

Husqvarna AB

Annual Report 2005



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Board of Directors report for 2005

Husqvarna AB develops, manufactures and markets motor-driven products for forestry and garden care.

Husqvarna AB is a subsidiary of AB Electrolux (556009-4178), whose registered office is in Stockholm, Sweden. AB Electrolux is the parent company of the Group in which the financial statements of Husqvarna AB are consolidated.

Income and financial position

Net sales in 2005 amounted to SEK 6,848m (5,698), of which SEK 4 390m (3 766) referred to sales to Group companies and SEK 2 458m (1 932) to external customers. After allocations of SEK 20m (25) and taxes of SEK - 353m (-370), income for the year amounted to SEK 915m (789).

Undistributed earnings in Husqvarna AB at year-end amounted to SEK 21m.

Proposed distribution of shares in Husqvarna AB

The Electrolux Board proposes that the Annual General Meeting to be held on April 24, 2006 authorize distribution of all shares in Husqvarna AB to the shareholders in Electrolux.

It is intended that in connection with distribution the shares in Husqvarna shall be listed on the O-list of the Stockholm Stock Exchange. The record date for the receipt of shares in Husqvarna and the listing on the Stockholm Stock Exchange is scheduled for the first half of June, 2006.

A prospectus with more information regarding the distribution of shares as well as operations in Husqvarna will be published prior to the Annual General Meeting.

In line with the decision to spin off the Outdoor Products business area, in 2005 Husqvarna AB initiated the process of forming a corporate group, The Husqvarna Group. The Group will comprise the same operations previously included in the Electrolux Group's Outdoor Products business area.

Changes in Board and management

At the Board meeting on January 12, 2006, Bengt Andersson was appointed President of Husqvarna AB.

At an Extraordinary General Meeting on January 27, 2006, the following Directors were appointed to the Board: Lars Westerberg, Chairman, Peggy Bruzelius, Börje Ekholm, Tom Johnstone, Anders Moberg, Gun Nilsson, Peder Ramel and Bengt Andersson.

The following Employee Representatives were appointed by the unions: Malin Björnberg and Annika Ögren, as well as Deputy Members Fredrik Währborg and Carita Spångberg.

Outlook for the future

The Board sees good opportunities in developing the Husqvarna Group and to create shareholder value through continuous good growth and profitability.

Research and development

The Company is expecting the investments in R&D to be in line with the previous year. A number of new products are scheduled for launching in 2006.

Environmental activities

In Sweden the Company operates three plants for which permits from the authorities are required and three plants for which reports must be submitted, in accordance with Swedish environmental legislation. The operations requiring permits involve:

- Surface treatment that impacts the environment through water-borne emissions
- A foundry that impacts the environment through air-borne emissions and noise.
- Manufacturing, which impacts the environment primarily through air-borne emissions and noise.

The operations requiring permits employ approximately two-thirds of the Husqvarna AB's blue-collar employees.

The three operations for which reports must be submitted involve manufacturing, which impacts the environment primarily through air-borne emissions and noise.

Income statement

SEKm	Note	2005	2004	2003
Net sales	Note 5	6 848,4	5 697,5	5 465,0
Cost of goods sold		-4 573,5	-3 920,7	-3 834,1
Gross operating income		2 274,9	1 776,8	1 631,0
Selling expenses		-767,5	-628,8	-523,2
Administrative expenses		-130,5	-96,6	-67,9
Other operating income	Note 6	7,2	-	-
Other operating expenses	Note 7	-	-1,3	-2,5
Operating income		1 384,1	1 050,2	1 037,3
Financial income	Note 9	45,5	57,3	45,8
Financial expenses	Note 9	-181,5	-36,6	-21,2
Income after financial items		1 248,1	1 070,8	1 062,0
Appropriations	Note 18	20,5	24,7	-43,1
Income before taxes		1 268,5	1 095,5	1 018,9
Taxes	Note 10	-353,2	-306,7	-280,0
Income for the period		915,3	788,9	738,9

