.

## Note 31 continued

**Consolidated statement of cash flow**

The statement of cash flow presented in AB Electrolux financial statements differs from the statement of cash flows according to SFAS 95. The main differences are the following: SFAS 95 requires a reconciliation of cash and cash equivalents (liquid assets with maturities of three months or less when acquired), whereas Electrolux also includes financial instruments with maturities of three months or more at the time of acquisition in liquid assets; SFAS 95 requires that changes in long-term accounts receivable are included in cash flows from operating activities, whereas Electrolux includes these changes as investments. SFAS 95 requires changes in long-term loans to be reported gross showing proceeds and principal payments, whereas Electrolux presents a net amount.

**Recently issued accounting standards**

**FIN 46 (R)** In January 2003, the FASB issued Interpretation 46, “Consolidation of Variable Interest Entities”, and in December 2003, a revised interpretation was issued (FIN 46 (R)), which clarified certain provisions of FIN 46 and provided for further scope exception. FIN 46 (R) requires variable interest entities to be consolidated by the party that has a variable interest that will absorb a majority of the entity’s expected losses and/or receive a majority of the entity’s expected residual returns or both (the primary beneficiary). A variable interest entity is a legal entity that possesses one or more of the following characteristics:

1. equity interest holders as a group lack the characteristics of a controlling financial interest, including: decision making ability and an interest in the entity’s residual risks and rewards; or
2. the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support; or
3. equity investments having voting rights that are not proportionate to their economic interest and the activities of the entity involve or are conducted on behalf of an investor with a disproportionate small voting interest.

There was no impact in the Group’s consolidated financial statements as a result of adopting FIN 46 (R) and there are no significant variable interest entities to be disclosed.

**SAB 104** On December 17, 2003, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin 104 (SAB 104), “Revenue Recognition”, which supercedes SAB 101,” Revenue Recognition in Financial Statements”. SAB 104’s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables”. The revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. There was no impact in the Group’s consolidated financial statements as a result of adopting SAB 104.

**EITF 03-1** In June 2004, the EITF issued EITF 03-1, “The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments”. The issue includes determining the meaning of other than temporary impairment and its application to debt and equity securities within the scope of SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities” and equity securities that are not subject to the scope of SFAS No. 115 and not accounted for under the equity method of accounting. EITF 03-1 will be effective for disclosure in reporting periods beginning from June 15, 2004, and will have no material impact on the Group’s consolidated financial statement.

**EITF 03-6** In March 2004, EITF issued EITF 03-6, “Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share”. This issue addressed changes in the reporting and calculation requirements for earnings per share, providing the method to be used when a company has granted holders of any form of security rights to participate in the earnings of the company along with the participation rights of common stockholders. This issue will be effective in reporting periods beginning after March 31, 2004. There will be no impact on the Group’s reporting and disclosure as a result of adopting EITF 03-6.

**FAS 151** In November 2004, the FASB issued Statement No. 151, "Inventory Costs, an amendment of ARB No. 43." The new standard requires that idle facility expense, freight, handling costs, and wasted material (spoilage) are recognized as current-period charges. In addition, this statement requires allocation of fixed production overhead to the costs of conversion based on the normal capacity of a production facility. The provisions of this statement are effective for inventory costs that incur during fiscal years beginning after June 15, 2005. The adoption of the provisions of FAS 151 will not have an impact on the Group’s consolidated financial statement.

**FAS 153** In December 2004, the FASB issued SFAS 153, “Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.” The guidance in APB Opinion No. 29, “Accounting for Nonmonetary Transactions”, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Electrolux do not believe that the adoption of this Statement will materially affect the Group’s consolidated financial statement.

**FAS 123 (R)** In December 2004 the FASB issued SFAS No. 123 (R), “Share Based Payment”, which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation”, as amended by SFAS No. 148. SFAS No. 123 (R) is for interim or annual periods beginning after June 15, 2005. SFAS No. 123 (R) requires all share-based payments to employees, including grants of stock options, to be recognized in the statement of operations based on their fair values. Electrolux is in the process of assessing the impact of SFAS 123 (R).

Amounts in SEKm, unless otherwise stated

## Note 31 continued

### Summary of the effects that application of US GAAP would have on consolidated net income, equity and the balance sheet

| Consolidated net income | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income as reported in the consolidated income statement | 3,148 | 4,778 | 5,095 |
| Adjustments before taxes | | | |
| Acquisitions | — | — | 53 |
| Goodwill and other intangible assets | 166 | 193 | 233 |
| Development costs | –367 | –316 | –156 |
| Restructuring and other provisions | 178 | — | –545 |
| Pensions | –312 | 33 | 74 |
| Derivatives and hedging | –158 | 191 | 579 |
| Capitalization of computer software | –15 | –24 | –24 |
| Securities | 2 | 6 | –5 |
| Stock-based compensation | –87 | –7 | –69 |
| Taxes on the above adjustments | 233 | 27 | 73 |
| Net income according to US GAAP | 2,788 | 4,881 | 5,308 |
| Net income from continuing operations according to US GAAP | 2,788 | 4,879 | 4,220 |
| Net income/loss from discontinued operations according to US GAAP | — | 2 | 1,088 |
| Net income per share in SEK according to US GAAP, basic | 9.35 | 15.58 | 16.23 |
| Number of shares[1], basic | 298,314,025 | 313,270,489 | 327,093,373 |
| Net income per share in SEK according to US GAAP, diluted | 9.34 | 15.58 | 16.23 |
| Number of shares[1], diluted | 298,350,049 | 313,276,990 | 327,093,373 |

1) Weighted average number of shares outstanding through the year, after repurchase of own shares.

| Comprehensive income | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income according to US GAAP | 2,788 | 4,881 | 5,308 |
| Comprehensive income recognized in accordance with Swedish accounting principles | –2,053[1] | –1,382 | –3,121 |
| Comprehensive income recognized for US GAAP adjustments | | | |
| Translation differences | 9 | 9 | 76 |
| Pensions, net of tax –404, — and 18 respectively | 591[2] | 2 | 42 |
| Derivatives and hedging, net of tax —, 41 and 72 respectively | –2 | –104 | –183 |
| Comprehensive income according to US GAAP | 1,333 | 3,406 | 2,122 |

1) Includes translation differences SEK –451m and adjustment of opening balance SEK –1,602m, further described on page 25 in the Report by the Board of Directors.
2) Includes the corresponding US GAAP adjustment on the adjustment of the opening balance.

| Equity | 2004 | 2003 | 2002 |
|---|---|---|---|
| Equity as reported in the consolidated balance sheet | 23,410 | 27,462 | 27,629 |
| Adjustments before taxes | | | |
| Acquisitions | –546 | –564 | –594 |
| Goodwill and other intangible assets | 548 | 392 | 233 |
| Development costs | –819 | –472 | –156 |
| Restructuring and other provisions | 167 | — | — |
| Pensions | 1,102 | 419 | 355 |
| Derivatives and hedging | 143 | 303 | 257 |
| Capitalization of software | 5 | 20 | 44 |
| Securities | 3 | 1 | –5 |
| Revaluation of assets | –132 | –134 | –147 |
| Stock-based compensation | –106 | –42 | –35 |
| Taxes on the above adjustments | –208 | –37 | –77 |
| Equity according to US GAAP | 23,567 | 27,348 | 27,504 |

#### Balance sheet

The table summarizes the consolidated balance sheets prepared in accordance with Swedish accounting principles and US GAAP.

| | Swedish principles | | | US GAAP | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Intangible assets | 5,077 | 4,782 | 4,928 | 4,329 | 4,362 | 4,411 |
| Tangible assets | 16,033 | 15,638 | 18,188 | 15,901 | 15,504 | 18,085 |
| Financial assets | 4,349 | 3,190 | 4,582 | 4,552 | 3,461 | 4,744 |
| Current assets | 49,473 | 53,418 | 57,726 | 50,735 | 55,045 | 58,855 |
| Total assets | 74,932 | 77,028 | 85,424 | 75,517 | 78,372 | 86,095 |
| Equity | 23,410 | 27,462 | 27,629 | 23,567 | 27,348 | 27,504 |
| Minority interests | 10 | 27 | 592 | 10 | 27 | 592 |
| Provisions for pensions and similar commitments | 7,852 | 5,678 | 6,018 | 7,312 | 6,185 | 6,162 |
| Other provisions | 6,212 | 5,683 | 7,580 | 6,159 | 6,034 | 7,897 |
| Financial liabilities | 9,843 | 12,182 | 15,377 | 10,585 | 12,772 | 15,307 |
| Operating liabilities | 27,605 | 25,996 | 28,228 | 27,884 | 26,006 | 28,633 |
| Total equity and liabilities | 74,932 | 77,028 | 85,424 | 75,517 | 78,372 | 86,095 |

# Proposed distribution of earnings

According to the consolidated financial statements, the Group's unappropriated earnings amount to SEK 10,729m.
No allocation to restricted equity is required.

| | Thousands of kronor |
|---|---|
| The Board of Directors and the President propose that net income for the year | 2,214,478 |
| and retained earnings | 10,905,204 |
| **Totaling** | **13,119,682** |
| be distributed as follows: | |
| A dividend of SEK 7.00 per share to each shareholder, totaling[1] | 2,038,266 |
| To be carried forward | 11,081,416 |
| **Total** | **13,119,682** |

**Stockholm, February 14, 2005**

**Michael Treschow**
*Chairman of the Board*

**Peggy Bruzelius**
*Deputy Chairman*

**Thomas Halvorsen** **Aina Nilsson Ström** **Barbara R. Thoralfsson** **Karel Vuursteen**

**Ulf Carlsson** **Bert Gustafsson** **Annika Ögren**

**Hans Stråberg**
*President*

1) Calculated on the number of outstanding shares as per February 14, 2005. Based on the resolution adopted by the Annual General Meeting in April 2004, a maximum of 13,152,630 additional shares may be repurchased prior to the Annual General Meeting in April 2005, thereby decreasing the total dividend payment.

# Auditors' report

To the Annual General Meeting of the shareholders of AB Electrolux (Corporate Identity Number 556009-4178)

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of AB Electrolux for the year 2004. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

**Stockholm, February 28, 2005**

**PricewaterhouseCoopers AB**

**Peter Clemedtson**
*Authorized Public Accountant*
*Partner in Charge*

**Anders Lundin**
*Authorized Public Accountant*

# Eleven-year review

Amounts in SEKm, unless otherwise stated

| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| **Net sales and income** | | | | | | |
| Net sales | 120,651 | 124,077 | 133,150 | 135,803 | 124,493 | 119,550 |
| Organic growth, % | 3.2 | 3.3 | 5.5 | –2.4 | 3.7 | 4.1 |
| Depreciation and amortization | 3,178 | 3,353 | 3,854 | 4,277 | 3,810 | 3,905 |
| Items affecting comparability | –1,960 | –463 | –434 | –141 | –448 | –216 |
| Operating income | 4,714 | 7,175 | 7,731 | 6,281 | 7,602 | 7,204 |
| Income after financial items | 4,359 | 7,006 | 7,545 | 5,215 | 6,530 | 6,142 |
| Net income | 3,148 | 4,778 | 5,095 | 3,870 | 4,457 | 4,175 |
| **Cash flow** | | | | | | |
| EBITDA [2] | 9,852 | 10,991 | 12,019 | 10,699 | 11,860 | 11,325 |
| Cash flow from operations, excluding change in operating assets and liabilities | 7,140 | 7,150 | 9,051 | 5,848 | 8,639 | 7,595 |
| Changes in operating assets and liabilities | 1,442 | –857 | 1,854 | 3,634 | –2,540 | 1,065 |
| Cash flow from operations | 8,582 | 6,293 | 10,905 | 9,482 | 6,099 | 8,660 |
| Cash flow from investments | –5,358 | –2,570 | –1,011 | 1,213 | –3,367 | –3,137 |
| of which capital expenditures | –4,515 | –3,463 | –3,335 | –4,195 | –4,423 | –4,439 |
| Cash flow from operations and investments | 3,224 | 3,723 | 9,894 | 10,695 | 2,732 | 5,523 |
| Operating cash flow | 3,224 | 2,866 | 7,665 | 5,834 | 2,552 | 3,821 |
| Dividends and repurchase of shares | –5,147 | –3,563 | –3,186 | –3,117 | –4,475 | –1,099 |
| Capital expenditure as % of net sales | 3.7 | 2.8 | 2.5 | 3.1 | 3.6 | 3.7 |
| **Margins [2]** | | | | | | |
| Operating margin, % | 5.5 | 6.2 | 6.1 | 4.7 | 6.5 | 6.2 |
| Income after financial items as % of net sales | 5.2 | 6.0 | 6.0 | 3.9 | 5.6 | 5.3 |
| EBITDA margin, % | 8.2 | 8.9 | 9.0 | 7.9 | 9.5 | 9.5 |
| **Financial position** | | | | | | |
| Total assets | 74,932 | 77,028 | 85,424 | 94,447 | 87,289 | 81,644 |
| Net assets | 23,722 | 26,422 | 27,916 | 37,162 | 39,026 | 36,121 |
| Working capital | –436 | 4,068 | 2,216 | 6,659 | 9,368 | 8,070 |
| Accounts receivable | 20,627 | 21,172 | 22,484 | 24,189 | 23,214 | 21,513 |
| Inventories | 15,742 | 14,945 | 15,614 | 17,001 | 16,880 | 16,549 |
| Accounts payable | 16,550 | 14,857 | 16,223 | 17,304 | 12,975 | 11,132 |
| Equity | 23,410 | 27,462 | 27,629 | 28,864 | 26,324 | 25,781 |
| Interest-bearing liabilities | 9,843 | 12,501 | 15,698 | 23,183 | 25,398 | 23,735 |
| **Data per share, SEK [3] [4]** | | | | | | |
| Net income | 10.55 | 15.25 | 15.58 | 11.35 | 12.40 | 11.40 |
| Net income according to US GAAP | 9.35 | 15.58 | 16.23 | 10.90 | 13.55 | 11.05 |
| Equity | 80 | 89 | 87 | 88 | 77 | 70 |
| Dividend [5] | 7.00 | 6.50 | 6.00 | 4.50 | 4.00 | 3.50 |
| Trading price of B-shares at year-end | 152.00 | 158.00 | 137.50 | 156.50 | 122.50 | 214.00 |
| **Key ratios** | | | | | | |
| Value creation | 2,978 | 3,449 | 3,461 | 262 | 2,423 | 1,782 |
| Return on equity, % | 12.7 | 17.3 | 17.2 | 13.2 | 17.0 | 17.1 |
| Return on net assets, % | 17.2 | 23.9 | 22.1 | 15.0 | 19.6 | 18.3 |
| Net assets as % of net sales [6] | 21.0 | 23.6 | 23.1 | 29.3 | 30.4 | 30.6 |
| Accounts receivable as % of net sales [6] | 18.2 | 18.9 | 18.6 | 19.1 | 18.1 | 18.2 |
| Inventories as % of net sales [6] | 13.9 | 13.4 | 12.9 | 13.4 | 13.1 | 14.0 |
| Net debt/equity ratio | 0.05 | 0.00 | 0.05 | 0.37 | 0.63 | 0.50 |
| Interest coverage ratio | 5.65 | 8.28 | 7.66 | 3.80 | 4.34 | 4.55 |
| Dividend as % of equity [5] | 8.7 | 7.3 | 6.9 | 5.1 | 5.2 | 5.0 |
| **Other data** | | | | | | |
| Average number of employees | 72,382 | 77,140 | 81,971 | 87,139 | 87,128 | 92,916 |
| Salaries and remuneration | 17,014 | 17,154 | 19,408 | 20,330 | 17,241 | 17,812 |
| Number of shareholders | 63,800 | 60,400 | 59,300 | 58,600 | 61,400 | 52,600 |

**Additional information can be found on the Investor Relations' website, www.electrolux.com/ir**

| | | | | | Compound annual growth rate, % | |
|---|---|---|---|---|---|---|
| 1998 | 1997 | 1996 | 1995 | 1994 | 5 years | 10 years |
| 117,524 | 113,000 | 110,000 | 115,800 | 108,004 | 0.2 | 1.1 |
| 4.0 | 5.0 | –3.0 | 5.0 | 7.0 | 2.6 | 2.8 |
| 4,125 | 4,255 | 4,438 | 4,407 | 4,214 | –4.0 | –2.8 |
| 964 | –1,896 | | | | | |
| 7,028 | 2,654 | 4,448 | 5,311 | 5,034 [1] | –8.1 | –0,7 |
| 5,850 | 1,232 | 3,250 | 4,016 | 3,595 [1] | –6.6 | 1.9 |
| 3,975 | 352 | 1,850 | 2,748 | 2,195 [1] | –5.5 | 3.7 |
| 10,189 | 8,805 | 8,886 | 9,718 | 9,248 | –2.7 | 0.6 |
| 5,754 | 4,718 | 6,174 | 7,110 | 6,259 | –1.2 | 1.3 |
| –1,056 | 584 | –2,198 | –3,288 | –759 | — | — |
| 4,698 | 5,302 | 3,976 | 3,822 | 5,500 | –0.2 | 4.5 |
| –776 | –4,344 | –4,767 | –4,369 | –1,844 | — | — |
| –3,756 | –4,329 | –4,807 | –5,115 | –3,998 | 0.3 | 1.2 |
| 3,922 | 958 | –791 | –547 | 3,656 | –10.2 | –1.2 |
| 1,817 | 865 | 842 | –370 | 1,891 | –3.3 | 5.5 |
| –915 | –915 | –915 | –915 | –458 | 36.2 | 27.4 |
| 3.2 | 3.8 | 4.4 | 4.4 | 3.7 | — | — |
| 5.2 | 4.0 | 4.0 | 4.6 | 4.7 | | |
| 4.2 | 2.8 | 3.0 | 3.5 | 3.3 | | |
| 8.7 | 7.8 | 8.1 | 8.4 | 8.6 | | |
| 83,289 | 79,640 | 85,169 | 83,156 | 84,183 | –1.7 | –1.2 |
| 39,986 | 38,740 | 41,306 | 37,293 | 37,518 | –8.1 | –4.5 |
| 12,101 | 10,960 | 12,360 | 10,757 | 8,869 | –155.8 | — |
| 21,859 | 21,184 | 20,494 | 19,602 | 20,015 | –0.8 | 0.3 |
| 17,325 | 16,454 | 17,334 | 18,359 | 18,514 | –1.0 | –1.6 |
| 10,476 | 9,879 | 9,422 | 10,027 | 11,066 | 8.3 | 4.1 |
| 24,480 | 20,565 | 22,428 | 21,304 | 20,465 | –1.9 | 1.4 |
| 29,353 | 29,993 | 32,954 | 31,750 | — | –16.1 | — |
| 10.85 | 0.95 | 5.05 | 7.50 | 6.00 [1] | –1.5 | 5.8 |
| 10.25 | 2.40 | 4.55 | 7.95 | 15.45 | –3.3 | –4.9 |
| 67 | 56 | 61 | 58 | 56 | 2.7 | 3.6 |
| 3.00 | 2.50 | 2.50 | 2.50 | 2.50 | 14.9 | 10.8 |
| 139.50 | 110.20 | 79.20 | 54.50 | 75.40 | 2.5 | 7.3 |
| 437 | | | | | | |
| 18.2 | 1.7 | 8.5 | 13.2 | 11.7 [1] | | |
| 17.5 | 6.4 | 10.9 | 13.2 | 12.4 [1] | | |
| 33.3 | 34.0 | 36.9 | 34.2 | 33.8 | | |
| 18.2 | 18.6 | 18.3 | 18.0 | 18.0 | | |
| 14.4 | 14.4 | 15.5 | 16.8 | 16.7 | | |
| 0.71 | 0.94 | 0.80 | 0.80 | 0.88 | | |
| 3.46 | 1.42 | 2.26 | 2.77 | 2.38 | | |
| 4.5 | 4.4 | 4.1 | 4.3 | 4.5 | | |
| 99,322 | 105,950 | 112,140 | 112,300 | 109,470 | –4.9 | –4.1 |
| 18,506 | 19,883 | 20,249 | 20,788 | 19,431 | –0.9 | –1.3 |
| 50,500 | 45,660 | 48,300 | 54,600 | 55,400 | 3.9 | 1.4 |

1) Exclusive of capital gain on Autoliv.

