

a non-compete obligation with continued payment may also apply after the end of the notice period. Such non-compete obligations shall not apply for more than 24 months from the end of the notice period.

Previously determined remuneration which has not become payable

The principal conditions for remuneration to the Group Management in current contracts of employment may be seen in Note 26, with references.

Authority for the Board to deviate from the guidelines

If special circumstances exist, the Board of Directors may deviate from these guidelines. In the event of such a deviation, the next Annual General Meeting shall be informed of the reasons.

New long-term incentive program

The Board of Directors proposes that the Annual General Meeting adopt a new performance-based incentive program for approximately 50 senior managers.

Participants will invest in B-shares in Husqvarna at the market price. For each B-share which the employee purchases within the framework of the program, the company will grant 1.5 share awards and a number of stock options. Each share award entitles the holder to one B-share free of charge, three years after grant.

Each stock option entitles the holder to purchase one B-share at a purchase price of 110% of the closing price of the company's B-share during a period of 10 trading days prior to the day of the grant. The stock options may be exercised at the earliest four years and at the latest eight years from the day of the grant.

The number of stock options that may be exercised depends on the number of B-shares that the employee has purchased, as well as the development of the company's earnings per share during the period 2007–2009.

Assuming a price of SEK 100 each for the shares purchased as part of the personal investment, the program will comprise a maximum of 2,400,000 B-shares. If all share awards and stock options are fully exercised, it is estimated that the 2007 program will comprise no more than 0.81% of the share capital.

More information will be provided well in advance of the Annual General Meeting

Repurchase of own shares

The Board of Directors proposes that the Annual General Meeting authorize the Board to acquire B-shares totalling up to 3% of the total number of shares, and to pay for the shares in cash.

The shares may be purchased only on the Stockholm Stock Exchange, in order to hedge the company's obligations (including employer contributions) pursuant to 1) the Husqvarna Performance Share Plan 2006, and 2) the proposed new 2007 share purchase/option program.

The company shall on an ongoing basis be able to adapt the number of shares that it holds as a hedge of the company's obligations pursuant to the implemented incentive programs.

The participants in the above incentive programs shall be entitled to receive a maximum number of shares in accordance with the conditions of the programs, and transfers of shares under the programs will be made without consideration. Transfers of shares in accordance with the stock options granted under the proposed 2007 plan will be made at a price corresponding to 110% of the close price of

the company's B-share on the Stockholm Stock Exchange during a period of 10 trading days prior to the grant of options.

The number of shares that may be transferred in connection with the programs will be subject to recalculation in case the company implements a bonus issue, a split, a rights issue or similar, all in accordance with the conditions of the programs.

Risks and risk management

A number of risk factors affect and may affect the operations in Husqvarna. Work is performed in all business sectors to identify risk areas in order to minimize risks.

The essential risk areas presented below are classified as either financial risks or operational risks.

Risk management in 2006

Group risk management is administered by the Risk Management function, which is part of Group staff Legal Affairs. Risk Management supports the work of minimizing risks at all levels within the organization, and issues appropriate guidelines.

Extensive work was performed during the year together with the Group's Internal Audit function. The Audit Committee continuously discussed the changes implemented and updated the Board of Directors on a regular basis.

During the year, all business sectors conducted initial business risk assessment sessions. The objectives of these risk evaluation exercises were to:

- Identify key sector risks that could negatively affect the long-term strategy.
- Prioritize key risks, based on likelihood and severity.

The next step is to evaluate the probability of each individual risk in relation to the Group's entire risk portfolio. This process helps to ensure that resources are allocated to essential risk areas and that controls are in place for achieving the appropriate balance between opportunity and risk.

Financial Risks

Changes in commodity prices

Recent developments in many commodity markets have resulted in higher prices, particularly for plastics, aluminum, steel and oil, which are important raw materials for Husqvarna. To counter the consequences of higher prices for raw materials and components, the Group continuously works on improving cost-effectiveness and increasing procurement from low-cost countries.

Foreign exchange risks

Husqvarna conducts operations in approximately 40 countries and is thereby subject to risks associated with financial transactions in different currencies.

In particular, the Group is exposed to foreign currency exchange rate risks. Husqvarna is also exposed to risks arising from translation of balance sheets and income statements in foreign subsidiaries.

Since only a small part of the Group's sales are in Sweden, change in the value of the Swedish krona compared to other currencies is of great importance. The major currencies that Husqvarna is exposed to are the euro, the US dollar (including currencies correlating with the dollar) and the British pound. Husqvarna's geographically wide-spread production and its use of hedging transactions reduce the effects of changes in exchange rates.

Interest rate risks

Husqvarna finances its operations partly through borrowing. This means that part of the company's cash flow is used to pay interest on the Group's debts, which reduces the funds available for Husqvarna's operations and future business opportunities. A rise in interest rates could increase the portion of the Group's cash flow that is used for interest payments. In addition, the Group's assets and liabilities are sensitive to interest-rate changes and are therefore by nature subject to interest-rate risks. The above exposures to interest-rate changes and other interest-rate risks are reduced by the use of derivative financial instruments.