Balance sheet

SEKm	Note	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
ASSETS				
Fixed assets				
Intangible assets	Note 11	246,0	259,3	241,7
Tangible assets	Note 12	516,3	539,0	532,0
Financial assets	Note 13	135,3	3,4	3,4
Total fixed assets		897,7	801,6	777,1
Current assets				
Inventories, etc.	Note 14	949,1	814,5	863,1
Receivables from Group companies		760,1	976,3	1 245,0
Accounts receivables	Note 15	292,9	195,8	274,0
Deferred tax assets	Note 10	15,1	4,4	6,2
Tax-refund claim		3,7	0,0	0,0
Derivative instruments	Note 16	66,2	0,0	0,0
Other receivables		53,5	38,2	33,7
Prepaid expenses and accrued income		11,3	9,3	5,4
		2 151,9	2 038,5	2 427,3
Liquid funds				
Short-term investments		693,5	1 297,7	1 073,1
Cash and cash equivalents		0,1	0,3	0,6
		693,6	1 298,0	1 073,7
Total current assets		2 845,5	3 336,5	3 501,0
Total assets		3 743,1	4 138,1	4 278,1
Assets pledged		-	-	-
Equity and liabilities				
SEKm	Note	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Equity				
Share capital	Note 17	495,0	495,0	495,0
Statutory reserve		116,2	116,2	116,2
Revaluation reserve		4,3	4,8	4,8
Retained earnings		-894,3	-758,0	-723,3
Income for the period		915,3	788,9	738,9
Total equity		636,5	646,8	631,5
Untaxed reserves	Note 18	403,8	424,3	449,0
Provisions				
Provisions for pensions and similar commitments	Note 19	20,4	16,0	15,3
Other provisions	Note 20	46,1	41,3	52,8
		66,4	57,2	68,1
Interest-bearing liabilities				
Payable to Group companies		0,0	688,5	689,5
Short-term loans		0,0	0,0	0,2
Total financial liabilities		0,0	688,6	689,7
Operating liabilities				
Payable to Group companies		1 723,8	1 628,2	1 844,9
Accounts payable		513,5	445,9	354,4
Other liabilities		39,7	40,9	46,8
Derivative instruments		121,5	0,0	0,0
Accrued expenses and prepaid income	Note 21	237,9	206,3	193,8
Total operating liabilities		2 636,4	2 321,3	2 439,9
Total equity and liabilities		3 743,2	4 138,1	4 278,1
Contingent liabilities	Note 22	5,9	8,7	8,5

Change in equity

SEKm	Share capital	Restricted reserves	Retained earnings	Total
Closing balance, Dec. 31, 2003	495,0	120,9	15,5	631,5
Group contribution			-1 074,3	-1 074,3
Tax effect on Group contribution			300,8	300,8
Net result			788,9	788,9
Closing balance, Dec. 31, 2004	495,0	120,9	30,9	646,8
Restatement IAS 39			80,8	80,8
Restated opening balance, Jan. 1, 2005	495,0	120,9	111,7	727,6
Adjustment between free and restricted reserves		-0,5	0,5	0,0
Group contribution			-1 398,6	-1 398,6
Tax effect on Group contribution			391,6	391,6
Conditional shareholders' contribution			0,6	0,6
Net result			915,3	915,3
Closing balance, Dec. 31, 2005	495,0	120,5	21,0	636,5