2) As of 1997, items affecting comparability are excluded.

3) The figures for 1994–97 have been adjusted for the 5:1 stock split in 1998.

4) 2000: After repurchase of own shares, the average number of shares amounted to 359,083,955 and at year-end 341,134,580.
2001: After repurchase of own shares, the average number of shares amounted to 340,064,997 and at year-end 329,564,580.
2002: After repurchase and cancellation of own shares, the average number of shares amounted to 327,093,373 and at year-end 318,318,528.
2003: After repurchase and cancellation of own shares, the average number of shares amounted to 313,270,489 and at year-end 307,100,000.
2004: After redemption of shares and repurchase of own shares, the average number of shares amounted to 298,314,025 and at year-end 291,180,908.

5) 2004: Proposed by the Board.

6) Net sales are annualized.

# Quarterly figures

Amounts in SEKm, unless otherwise stated

| Net sales and income | | Q1 | Q2 | Q3 | Q4 | Full year |
|---|---|---|---|---|---|---|
| **Net sales** | **2004** | **30,493** | **31,950** | **29,588** | **28,620** | **120,651** |
| | 2003 | 32,062 | 33,313 | 30,387 | 28,315 | 124,077 |
| | 2002 | 33,580 | 37,224 | 31,760 | 30,586 | 133,150 |
| **Operating income** | **2004** | **726** | **1,759** | **1,092** | **1,137** | **4,714** |
| | **Margin, %** | **2.4** | **5.5** | **3.7** | **4.0** | **3.9** |
| | **2004[1)]** | **1,705** | **2,165** | **1,368** | **1,436** | **6,674** |
| | **Margin, %** | **5.6** | **6.8** | **4.6** | **5.0** | **5.5** |
| | 2003 | 1,798 | 2,409 | 1,320 | 1,648 | 7,175 |
| | Margin, % | 5.6 | 7.2 | 4.3 | 5.8 | 5.8 |
| | 2003[1)] | 1,798 | 2,409 | 1,698 | 1,733 | 7,638 |
| | Margin, % | 5.6 | 7.2 | 5.6 | 6.1 | 6.2 |
| | 2002 | 3,791 | 2,722 | 1,781 | –563 | 7,731 |
| | Margin, % | 11.3 | 7.3 | 5.6 | –1.8 | 5.8 |
| | 2002[1)] | 1,906 | 2,722 | 1,756 | 1,781 | 8,165 |
| | Margin, % | 5.7 | 7.3 | 5.5 | 5.8 | 6.1 |
| **Income after financial items** | **2004** | **648** | **1,715** | **944** | **1,052** | **4,359** |
| | **Margin, %** | **2.1** | **5.4** | **3.2** | **3.7** | **3.6** |
| | **2004[1)]** | **1,627** | **2,121** | **1,220** | **1,351** | **6,319** |
| | **Margin, %** | **5.3** | **6.6** | **4.1** | **4.7** | **5.2** |
| | 2003 | 1,798 | 2,334 | 1,286 | 1,588 | 7,006 |
| | Margin, % | 5.6 | 7.0 | 4.2 | 5.6 | 5.6 |
| | 2003[1)] | 1,798 | 2,334 | 1,664 | 1,673 | 7,469 |
| | Margin, % | 5.6 | 7.0 | 5.5 | 5.9 | 6.0 |
| | 2002 | 3,682 | 2,694 | 1,728 | –559 | 7,545 |
| | Margin, % | 11.0 | 7.2 | 5.4 | –1.8 | 5.7 |
| | 2002[1)] | 1,797 | 2,694 | 1,703 | 1,785 | 7,979 |
| | Margin, % | 5.4 | 7.2 | 5.4 | 5.8 | 6.0 |
| **Net income per share (basic), SEK** | **2004** | **1.73** | **3.98** | **2.34** | **2.50** | **10.55** |
| | **2004[1)]** | **3.72** | **4.93** | **2.99** | **3.23** | **14.87** |
| | 2003 | 3.94 | 5.13 | 2.47 | 3.71 | 15.25 |
| | 2003[1)] | 3.94 | 5.13 | 3.67 | 3.99 | 16.73 |
| | 2002 | 9.00 | 5.60 | 3.80 | –2.80 | 15.60 |
| | 2002[1)] | 3.75 | 5.60 | 3.75 | 3.80 | 16.90 |
| **Average number of shares, million** | **2004** | **306.7** | **304.1** | **291.3** | **291.2** | **298.3** |
| | 2003 | 316.2 | 314.0 | 312.2 | 310.7 | 313.3 |
| | 2002 | 329.6 | 329.6 | 327.2 | 322.0 | 327.1 |
| **Value creation** | **2004** | **776** | **1,177** | **442** | **583** | **2,978** |
| | 2003 | 731 | 1,279 | 649 | 790 | 3,449 |
| | 2002 | 609 | 1,475 | 636 | 741 | 3,461 |

**1) Exclusive of items affecting comparability, 2004: SEK –1,960m, 2003: SEK –463m, 2002: SEK –434m.**

## Net sales, by business area

| Net sales, by business area | | Q1 | Q2 | Q3 | Q4 | Full year |
|---|---|---|---|---|---|---|
| **Consumer Durables** | | | | | | |
| Europe | **2004** | **10,386** | **9,927** | **10,793** | **11,597** | **42,703** |
| | 2003 | 10,843 | 10,456 | 11,445 | 11,523 | 44,267 |
| | 2002 | 10,265 | 10,743 | 11,997 | 12,123 | 45,128 |
| North America | **2004** | **7,365** | **7,691** | **8,034** | **7,677** | **30,767** |
| | 2003 | 7,921 | 8,424 | 8,396 | 7,506 | 32,247 |
| | 2002 | 8,754 | 9,453 | 8,800 | 8,238 | 35,245 |
| Rest of the world | **2004** | **3,147** | **3,323** | **3,310** | **3,699** | **13,479** |
| | 2003 | 2,887 | 3,053 | 3,070 | 3,534 | 12,544 |
| | 2002 | 3,414 | 4,261 | 3,336 | 3,785 | 14,796 |
| Outdoor products | **2004** | **5,611** | **6,676** | **3,546** | **1,746** | **17,579** |
| | 2003 | 5,722 | 6,269 | 3,462 | 1,770 | 17,223 |
| | 2002 | 6,126 | 7,515 | 2,989 | 1,599 | 18,229 |
| Total Consumer Durables | **2004** | **26,509** | **27,617** | **25,683** | **24,719** | **104,528** |
| | 2003 | 27,373 | 28,202 | 26,373 | 24,333 | 106,281 |
| | 2002 | 28,559 | 31,972 | 27,122 | 25,745 | 113,398 |
| **Professional Products** | | | | | | |
| Indoor | **2004** | **1,558** | **1,693** | **1,517** | **1,672** | **6,440** |
| | 2003 | 2,165 | 2,496 | 1,718 | 1,734 | 8,113 |
| | 2002 | 3,029 | 3,032 | 2,192 | 2,634 | 10,887 |
| Outdoor | **2004** | **2,409** | **2,624** | **2,374** | **2,216** | **9,623** |
| | 2003 | 2,500 | 2,592 | 2,274 | 2,230 | 9,596 |
| | 2002 | 1,951 | 2,178 | 2,410 | 2,180 | 8,719 |
| Total Professional Products | **2004** | **3,967** | **4,317** | **3,891** | **3,888** | **16,063** |
| | 2003 | 4,665 | 5,088 | 3,992 | 3,964 | 17,709 |
| | 2002 | 4,980 | 5,210 | 4,602 | 4,814 | 19,606 |
| Other | **2004** | **17** | **16** | **14** | **13** | **60** |
| | 2003 | 24 | 23 | 22 | 18 | 87 |
| | 2002 | 42 | 42 | 35 | 27 | 146 |
| Total Group | **2004** | **30,493** | **31,950** | **29,588** | **28,620** | **120,651** |
| | 2003 | 32,062 | 33,313 | 30,387 | 28,315 | 124,077 |
| | 2002 | 33,580 | 37,224 | 31,760 | 30,586 | 133,150 |

Amounts in SEKm, unless otherwise stated

## Operating income, by business area

| | | Q1 | Q2 | Q3 | Q4 | Full year |
|---|---|---|---|---|---|---|
| **Consumer Durables** | | | | | | |
| **Europe** | **2004** | **641** | **760** | **780** | **943** | **3,124** |
| | **Margin, %** | **6.2** | **7.7** | **7.2** | **8.1** | **7.3** |
| | 2003 | 639 | 737 | 875 | 1,038 | 3,289 |
| | Margin, % | 5.9 | 7.0 | 7.6 | 9.0 | 7.4 |
| | 2002 | 626 | 736 | 838 | 936 | 3,136 |
| | Margin, % | 6.1 | 6.9 | 7.0 | 7.7 | 6.9 |
| **North America** | **2004** | **277** | **335** | **171** | **323** | **1,106** |
| | **Margin, %** | **3.8** | **4.4** | **2.1** | **4.2** | **3.6** |
| | 2003 | 391 | 528 | 318 | 346 | 1,583 |
| | Margin, % | 4.9 | 6.3 | 3.8 | 4.6 | 4.9 |
| | 2002 | 461 | 685 | 407 | 474 | 2,027 |
| | Margin, % | 5.3 | 7.2 | 4.6 | 5.8 | 5.8 |
| **Rest of the world** | **2004** | **5** | **2** | **–119** | **–47** | **–159** |
| | **Margin, %** | **0.2** | **0.1** | **–3.6** | **–1.3** | **–1.2** |
| | 2003 | –120 | –49 | 12 | 157 | 0 |
| | Margin, % | –4.2 | –1.6 | 0.4 | 4.4 | 0.0 |
| | 2002 | –19 | 102 | –47 | 19 | 55 |
| | Margin, % | –0.6 | 2.4 | –1.4 | 0.5 | 0.4 |
| **Outdoor products** | **2004** | **507** | **715** | **261** | **69** | **1,552** |
| | **Margin, %** | **9.0** | **10.7** | **7.4** | **4.0** | **8.8** |
| | 2003 | 505 | 720 | 220 | 48 | 1,493 |
| | Margin, % | 8.8 | 11.5 | 6.4 | 2.7 | 8.7 |
| | 2002 | 489 | 761 | 176 | 19 | 1,445 |
| | Margin, % | 8.0 | 10.1 | 5.9 | 1.2 | 7.9 |
| **Total Consumer Durables** | **2004** | **1,430** | **1,812** | **1,093** | **1,288** | **5,623** |
| | **Margin, %** | **5.4** | **6.6** | **4.3** | **5.2** | **5.4** |
| | 2003 | 1,415 | 1,936 | 1,425 | 1,589 | 6,365 |
| | Margin, % | 5.2 | 6.9 | 5.4 | 6.5 | 6.0 |
| | 2002 | 1,557 | 2,284 | 1,374 | 1,448 | 6,663 |
| | Margin, % | 5.5 | 7.1 | 5.1 | 5.6 | 5.9 |
| **Professional Products** | | | | | | |
| **Indoor** | **2004** | **94** | **132** | **111** | **105** | **442** |
| | **Margin, %** | **6.0** | **7.8** | **7.3** | **6.3** | **6.9** |
| | 2003 | 138 | 193 | 124 | 101 | 556 |
| | Margin, % | 6.4 | 7.7 | 7.2 | 5.8 | 6.9 |
| | 2002 | 183 | 214 | 197 | 159 | 753 |
| | Margin, % | 6.0 | 7.1 | 9.0 | 6.0 | 6.9 |
| **Outdoor** | **2004** | **343** | **446** | **377** | **313** | **1,479** |
| | **Margin, %** | **14.2** | **17.0** | **15.9** | **14.1** | **15.4** |
| | 2003 | 415 | 448 | 341 | 258 | 1,462 |
| | Margin, % | 16.6 | 17.3 | 15.0 | 11.6 | 15.2 |
| | 2002 | 359 | 406 | 346 | 320 | 1,431 |
| | Margin, % | 18.4 | 18.6 | 14.4 | 14.7 | 16.4 |
| **Total Professional Products** | **2004** | **437** | **578** | **488** | **418** | **1,921** |
| | **Margin, %** | **11.0** | **13.4** | **12.5** | **10.8** | **12.0** |
| | 2003 | 553 | 641 | 465 | 359 | 2,018 |
| | Margin, % | 11.9 | 12.6 | 11.6 | 9.1 | 11.4 |
| | 2002 | 542 | 620 | 543 | 479 | 2,184 |
| | Margin, % | 10.9 | 11.9 | 11.8 | 10.0 | 11.1 |
| **Common Group costs, etc.** | **2004** | **–162** | **–225** | **–213** | **–270** | **–870** |
| | 2003 | –170 | –168 | –192 | –215 | –745 |
| | 2002 | –193 | –182 | –161 | –146 | –682 |
| **Items affecting comparability** | **2004** | **–979** | **–406** | **–276** | **–299** | **–1,960** |
| | 2003 | — | — | –378 | –85 | –463 |
| | 2002 | 1,885 | — | 25 | –2,344 | –434 |
| **Total Group, including items affecting comparability** | **2004** | **726** | **1,759** | **1,092** | **1,137** | **4,714** |
| | **Margin, %** | **2.4** | **5.5** | **3.7** | **4.0** | **3.9** |
| | 2003 | 1,798 | 2,409 | 1,320 | 1,648 | 7,175 |
| | Margin, % | 5.6 | 7.2 | 4.3 | 5.8 | 5.8 |
| | 2002 | 3,791 | 2,722 | 1,781 | –563 | 7,731 |
| | Margin, % | 11.3 | 7.3 | 5.6 | –1.8 | 5.8 |

# Change in segment reporting in 2005

As of 2005, the Group's reporting structure will be changed to comprise Indoor and Outdoor Products instead of as previously Consumer Durables and Professional Products.

Indoor Products comprise operations in appliances and floor-care products, as well as the professional operations in food-service equipment and laundry equipment. Outdoor Products comprise garden equipment for the consumer market and professional outdoor products.

There will be no changes of the individual segments other than for the Rest of the world segment which will be divided into Latin America and Asia/Pacific.

## Operations, by business area

| SEKm, unless otherwise stated | 2004 | Change, % | 2003 | Change, % | 2002 |
|---|---|---|---|---|---|
| **Indoor Products** | | | | | |
| **Europe** | | | | | |
| Net sales | 42,703 | –3.5 | 44,267 | –1.9 | 45,128 |
| Operating income | 3,124 | –5.0 | 3,289 | 4.9 | 3,136 |
| *Margin, %* | *7.3* | | *7.4* | | *6.9* |
| **Asia/Pacific** | | | | | |
| Net sales | 9,139 | 0.3 | 9,112 | –18.2 | 11,142 |
| Operating income | –294 | –191 | –101 | –731.3 | 16 |
| *Margin, %* | *–3.2* | | *–1.1* | | *0.1* |
| **North America** | | | | | |
| Net sales | 30,767 | –4.6 | 32,247 | –8.5 | 35,245 |
| Operating income | 1,106 | –30.1 | 1,583 | –21.9 | 2,027 |
| *Margin, %* | *3.6* | | *4.9* | | *5.8* |
| **Latin America** | | | | | |
| Net sales | 4,340 | 26.5 | 3,432 | –6.1 | 3,654 |
| Operating income | 135 | 33.7 | 101 | 159.0 | 39 |
| *Margin, %* | *3.1* | | *2.9* | | *1.1* |
| **Professional Products** | | | | | |
| Net sales | 6,440 | –20.6 | 8,113 | –25.5 | 10,887 |
| Operating income | 442 | –20.5 | 556 | –26.2 | 753 |
| *Margin, %* | *6.9* | | *6.9* | | *6.9* |
| **Total Indoor Products** | | | | | |
| Net sales | 93,389 | –3.9 | 97,171 | –8.4 | 106,056 |
| Operating income | 4,513 | –16.9 | 5,428 | –9.1 | 5,971 |
| *Margin, %* | *4.8* | | *5.6* | | *5.6* |
| **Outdoor Products** | | | | | |
| **Consumer Products** | | | | | |
| Net sales | 17,579 | 2.1 | 17,223 | –5.5 | 18,229 |
| Operating income | 1,552 | 4.0 | 1,493 | 3.3 | 1,445 |
| *Margin,%* | *8.8* | | *8.7* | | *7.9* |
| **Professional Products** | | | | | |
| Net sales | 9,623 | 0.3 | 9,596 | 10.1 | 8,719 |
| Operating income | 1,479 | 1.2 | 1,462 | 2.2 | 1,431 |
| *Margin, %* | *15.4* | | *15.2* | | *16.4* |
| **Total Outdoor Products** | | | | | |
| Net sales | 27,202 | 1.4 | 26,819 | –0,5 | 26,948 |
| Operating income | 3,031 | 2.6 | 2,955 | 2.7 | 2,876 |
| *Margin, %* | *11.1* | | *11.0* | | *10.7* |

# New accounting principles as from 2005

As of January 1, 2005, Electrolux will comply with International Financial Reporting Standards (IFRS), also known as IAS, in accordance with the European Union regulation.

Swedish Accounting Standards have gradually incorporated IAS and, consequently, several IFRS issued prior to 2004 have already been implemented in Sweden. However, a number of new standards and amendments to and improvements of existing standards will be adopted for the first time in 2005. The effects of the transition to IFRS are preliminary and based on interpretation of standards effective at present. IFRS could change during 2005 due to new interpretations submitted by the International Financial Reporting Interpretations Committee (IFRIC) and new IFRS effective as of January 1, 2006, which may allow early adoption. The effect on the Group's income and equity referring to the transition will be limited. A description of their approximate impact on Electrolux financial statements is stated below.

The transition to IFRS will be accounted for following the rules stated in IFRS 1, First Time Application of International Accounting Standards, and any transition effects will be recorded through an adjustment to opening retained earnings as per January 1, 2004. This date has been determined as Electrolux date of transition to IFRS. The report for the first quarter of 2005 will be the first Group report in accordance with IFRS.This report will include all reconciliations between the Group's present accounting principles and IFRS as required by IFRS 1 and also a full set of IFRS accounting principles. Comparative figures for 2004 will be restated.

The following areas represent the preliminary identified differences:

**Intangible assets**

The transition rules in IFRS 1 stipulate that a company at transition recognizes intangible assets that qualify for recognition under IAS 38, Intangible Assets, even though these intangible assets have previously been expensed. Electrolux has made an inventory of the Group's intangible assets resulting in a net adjustment of intangible assets as per January 1, 2004, in the amount of approximately SEK 50m.

**Share based payments**

IFRS 2 shall be applied for share-based compensation programs granted after November 7, 2002, and that had not vested on January 1, 2005. IFRS 2 differs from previously applied accounting principles in that an estimated cost for the granted instruments, based on the instruments fair value at grant date, shall be charged to the income statement over the vesting period. Previously, only employer contributions related to these instruments have been accounted for, and no charge has been taken to the income statement for equity instruments granted as compensation to employees.

**Business combinations**

In business combinations, IFRS 3 requires a thorough inventory of intangible assets and does not allow provisions for restructuring activities. IFRS 3 stipulates that goodwill shall not be amortized but submitted to impairment test at least once a year. Goodwill amortization will therefore cease as of January 1, 2005, and comparative figures for 2004 will be restated. Electrolux has even previously carried out impairment test of goodwill at least once a year and, therefore, will not take any additional impairment charge at the date of transition to IFRS. IFRS 3 also prohibits the recognition of negative goodwill. At transition, negative goodwill will consequently be written-off through an adjustment to opening retained earnings as per January 1, 2004. Comparative figures for 2004 will be restated.