Tax risk

Prior to the distribution of the Husqvarna shares, Electrolux received a private letter containing a ruling from the US Internal Revenue Service (IRS) with regard to the distribution and the US corporate restructuring that preceded it. The IRS ruling was based on the facts presented and representations made by Electrolux in the request for the ruling. The ruling confirms that the transactions did not entail any adverse US tax consequences for Electrolux, its US subsidiaries or the US shareholders in Electrolux who received Husqvarna shares. In accordance with IRS ruling policy, the IRS ruling does not address certain issues. With regard to those issues, Electrolux relied on an opinion of counsel, which is not binding on the IRS or any court.

If the IRS finds that the facts presented and representations made to it are incorrect or incomplete in any material respect, Electrolux may not rely on the IRS ruling. Similarly, if the facts presented and representations made to counsel in connection with the opinion are found to be incorrect or incomplete in any material respect, the opinion may cease to be valid. In either eventuality, the distribution of the Husqvarna shares or related transactions could subject the Electrolux US group, Electrolux, and the US holders of Electrolux shares who received Husqvarna shares, to US tax.

Additionally, future events that may or may not be within the control of Electrolux or Husqvarna, including extraordinary purchases by third parties of Husqvarna shares or Electrolux shares, could mean that the distribution of the Husqvarna shares fails to qualify as tax-free for Electrolux and/or for US holders of Electrolux shares.

Husqvarna has entered into a Tax Sharing and Indemnity Agreement with Electrolux. In this agreement Husqvarna covenanted and represented among other things, that during a two-year period following the distribution of the Husqvarna shares (i) Husqvarna and its US subsidiaries (Husqvarna Outdoor Products Inc and Husqvarna Professional Outdoor Products Inc) would both continue normal active conduct of trade, (ii) the US subsidiaries would not be liquidated and (iii) neither Husqvarna nor either of its US subsidiaries would sell or otherwise dispose of assets other than in the ordinary course of business. Husqvarna also covenanted and represented that its US subsidiaries would not participate in any negotiations or agreements pursuant to which one or more persons would acquire 50% or more of the stock of Husqvarna or its US subsidiaries (measured by reference to either value or voting power) if such negotiations or agreements might cause the distribution of the Husqvarna shares to become taxable.

Pursuant to the Tax Sharing and Indemnity Agreement, Husqvarna and its US subsidiaries have undertaken to indemnify Electrolux and its group of companies for certain US taxes, arising as a consequence of a breach of representation made by Husqvarna or its US subsidiaries in the Tax Sharing and Indemnity Agreement, a change in ownership in respect of Husqvarna or its US subsidiaries as described above, or an action or event subsequent to the distri-

bution of the Husqvarna shares that is inconsistent with information and representations furnished in connection with the IRS ruling or the opinion of counsel.

The taxes to which Husqvarna's indemnity relates include (i) taxes (US capital gains tax) resulting from the distribution of the Husqvarna shares or the US corporate restructuring preceding such distribution and (ii) any claims that Electrolux shareholders may assert with respect to US taxes relating to the distribution of the Husqvarna shares. According to the estimate by Electrolux, the US capital gains tax for Electrolux could amount to approximately USD 500m.

For further information, see the prospectus: "AB Electrolux distribution of shares in Husqvarna AB and prospectus for listing of the company 2006".

Operational Risks

Innovation and product development

Product development and innovation are critical factors for maintaining Husqvarna's current market shares and brand positions. In order to meet customer needs, environmental demands and other requirements, the Group must continuously improve performance, develop the existing product range and invest in and develop new technology. Husqvarna has a reliable and well established R&D function that works in close cooperation with Production, Marketing, Legal Affairs and Risk Management to help ensure that the development process gives adequate consideration to the risk perspective.

Global economic conditions

Historically, the market for Husqvarna's products has generally been characterized by relatively stable demand over the business cycle. Husqvarna generates the majority of its sales in North America and Europe and therefore depends on economic growth in these markets. A downturn in economic development and consumption in North America or Europe may have an adverse effect on the earnings of the Group's operations.

Weather conditions

Demand for the Group's products is to some extent dependent on the weather. Unforeseen or unusual weather conditions in some areas or regions may have adverse as well as positive effects on sales of the Group's products. Experience shows that demand for lawn mowers and tractors tends to fall in dry weather, which to a certain extent was the situation in 2006, whereas demand for chainsaws increases after storms. In order to manage sudden fluctuations in demand, Husqvarna has adapted the production process and supply chain to respond better and more rapidly, thereby mitigating any financial impact.