Cash flow statement

SEKm	2005	2004	2003
Operations			
Income after financial items	1 248,1	1 070,8	1 062,0
Depreciation according to plan charged against above income	210,8	172,7	167,9
Adjustment for items not included in Cash flow ¹⁾	147,0		
Capital gain/loss included in operating income	-7,2	1,3	2,5
	1 598,7	1 244,8	1 232,4
Taxes paid	-3,8	-4,0	-4,0
Cash flow from operations, excluding change in operating assets and liabilities	1 594,9	1240,8	1 228,4
Change in operating assets and liabilities			
Change in inventories	-134,6	48,6	-29,3
Change in accounts receivable	-97,1	78,2	-58,1
Change in current intra-Group balances	216,2	268,6	-215,9
Change in other current assets	-21,2	-8,4	54,8
Change in current liabilities and provisions	-94,9	-195,8	218,5
Cash flow from operations	1 463,2	1 432,0	1 198,5
Investments			
Change in shares and participations	-131,4	,0	,0
Machinery, buildings, land, construction in progress, etc.	-110,8	-139,0	-188,6
Intangible assets	-57,0	-59,5	-60,4
Cash flow from investments	-299,1	-198,5	-248,9
Total cash flow from operations and investments	1 164,1	1 233,5	949,5
Financing			
Change in short-term loans	-688,5	-1,1	,0
Change in long-term loans	,0	,0	,0
Change in long-term receivables	,0	,0	,0
Group contribution paid	-1 080,0	-1 008,1	-993,0
Cash flow from financing	-1 768,5	-1 009,2	-992,9
Total cash flow	-604,4	224,3	-43,4
Liquid funds at beginning of year	1 297,9	1 073,7	1 117,1
Liquid funds at year-end	693,5	1 297,9	1 073,7
Change in net borrowings			
Total cash flow, excluding change in loans	84,1	225,4	-43,4
Net borrowings at beginning of year	609,4	384,0	427,4
Net borrowings at year-end	693,5	609,4	384,0

1) Adjustmet for unrealized result for derivate instruments at market value.

Note 1 Accounting and valuation principles

Basis of preparation

The Company applies the Swedish Financial Accounting Standards Council's standard RR 32 "Accounting for Legal Entities" as from 1st of January 2005. The accounting for 2004 and 2003 have been restated accordingly. The standard follows International Financial Reporting Standards (IFRS) with exception for when Swedish law prohibits the preparation of accounts according to IFRS or where there are other strong reasons for deviations. A description of the impact on the Company's financial statement is stated in Note 2.

The Company is the Parent Company in a Group with subsidiaries listed in note 25. The Company does not prepare consolidated financial statements in accordance with the Swedish Annual Accounts Act 7:2.

The Company is fully owned by AB Electrolux, corporate identity number 556009-4178, with a registered office in Stockholm.

Subsidiaries and associated companies

Investments in subsidiaries and associated companies have been reported at historical cost according to the Swedish Annual Accounts Act.

Related party transactions

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

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 Company 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.

Government grants

Financial grants from the government, public authorities, and similar national bodies are recognized when there is a reasonable assurance that the company 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 assets. Government grants that relate to expenses are recognized in the income statement as a deduction of the related expense. In 2005, these grants amounted to SEK 1,4m (1,2).

Other operating income and expenses

These items include profits and losses arising from the sale of fixed assets. See Notes 6 and 7.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs in connection with investments in tangible fixed assets are not recognised in the balance sheet.

Taxes

Taxes include current and deferred taxes applying the liability method. Taxes incurred by the Company are affected by appropriations and other taxable (or tax-related) transactions.

A comparison of the theoretical and actual tax rate and other disclosures are provided in Note 10.

Monetary assets and liabilities in foreign currency

Monetary assets and liabilities denominated in foreign currency are valued at year-end exchange rates and the exchange-rate differences are included in the income statement.

Intangible fixed assets

Trademark

Trademarks are amortized over the estimated useful life. The Company has a trademark that is amortized over ten years which corresponds to the time the Company is entitled to royalty.

Product development expenses

The Company capitalizes certain development expenses for new products provided that the level of certainty of their future economic benefits is high. Capitalized development costs are amortized over 3 to 5 years.

Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized during 3 years.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less straight-line accumulated depreciation, adjusted for any impairment charges. Land is not depreciated as it is considered to have an endless useful period, but otherwise depreciation is based on the following estimated useful lives:

Buildings and land improvements	20–33 years
Machinery and technical installations	3–10 years
Other equipment	3–10 years

In addition to this the Company reports 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 18.