Electrolux has chosen to apply the exemption allowed by IFRS 1 and will not restate previous business combinations. No acquisitions were made during 2004.

**Financial instruments**

As of January 1, 2005, the Group will introduce the new accounting standard IAS 39, Financial Instruments: Recognition and Measurement. The standard will be applied prospectively by adjusting the opening retained earnings at January 1, 2005, and no restatement of comparison numbers for 2004 will be made.

The standard stipulates that all financial derivative instruments shall be recognized at fair value in the balance sheet. The changes in fair value for derivatives used for proprietary trading as well as derivatives entered into for hedging purposes that do not qualify for hedge accounting according to the standard will be reported in the income statement as the changes occur. The standard allows for hedge accounting only if certain criteria are met, e.g., documentation, linking with exposure and effectiveness testing. In connection with hedge accounting, changes in fair value for cash-flow hedges are reported in equity. The majority of derivatives used by the Electrolux Group are used for hedging purposes, i.e., to mitigate various financial risks. The risk management practices are described in Note 2 on page 48 and the fair values of such instruments are specified in Note 18 on page 56.

The implementation of IAS 39 will result in higher volatility in income, net borrowings and the Group's equity. This volatility cannot be predicted with certainty, but it is the Group's intention to meet the criteria for hedge accounting and limit the volatility of the income statement as far as possible to a justifiable cost.

## Preliminary IFRS transition effects on income statement 2004

| SEKm, unless otherwise stated | Income statement before transition | IFRS 2 | IFRS 3 | Other | Income statement after transition |
|---|---|---|---|---|---|
| Net sales | 120,651 | — | — | — | 120,651 |
| Operating income | 4,714 | –50 | 155 | –15 | 4,804 |
| Income after financial items | 4,359 | –50 | 155 | –15 | 4,449 |
| Net income | 3,148 | –35 | 155 | –12 | 3,256 |
| Net income per share, SEK | 10.55 | –0.12 | 0.52 | –0.04 | 10.91 |

## Preliminary IFRS transition effects on closing balance 2004

| SEKm, unless otherwise stated | Closing balance before transition | IFRS 2 | IFRS 3 | Other | Closing balance after transition |
|---|---|---|---|---|---|
| Intangible fixed assets | 5,077 | — | 155 | 36 | 5,268 |
| Other fixed assets | 20,382 | –1 | — | — | 20,381 |
| Current assets | 49,473 | — | — | — | 49,473 |
| **Total assets** | **74,932** | **–1** | **155** | **36** | **75,122** |
| Equity | 23,410 | 42 | 155 | 35 | 23,642 |
| Minority interests | 10 | — | — | — | 10 |
| Provisions | 14,064 | –43 | — | 1 | 14,022 |
| Financial liabilities | 9,843 | — | — | — | 9,843 |
| Operating liabilities | 27,605 | — | — | — | 27,605 |
| **Total liabilities and equity** | **74,932** | **–1** | **155** | **36** | **75,122** |

# Definitions

## Capital indicators

**Annualized net sales**
In computation of key ratios where capital is related to net sales, the latter are annualized and converted at year-end exchange rates and adjusted for acquired and divested operations.

**Net assets**
Total assets exclusive of liquid funds and interest-bearing financial receivables less operating liabilities, non-interest-bearing provisions and deferred tax liabilities.

**Working capital**
Current assets exclusive of liquid funds and interest-bearing financial receivables less operating liabilities and non-interest-bearing provisions.

**Net borrowings**
Total interest-bearing liabilities less liquid funds.

**Adjusted equity**
Equity, including minority interests.

**Net debt/equity ratio**
Net borrowings in relation to adjusted equity.

**Equity/assets ratio**
Adjusted equity as a percentage of total assets less liquid funds.

## Net income per share

**Net income per share**
Net income divided by the average number of shares after buy-backs.

**Net income per share according to US GAAP**
See information on US GAAP in Note 31, on page 68.

## Other key ratios

**Organic growth**
Sales growth, adjusted for acquisitions, divestments and changes in exchange rates.

**EBITDA margin**
Operating income before depreciation and amortization expressed as a percentage of net sales.

**Operating cash flow**
Total cash flow from operations and investments, excluding acquisitions and divestment of operations.

**Operating margin**
Operating income expressed as a percentage of net sales.

**Return on equity**
Net income expressed as a percentage of average equity.

**Return on net assets**
Operating income expressed as a percentage of average net assets.

**Interest coverage ratio**
Operating income plus interest income in relation to total interest expense.

**Capital turnover rate**
Net sales divided by average net assets.

## Value creation

Value creation is the primary financial performance indicator for measuring and evaluating financial performance within the Group. The model links operating income and asset efficiency with the cost of the capital employed in operations. The model measures and evaluates profitability by region, business area, product line, or operation.

Value created is measured excluding items affecting comparability and defined as operating income less the weighted average cost of capital (WACC) on average net assets during a specific period. The cost of capital varies between different countries and business units due to country-specific factors such as interest rates, risk premiums and tax rates.

A higher return on net assets than the weighted average cost of capital implies that the Group or the unit creates value.

**Electrolux Value Creation model**

Net sales
– Cost of goods sold
– Marketing and administration costs
= Operating income, EBIT[1)]
– WACC x Average net assets[1)]
= Value creation

EBIT = Earnings before interest and taxes, excluding items affecting comparability.
WACC = Weighted Average Cost of Capital. The WACC rate before tax for 2004 is calculated at 12% compared to 13% for 2003 and 2002. The WACC rate for previous years was 14% before tax.

**1) Excluding items affecting comparability.**

# Electrolux shares

The market capitalization of Electrolux shares at year-end 2004 was SEK 46.9 (51.2) billion. The Group's market capitalization thereby corresponded to 1.7% (2.2) of the total market capitalization of the Stockholm Stock Exchange.

The highest closing price for Electrolux B-shares during the year was SEK 174.50 on February 11, and the lowest SEK 126.50 on October 18. The highest closing price for A-shares during the year was SEK 175.00 on January 20, and the lowest SEK 130.50 on October 11.

## Trading volume

In 2004, 542.3 (480.4) million Electrolux shares were traded on the Stockholm Stock Exchange at a value of SEK 80.1 (74.5) billion. Electrolux shares thus accounted for 2.4% (3.0) of the total yearly trading volume of SEK 3,391 (2,453) billion on the Stockholm Stock Exchange.

The average value of the A- and B-shares traded daily was SEK 316.5m (299.2).

A total of 122.8 (128.3) million Electrolux shares were traded on the London Stock Exchange, while 5.8 (4.5) million American Depository Receipts (ADRs) were traded on the NASDAQ Stock Market. At year-end, 3,502,970 (1,459,967) depository receipts were outstanding.

## Effective yield

The effective yield indicates the actual profitability of an investment in shares, and comprises dividends received plus the change in trading price.

The compounded annual effective yield on an investment in Electrolux shares was 10.9% over the past ten years, including the distribution of Gränges in 1996 and adjusted for the 5:1 stock split in 1998. The corresponding figure for the Stockholm Stock Exchange was 12.8%.

## Dividend and dividend policy

The Board has decided to propose a dividend of SEK 7.00 (6.50) per share at the Annual General Meeting, corresponding to 47% (39) of net income per share, excluding items affecting comparability.

The Group's goal is for the dividend to correspond to at least 30% of net income for the year, excluding items affecting comparability. This is a change from previous policy of 30–50% of net income.

## Quick facts

**Share listings: Stockholm, London, NASDAQ[1)]**
**Number of shares: 308,920,308**
**Number of shares after repurchase: 291,180,908**
**High and low 2004 for B-shares: SEK 174.50–126.50**
**Market capitalization at year-end: SEK 46.9 billion**
**Beta value[2)]: 0.95**
**GICS code[3)]: 25201040**
**Ticker codes: Reuters ELUXb.ST, Bloomberg ELUXB SS**

1) The trading of the Group's ADRs is expected to be transferred to the US over-the-counter market by the end of March 2005. One ADR corresponds to two B-shares.

2) The beta value indicates the volatility of the trading price of a share relative to the general market trend, measured against the Stockholm All-Share Index for the last four years.

3) MSCI's Global Industry Classification Standard (used for securities).

**Trading volume of Electrolux shares**

| Thousands | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Stockholm, A-and B-shares (ELUXa and ELUXb) | 542,304 | 480,415 | 504,394 | 435,335 | 390,573 |
| London, B-shares (ELXB) | 122,777 | 128,303 | 259,231 | 398,741 | 291,006 |
| NASDAQ, ADRs (ELUX) | 5,767 | 4,460 | 6,890 | 7,984 | 6,414 |

The Bank of New York has been the depository bank for ADRs since April 2004, when it replaced JP Morgan, Morgan Guarantee Trust Company.

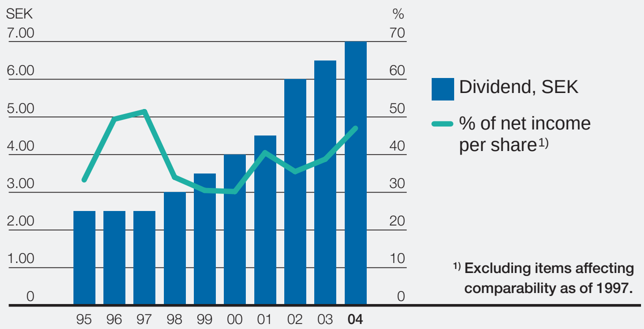
**Average daily trading volume of Electrolux shares on the Stockholm Stock Exchange**

| SEK thousands | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| A-shares | 34 | 33 | 72 | 50 | 80 |
| B-shares | 316,424 | 299,139 | 327,294 | 250,020 | 226,324 |
| **Total** | **316,458** | **299,172** | **327,366** | **250,070** | **226,404** |

## De-listing from NASDAQ

The Board of Directors decided in February 2005, that the Group's ADRs should be de-listed from the NASDAQ Stock Market. Trading volume in ADRs is low and does not justify a listing. The ADR program will be maintained, and trading in these receipts will be transferred to the US over-the-counter market. The de-listing is expected to be completed by the end of March 2005.

**Dividend per share**




The Board of Directors proposes an increase of the dividend to SEK 7.00 per share for 2004.

## Redemption and repurchase of shares

On the basis of the Group's strong balance sheet and in order to contribute to increased shareholder value, in April 2004 the Annual General Meeting approved an offer to shareholders to redeem shares. The offer entitled shareholders to redeem every twentieth share against cash payment of SEK 200. The Extraordinary General Meeting on June 16, 2004, adopted the resolutions required for the redemption offer and payment to shareholders. A total of 15,179,692 shares were tendered for redemption, corresponding to a value of over SEK 3 billion. The shareholders were paid for the redeemed shares on June 30.

During 2004, Electrolux repurchased 750,000 B-shares. 10,600 B-shares were sold during the year to senior managers under the terms of the employee stock-option programs. As of December 31, 2004, the company held a total of 17,739,400 B-shares, equivalent to 5.7% of the total number of outstanding shares. As of February 14, 2005, Electrolux had not made any repurchases of own shares in 2005. In 2000–2004, Electrolux repurchased shares for a total of SEK 8,450m, corresponding to an average price of SEK 141 per share.

## Repurchase of shares

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Number of shares as of January 1 | 324,100,000 | 338,712,580 | 366,169,580 | 366,169,580 | 366,169,580 |
| Redemption/cancellation of shares | –15,179,692 | –14,612,580 | –27,457,000 | — | — |
| Number of shares as of December 31 | 308,920,308 | 324,100,000 | 338,712,580 | 366,169,580 | 366,169,580 |
| | | | | | |
| Number of shares bought back | 750,000 | 11,331,828 | 11,246,052 | 11,570,000 | 25,035,000 |
| Total amount paid, SEKm | 114 | 1,688 | 1,703 | 1,752 | 3,193 |
| Price per share, SEK | 152 | 149 | 151 | 151 | 127 |
| Number of shares sold under terms of the employee stock option programs | 10,600 | 113,300 | — | — | — |
| Total amount received, SEKm | 2 | 19 | — | — | — |
| Number of shares held by Electrolux, at year-end | 17,739,400 | 17,000,000 1) | 20,394,052 1) | 36,605,000 | 25,035,000 |
| % of outstanding shares | 5.7 | 5.2 | 6.0 | 10.0 | 6.8 |

**1) After cancellation of shares.**

### Proposed renewed mandate for repurchase of shares

The Board of Directors has decided to propose that the Annual General Meeting approve a renewed mandate for the repurchase of a maximum of 10% of the total number of shares. This authorization would cover the period up to the Annual General Meeting in 2006.

## Share capital and number of shares

Following redemption, the share capital of AB Electrolux as of December 31, 2004, consisted of 9,502,275 A-shares and 299,418,033 B-shares, totaling 308,920,308 shares. A-shares carry one vote and B-shares one-tenth of a vote. Each share has a par value of SEK 5.00. The share capital has declined by SEK 76m in 2004 and amounted at year-end to SEK 1,544.6m.

### Distribution of shareholdings in AB Electrolux

| Shareholding | Number of shareholders | % of shareholders |
|---|---|---|
| 1–1,000 | 55,565 | 87.1 |
| 1,001–10,000 | 7,312 | 11.4 |
| 10,001–20,000 | 317 | 0.5 |
| 20,001– | 616 | 1.0 |
| **Total** | **63,810** | **100** |

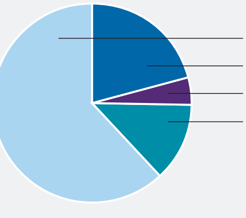
Source: SIS Ägarservice as of December 31, 2004

## Incentive programs

Electrolux has implemented several long-term incentive programs for senior managers. The previous programs entitled an allotment of options that can be redeemed for shares at a fixed price. The value of the options is linked to the trading price of the Electrolux B-share. In 2004, a new performance share program was introduced, based on targets for value creation within the Group over a three-year period. Under this program, Electrolux B-shares will be distributed to the participants at the end of the period on the basis of the targets achieved. The Board of Directors will present a proposal at the AGM for a performance share program for 2005 as well.

**For additional information, see Note 28 on page 65.**

### Shareholders by country



| 2004 | % |
|---|---|
| Sweden | 61.8 |
| USA | 21.0 |
| UK | 4.5 |
| Other | 12.7 |

Source: SIS Ägarservice as of December 31, 2004.

**As of December 31, 2004, about 38% of the total share capital was owned by foreign investors.**

### Major shareholders in AB Electrolux

| | Number of A-shares | Number of B-shares | Total number of shares | Share capital, % | Voting rights, %1) |
|---|---|---|---|---|---|
| Investor AB | 8,770,771 | 9,686,800 | 18,457,571 | 6.0 | 25.9 |
| Alecta Mutual Pension Insurance | — | 15,662,781 | 15,662,781 | 5.1 | 4.2 |
| Second Swedish National Pension Fund | — | 10,181,872 | 10,181,872 | 3.3 | 2.7 |
| Robur Investment Funds | — | 7,265,722 | 7,265,722 | 2.4 | 1.9 |
| SHB/SPP Investment Funds | — | 7,007,125 | 7,007,125 | 2.3 | 1.9 |
| SEB Investment Funds | — | 5,584,100 | 5,584,100 | 1.8 | 1.5 |
| Fourth Swedish National Pension Fund | — | 5,273,440 | 5,273,440 | 1.7 | 1.4 |
| AFA Insurance | — | 4,911,269 | 4,911,269 | 1.6 | 1.3 |
| Nordea Investment Funds | — | 4,905,531 | 4,905,531 | 1.5 | 1.2 |
| Skandia Life Insurance | 139,111 | 3,962,164 | 4,101,275 | 1.3 | 1.4 |
| Other shareholders | 592,393 | 207,237,829 | 207,830,222 | 67.3 | 56.6 |
| External shareholders | 9,502,275 | 281,678,633 | 291,180,908 | 94.3 | 100 |
| AB Electrolux | — | 17,739,400 | 17,739,400 | 5.7 | — |
| **Total** | **9,502,275** | **299,418,033** | **308,920,308** | **100** | **100** |

**1) Adjusted for repurchase of shares as of December 31, 2004.**

Source: SIS Ägarservice as of December 31, 2004.

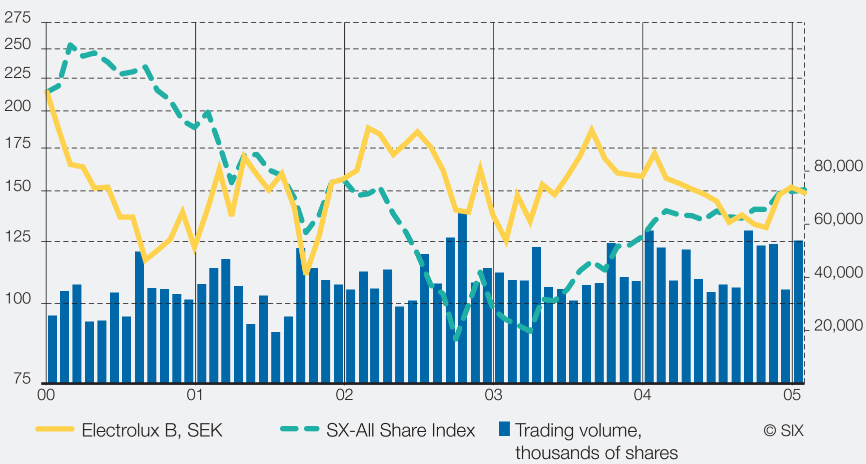
**As of December 31, 2004, about 38% of the total share capital was owned by foreign investors, about 50% by Swedish institutions and mutual funds, and about 12% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, so that the actual shareholders are not officially registered.**

### Per-share data[1)]

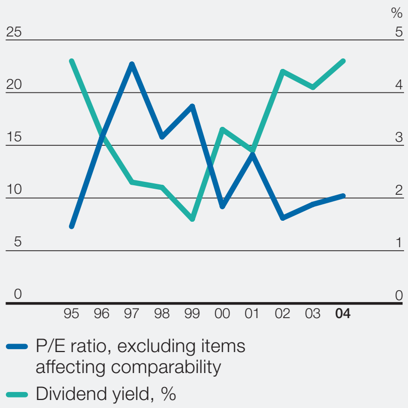
| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|
| Year-end trading price, SEK [2)] | 152.00 | 158.00 | 137.50 | 156.50 | 122.50 | 214.00 | 139.50 | 110.20 | 79.20 | 54.50 |
| Highest trading price, B-shares, SEK | 174.50 | 191.00 | 197.00 | 171.00 | 230.00 | 222.00 | 161.00 | 139.80 | 85.40 | 77.40 |
| Lowest trading price, B-shares, SEK | 126.50 | 125.50 | 119.50 | 92.00 | 110.00 | 118.00 | 87.50 | 77.70 | 54.30 | 50.80 |
| Change in price during the year, % | –4 | 15 | –12 | 28 | –43 | 53 | 27 | 39 | 45 | –28 |
| Equity, SEK | 80 | 89 | 87 | 88 | 77 | 70 | 67 | 56 | 61 | 58 |
| Trading price/equity, % | 190 | 178 | 158 | 178 | 159 | 304 | 209 | 196 | 129 | 94 |
| Dividend, SEK | 7.00 [3)] | 6.50 | 6.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.50 | 2.50 [4)] | 2.50 |
| Dividend, % [5) 6)] | 47 | 39 | 36 | 41 | 30 | 31 | 34 | 52 | 50 | 33 |
| Dividend yield, % [7)] | 4.6 | 4.1 | 4.4 | 2.9 | 3.3 | 1.6 | 2.2 | 2.3 | 3.2 | 4.6 |
| Net income, SEK [6)] | 14.87 | 16.73 | 16.90 | 11.10 | 13.25 | 11.45 | 8.85 | 4.85 | 5.05 | 7.50 |
| Net income, SEK | 10.55 | 15.25 | 15.58 | 11.35 | 12.40 | 11.40 | 10.85 | 0.95 | 5.05 | 7.50 |
| Cash flow, SEK [8)] | 10.81 | 9.15 | 23.14 | 15.55 | 4.67 | 11.53 | 2.57 | 2.66 | –2.27 | –3.53 |
| EBIT multiple [9)] | 9.6 | 6.8 | 5.9 | 10.0 | 8.1 | 12.9 | 10.0 | 4.6 | 2.2 | 1.4 |
| EBIT multiple [6) 9)] | 6.8 | 6.3 | 5.6 | 9.8 | 7.7 | 12.5 | 11.5 | 2.6 | | |
| P/E ratio [6) 10)] | 10.2 | 9.4 | 8.1 | 14.1 | 9.2 | 18.7 | 15.8 | 22.7 | 15.7 | 7.3 |
| P/E ratio [10)] | 14.4 | 10.4 | 8.8 | 13.8 | 9.9 | 18.8 | 12.9 | 116.0 | 15.7 | 7.3 |
| Number of shareholders | 63,800 | 60,400 | 59,300 | 58,600 | 61,400 | 52,600 | 50,500 | 45,660 | 48,300 | 54,600 |

1) The figures for 1995–1997 have been adjusted for the 5:1 stock split in 1998.
2) Last price paid for B-shares.
3) Proposed by the Board.
4) Plus 1/2 share in Gränges for every Electrolux share.
5) As % of net income.
6) Excluding items affecting comparability.
7) Dividend per share divided by trading price at year-end.
8) Cash flow from operations less capital expenditures, divided by the average number of shares after buy-backs.
9) Market capitalization excluding buy-backs, plus net borrowings and minority interests, divided by operating income.
10) Trading price in relation to net income per share after full dilution.