Seasonality

Husqvarna's business is subject to seasonal variations, with demand concentrated at limited periods of the year. The peak demand season for Consumer Products and Commercial Lawn and garden within Professional Products is normally the second quarter of the year. The peak demand season for chainsaws is normally the third quarter of the year. Parameters such as cash flow and production follow the seasonal demand variations, which results in relatively greater risk exposure for Husqvarna during concentrated periods of time.

Competition and price pressure

The market for consumer products is particularly susceptible to price pressure. This is particularly true for low-end products for the mass market, which the Group sells through large retailers in North America and Europe. Companies from low-cost regions are seeking to enter the market and by improving their current technology and product know-how could become competitors and compete for market shares. Husqvarna is managing this threat by actively improving its cost structure and supply chain as well as by building on the strong Husqvarna brand portfolio.

Customers

If Husqvarna were to experience, in relation to a major customer, a significant reduction in orders, termination of relationship or inability to fully collect its trade receivables, this would have a negative effect on earnings. Husqvarna's customers within the Professional Products business area are mainly servicing dealers who are not individually material for the Group. This combined customer base is a mitigating factor and balances the customer risk for the Group as a whole.

Suppliers

Husqvarna's manufacturing process depends on the availability and timely supply of raw materials and components from external suppliers. Materials and components, such as steel, plastics and chains for chainsaws, and engines for lawn mowers and other wheeled products, are particularly sensitive for Husqvarna. In order to avoid supply-related problems, Husqvarna works closely with its suppliers and endeavors to distribute purchases of important components among at least two suppliers.

Manufacturing

Husqvarna manufactures and assembles its products in several plants world-wide. In order to avoid production disturbances, various preventive measures are undertaken. An established risk-inspection program has been in place for many years, whereby the Group's production facilities are inspected according to best practice in the insurance industry. Deviations from the standards are reported to operational management and are suitably prioritized, monitored and corrected.

Acquisitions and divestments

The Group's strategy includes making acquisitions within existing or complementary product areas or increasing its geographical presence in such areas. Growth through acquisitions involves risks due to difficulties in integrating operations, employees, technologies and products. Husqvarna has made a number of acquisitions over the years and consequently has accumulated knowledge regarding the opportunities and risks associated with acquisitions. As regards competition-law regulations, it should be noted that Husqvarna's strong position in various product areas may lead to restrictions on the Group's ability to act freely in certain markets and to grow through acquisitions.

Insurance coverage

The central Risk Management function is responsible for maintaining well-balanced insurance coverage in order to achieve financial economies of scale. Insurance cover is acquired through external insurers for a variety of exposures and risks, such as property damage, business interruption and product liability claims. Husqvarna

has two wholly-owned insurance subsidiaries (captives) that assist in the process of optimizing the Group's risk structure. Insurance premiums are allocated internally to reflect the associated risk. In the coming year the allocation model will also reward improvements in addition to the current model.

Product liability

General and product liability risks are mainly present in relation to contractual parties, risks of personal injury or damage to property related to products sold, or other risks evolving from legislation and regulations. A structured review of the Group's contractual liability risks was introduced during the year with the aim of systematically identifying and assessing these risks. The objective was to determine how to best prevent contractual risks from maturing into financial loss. In addition, Husqvarna established a Committee on Products Safety (COPS), chaired by the Group's Quality Manager, which includes representatives from operations as well as Legal Affairs including Risk Management. This Committee has responsibility for ensuring that product safety is integrated in the design, production and distribution of all Husqvarna products.

Intellectual property rights

Husqvarna sells products under several well-known brands such as Husqvarna, Jonsered, Flymo, Partner, McCulloch, Poulan, WeedEater and Diamant Boart. The intellectual property portfolio (IP) which was transferred from Electrolux is managed in-house. A main task in 2006 was to establish a new and more effective data-handling system encompassing all IP related information.

It is important for Husqvarna's future competitive position that Group brands, new technologies and designs are protected against unauthorized use by competitors. To ensure this protection, Husqvarna Intellectual Property function has been strengthened during the year and IP activities have been in-sourced to gain enhanced control.

Disputes

Husqvarna is involved in disputes in the ordinary course of business. The disputes concern, among other things, product liability, alleged defects in delivery of goods, services and other issues pertaining to rights and obligations in connection with Husqvarna's operations. Disputes are immediately reported to Group Legal Affairs for analysis and review, and Legal Affairs handles all major claims in cooperation with external lawyers. The Board is supplied with information by the General Counsel on an ongoing basis.

Environmental risks

The environmental risks within Husqvarna consist both of legislation affecting the Group's products and risks connected with production, maintenance and ownership of industrial buildings. The legislation which affects the products refers principally to restrictions of exhaust emissions from petrol-powered engines, noise levels, and recycling of electrical products.

Husqvarna's environmental risk management is decentralized and integrated in the local operations' management systems for the environment, health and safety.

Husqvarna considers environmental issues in all phases of the product life-cycle, from the design of new products to manufacturing, customer handling and disposal. This process involves not only Husqvarna's own employees but also other relevant stakeholders.