Impairment of long-lived assets

At each balance sheet date, the Company assesses whether there is any indication that any of the company's fixed assets, including investments in subsidiaries, 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.

Classification of financial assets

The Company has financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

Leasing

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. The Company owns its production facilities. The Company rents some office premises under leasing agreements and has also leasing contracts for company cars, forklifts and certain office equipment. All leasing agreements are operational leases and the costs are recognized directly in the income statement in the corresponding period.

Inventories

Inventories are valued at the lower of acquisition cost and market value. Acquisition cost is computed according to the weighted average method. Appropriate provisions have been made for obsolescence.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Liquid funds

Cash and cash equivalents consist of cash on hand, bank deposits and other short-term highly liquid investments with a maturity of three months or less.

Since Husqvarna AB is a part of AB Electrolux cashpool arrangement, all bank account balances that Husqvarna accumulates are converted into an intercompany balance with AB Electrolux. This balance is reported as short-term investments on the balance sheet.

Provisions

Provisions are recognized when the Company 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.

Pensions

Pensions are classified 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.

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. Defined benefit liabilities are calculated based upon officially provided assumptions. The benefits are secured by contributions to a separate fund or recorded as a liability in the balance sheet. Pensions are accounted for according to Swedish law.

Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. After initial recognition, borrowings are valued at amortized cost using the effective interest method.

Accounting for derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value are recognized in the income statement. Derivatives are used as either: hedges of the fair value of the recognized assets or liabilities or a firm commitment (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges). At the moment the Company does not apply hedge accounting.

Cash flow

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

Group Contributions

Group contributions are reported in accordance with URA 7 (Swedish Financial Accounting Standards Council's Emerging Issues Task Force). Group contributions paid to reduce the overall tax-burden in the group are reported directly against retained earnings, after adjustments for the current tax rate (28%).

Note 2 New accounting principles as from 2005

The Electrolux Board proposes that the Annual General Meeting to be held on April 24, 2006 authorize distribution of all shares in Husqvarna AB to the shareholders in Electrolux. It is intended that in connection with distribution, the shares in Husqvarna shall be listed on the O-list of the Stockholm Stock Exchange. The record day for the receipt of shares in Husqvarna and the listing on the Stockholm Stock Exchange is scheduled for the second week in June. A listing on the Stock Exchange will, among other things, lead to increased disclosure requirements in the financial reporting as well as a change in accounting principles for the Company.

The Company applies the Swedish Financial Accounting Standards Council's standard RR 32 "Accounting for Legal Entities" as from 1st of January 2005. The standard follows International Financial Reporting Standards (IFRS) with exception for when Swedish law prohibits the preparation of accounts according to IFRS or where there are other strong reasons for deviations. A description of the impact on the Company's financial statement is stated below. The transition effects are limited to financial instruments and have been recorded through an adjustment to opening retained earnings as per January 1, 2005. No restatement has been made to previous years.

Financial instruments

The standard IAS 39, Financial instruments: Recognition and Measurement, has been introduced as from 1st of January 2005 in the Company's accounting. The standard stipulates that all financial derivative instruments shall be classified as assets or liabilities at fair value through profit or loss and be recognized at fair value in the balance sheet. Changes in the fair value of derivative instruments shall be recognized in the income statement unless hedge accounting is applied. The standard allows for hedge accounting only if certain criteria are met, e.g., documentation, linking with exposure and effectiveness testing. In connection with cash flow and hedging of net investment hedge accounting, changes in the fair value of derivative instruments are reported in equity until the hedged item is recognized in the income statement.

Previously the Company deferred unrealized fair value gains and losses on its derivative instruments during the period of the hedge and recognized the effect at the time that the hedged transaction occurred.