### Price and trading volume of Electrolux B-shares on the Stockholm Stock Exchange, 2000–January 2005




### P/E ratio and dividend yield




**At year-end 2004, the P/E ratio for Electrolux B-shares was 10.2, excluding items affecting comparability. The dividend yield was 4.6%, based on the dividend proposal for 2004.**

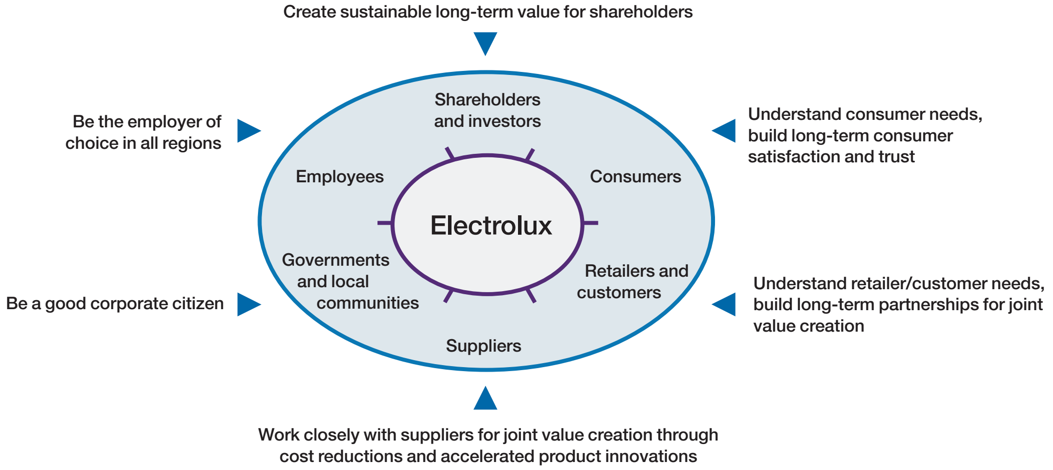
# Governance for Corporate Sustainability

Electrolux strives to implement the highest standards and most effective processes to ensure that its operations create long-term value for shareholders and other stakeholders. This includes maintaining an efficient and effective organizational structure, operating systems for internal control and risk management, and transparency in both internal and external financial reporting.

The Group is committed to continuous improvement of energy-efficiency, factory emissions, waste generation and handling of hazardous materials in manufacturing and other processes, and to design of products with high levels of environmental performance.

The Group strives to be an attractive employer, fulfilling its responsibility for providing safe and healthy workplaces, and guaranteeing fair treatment for all employees.

## Electrolux key stakeholders



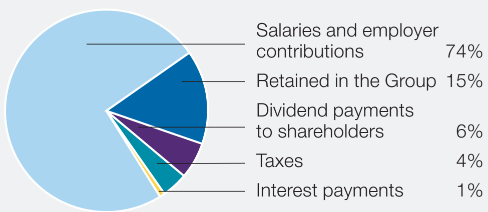

## Distribution of Group's value added, by stakeholder

The table below shows the value added generated by the Group and its distribution among stakeholders.

| SEKm | | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Customers | Revenues | 120,651 | 124,077 | 133,150 |
| Suppliers | Cost of goods and services | –89,896 | –90,790 | –95,834 |
| | Value added | 30,755 | 33,287 | 37,316 |
| | Of which retained in the Group for capital expenditure, product development, marketing, etc. | –4,546 | –6,250 | –7,468 |
| | **Distributed to stakeholders** | **26,209** | **27,037** | **29,848** |
| Employees | Salaries | 17,014 | 17,154 | 19,408 |
| | Employer contributions | 5,642 | 5,605 | 6,323 |
| Public sector | Taxes | 1,205 | 2,215 | 2,448 |
| Credit institutions | Interest payments | 355 | 169 | 186 |
| Shareholders | Dividend payments | 1,993 | 1,894 | 1,483 |

**Value added represents the contribution made by a company's production, 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.**

### Distribution of value added in 2004




**In 2004, value added amounted to SEK 30,755 m, of which 15% was retained within the Group for capital expenditure, product development, marketing, etc.**

### Electrolux listed in Dow Jones Sustainability Index

In 2004 Electrolux was listed in the pan-European Dow Jones Sustainability Index (DJSI STOXX). This index measures the sustainability of European companies across all market sectors and industry groups.

At least eight other major socially responsible investment funds and analysts have included the Electrolux share in their indexes, such as FTSE4Good, Innovest, Ecobalance, Portfolio 21 and the Sustainable Business Top 20.

# Corporate Governance

AB Electrolux is a Swedish public limited liability company. The Group is governed on the basis of the Articles of Association, the Swedish Companies Act, the listing agreement with the Stockholm Stock Exchange and other relevant Swedish and foreign laws and regulations.

As a result of the SEC registration of its B-shares in the form of American Depositary Receipts (ADRs), Electrolux is subject to US securities laws and regulations which affect the governance of the Group, including the Sarbanes-Oxley Act of 2002. Electrolux submits an annual report on Form 20-F report to the US Securities and Exchange Commission (SEC).

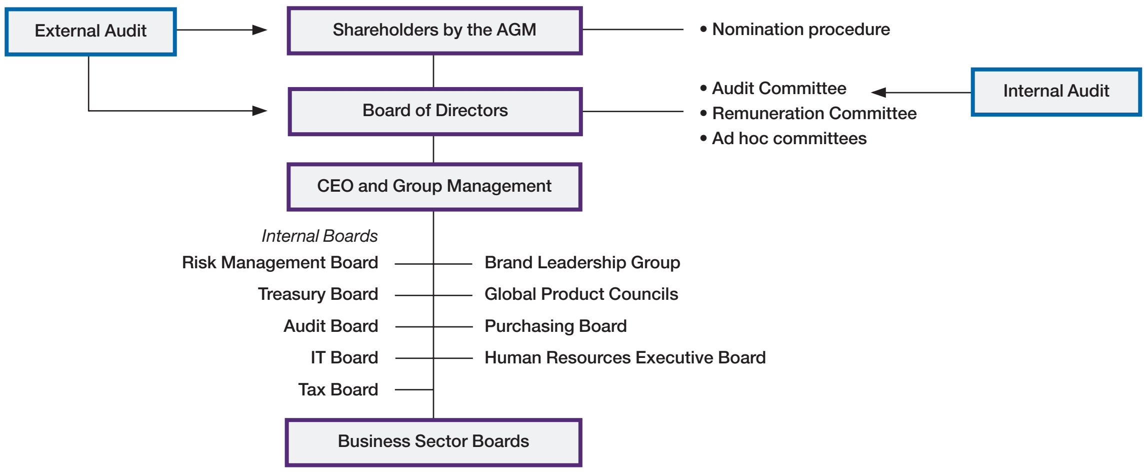
The Swedish Code for Corporate Governance was introduced in December 2004, and is expected to be integrated in the listing agreement with the Stockholm Stock Exchange as of July 1, 2005. Electrolux already applies the major part of the regulations included in the Code.

**The Electrolux Articles of Association are available at www.electrolux.com under "Investor Relations". The 20-F Report for 2004 will be available at the site in April 2005, under "Reports".**

### Highlights of 2004

- Continued work on ensuring that Electrolux complies with requirements of US Sarbanes-Oxley Act of 2002, in particular section 404
- Adoption of a policy on countering bribery and corruption to ensure fair and ethical business practices in all operations
- Establishment of a Disclosure Committee to assist in ensuring proper communication of important information to the market
- Approval by AGM of proposal to replace Group's stock-option programs with performance-related long-term share program based on value created over a three-year period
- Introduction of Swedish Code of Corporate Governance in December 2004, expected to be effective as of July 1, 2005. Electrolux already complies with major part of the Code

## Governance structure




### Major external regulations affecting governance of Electrolux:

- Swedish Companies Act
- Listing agreement with Stockholm Stock Exchange
- Swedish Code for Corporate Governance
- Listing requirement with the London Stock Exchange
- US Securities laws and regulations, including the Sarbanes-Oxley Act of 2002

### Example of internal policies and codes:

- Board of Directors' working procedures
- Electrolux Code of Ethics
- Electrolux Policy on Countering Bribery and Corruption
- Electrolux Workplace Code of Conduct
- Policies for information, finance, credit, accounting manual, etc.
- Processes for internal control and risk management

## Shareholder structure

According to the share register at the VPC (Swedish Central Securities Depository & Clearing Organization), at year-end 2004 the Group had a total of approximately 63,800 shareholders. The shares held by the ten largest owners corresponded to approximately 27% of the total share capital and approximately 43% of the voting rights.

Approximately 50% of the share capital was owned by Swedish institutions and mutual funds, 38% by foreign investors, and 12% by private Swedish investors. The total number of shareholders in Sweden as of this date was approximately 39,400.

There has been no major change in the ownership reported by VPC during the last three years.

| Major shareholders | Share capital, % | Voting rights, % |
|---|---|---|
| Investor AB | 6.0 | 25.9 |
| Alecta Mutual Pension Insurance | 5.1 | 4.2 |
| Second Swedish National Pension Fund | 3.3 | 2.7 |
| Robur Investment Funds | 2.4 | 1.9 |
| SHB/SPP Investment Funds | 2.3 | 1.9 |
| SEB Investment Funds | 1.8 | 1.5 |
| Fourth Swedish National Pension Fund | 1.7 | 1.4 |
| AFA Insurance | 1.6 | 1.3 |
| Nordea Investment Funds | 1.5 | 1.2 |
| Skandia Life Insurance | 1.3 | 1.4 |
| **Total** | **27.0** | **43.4** |
| Board of Directors and Group Management, collectively | 0.02 | 0.01 |

**For more information about shareholders and the distribution of shareholdings, see page 83.**

#### Voting rights

The share capital of AB Electrolux consists of A-shares and B-shares. An A-share entitles the holder to one vote and a B-share to one-tenth of a vote. All shares entitle the holder to the same proportion of assets and earnings, and carry equal rights in terms of dividends.

As of December 31, 2004, the share capital comprised 9,502,275 A-shares and 299,418,033 B-shares.

## Annual General Meeting

The decision-making rights of shareholders in AB Electrolux are exercised at the Annual General Meeting (AGM).

Participation in decision-making requires the shareholder's presence at the meeting, whether personally or through a proxy. In addition, the shareholder must be registered in the share register as of a prescribed date prior to the meeting and must provide notice of participation in due course. For information on the 2005 AGM, see page 103.

Additional requirements for participation apply for shareholders with holdings in the form of US ADRs or similar certificates. Holders of such certificates are advised to contact the ADR depositary bank, fund manager or the issuer of the certificate in good time before the meeting in order to obtain more information.

Decisions at the meeting are normally made by simple majority. However, for some matters the Swedish Companies Act and the Articles of Association stipulate that a proposal must be approved by a higher proportion of the shares and votes represented at the meeting.

The AGM must be held within six months of the end of the accounting year. The meeting resolves on dividends, adoption of the annual report, election of Board members and when applicable auditors, and remuneration to Board members and auditors and other important matters. The AGM in April 2004 was attended by shareholders representing 42.5% of the share capital and 55.2% of the voting rights in the Company.

An Extraordinary General Meeting can be held at the discretion of the Board of Directors, or if requested by the auditors or by shareholders owning at least 10% of the shares. In June 2004 the Board convened an extraordinary meeting to decide on the redemption of shares and payment of redemption proceeds to the shareholders. The extraordinary meeting was attended by shareholders representing 27.1% of the share capital and 42.1% of the voting rights in the Company.

#### Nomination procedure for election of Board members

The AGM decides on the nomination procedure for the coming year for the Board members to be elected at the next meeting, i.e. for all members except the three with deputies, who are appointed by the Swedish employee organizations in accordance with Swedish labor law. In accordance with the decision by the meeting, the Chairman of the Board contacted representatives for at least three of the largest shareholders during the fourth quarter of the year. The shareholder representatives contacted were Anders Scharp of Investor, Ramsay J. Brufer of Alecta Mutual Pension Insurance, Marianne Nilsson of Robur Investment Funds and Carl Rosén of Second Swedish National Pension Fund. The names of these representatives were published in the Group's Interim report for July – September, 2004.

Together with the Chairman, these representatives evaluate the Board's composition, remuneration, and the need for special competence on the Board. These representatives have held four meetings. The names of the proposed members and a proposal for remuneration are subsequently given in the notice of the AGM, which is normally published about five weeks before the date of the meeting.

Individual shareholders have been given the right to propose candidates for the Board directly to the Chairman by e-mail to chairman@electrolux.com

**For information about the nomination procedure for 2004, see the Report by the Board of Directors on page 41.**

## The Board of Directors

The Board of Directors decides on issues such as Group strategy, financing, investments, acquisitions and divestments of companies, organization and major policies. The Board's work is governed by regulations that include the Swedish Companies Act, the Articles of Association and the working procedures established by the Board.

#### Composition of the Board

The Board of Directors of Electrolux consists of seven members, without deputies, who are elected by the Annual General Meeting for a period of one year. Three additional members, with deputies, are appointed by the Swedish employee organizations, in accordance with Swedish labor laws.

With the exception of the President and CEO, the members of the Board are non-executives.

Electrolux complies with the listing requirements of the Stockholm Stock Exchange regarding independent Board members.

The average age of the Board members is 52. Two of the ten members are not Swedish citizens. Four are women. Six members are shareholders in Electrolux, with a total holding of 43,819 B-shares, representing 0.01% of the total voting rights. Holdings by Board members have declined from the previous year as a result of the change in the Board's composition.

*Changes in the Board*

Prior to the election of new Board members at the Annual General Meeting on April 21, 2004, Chairman of the Board Rune Andersson and Deputy Chairman Jacob Wallenberg both declined renomination, after having served on the Board since 1998.

- Eight Board members were elected at the Meeting, including new member Aina Nilsson Ström.
- When the Board was constituted on April 21, 2004, Michael Treschow was appointed Chairman and Peggy Bruzelius Deputy Chairman.
- In September 2004, Louis R. Hughes resigned from the Board and the Audit Committee, after having served on the Board since 1996. The Board subsequently comprised seven members, elected by the AGM.
- Changes in the Board also involved changes in the composition of both the Audit Committee and the Remuneration Committee.

#### Remuneration to Board members

Remuneration to Board members is authorized by the AGM and distributed by the Board to members who are not employed by the Group. Information on remuneration to Board members is given in the table on page 88. No remuneration for consultancy services has been paid to the Board of Directors in 2004. Remuneration to the President and CEO is proposed by the Remuneration Committee.

**See Remuneration Committee on page 88, and also Note 28 on page 64.**

### The Board of Directors

| | | Age | Nationality | Director since | B-share holding | Number of options | Audit Committee | Remuneration Committee | Remuneration, SEK[1] |
|---|---|---|---|---|---|---|---|---|---|
| Michael Treschow | Chairman, Non-Executive Director | 61 | SWE | 1997 | 35,000 | 60,000 | | X[2] | 1,200,000 |
| Peggy Bruzelius | Deputy Chairman, Non-Executive Director | 55 | SWE | 1996 | 5,000 | — | X[2] | | 550,000 |
| Thomas Halvorsen | Non-Executive Director | 55 | SWE | 1996 | 500 | — | X | | 425,000 |
| Aina Nilsson Ström | Non-Executive Director | 51 | SWE | 2004 | 199 | — | | X | 375,000 |
| Hans Stråberg | President and CEO | 47 | SWE | 2002 | 2,870 | 196,400 | | | — |
| Barbara R. Thoralfsson | Non-Executive Director | 45 | US | 2003 | — | — | X | | 412,500 |
| Karel Vuursteen | Non-Executive Director | 63 | NL | 1998 | 250 | — | | X | 400,000 |
| Ulf Carlsson | Employee representative | 46 | SWE | 2001 | — | — | | | — |
| Bert Gustafsson | Employee representative | 53 | SWE | 1999 | — | — | | | — |
| Annika Ögren | Employee representative | 39 | SWE | 2003 | — | — | | | — |
| **Total** | | | | | **43,819** | **256,400** | | | **3,362,500** |

**1) In April 2004, the AGM authorized remuneration to the Board of Directors in the amount of SEK 3,750,000 for the period up to the next AGM in April 2005. Distribution of the remuneration is decided by the Board. Of the remuneration to the Board, SEK 212,500 has been allocated to Louis R. Hughes, who left the Board in September 2004. As of February 14, 2005, SEK 175,000 was unallocated. For information on remuneration in 2004, see Note 28 on page 63.**

**2) Chairman.**

**For more information on Board of Directors, see page 92.**

### Working procedures and meetings

The Board determines its working procedures each year and reviews them when necessary.

The working procedures stipulate that the meeting for formal constitution of the Board shall be held directly after the AGM. Decisions are made at this meeting regarding election of the Chairman, distribution of remuneration to the Board members, and authorization to sign for the Company.

The Board normally meets on six other occasions during the year. Four of these meetings are held in connection with publication of the Group's annual and interim reports. One or two meetings are held in connection with visits to companies. Additional meetings, including telephone-conferences, are held when necessary. Seven ordinary Board meetings were held during the year. In addition, there were four extra meetings.

The working procedures for the Board of Directors also include detailed instructions to the President and CEO regarding issues that require the Board's approval, and the type of financial and other reports that shall be submitted to the Board. Among other things, these instructions specify the maximum amounts that various decision-making functions within the Group are authorized to approve regarding credit limits, capital expenditure, and other outlays. The working procedures also cover the Group's financial policy.

The Group's external auditors report to the Board at least once a year, and also attend meetings with the Audit Committee.

*Agendas for Board meetings*

Each Board meeting normally includes a review of the Group's results and financial position as well as the outlook for the next quarter, which is presented by the President. The meeting also deals with investments and establishment of new operations as well as acquisitions and divestments. In addition, a business sector head usually presents current strategic issues for the sector.

**For more information about the Board of Directors' activities during the year, see the Report by the Board of Directors on page 41.**

### Evaluation of the Board's work

In the course of the year, the Board evaluated its activities, including working procedures and the working climate as well as the presence of and need for special competence. This evaluation served as input for the nomination procedure work, in which shareholder representatives and the Chairman of the Board jointly evaluate such matters as the Board's composition and remuneration, as described above.

### Committees

The Board has established a Remuneration Committee and an Audit Committee. The Board has also decided that issues can be referred to ad hoc committees that deal with specific matters. The work of these committees is largely preparatory.

### Remuneration Committee

The main task of the Remuneration Committee is to propose principles for remuneration of members of Group management. The Remuneration Committee makes proposals to the Board of Directors regarding targets for variable compensation, the relationship between fixed and variable salary, changes in fixed or variable salary, criteria for assessment of variable salary, long-term incentives, pension terms and other benefits.

The Committee comprises the Chairman of the Board and two Board members. Prior to the AGM in 2004 the Committee comprised Rune Andersson (Chairman), Jacob Wallenberg and Hans Stråberg. The elected Board appointed Michael Treschow as Chairman of the Remuneration Committee, and Karel Vuursteen and Barbara R. Thoralfsson as members. The latter was replaced by Aina Nilsson Ström in October 2004.

At least two meetings are convened annually. Additional meetings are held when needed. Seven meetings were held in 2004.

### Audit Committee

The Audit Committee was established by the Board of Directors as of 2003. Its primary purpose is to assist the Board in overseeing the accounting and financial reporting processes, including the effectiveness of disclosure controls and procedures and the adequacy and effectiveness of internal controls over financial reporting. The audit committee also assists the Board of Directors in overseeing the audit of the financial statements including related disclosures. This involves reviewing proposals for the appointment of external auditors and fee arrangements in connection therewith, pre-approving audit and non-audit services to be provided by the external auditors, reviewing the objectivity and independence of the external auditors, overseeing the work of the external auditors, evaluating the external auditor's performance and where applicable recommending replacement of the external auditors.

The Audit Committee also reviews the Internal Audit function, known as Management Assurance & Special Assignments, in terms of organization, staffing, budget, plans, results, and reports prepared by this function.

The Audit Committee comprises three non-executive directors, i.e. Peggy Bruzelius, Chairman, Thomas Halvorsen and Barbara R. Thoralfsson. The latter replaced Louis R. Hughes in October 2004.

The external auditors report to the Audit Committee on each ordinary meeting.

At least three meetings are held annually. Additional meetings are held when needed. Three meetings were held in 2004.

### Attendance at Board and committee meetings in 2004

| | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **Number of meetings in 2004** | **11** | **3** | **7** |
| Michael Treschow | 11 | – | 4 |
| Peggy Bruzelius | 10 | 3 | – |
| Thomas Halvorsen | 11 | 3 | – |
| Louis R. Hughes [1)] | 8 | 2 | – |
| Aina Nilsson Ström [2)] | 8 | – | 3 |
| Hans Stråberg [3)] | 11 | – | 3 |
| Barbara R. Thoralfsson [4)] | 11 | 1 | 1 |
| Karel Vuursteen | 7 | – | 3 |
| Ulf Carlsson | 11 | – | – |
| Bert Gustafsson | 11 | – | – |
| Annika Ögren | 11 | – | – |

**1) Left the Board and the Audit Committee in September 2004.**

**2) Elected in April 2004. Appointed member of the Remuneration Committee in October 2004.**

**3) Member of the Remuneration Committee up to the AGM in April, 2004.**

**4) Appointed member of the Audit Committee in October 2004. Member of the Remuneration Committee up to October 2004.**

## External auditors

At the Annual General Meeting in 2002, PricewaterhouseCoopers (PwC) was appointed external auditors for a four year period until the Annual General Meeting in 2006.

PwC provides an audit opinion on AB Electrolux and its subsidiaries' financial statements, the consolidated financial statements for the Electrolux Group, and the administration of AB Electrolux.

The audit is conducted in accordance with the Swedish Companies Act and the generally accepted Swedish auditing standards issued by FAR, the institute for the accountancy profession in Sweden (Swedish GAAS). The auditing standards issued by FAR are based on international standards on auditing issued by the International Federation of Accountants (IFAC GAAS). Audits of local statutory financial statements for legal entities in different countries outside of Sweden are performed as required by law or applicable regulations, in the respective country, and as required by IFAC GAAS including issuance of audit opinions for the various legal entities. In addition, PwC performs audits in accordance with US generally accepted auditing standards (US GAAS), and provides an audit report to be filed with Form 20-F to the US Securities and Exchange Commission.

**For additional information on the Group's auditors and their other audit assignments, see page 92. For information on fees paid to the auditors and their non-audit assignments in the Group, see Note 29 on page 67.**

## Management and Company structure

The Group's operations are organized in six business sectors that include a total of 27 product lines. There are four Group staff units.

### Group Management

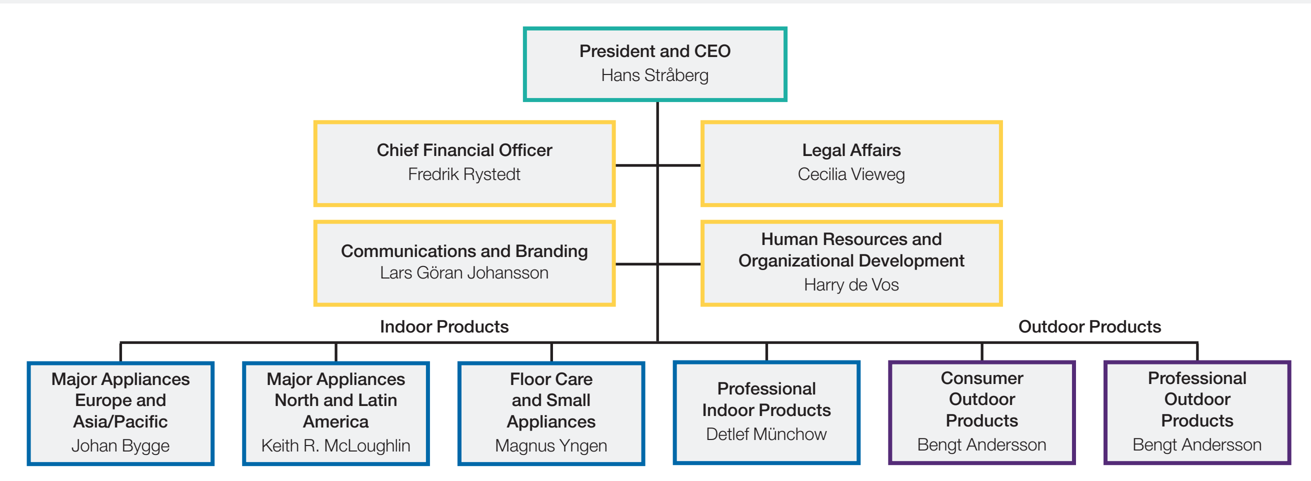
In addition to the President and CEO, Group Management includes the five sector heads and the four Group staff heads.

The President and CEO is responsible for on-going management of the Group in accordance with the Board's guidelines and instructions.

Group Management holds monthly meetings to review the previous month's results, update forecasts and plans, and discuss strategic issues.

### Business sectors

The sector heads have complete responsibility for the results and balance sheets of their respective sectors. The overall management of the sectors is the responsibility of sector boards, which meet quarterly. The President and CEO is the chairman of all sector boards. The sector board meetings are attended by the President and CEO, the management of the respective sectors, and the Chief Financial Officer (CFO). The sector boards are responsible for




**As of 2005 the Group's operations comprise Indoor Products and Outdoor Products, instead of the previous Consumer Durables and Professional Products. In addition, the number of business sectors has been reduced from seven to six, as responsibility for major appliances outside Europe and North America has been divided. There is now a single sector for Major Appliances in North and Latin America and another for Major Appliances in Europe, Asia, Africa and Oceania.**

**For more information about Group Management and changes in the composition during the year, see page 94.**

monitoring on-going operations, establishing strategies, determining sector budgets, and making decisions on major investments. The product line managers are responsible for the profitability and long-term development of their product lines.

### New global leadership team for major appliances

A new global major appliances leadership team has been established, comprising the President and CEO, the Head of Major Appliances Europe and Asia/Pacific, the Head of Major Appliances North and Latin America, and the CFO. The new team is mainly focusing on increasing the integration of branding, design, product development, manufacturing and purchasing.

### Six Group processes

In order to ensure a systematic approach to improving operational efficiency and the internal control, and secure that operational procedures are performed in a uniform way, the Group has defined six core processes within strategically important areas. These processes are common for the entire Group and comprise purchasing, people, branding, product creation, demand flow, and business support.

### Remuneration to Group Management

Remuneration to the President and CEO and Group Management is proposed by the Remuneration Committee, and comprises fixed salary, variable salary in the form of a short-term incentive based on annual performance targets, long-term incentives, and benefits such as pensions and insurance. The general principles for remuneration within Electrolux are based on the position held, individual as well as team performance, and competitive remuneration in the country of employment.

Variable salary is paid according to performance. Variable salary for the President and CEO is determined by the achievement of financial targets. Variably salary for sector heads is determined by the achievement on both financial and non-financial targets. Value created is the most important financial indicator. For 2004, the non-financial target focused on product innovation. Group staff heads receive variable salary based on the value created for the Group as well as the achievement of performance targets within their respective functions. For more information on the value creation concept, see below.

In terms of long-term incentive programs, Electrolux has implemented a performance share program and several employee stock-option programs, which are designed to align management incentives with shareholder interests. In 2004, the Annual General Meeting approved to replace the Group's stock option programs with a performance related long-term share program based on value created over a three-year period.

**Remuneration to Group Management in 2004**

| '000 SEK | President and CEO | Other members of Group Management [1] | Total |
|---|---|---|---|
| Fixed salary | 7,708 | 36,958 | 44,666 |
| Variable salary | 4,246 | 16,279 | 20,525 |
| Pension cost | 3,683 | 27,569 | 31,252 |
| Long-term incentive [2] | 2,400 | 10,800 | 13,200 |
| **Total** | **18,037** | **91,606** | **109,643** |

1) Other members of Group Management comprised 11 people up to October and 9 for the rest of the year.

2) Target value of Share Program 2004.

For more information on remuneration during 2004, see Note 28 on page 64.

## Value creation

The Group uses a model for value creation to measure profitability by business area, sector, product line and region. The model links operating income and asset efficiency with the cost of the capital employed in operations. Value created is also the basis for incentive systems for managers and employees in the Group. Since 1998, Electrolux has covered the annual cost of capital employed.

Value created is defined as operating income excluding items affecting comparability, less the weighted average cost of capital (WACC) on average net assets, excluding items affecting comparability.

**For details on the value creation concept, see page 81.**

## Internal control and risk management

The Board of Directors has overall responsibility for establishing an effective system of internal control and risk management. Responsibility for maintaining an effective control environment and operating the system for internal control and risk management is delegated to the President and CEO.

Management at varying levels is responsible for internal control and risk management within their respective areas of responsibility. The limits of this responsibility are set out in instructions for delegation of authority, manuals, policies and procedures, and codes, including the Electrolux Code of Ethics and the Electrolux Workplace Code of Conduct. In addition, minimum requirements have been set for internal control on the basis of the Group's six core processes. Together with laws and external regulations, these internal guidelines form the control environment which is the foundation of the internal control and risk-management process. All employees, including process-, risk- and control owners, are accountable for compliance with these guidelines.

The Internal Audit function known as Management Assurance & Special Assignments is responsible for performing independent objective assurance activities, in order to systematically evaluate and propose improvements of the effectiveness of governance, internal control and risk management processes. In addition, the function proactively proposes improvements in the control environment. The head of this function has dual reporting lines, to the President and CEO and the Audit Committee for assurance activities, while other activities are reported to the CFO.

The internal control and risk-management process includes five key activities, i.e. assessing risk, developing control strategies, monitoring procedures, improving, and informing and communicating.

### Assessing risks

Assessing risks includes identifying, sourcing and measuring business risks, i.e. strategic, operational, commercial, financial and compliance risks, e.g. non-compliance with laws and other external regulations, or with internal guidelines. Assessing risks also includes identifying opportunities that ensure long-term creation of value.

### Developing control strategies

The choice of control strategies depends on the nature of the risk and the results of a cost-benefit analysis, within the guidelines set by the Group. Control strategies for managing risks may include insuring, outsourcing, hedging, prohibiting, divesting, reducing risk through detective and preventative internal control procedures, acceptance, exploitation, reorganization and redesign.

### Monitoring procedures

The effectivenes in the process for assessing risks and the execution of control strategies is monitored continuously. Monitoring involves both formal and informal procedures applied by management and process-, risk- and control owners, including reviews of results in comparison with budgets and plans, analytical procedures, and key performance indicators.

In addition, various tools including self-assessments and risk surveys are used within the Group. In order to evaluate the information security area and the transactional and reporting processes, reporting units within the Group applies these tools since 2002.

Internal and external auditors evaluate the effectiveness of the process and suggest improvements to management and process-, risk- and control owners.

### Improving on a continuous basis

Activities within the internal control and risk-management process are continuously evaluated to provide a basis for improvements. Evaluation involves internal and external benchmarking.

### Informing and communicating

The process for internal control and risk management, generates valuable information regarding business objectives, risks and control strategies. Communicating on a timely basis throughout the Group contributes to ensuring that the right business decisions are made.

Since 2003, the Group has a representation process in which Group Management signs a representation letter stating their opinion regarding internal control over financial reporting as well as disclosure controls and procedures, and compliance with other internal guidelines.

### Compliance with the Sarbanes-Oxley Act

During 2004, work continued on ensuring that Electrolux complies with the requirements of the US Sarbanes-Oxley Act of 2002.

Section 404 of the Sarbanes-Oxley Act stipulates that companies subject to SEC reporting requirements, such as Electrolux, must submit annual reports on Form 20-F that include management's report on the effectiveness of the company's internal controls over financial reporting. The company's external auditors are required to issue an attestation report regarding the management's assessment of the effectiveness of these controls, as well as the auditor's independent assessment of the effectiveness of the Company's internal control over financial reporting. This attestation report, must also be included in the Form 20-F. Electrolux and its external auditors must comply with these requirements starting with the Company's Form 20-F report for the fiscal year ending December 31, 2006.

In the course of 2004, extensive work was performed to develop a method within the Group for documenting, evaluating and testing Electrolux internal controls over financial reporting and the work with documentation was started. This work also included comprehensive staff training in order to secure the required competence within the Group for effective compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. This work is being led by Management Assurance & Special Assignments, the Group's Internal Audit function.

**For more information on the Audit Committee's responsibilities, see page 88.**

## De-listing from NASDAQ

The Board of Directors decided in February 2005, that the Group's ADRs should be de-listed from the NASDAQ Stock Market. Trading volume in ADRs is low and does not justify a listing. The ADR program will be maintained, and trading in these receipts will be transferred to the US over-the-counter market. The de-listing is expected to be completed by the end of March 2005.

The Group will continue to submit an annual Form 20-F report and interim reports on Form 6-K to the US Securities and Exchange Commission (SEC).

## Electrolux Group Code of Ethics

In February 2004, the Board of Directors adopted the Electrolux Group Code of Ethics. It outlines both prescriptive and proscriptive ethical standards that require strict adherence from all employees and Board members of the Electrolux Group, in all markets and at all times.

The Code formalizes the principles by which the Group conducts its relations with employees, shareholders, business partners and others. Electrolux encourages suppliers, sales agents, consultants and other business partners to adopt these principles.

The Electrolux Group Code of Ethics is available at www.electrolux.com/corpgov

## Policy on Countering Bribery and Corruption

In the course of 2004 Electrolux Group Management adopted a Policy on Countering Bribery and Corruption, aimed at ensuring fair and ethical business practices. The Policy is binding on all employees and agents, in all markets where the Group operates.

Together with the Electrolux Workplace Code of Conduct and the Electrolux Code of Ethics, the new Policy is intended to guide individual employees and protect the Group's reputation for ethical conduct.

## Financial reporting and disclosure

Electrolux provides the market with information about the development of the Group and its financial position on an on-going basis.

A disclosure policy in accordance with the Sarbanes-Oxley Act of 2002 was adopted by the Audit Committee in 2003. Electrolux complies with the requirements for an information policy that were introduced in 2004 by the Stockholm Stock Exchange in listing agreements.

Financial information is issued regularly in the form of:

- Interim reports, published as press releases
- The Electrolux Annual Report
- An annual report on Form 20-F and interim reports on Form 6-K, each of which are filed with the US Securities and Exchange Commission
- Press releases on all important matters which could materially affect the share price
- Presentations and telephone conferences for analysts, investors and media representatives on the day of publication of the quarterly and full-year results, and in connection with release of important news
- Meetings with financial analysts and investors worldwide

All reports and press releases are published simultaneously at www.electrolux.com/ir

## Disclosure Committee

A Disclosure Committee was established at the start of 2005. This Committee contributes to considering the materiality of information relating to Electrolux and ensuring that such information is properly communicated to the market on a timely basis.

The Disclosure Committee comprises the Head of Group Staff Legal Affairs, the Chief Financial Officer, the Head of Group Staff Communications and Branding, and the Head of Investor Relations and Financial Information.

# Board of Directors and Auditors

## Michael Treschow
**Chairman**
Born 1943, M. Eng. Elected 1997. Chairman of the Electrolux Remuneration Committee. Board Chairman: Telefonaktiebolaget LM Ericsson, The Confederation of Swedish Enterprise. Board Member: ABB Ltd. Previously President and CEO of AB Electrolux, 1997–2002. President and CEO of Atlas Copco AB, 1991–1997.
Holdings in AB Electrolux: 35,000 B-shares, 60,000 options.

## Peggy Bruzelius
**Deputy Chairman**
Born 1949, M. Econ. Elected 1996. Chairman of the Electrolux Audit Committee. Board Chairman: Grand Hotel Holding AB, Lancelot Asset Management AB. Board Member: Axfood AB, Industry and Commerce Stock Exchange Committee, Axel Johnson AB, AB Ratos, Scania AB, Syngenta AG, The Association of the Stockholm School of Economics. Deputy Chairman: The Royal Swedish Academy of Engineering Sciences. Previously Executive Vice President of SEB, Skandinaviska Enskilda Banken, 1997–1998, President and CEO of ABB Financial Services AB, 1991–1997.
Holding in AB Electrolux: 5,000 B-shares.

## Thomas Halvorsen
Born 1949, B.A. Elected 1996.
Member of the Electrolux Audit Committee. President of the Fourth Swedish National Pension Fund since 1993. Board Member: AP Fastigheter AB, Beijer Alma AB. Previously Executive Vice President of the Fourth Swedish National Pension Fund, 1988–1993.
Holding in AB Electrolux: 500 B-shares.

## Aina Nilsson Ström
Born 1953, Master of Fine Art Industrial Design. Elected 2004. Member of the Electrolux Remuneration Committee. Design Director of Volvo 3P since 2001. Board Member: Ballingslöv International AB, Beckmans Skola AB, School of Design. Member of the Finnish-Swedish Design Academy. Previously Design Director of Volvo Truck Corporation, 1995–2001. Held several management positions within design at Saab Automobile AB, 1990–1995.
Holding in AB Electrolux: 199 B-shares.

## Hans Stråberg
**President and CEO**
Born 1957, M. Eng. Elected 2002. President and CEO of Electrolux since 2002. Board Member: The Association of Swedish Engineering Industries Board, AB Ph. Nederman & Co.
Holdings in AB Electrolux: 2,870 B-shares, 196,400 options.