On January 1, 2005, the Company has recorded the fair value of all derivatives on the balance sheet with the net value affecting the opening retained earnings. SEK 119m was recorded as current assets, SEK 31m was recorded as deferred tax liability and SEK 7m was recorded as operating liability. The net effect on equity was SEK 81m. The implementation of IAS 39 introduces higher volatility in income, net borrowings and of the Company's equity. This volatility cannot be predicted with certainty. If the Company, in the future, meet the criteria for hedge accounting this would limit the volatility of the income statement.

RR32 transition effects on the Company's opening balance, January 1, 2005

SEKm	Closing balance before transition	IAS 39	Opening balance after transition
Fixed assets	806	-	806
Current assets	3 332	119	3 451
Total assets	4 138	119	4 257
Equity	647	81	728
Untaxed reserves	424	-	424
Provisions	57	31	88
Financial liabilities	689	-	689
Operating liabilities	2 321	7	2328
Total liabilities and equity	4 138	119	4 257

Note 3 Financial risk management

Financial risk management

The Company is exposed to a number of risks relating to financial instruments including, for example, liquid funds, accounts 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 Company's capital requirements
- Foreign-exchange risk on earnings
- 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 Electrolux 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. As a subsidiary within the Electrolux Group the Company adheres to this Financial Policy.

The management of financial risks has largely been centralized to Group Treasury within AB Electrolux. 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 Electrolux Group's policies and procedures for managing operating risk relating to financial instruments by, e.g., segregation of duties and power of attorney.

Interest-rate risk on liquid funds and borrowings

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

Liquid funds

Liquid funds consist of cash on hand and of cash deposited with the Electrolux cash pool.

Interest-rate risk in liquid funds

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 6,9m. For more information, see Note 16.

Borrowings

Debt is primarily taken up through borrowings in the SEK cash pool. Funds can then be 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. For more information, see Note 16.

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 6 months. 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.

Financing risk

Financing risk refers to the risk that financing of the Company'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 available liquidity.

Foreign-exchange risk

Foreign-exchange risk refers to the adverse effects of changes in foreign-exchange rates on the Company's income and equity. In order to manage such effects, the Group covers these risks within the framework of the Financial Policy. The currencies that the Company is exposed to are USD and EUR.

Transaction exposure from commercial flows

The Financial Policy stipulates the hedging of forecasted sales in foreign currencies, taking into consideration the price fixing periods and the competitive environment. The Company normally hedges EUR and USD flows up to 18 months between 50-75% and flows up to 12 months between 75 and 100%. For other currencies the hedging horizon is 12 months. For more information on exposures and hedging, see Note 16.

Foreign-exchange sensitivity from transaction exposure

The Company is particularly exposed to changes in exchange rates between SEK and USD, EUR and a number of other currencies. For example, a change up or down by 10% in the value of SEK against the basket of currencies would affect the Company'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 2005 and does not include any dynamic effects, such as changes in competitiveness or consumer behavior arising from such changes in exchange rates.

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 Company 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 exposures, which refers to pure commodity exposures, and indirect commodity exposures, which is defined as exposure arising from only part of a component. Commodity-price risk is 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 counterparty risks related to derivatives. To minimize this exposure transactions are primarily executed with AB Electrolux.

Credit risk in accounts receivable

The Company 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. Customer Financing solutions are also normally arranged by third parties. The Credit Policy of the Company ensures that the management process for customer credits includes customer rating, credit limits, decision levels and management of bad debts.

Note 4 Segment information

Business areas

Husqvarna operations are classified in two segments; Consumer Products and Professional Products.

Consumer Products comprise garden equipment and light-duty chainsaws. Professional Products comprises high performance chainsaws, clearing saws and professional lawn and garden equipment.

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

Business area	Net sales		
	2005	2004	2003
Consumer products	1 457,5	1 108,5	941,6
Professional products	5 390,9	4 589,0	4 523,4
Total	6 848,4	5 697,5	5 465,0

Geographical segments

Husqvarna's main geographical segments are; Europe, North America and Rest of the world. Sales by market is presented below.