## Barbara R. Thoralfsson
Born 1959, MBA, B.A. Elected 2003. Member of the Electrolux Audit Committee. President of TeliaSonera Norway, Oslo, Norway, since 2001. Board Member: Rieber & Søn ASA, Norwegian Airlines. Member of the Board of Representatives in Storebrand ASA. Previously at Midelfart & Co, Norway, as President, 1995–2001, and on various positions within marketing and sales, 1988–1995.
Holding in AB Electrolux: 0 shares.

## Karel Vuursteen
Born 1941, Agricultural Eng. Elected 1998. Member of the Electrolux Remuneration Committee. Board Member: Akzo Nobel N.V., Heineken Holding N.V., Henkel KGaA, Royal Ahold N.V., ING Group N.V. Previously President and CEO of Heineken N.V., Amsterdam, The Netherlands, 1993–2002.
Holding in AB Electrolux: 250 B-shares.

**Louis R. Hughes** left the Board of Directors as of September 20, 2004, to take a position as Chief of Staff for the Afghanistan Reconstruction Group at the US Embassy in Kabul, Afghanistan. Hughes had been with the Electrolux Board of Directors since 1996 and was the Executive Vice President of General Motors, 1992–2000.

## Secretary of the Board

### Cecilia Vieweg
Born 1955, B. of Law. General Counsel of AB Electrolux. Secretary of the Board since 1999.
Holdings in AB Electrolux: 0 shares, 136,400 options.

## Employee Representative Members

### Ulf Carlsson
Born 1958. Representative of the Swedish Confederation of Trade Unions. Elected 2001.
Holding in AB Electrolux: 0 shares.

### Bert Gustafsson
Born 1951. Representative of the Federation of Salaried Employees in Industry and Services. Deputy Member, 1997–1998. Ordinary Member, 1999.
Holding in AB Electrolux: 0 shares.

### Annika Ögren
Born 1965. Representative of the Swedish Confederation of Trade Unions. Elected 2003.
Holding in AB Electrolux: 0 shares.

## Employee Representative Deputy Members

### Malin Björnberg
Born 1959. Representative of the Federation of Salaried Employees in Industry and Services. Elected 1999.
Holding in AB Electrolux: 0 shares.

### Gunilla Brandt
Born 1953. Representative of the Federation of Salaried Employees in Industry and Services. Elected 2004.
Holding in AB Electrolux: 0 shares.

### Ola Bertilsson
Born 1955. Representative of the Swedish Confederation of Trade Unions. Elected 2002.
Holding in AB Electrolux: 0 shares.

## Auditors

At the Annual General Meeting in 2002, PricewaterhouseCoopers (PwC) was appointed auditors for a four-year period until the Annual General Meeting in 2006.

### Peter Clemedtson
**PricewaterhouseCoopers AB**
Born 1956. Authorized Public Accountant. Partner in Charge.
Other audit assignments include Gambro, Ericsson, KMT, Medivir, OMX, SEB and SinterCast.
Holding in AB Electrolux: 0 shares.

### Anders Lundin
**PricewaterhouseCoopers AB**
Born 1956. Authorized Public Accountant. Other audit assignments include ASSA ABLOY, Axis, Bong Ljungdahl and Säkl.
Holding in AB Electrolux: 0 shares.


Michael Treschow


Barbara R. Thoralfsson

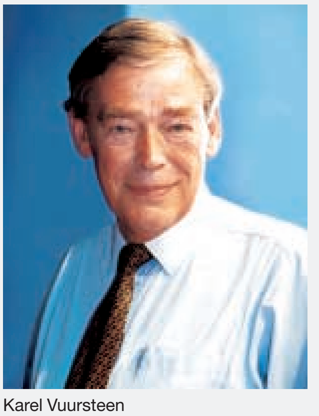

Thomas Halvorsen


Aina Nilsson Ström

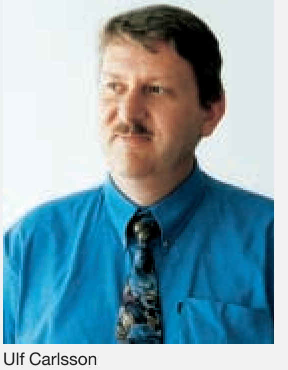

Ola Bertilsson


Peggy Bruzelius


Annika Ögren


Karel Vuursteen


Bert Gustafsson


Ulf Carlsson


Hans Stråberg


Malin Björnberg


Gunilla Brandt

**For more information about the Board of Directors and their activities, see Corporate Governance on page 87.**

# Group Management

## Hans Stråberg
**President and CEO**
Born 1957, M.Eng. Joined Electrolux in 1983. Head of product area, Dishwashers and Washing Machines, 1987. Head of product division, Floor Care Products, Västervik, 1992. Executive Vice-President, Frigidaire Home Products, USA, 1995. Head of Floor Care Products and Small Appliances and Executive Vice-President, AB Electrolux, 1998. Chief Operating Officer of Electrolux, October 2001. President and CEO of Electrolux, 2002. Board Member: The Association of Swedish Engineering Industries Board, AB Ph. Nederman & Co.
Holdings: 2,870 B-shares, 196,400 options.

## Bengt Andersson
**Head of Outdoor Products**
Born 1944, Mech. Eng. Production Engineer, Facit AB, 1966–1975. Joined Electrolux in 1973. Sector Manager, Facit-Addo, 1976, Technical Director, Electrolux Motor, 1980, Product-line Manager, Outdoor Products North America, 1987, Product-line Manager, Forest and Garden Equipment, 1991 and Flymo, 1996. Head of Professional Outdoor Products, Executive Vice-President, AB Electrolux, 1997. Head of Consumer and Professional Outdoor Products, Senior Executive Vice-President, AB Electrolux, 2002. Board Member: Kabe Husvagnar AB.
Holdings: 5,000 B-shares, 136,400 options.

## Johan Bygge
**Head of Major Appliances Europe and Asia/Pacific**
Born 1956, M. Econ. Deputy Group Controller, Telefonaktiebolaget LM Ericsson, 1983, Head of Cash Management, 1986. Joined Electrolux in 1987 as Group Controller. Head of Group Controlling, Accounting, Taxes, Auditing, Administration and IT, 1996–2000, as well as Acting Treasurer in 2000. Head of Consumer Outdoor Products outside North America, Executive Vice-President, AB Electrolux, 2001. Head of Major Appliances outside Europe and North America, Senior Executive Vice-President, AB Electrolux, 2002. Head of Consumer Outdoor Products outside North America, 2001–2003. Also Head of Major Appliances Europe as of November 2004. Board Member: First Swedish National Pension Fund, The Bank of Sweden Tercentenary Foundation.
Holdings: 2,024 B-shares, 136,400 options.

## Keith R. McLoughlin
**Head of Major Appliances North and Latin America**
Born 1956, B.S.Eng. Held a number of senior management positions with DuPont between 1981–2003, most recently as Vice-President and General Manager of DuPont Nonwovens, 2000–2003, and of DuPont Corian, 1997–2000. Joined Electrolux in 2003 as Head of Major Appliances North America and Executive Vice-President, AB Electrolux. Also Head of Major Appliances Latin America as of November 2004.
Holdings: 0 shares, 30,000 options.

## Detlef Münchow
**Head of Professional Indoor Products**
Born 1952, MBA and PhD Econ. Member of senior management in consulting firms Knight Wendling/Wegenstein AG, 1980–1989 and GMO AG, 1989–1992. FAG Bearings AG, 1993–1998, as Chief Operating Officer in FAG Bearings Corporation, USA. Joined Electrolux in 1999 as Head of Professional Indoor Products and Executive Vice-President, AB Electrolux.
Holdings: 0 shares, 136,400 options.

## Magnus Yngen
**Head of Floor Care and Small Appliances**
Born 1958, M.Eng. Lic.Tech. Held several international sales and marketing positions, 1988–1995. Joined Electrolux in 1995 as Technical Director within the direct sales operation LUX. Head of Floor Care International operations, 1999. Head of Floor Care Europe operations, 2001. Head of Floor Care and Small Appliances, Executive Vice-President, AB Electrolux, 2002.
Holdings: 0 shares, 81,500 options.

## Lars Göran Johansson
**Head of Group Staff Communications and Branding**
Born 1954, M. Econ. Account Executive, KREAB Communications Consultancy, 1978–1984, President, 1985–1991. Headed the Swedish “Yes to EU Foundation campaign” for the referendum that determined Sweden’s membership in the EU in 1994. Joined Electrolux as Senior Vice-President, Communication and Public Affairs, 1995.
Holdings: 500 B-shares, 136,400 options.

## Fredrik Rystedt
**Chief Financial Officer**
Born 1963, M. Econ. Joined Electrolux Treasury Department, 1989. Subsequently held several positions within the Group’s financial operations. Head of Mergers and Acquisitions, 1996. Joined Sapa AB in 1998, as Head of Business Development, Chief Financial Officer, 2000. Rejoined Electrolux in 2001 as Chief Administrative Officer, responsible for Controlling, Accounting, Taxes and Auditing. In November 2004, appointed Chief Financial Officer and responsible also for Group Treasury.
Holdings: 0 shares, 90,000 options.

## Cecilia Vieweg
**Head of Group Staff Legal Affairs**
Born 1955, B. of Law. Attorney with Berglund & Co. Advokatbyrå, Gothenburg, 1987–1990, Corporate Legal Counsel, AB Volvo, 1990–1992. General Counsel, Volvo Car Corporation, 1992–1997. Attorney and partner in Wahlin Advokatbyrå, Gothenburg, 1998. Joined Electrolux in 1999 as General Counsel. Board member: Haldex AB.
Holdings: 0 shares, 136,400 options.

## Harry de Vos
**Head of Group Staff Human Resources and Organizational Development**
Born 1956, Process Eng, post-doc Training Management. Has held various positions within General Electric,1978– 2001. His latest position was as Human Resource Director for GE Plastics Europe, 1999–2001. Joined Electrolux in 2002 as Head of Human Resources and Organization within Major Appliances Europe. Took on his position as Head of Group Staff Human Resources and Organizational Development on January 1, 2005.
Holdings: 0 shares, 30,000 options.

## Changes in Group Management during the year

**Wolfgang König** left his positions as Head of Major Appliances Europe and Executive Vice-President of AB Electrolux in November, 2004. He was succeded by Johan Bygge.

**Nina Linander** left her position as Head of Group Staff Treasury on December 31, 2004.

**Lilian Fossum** left her position as Head of Group Staff Human Resources and Organizational Development on January 1, 2005, and was succeded by Harry de Vos. Since September 2004, she has been Head of the Group’s pricing program and Regional Administrative Officer (RAO), within the Group’s holding structure, for the central European region.


Magnus Yngen


Fredrik Rystedt


Lars Göran Johansson


Johan Bygge

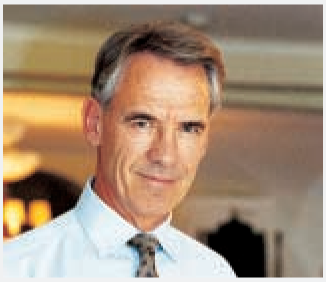

Cecilia Vieweg


Harry de Vos


Hans Stråberg


Keith R. McLoughlin


Detlef Münchow


Bengt Andersson

**For more information about the Group's organization and structure, see Corporate Governance on page 89.**

# Environmental Activities

Environmental performance is a central element of the Group's overall business strategy. It impacts all phases of Group operations, from product development and manufacturing to marketing and consumer communication.

Electrolux has a long history of continuously improving environmental performance of products, e.g., by reducing water and energy consumption, and by designing products with due consideration for efficient recycling. Because improved environmental performance also means lower lifetime operating costs for consumers, it plays a key role in marketing and product development, and is a source of competitive advantage.

A proactive approach to environmental challenges reduces risk, enhances positive brand awareness, strengthens employee satisfaction and ensures good relations with local communities in which the Group operates.

## The Electrolux Environmental Policy

**We want our products, services and production to be part of a sustainable society.**

**We are committed to:**

- **Designing products to reduce their adverse environmental impact in production, use and disposal.**
- **Reducing resource consumption, waste and pollution in our operations.**
- **Taking a proactive approach regarding environmental legislation that affects our business.**
- **Encouraging suppliers, subcontractors, retailers and recyclers of our products to adopt the same environmental principles as Electrolux.**
- **Giving appropriate weight to this environmental policy when making future planning and investment decisions.**
- **Setting targets and objectives, within the scope of the environmental management system, to achieve continual improvement and a sustainable development.**

**This environmental policy has been formally adopted by Electrolux Group Management.**

**For more information, see www.electrolux.com/environment**

## Strategy and policy

The Electrolux environmental strategy is based on a lifecycle approach. The Group recognizes three basic drivers for its strategy of developing and marketing products with outstanding environmental performance: regulations, consumer demand and resource efficiency.

- The most important trends in legislation and regulation involve energy efficiency, recycling and restrictions on the use of potentially hazardous substances. See table below.
- Consumers are increasingly aware of the direct relationship between higher efficiency and lower lifecycle costs.
- The continuous pursuit of cost savings leads to more efficient use of material and energy resources in manufacturing.

## Environmental impact and risk during manufacturing

Environmental regulations for manufacturing facilities vary between countries and regions, and so do their application by authorities. Group units comply with local regulations, and exercise caution in light of the long-term nature of operations.

In connection with acquisitions of companies and plants, an assessment is made of potential environmental risks and the investment that might be required to modify production. When necessary, an analysis based on standardized routines is performed to determine possible contamination of soil and ground water. The assessment is integrated in the acquisition process. This process is regulated by law in many regions, particularly in North America.

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, see Manufacturing performance indicators on page 97.

Electrolux shows above-average environmental performance in comparison with the durable goods manufacturing industry as a whole. This has been confirmed by investigations conducted for the Dow Jones Sustainability Index, FTSE4Good, Oekom Research and several other business-analysis organizations.

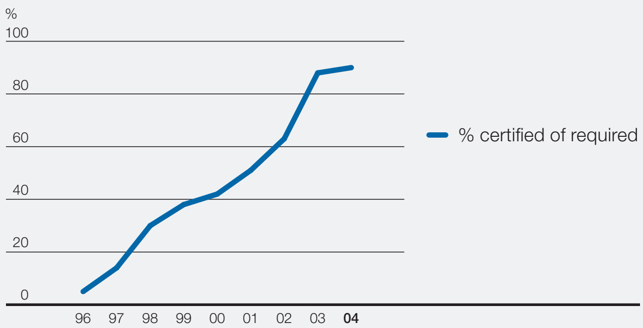
**Summary of environmental issues for which regulations affect the Group's business areas**

| Issues | Regulations | Affected products and operations |
|---|---|---|
| Energy efficiency | Mandatory energy consumption criteria for certain products in EU, US, other markets, voluntary industry commitments on some products in EU | Consumer Durables Professional Products |
| Energy labeling | Mandatory labeling in EU, North America, Mexico, Japan, Australia, China, voluntary labeling in Hong Kong, Brazil | Consumer Durables Professional Products |
| Producer responsibility | WEEE Directive in EU, state/provincial legislation in North America | All electrical products sold in EU, products sold on certain markets in North America |
| Eco-design requirements | EuP Directive in EU, eco-design requirements in product development | All products |
| Emissions from combustion engines | EU and US. Canada to introduce US harmonized regulation in 2005 | Outdoor Products |
| Air and waterborne emissions, solid waste | EU, US, other markets | All plants |
| Greenhouse effect | Kyoto Protocol, national implementation | Consumer Durables |
| Ozone depletion | Montreal Protocol, national implementation | Refrigerators, freezers, air conditioners |
| Hazardous substances | RoHS Directive in EU, and similar legislation in China. REACH in EU, state/provincial legislation in North America | All products and plants |

## Environmental management systems in production

The Electrolux Environmental Management System (EMS) is a vital tool for achieving and maintaining high standards for clean manufacturing. The Group intends to implement EMS for the entire operation in each business sector. The Group's policy stipulates that all manufacturing units with at least 50 employees shall be certified to ISO 14001. Newly acquired units shall complete the certification process within three years after acquisition. By the end of 2004, 92% of the Group's total manufacturing area was certified to ISO 14001, corresponding to 71 production units, or 90% of the total number of units requiring certification. In addition, 7 non-manufacturing units have received ISO 14001 certification.

### ISO 14001 certification




**Units certified to ISO 14001, as a percentage of all units, which must be certified.**

## Manufacturing performance indicators

A number of performance indicators are used to evaluate the result of the Group's environmental work.

The downward trend for energy consumption and $CO_2$ emissions in relation to added value has been reversed during the last two years. This is mainly due to a decline in added value in SEK, primarily as a result of the change in the USD rate, and to a slight increase in $CO_2$ emissions, see below.

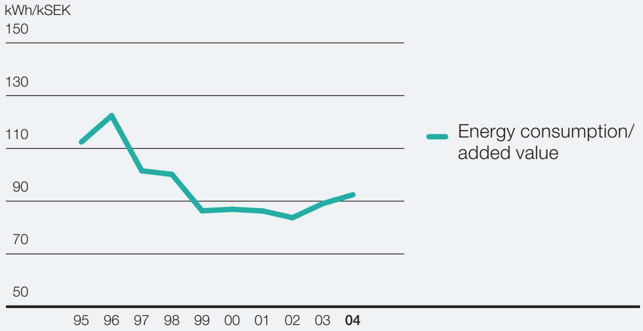
The material utilization in production improved in 2004, while hazardous waste and waste to land-fill were largely unchanged. This resulted in a reduced share of externally recycled material.

### Direct material balance

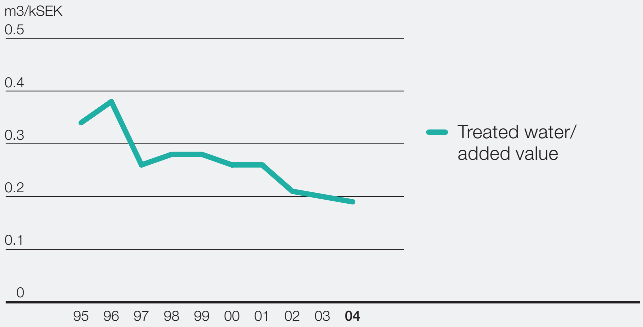
| % | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Finished products (incl. packaging) | 90.47 | 89.22 | 89.10 | 89.00 | 89.52 |
| External material and energy recycling | 8.29 | 9.59 | 9.42 | 9.42 | 8.86 |
| Waste to landfill (non-hazardous) | 1.01 | 0.92 | 1.19 | 1.21 | 1.27 |
| Hazardous waste | 0.19 | 0.20 | 0.25 | 0.29 | 0.26 |
| Emission to air | 0.034 | 0.061 | 0.026 | 0.067 | 0.079 |
| Emission to water | 0.002 | 0.005 | 0.007 | 0.004 | 0.004 |
| Total incoming material | 100 | 100 | 100 | 100 | 100 |

**The material utilization in production improved in 2004, while hazardous waste and waste to land-fill were largely unchanged. This resulted in a reduced share of externally recycled material.**

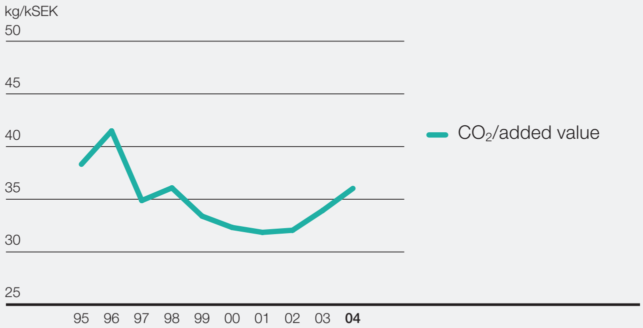
### Energy consumption per added value




### Treated water per added value




### $CO_2$ per added value

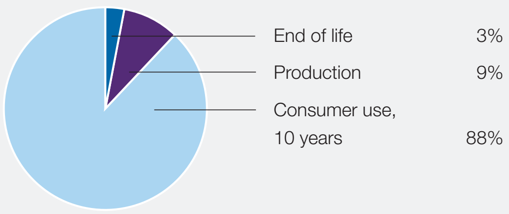



**Since a large part of environmental impact depends on the volume of production, some indicators are calculated in relation to added value, which is defined as the difference between total production cost and the cost for direct material.**

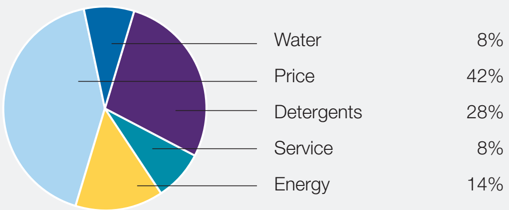
## Electrolux products

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. The Group's focus on offering products with superior environmental performance provides competitive benefits.

**Life-cycle impact**




**Life-cycle cost**




**Environmental impact of household appliances occurs mainly during use, and the purchase price is often less than half of the total life-cycle cost. Efficient appliances mean both economic and ecological savings. The charts are based on data from washing machines sold in Europe.**

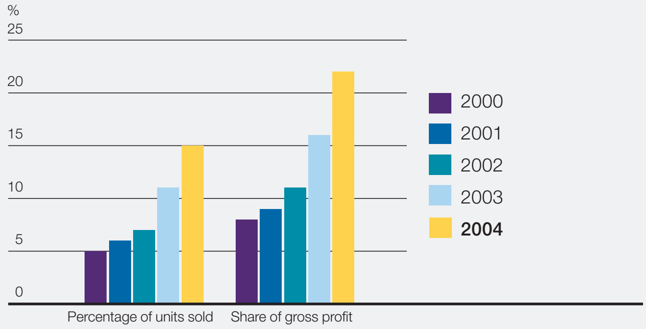
## Energy directives and product labeling

Energy-efficiency and product labeling are core issues for the Group, and for the appliance industry as a whole. In the Group's major markets in Europe and North America, regulations require that every product bears a label indicating the product's energy consumption. Environmental impact and electricity costs are thus displayed to the consumer and become factors in purchasing decisions. Similar labeling regulations are also applied in Mexico, Japan, India, China and Australia. In Hong Kong and Brazil, labeling is currently voluntary but may be mandatory in the future.

Energy labeling of products has contributed greatly to increased demand for energy-efficient products, and the Group's focus on meeting this demand has resulted in a significant increase in profitability. As shown in the graph "Green Range," the most efficient products have a higher share of gross profit, reflecting consumer awareness that life-cycle savings from lower electricity costs offset higher purchase prices.

The Group's products are well within all regulatory limits and are well represented in the highest energy-efficiency classes as defined by the EU's Energy+ scheme and the US Environmental Protection Agency's Energy Star program. In addition, Electrolux and the other major manufacturers in Europe are committed to voluntary agreements on improving energy-efficiency for washing machines and dishwashers, which are not covered by Energy+. The European Commission has endorsed these voluntary agreements.

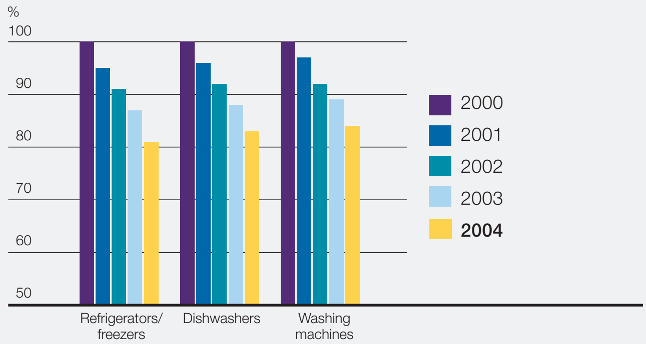
**Green range**




**Within major appliances in Europe, the products with the best environmental performance accounted for 15% of total sold units in 2004, and 22% of gross profit.**

Fleet-average energy-efficiency for various categories of appliances sold in Europe showed a continued improvement in 2004, most notably for dishwashers, see graph "Fleet Average" below. This is largely due to the development of the Group's dishwashers on a single global platform and the replacement of mechanical controls with electronics.

**Fleet average**




**Reduction in energy consumption for products sold in Europe, with energy index set at 100% in the year 2000.**

## Restricted materials in products

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

### The RoHS Directive

The European Union has adopted the Directive on the Restriction of the use of certain Hazardous Substances in electrical and electronic equipment, known as the RoHS Directive. This Directive, which has not yet been implemented in national legislation of several member states, will ban placement in the EU market of electrical or electronic equipment containing lead, mercury, cadmium, hexavalent chromium and two groups of brominated flame retardants (PBB and PBDE) from July 1, 2006, with a limited number of exceptions.

Almost all Electrolux electrical products must be modified to some extent to fulfill the RoHS Directive, as some of the banned substances are commonly used at present. These substances may be present in printed circuit boards, solders, plastics, connectors and cables. Electrolux continues its comprehensive program to identify cost-effective alternative components and manufacturing methods in order to comply with the RoHS Directive.

For products covered by the legislation, Electrolux has decided to phase out the RoHS substances from all parts and materials supplied to Group factories, one year in advance of the regulatory deadline. The Group's suppliers have been informed and phase-out programs are now in place. Electrolux will not accept deliveries containing any of the RoHS substances after July 1, 2005.

### Restricted Materials List

The Electrolux Group has introduced a Restricted Materials List (RML), aimed at ensuring that Electrolux products meet the highest expectations for user health and safety and environmental protection.

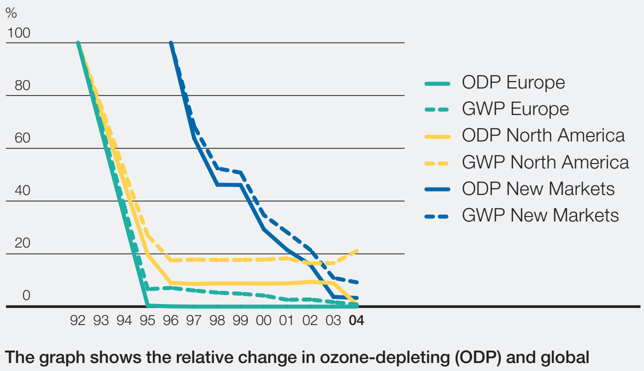
Substances used in the Group's products must always be harmless to end-users, be in line with market expectation and should not adversely affect "end of life" properties.

The purpose of the RML is to avoid materials that do not comply with these requirements. RML is designed to facilitate compliance with the trend toward increased regulation of chemicals in markets worldwide. By tracking applications where substances are considered even potentially hazardous, the Group is prepared to act swiftly when questions are raised by new scientific findings or regulations.

Suppliers of materials, parts and products to the Electrolux Group are required to comply with the RML by reporting the presence of listed substances in any materials, parts or products intended for use in products, including packaging, to be sold under any Electrolux brand.

Further information may be found at www.electrolux.com/rml

### Phase-out of substances with ozone-depleting and global warming potential




**The graph shows the relative change in ozone-depleting (ODP) and global warming potential (GWP) in refrigerants and insulating gases used in the Group's products from 1992 to 2004. The annual calculations are based on the ODP and GWP equivalents of different substances, as defined by the United Nations Environment Program (UNEP). In order to adjust for changes in production structure and enable annual comparisons, values are normalized against the total amount of substances used. The year 1992 is indexed at 100%. The curve for Europe reflects the transition from CFC via HCFC to HFC and HC in Europe, where currently HC dominates. The change for North America in 2004 is due to the replacement of HCFC141b with HFC245fa. This substance has no ODP but a slightly higher GWP than HCFC141b. In new markets, HCFC, HFC and HC are used. CFC is not used within the Group. All other changes are traceable to changes in product mix.**

## Producer responsibility

In December 2002, the European Union adopted the WEEE (Waste Electrical and Electronic Equipment) Directive, regarding producer responsibility for treatment, recycling and disposal of electrical and electronic products. The Directive applies to a broad range of electrical and electronic products, e.g. IT and telecommunication equipment, consumer electronics and household appliances, including white goods.

The Directive stipulates that as of August 2005 producers are responsible for the management and financing of treatment, recycling and disposal of waste electronical and electronic products that is deposited at collection facilities. The collection of electrical and electronic equipment (EEE) is at present undertaken by the responsibility of national or local authorities.

The Directive becomes legally binding through integration into national legislation in the member states of EU, which should have been in place by August 2004 to enable producer responsibility to take effect in August 2005. By the end of January 2005, only nine states had adopted such legislation. It is expected that central aspects of legislation will differ substantially between member states. Both Denmark and Germany are expected to postpone the implementation until February 2006.

Producer responsibility has been in effect for several years in Sweden, Norway, Belgium, the Netherlands and Switzerland.

### Historical and future waste

Cost for producer responsibility refer to products sold before August 2005, i.e. *historical waste*, as well as products sold after August 2005, i.e. *future waste*.

For *historical waste*, manufacturers and importers are collectively responsible for treatment, recycling, and disposal in proportion to their market share. This is known as collective producer responsibility.

For *future waste*, the Directive stipulates that manufacturers and importers must each finance treatment, recycling and diposal of their own products, which is known as individual producer responsibility. Financial guarantees must be provided to ensure that sufficient funds are available even if a producer or importer should withdraw from the market or go bankrupt. In some countries, membership in a collective organization for financing of recycling is regarded as a sufficient guarantee. For household appliances these costs are normally payable in 12 to 15 years after actual sale, according to studies by the European Commission.

### Efficient recycling generates competitive advantages

Individual producer responsibility means that efforts to lower the end-of-life disposal costs through product development and efficient management systems can generate competitive advantages. Electrolux invests continuously in product design in order to reduce the total costs over the product's life cycle. In order to meet the need for an efficient recycling system Electrolux, Braun, Hewlett Packard and Sony have established a jointly owned company, European Recycling Platform (ERP). The company's task is to establish and manage a pan-European recycling scheme for electrical products covered by the WEEE-Directive.

In December 2004, ERP signed a contract with two main contractors, CCR Logistics Systems AG of Germany and Geodis Group of France. On the behalf of the members of ERP, these companies are responsible for take-back, logistics, recycling and administration in Germany, Italy, Poland, Austria, France, UK, Spain, Portugal and Ireland.

Recycling systems have been in place for some years in Sweden, Denmark, Belgium, the Netherlands, and the non-EU countries Norway and Switzerland. In most of the other EU countries, trade associations are leading the development of such national recycling systems.

**Cost of compliance**

Annual sales of Electrolux include approximately 20 million products that are covered by the WEEE Directive. These products include large and small household appliances, floor-care equipment and electrical outdoor equipment.

Electrolux will incur costs for managing and recycling historical waste, and also intends to make provisions for future waste. The extent of the cost will depend on a number of factors, including:

- Collection cost per unit for each country
- Collection rates for each country
- Recycling and treatment costs, including market price of scrap metal
- Disposal costs for non-recyclable material and components of equipment
- Administration costs

At present these factors cannot be accurately quantified. For example, the WEEE Directive stipulates a collection target of at least 4 kg of EEE per capita and year from private households in each EU member state. The collection rates have reached approximately 10 kg in certain countries where producer responsibility is already established. Collection rates may initially be lower than the collection targets in several countries.

Over time, Electrolux expects the future cost for recycling, including transportation from collection centers, will probably decline in the future. At present, the average recycling fees in countries that already have introduced producer responsibility are more than twice as high as internal estimates derived from information supplied by waste management companies.

The following assumptions have been made in order to enable preliminary calculations of annual costs for Electrolux, despite uncertainty regarding the basic factors. Preliminary estimates of the annual cost for Electrolux involve the following assumptions:

- The producers' responsibility for management of waste starts at collection facilities.
- The average collection rates in EU member states are 70% for refrigerators and freezers, and 50% for other large household appliances. However, these rates are highly uncertain.
- Projected future fees for recycling, including transportation from collection facilities, are based on internal estimates derived from information supplied by waste management companies.

On the basis of these assumptions, the estimated annual cost of historical waste for Electrolux when the Directive is fully implemented will be approximately SEK 600m. The Directive does not require producers to provide financial guarantees for historical waste. No provisions related to recycling of historical waste are made in the balance sheet.

Electrolux intends to make provisions for the anticipated cost of future waste on the basis of estimates of future recycling costs, discounted over anticipated product life-cycles.

Using the same assumptions as for historical waste, and assuming an average lifetime of 12 years as well as a discount rate corresponding to prevailing market interest rate, the estimated annual cost for future waste is approximately SEK 600m.

The above cost estimates are highly uncertain and could vary considerably. Electrolux participates in the European Recycling Platform and thus has access to more efficient recycling systems, which is expected to reduce these costs. Product development that enables more efficient recycling will also contribute to cost reductions.

**Compensation for WEEE-related costs**

Electrolux intends to achieve full compensation for costs incurred under the WEEE Directive. Costs related to recycling of both historical and future waste will be added to the price of products.

The Directive allows producers to show the recycling cost for historical waste separately as a *visible fee*. It is expected that this will improve the potential for off-setting the cost.

Experience of the introduction in Sweden in 2001, of a similar requirement of producer responsibility, shows that there was no effect on overall demand or the profitability for Electrolux products. Consumers did not appear to forego purchases in response to price increases intended to compensate for the increase in cost. However, it is too early to tell whether consumers and purchasing patterns across the EU Member States after implementation of the Directive will resemble those in Sweden in 2001.

# Social Responsibility

Electrolux is committed to fulfilling its responsibility as a good corporate citizen. As a world leader, Electrolux must behave in a socially and ethically responsible way. The Group has established policies and guidelines as well as management procedures aimed at guaranteeing fair business practices and consistent monitoring of social performance.

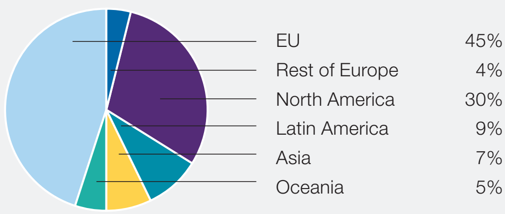
## The Electrolux People Process

The Electrolux People Process provides support at Group level for managers throughout the company with regard to recruitment and development of motivated employees. It also aims to ensure that individuals are treated fairly in all dealings with the company.

### Seven sub-processes

Seven sub-processes within the overall People Process comprise the core of human resources management at Electrolux, defining a set of standards which local managers are required to meet. These sub-processes include recruitment and selection, introduction, performance management, competence development, career development and compensation.

### Employees, by geographical area




**In 2004, the average number of employees worldwide was 72,382, of whom two thirds, or 48,039 were men and one third, or 24,343 women.**

## Electrolux Workplace Code of Conduct

The Electrolux Workplace Code of Conduct, adopted by Group Management, defines consistently high employment standards for all Electrolux employees in all countries and business sectors as well as for all subcontractors.

The Code is based on internationally recognized treaties and agreements, such as the fundamental conventions of the International Labor Organization and the OECD Guidelines for Multinational Enterprises.

### The Electrolux Workplace Code of Conduct covers:

- Child labor
- Forced labor
- Health and safety
- Non-discrimination
- Harassment and abuse
- Working hours
- Compensation
- Freedom of association
- Environmental compliance

The complete text of the Electrolux Workplace Code of Conduct is available in 18 languages at www.electrolux.com/codeofconduct

### Management guidelines

Practical guidelines have been developed to outline the Code-related procedures and documentation that are required of Electrolux business units. These guidelines are intended to help integrate the Code into the day-to-day operating procedures of all entities.

### Internal communication and monitoring

In order to support internal implementation and continuously monitor Electrolux units regarding compliance with the Code of Conduct, the Group has developed an electronic assessment tool called ALFA (Awareness – Learning – Feedback – Assessment).

In 2004, ALFA was deployed for the second time to measure how units have progressed in their work with the Code. The tool has been deployed in all Electrolux business sectors, and 93 manufacturing units have been evaluated and rated. The results have been communicated to the units involved in order to assist them in identifying areas where performance is good as well as those where it needs to be improved.

### Training

Training is an important element in enabling units to continuously improve their performance with regard to the Code. General and function-specific training materials on the Code of Conduct have been developed. In 2004, a Code of Conduct training program aimed primarily at managers of human resources and purchasing was initiated.

### External third-party monitoring

A process for reviewing internal Code of Conduct performance was initiated in 2003 and continued throughout 2004. All 12 production units in Asia and Latin America have been audited on-site. The audits have helped some units to improve routines in certain areas, such as health and safety and working hours.

### Health and safety

Provision of safe and healthy working conditions is an important element of the Electrolux Workplace Code of Conduct. Individual business sectors are responsible for ensuring that health and safety is effectively managed. Local units are responsible for taking action and reporting data in line with local regulations.

The performance of individual units is monitored and evaluated at Group level in several ways. ALFA has been used to assess the current status and management practices on health and safety. Risk Management has conducted facility-risk surveys at 84 facilities. Health and safety was also an important part of the external third-party monitoring conducted during the year. In 2004, collection of key Group-wide performance data on health and safety was initiated.

The Safety Training Observation Program (STOP) has enabled Major Appliances in North America to achieve substantial improvements in two important barometers for industrial safety, i.e. the recordable-injury index and the lost-time index. The gains were achieved through a combination of communication, training and stronger focus on the facility environment and factors contributing to injuries. Implementation of STOP involves training supervisors to observe and recognize safe as well as unsafe actions, and then to communicate their observations to the employee.

**Health and safety – key data**

| | 2004 | 2003 |
|---|---|---|
| Number of work-related injuries [1] | 22.0 | 29.8 |
| Number of workdays lost due to occupational injuries[1] | 238 | 327 |
| Number of work-related fatalities | 7[2] | 0 |

**1) Per million hours worked.**

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

**Data covering 85 production facilities and warehouses corresponding to approximately 60,000 employees. Workplace health and safety, measured as the number of work related injuries, was significantly improved during 2004. Both the relative number of work related injuries and number of lost days were reduced.**

### Suppliers

The provisions of the Electrolux Code of Conduct also apply to the Group's suppliers. Electrolux has taken an active approach in this area, and has launched a comprehensive Supplier Monitoring and Compliance Program. The overall objective is to ensure that products from Electrolux are manufactured under acceptable working conditions, both within and outside the Group.

### Consumer safety

Electrolux has long been a leader in development of consumer products with high levels of quality and safety. Substantial resources are invested in selection of material and testing of finished products. A pro-active approach to product safety in terms of design and manufacturing ensures safety of consumer.

The Group has a comprehensive system for collecting information on all safety-related incidents and analyzing it to identify root causes and effects. The majority of these incidents do not represent any risk to the consumer.

Analysis of safety-related incidents has given the Group a deep understanding of how they occur, and this expertise is integrated in all product development. If analysis reveals a case that may represent a serious problem, the matter is brought to a Sector Product Safety Advisory Committee. This committee conducts a complete evaluation of the issue and decides whether corrective measures are needed.

## United Nations Global Compact

Electrolux supports the United Nations Global Compact (www.unglobalcompact.org), which cover human rights, labor standards and the environment. In 2004, a new Global Compact principle against corruption was added to the original nine.

All the principles are in line with Electrolux policies, including the Workplace Code of Conduct. During 2004, Electrolux adopted a new policy against bribery and corruption, and the company formally endorsed the tenth principle. An annual report, "Communication on Progress", on how the company has applied the principles of the Compact was submitted to the office of the Global Compact during the year. Electrolux is engaged in a network of Nordic companies, which meet regularly to share experiences and discuss issues of mutual interest in relation to the Global Compact and Corporate Social Responsibility.

THE GLOBAL COMPACT

# Annual General Meeting

The Annual General Meeting will be held at 5 pm on Wednesday, April 20, 2005, at the Berwald Hall, Dag Hammarskjölds väg 3, Stockholm.

**Participation**

Shareholders who intend to participate in the Annual General Meeting must

- be registered in the share register kept by VPC AB (Swedish Central Securities Depository & Clearing Organization) on Friday, April 8, 2005, and
- give notice of intent to participate, thereby stating the number of assistants attending, to Electrolux no later than 4 pm on Friday, April 15, 2005.

**Notice of participation**

Notice of intent to participate can be given

- by mail to AB Electrolux, C-J, SE-105 45 Stockholm, Sweden
- by telephone +46 8 738 64 10
- by fax +46 8 738 63 35
- on the Internet on the Group's website: www.electrolux.com/agm

Notice should include the shareholder's name, registration number, if any, address and telephone number. Shareholders may vote by proxy, in which case a power of attorney should be submitted to Electrolux prior to the Annual General Meeting.

**Shares registered by trustee**

Shareholders, whose shares are registered through banks or other trustees, must have their shares registered in their own names on Friday, April 8, 2005, in order to participate in the Annual General Meeting.

**Dividend**

The Board has proposed a dividend of SEK 7.00 per share and Monday, April 25, 2005, as record day, after which it is expected that dividends will be paid by VPC on Thursday, April 28, 2005.

April 20, 2005, is the last day for trading in Electrolux shares that entitle a dividend for 2004.

# Risk Factors

*Electrolux files an annual Form 20-F report with the Securities and Exchange Commission (SEC) in the US. In accordance with US regulations a section of this report deals with risk factors referring to the Company or to the industry in which it operates. The section below will be included in the Form 20-F for 2004, which Electrolux expects to file in April 2005.*

***Electrolux markets are highly competitive and subject to price pressure.***

*The markets for Electrolux products are highly competitive and there is considerable pressure to reduce prices, especially when faced with an economic downturn and possible reductions in consumer demand. The effects of competition and price pressure are particularly apparent for floor-care products in the United States and in Europe, small appliances generally and for consumer outdoor products in Europe. Electrolux faces strong competitors, who may prove to have greater resources in a given business area, and the likely emergence of new competitors, particularly from Asia and Eastern Europe. Some industries in which Electrolux operates are undergoing consolidation, which may result in stronger competitors and a change in Electrolux relative market position. There is also a trend, particularly in Europe, towards globalization among Electrolux customers in the retail sector, which means fewer, bigger and more international retail chains. As these retailers are consolidating their supplier base, the competition among suppliers may increase. In response to an increasingly competitive environment, Electrolux and other manufacturers may be forced to increase efficiency by further reducing costs along the value chain, including their suppliers. The development of alternative distribution channels, such as the Internet, could also contribute to further price pressure within Electrolux markets. There can be no assurances that Electrolux will be able to adapt to these changes and increase or maintain its market share.*

***Electrolux is subject to risks relating to the relocation of manufacturing capacity.***

*As part of its strategy of continued reduction of costs and rationalization of its production activities, Electrolux has in the past, and will in the future, relocate some of its manufacturing capacity to low cost countries. For example, in 2004 Electrolux decided to relocate its production of refrigerators in Greenville, Michigan, to a new facility which is being built in Mexico; to close its vacuum-cleaner plant in Västervik, Sweden, and gradually transfer production to Hungary; to close its vacuum-cleaner operations in El Paso, Texas, and transfer production to Mexico; and to close its factory for tumble-dryers in Tommerup, Denmark, and transfer production to a new plant in Thailand and a plant in Sweden. Electrolux has announced restructuring measures of approximately SEK 8–10 billion for the years 2005–2008 that encompass further relocation of some of its manufacturing capacity. The transfer of production from one facility to another is costly and presents the possibility of additional disruptions and delays during the transition period. Electrolux might not be able to successfully transition production to different facilities. Any prolonged disruption in the operations of any of its manufacturing facilities or any unforeseen delay in shifting manufacturing operations to new facilities, whether due to technical or labor difficulties or delays in regulatory approvals, could result in delays in shipments of products to Electrolux customers, increased costs and reduced revenues.*

***Consolidation of retail chains has resulted in increased dependence on a number of large customers.***

*Due to the ongoing consolidation of retail chains, major customers account for a large and increasing part of Electrolux sales. This trend is particularly significant in the Consumer Durables business area, as most products in this business area are sold through major retail chains. This trend towards consolidation has resulted in greater commercial and credit exposures. If Electrolux were to experience a material reduction in orders or become unable to collect fully its accounts receivable from a major customer, its net sales and financial results would suffer.*

***Electrolux operating results may be affected by seasonality.***

*Demand for certain of Electrolux products is affected by seasonality and factors that are hard to predict such as the weather. For example, market demand for lawn mowers, trimmers and room air conditioners is generally lower during the winter season. As a result, Electrolux outdoor products and room air conditioners product lines experience most of their sales volume and profitability in the first seven months of the year. Electrolux expects this seasonality to continue in the future.*

***Electrolux future success depends on its ability to develop new and innovative products.***

*Product innovation and development are critical factors in maintaining market share in all of Electrolux product lines. To meet Electrolux customers' needs in these businesses, Electrolux must continuously design new, and update existing, products and services and invest in and develop new technologies. Product development is also driven by criteria for better environmental performance and lower cost of use. Introducing new products requires significant management time and a high level of financial and other commitments to research and development, which may not result in success. During 2004, Electrolux invested SEK 2,052 million in research and development, primarily related to product development in the Consumer Durables business area. Electrolux sales and net income may suffer if investments are made in technologies that do not function as expected or are not accepted in the marketplace.*

***Electrolux may experience difficulties relating to business acquisitions and dispositions.***

*Electrolux has in the past, and may in the future, increase significant market positions in its product areas through organic growth and acquisitions and by improving operational efficiencies. Expansion through acquisitions is inherently risky due to the difficulties of integrating people, operations, technologies and products. Electrolux may incur significant acquisition, administrative and other costs in connection with any such transactions, including costs related to integration of acquired or restructured businesses. There can be no assurances that Electrolux will be able to successfully integrate any businesses it acquires into existing operations or that they will perform according to expectations once integrated. Similarly, Electrolux dispositions of certain non-core assets may prove more costly than anticipated and may affect its net sales and results of operations.*

***Electrolux may not be able to successfully implement planned cost-reduction measures and generate the expected cost-savings.***

*In 2002 and 2004, as well as in earlier years, Electrolux has implemented restructuring programs in an effort to improve operating efficiencies and the Group's profitability. These restructuring measures included the divestitures of unprofitable non-core operations,* *layoffs of employees, consolidation of manufacturing operations and other cost-cutting measures. Electrolux has also put substantial effort into driving down costs and complexity throughout the supply chain by improving integration of the supply chain and demand flow management. There can be no assurances that these measures, or the further expected restructuring measures of approximately SEK 8–10 billion in respect of the years 2005–2008, will generate the level of cost savings that Electrolux has estimated going forward.*

***Electrolux is dependent on third party suppliers to deliver key components and materials for its products.***

*Electrolux manufacturing process depends on the availability and timely supply of components and raw materials, generally from third party suppliers. While supply problems can affect the performance of most of Electrolux business sectors, Electrolux is particularly sensitive to supply problems related to electronic components, compressors, steel, plastics, aluminum and copper. Electrolux works closely with its suppliers to avoid supply-related problems and is increasing its supply of sourced finished products, but there can be no assurances that it will not experience problems in the future. Such problems could have material adverse effects on the business, results of operations or financial condition of Electrolux. In addition, unanticipated increases in the price of components or raw materials due to market shortages could also adversely affect the financial results of Electrolux businesses.*

***Electrolux is subject to risks related to changes in commodity prices.***

*Electrolux is subject to risks related to changes in commodity prices as the ability to recover increased cost through higher pricing may be limited by the competitive environment in which Electrolux operates. The recent development in many commodity markets has resulted in higher prices, particularly for steel and plastics. This has had an adverse affect on the Group's operating results in 2004 and is expected to negatively affect the Group's operating result in 2005. Electrolux uses commodity futures to hedge immaterial amounts of commodity purchases, primarily related to copper and aluminum.*

***Electrolux is exposed to foreign exchange risks and interest rate risk.***

*Electrolux operates in approximately 60 countries around the world and as a result is subject to the risks associated with cross-border transactions. In particular, Electrolux is exposed to foreign currency exchange rate risks and risks relating to delayed payments from customers in certain countries or difficulties in the collection of receivables generally. Electrolux is also subject to risks arising from translation of balance sheets and income statements of foreign subsidiaries. The major currencies that Electrolux is exposed to are the Euro, the U.S. dollar (including currencies correlating with the dollar) and the British pound. While Electrolux geographically widespread production and its hedging transactions reduce the effects of changes in exchange rates, there can be no assurances that these measures will be sufficient.*

*In addition, Electrolux holds assets and liabilities to manage the liquidity and cash needs of its day-to-day operations. These interest rate sensitive assets and liabilities are subject to interest rate risk. While these interest rate exposures are minimized to some extent by the use of derivative financial instruments, there can be no assurances that these hedging activities will be effective or sufficient.*

***Electrolux business is affected by global economic conditions.***

*Current conditions in many of the economies in which Electrolux operates and the global economy remain very uncertain. As a result, it is difficult to estimate the global and regional economic development for the foreseeable future. In addition, the business environment and the economic condition of Electrolux markets are also influenced by political uncertainties, including the current political situation in the Middle East. A lengthy recession or sustained loss of consumer confidence in the markets in which Electrolux operates could trigger a significant industry-wide decline in sales and could also lead to slower economic growth and a corresponding significant reduction in demand. Electrolux generates a substantial portion of its net sales from North America and Europe, both of which have experienced a slow economy in the past. In the last two years, North America has demonstrated a rebound in its economy. Recent years' terrorist attacks have had a negative impact also on tourism, which has negatively affected the performance of Electrolux Professional Indoor business operations. These global and regional conditions could have an adverse impact on the operations of Electrolux, with a resulting material adverse effect on results of operations and financial condition.*

***Electrolux is subject to regulatory risks associated with its international operations.***

*As a result of its worldwide operations, Electrolux is subject to a wide variety of complex laws, regulations and controls, and various non-binding treaties and guidelines, such as those related to employee safety, employee relations, product safety and exchange controls. Electrolux expects that sales to, as well as manufacturing in, and sourcing from, emerging markets, in particular in China, Southeast Asia, as well as Eastern Europe and Mexico, will continue to be an increasing portion of its total operations. Changes in regulatory requirements, economic and political instability, tariffs and other trade barriers and price or exchange controls could limit its operations in these countries and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in certain of the countries in which it operates could limit Electrolux ability to enforce effectively its rights in those markets. Electrolux products are also affected by environmental legislation in various markets, which principally involves limits for energy consumption (which relate to certain of its white goods products) and emissions (which relate to certain of its outdoor products that are powered by gasoline) as well as the obligation to recycle waste of electrical products.*

***Electrolux is subject to certain environmental risks.***

*Electrolux operations are subject to numerous European Union, or EU, national and local environmental, health and safety directives, laws and regulations, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous and toxic materials, the construction and operation of its plants and standards relating to the discharge of pollutants to air, soil and water. Although Electrolux believes its operations are in substantial compliance with presently applicable environmental, health and safety laws and regulations, violations of such laws and regulations have occurred from time to time and may occur in the future. In addition, risks of substantial costs and liabilities, including for the investigation and remediation of past or present contamination, are inherent in Electrolux ongoing operations and its ownership or occupation of industrial properties, and may arise specifically from its planned closure of certain of its manufacturing plants.*

*Other developments, such as increased requirements of environmental, health and safety laws and regulations, increasingly strict enforcement of them by governmental authorities, and claims for damage to property or injury to persons resulting from environmental, health or safety impacts of Electrolux operations or past contamination, could prevent or restrict its operations, result in the imposition of fines, penalties or liens, or give rise to civil or criminal liability.*

*Electrolux maintains liability insurance at levels that management believes are appropriate and in accordance with industry practice. In addition, Electrolux maintains provisions on its balance sheet for certain environmental remediation matters. There can be no assurances, however, that (i) Electrolux will not incur environmental losses beyond the limits, or outside the coverage, of any insurance or that any such losses would not have a material adverse effect on the results of its operations or financial condition, or (ii) Electrolux provisions for environmental remediation will be sufficient to cover the ultimate loss or expenditure.*

***Compliance with EU directives regulating environmental impacts associated with electrical and electronic equipment may be costly.***

*The EU has adopted two directives specifically regulating environmental impacts associated with electrical and electronic equipment, and compliance with these directives is being phased in. The Waste Electrical and Electronic Equipment, or WEEE, directive imposes responsibility on manufacturers and importers of electrical and electronic equipment for the cost of recycling, treatment and disposal of such equipment after its useful life. Based on Electrolux present working assumptions, its preliminary estimate of the annual cost to Electrolux with respect to products sold before August 2005, the date compliance with the directive comes into effect, is approximately SEK 600 million, and an additional SEK 600 million with respect to products sold after August 2005. These estimates remain highly uncertain, as most EU Member States, including Sweden, have not yet integrated the directive into their national legislation and the specific requirements and impacts of the directive in each State will not be known until such integration occurs. Compliance with the WEEE directive could have a potential material adverse effect on Electrolux income, financial position and cash flow.*

*The "Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment", known as the RoHS directive, will ban placement in the EU market of electrical or electronic equipment containing lead, mercury, cadmium, hexavalent chromium and two groups of brominated flame retardants from July 1, 2006, with a number of exceptions. Almost all Electrolux electrical equipment must be modified to some extent to fulfill the RoHS directive, as Electrolux commonly uses some of the prohibited substances at present.*

***Lawsuits in the United States claiming asbestos-related personal injuries are pending against the Electrolux Group.***

*Litigation and claims related to asbestos are pending against the Group in the United States. Almost all the cases relate to externally supplied components used in industrial products manufactured by discontinued operations of Electrolux prior to the early 1970s. Many of the cases involve multiple plaintiffs who have made identical allegations against many other defendants who are not part of the Electrolux Group.*

*As of December 31, 2004, there were 842 (584) lawsuits pending against Electrolux entities representing approximately 16,200 (approximately 21,000) plaintiffs. During 2004, 457 new cases with approximately 5,600 plaintiffs were filed and 199 pending cases with approximately 10,500 plaintiffs were resolved. Approximately 15,100 of the plaintiffs relate to cases pending in the State of Mississippi.*

*Electrolux believes its predecessor companies may have had insurance coverage applicable to some of the cases during some of the relevant years. Electrolux is currently in discussions with those insurance carriers.*

*Additional lawsuits may be filed against Electrolux in the future. It is not possible to predict either the number of future claims or the number of plaintiffs that any future claims may represent. In addition, the outcome of asbestos claims is inherently uncertain and always difficult to predict and Electrolux cannot provide any assurances that the resolution of these types of claims will not have a material adverse effect on its business or results of operations in the future.*

***Electrolux may incur higher than expected warranty expenses.***

*Electrolux value chain comprises all the steps in its operations, from research and development, to production to marketing and sales. Operational failures in its value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Such risks are particularly present in relation to Electrolux production facilities which are located all over the world and have a high degree of organizational and technological complexity. Unforeseen product quality problems in the development and production of new and existing products could result in loss of market share and higher warranty expense, any of which could have a material adverse effect on Electrolux results of operations and financial condition.*

***Electrolux may be subject to significant product recalls or product liability actions that could adversely affect its results of operations.***

*Under laws in many countries regulating consumer products, Electrolux may be forced to recall or repurchase some of its products under certain circumstances, and more restrictive laws and regulations may be adopted in the future. For example, as a manufacturer and distributor of consumer products in the United States, Electrolux is subject to the U.S. Consumer Products Safety Act, which empowers the U.S. Consumer Products Safety Commission to exclude products from the U.S. market that are found to be unsafe or hazardous. Under certain circumstances, the U.S. Consumer Products Safety Commission could require Electrolux to repurchase or recall one or more of its products. Any repurchase or recall of products could be costly to Electrolux and could damage its reputation. If Electrolux was required to remove, or it voluntarily removed, its products from the market, Electrolux reputation could be tarnished and it might have large quantities of finished products that could not be sold. Accordingly, there can be no assurances that product recalls would not have a material adverse effect on Electrolux business, results of operations and financial condition.*

*Electrolux also faces exposure to product liability claims in the event that one of its products is alleged to have resulted in property damage, bodily injury or other adverse effects. Electrolux has become implicated in certain lawsuits in the ordinary course of its business, including suits involving allegations of improper delivery of goods or services, product liability and product defects and quality problems. Electrolux is largely self-insured for product liability matters expected to occur in the normal course of business and funds these risks, for the most part, through wholly owned insurance subsidiaries. Electrolux accrues for such self-insured claims and litigation risks* *when it is probable that an obligation has been incurred and the amount can be reasonably estimated. In addition, for large catastrophic losses, Electrolux maintains excess product liability insurance with third-party carriers in amounts that it believes are reasonable. However, there can be no assurances that product liability claims will not have a material adverse effect on Electrolux business, results of operations or financial condition.*

***Electrolux is subject to risks related to its insurance coverage.***
*Electrolux maintains third-party insurance coverage and self-insures through wholly owned insurance subsidiaries (captives) for a variety of exposures and risks, such as property damage, business interruption and product liability claims. However, while Electrolux believes it has adequate insurance coverage for all anticipated exposures in line with industry standards, there can be no assurances that (i) Electrolux will be able to maintain such insurance on acceptable terms, if at all, at all times in the future or that claims will not exceed, or fall outside of, its third-party or captive insurance coverage, or (ii) its provisions for uninsured or uncovered losses will be sufficient to cover its ultimate loss or expenditure.*

***Electrolux plan to successfully spin-off its Outdoor Products operations may be affected by unanticipated factors beyond its control.***
*In February 2005, the Electrolux Board announced its intention to spin-off the Group's Outdoor Products operations as a separate unit to create the best possible framework for continued profitable growth for this operation, as well as to create value for shareholders. Electrolux aims to achieve the spin-off in a cost-effective way, and to finalize it no later than mid-2006.*

*As Electrolux refines its plan for the spin-off, it may encounter significant obstacles or delays that have not been anticipated and that prevent it from achieving its goals in relation to the spin-off according to existing plans and on time. There can be no assurance that Electrolux will be successful in completing the spin-off as currently planned, nor that the benefits expected to be realized from the spin-off will be achieved.*

MILJÖMÄRKT
Licensnr. 341077
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This annual report is produced with technology that minimizes environmental impact. It is printed on Galerie Art Gloss, a paper that meets the criteria of the Nordic Environmental Label. Cover 300 g, inside pages 150 g.

Production: Electrolux Investor Relations and Intellecta Communication AB.
Printing: Intellecta Tryckindustri, Solna, Sweden, 2005.

## Factors affecting forward-looking statements

This report contains “forward-looking” statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Such statements include, among others, the financial goals and targets of Electrolux for future periods and future business and financial plans. These statements are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially due to a variety of factors. These factors include, but may not be limited to the following; consumer demand and market conditions in the geographical areas and industries in which Electrolux operates, effects of currency fluctuations, competitive pressures to reduce prices, significant loss of business from major retailers, the success in developing new products and marketing initiatives, developments in product liability litigation, progress in achieving operational and capital efficiency goals, the success in identifying growth opportunities and acquisition candidates and the integration of these opportunities with existing businesses, progress in achieving structural and supply-chain reorganization goals.

Electrolux

makes life a little easier


**AB Electrolux (publ)**

**Mailing address**

SE-105 45 Stockholm, Sweden

**Visiting address**

S:t Göransgatan 143, Stockholm

**Telephone:** +46 8 738 60 00

**Telefax:** +46 8 656 44 78

**Website:** www.electrolux.com


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