Market	Net sales		
	2005	2004	2003
Europe	4 872,5	3 970,7	3 726,5
North America	1 287,1	1 189,6	1 237,0
Rest of the world	688,8	537,2	501,5
Total	6 848,4	5 697,5	5 465,0

Note 5 Net sales and operating income

Net sales in Sweden amounted to SEK 902,6m (SEK 756,1m in 2004 and SEK 707,1m in 2003). Exports from Sweden during the year amounted to SEK 5 945,8m (SEK 4 941,4m in 2004 and SEK 4 757,9m in 2003). Net sales to Group companies amounted to SEK 4 390,0 m (SEK 3 766m in 2004 and SEK 3691m in 2003). Operating income includes net exchange-rate differences in the amount of SEK -9,5m (SEK 93,2m in 2004 and SEK 161,4m in 2003). Costs for research and development amounted to SEK 247,1m (SEK 222,2m in 2004 and SEK 200,4m in 2003) and are included in Cost of goods sold.

Note 6 Other operating income

	2005	2004	2003
Gain on sale of			
Tangible fixed assets	7,2	-	-
Total	7,2	-	-

Note 7 Other operating expenses

	2005	2004	2003
Loss on sale of			
Tangible fixed assets	-	1,3	2,5
Total	-	1,3	2,5

Note 8 Leasing

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

	Operating leases
2006	33
2007-2010	22
2011-	-
Total	55

Expenses in 2005 for rental payments (minimum leasing fees) amounted to SEK 35m (SEK 36m in 2004 and SEK 34m in 2003).

Operating leases

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

Financial leases

There are no financial leases.

Note 9 Financial income and expenses

	2005	2004	2003
Financial income			
Interest income and similar items			
From group companies ¹⁾	44,9	55,4	45,8
Dividends			
From subsidiaries	-	-	-
From others	0,6	1,9	0
Total financial income	45,5	57,3	45,8
Financial expenses			
Interest expense and similar items			
To group companies ¹⁾	33,6	35,5	19,8
To others	0,9	1,1	1,4
Revaluation of derivatives to fair value	147,0	-	-
Total financial expenses	181,5	36,6	21,2

1) Companies included in the Electrolux Group

Note 10 Taxes

	2005	2004	2003
Current taxes ¹⁾	-395,3	-304,9	-286,2
Deferred taxes	42,1	-1,8	6,2
Total	-353,2	-306,7	-280,0

1) Calculated taxes on Group Contribution are included with SEK -391,6m, -300,8m and -282,3m in 2005, 2004 and 2003 respectively.

Theoretical and actual tax rates

%	2005	2004	2003
Statutory tax rate	28,0	28,0	28,0
Non-taxable income statement items, net	-0,1	-	0,1
Timing differences	0,1	-0,2	0,6
Other	-0,2	0,2	-1,2
Actual tax rate	27,8	28,0	27,5

Changes in deferred taxes

	2005	2004	2003
Net deferred tax assets and liabilities OB	4,4	6,2	0
RR32 transition effects on OB	-31,4	-	-
Net deferred tax assets and liabilities OB (after transition)	-27,0	6,2	0
Recognized in equity	-	-	-
Recognized in the income statement			
Fixed assets	-	-	-0,3
Provision for pensions and similar commitments	0,4	0,2	3,4
Other provisions	-0,9	-	0,9
Financial and operating liabilities	42,6	-2,0	2,2
Exchange rate differences	-	-	-
Net deferred tax assets and liabilities CB	15,1	4,4	6,2

Deferred tax assets and liabilities

	Assets			Liabilities			Net		
	2005	2004	2003	2005	2004	2003	2005	2004	2004
Fixed assets	-	-	-	-0,3	-0,3	-0,3	-0,3	-0,3	-0,3
Provisions for pensions and similar commitments	4,1	3,7	3,5	-	-	-	4,1	3,7	3,5
Other provisions	-	0,9	0,9	-	-	-	-	0,9	0,9
Financial and operating liabilities	11,3	0,1	2,1	-	-	-	11,3	0,1	2,1
Set-off of tax	-0,3	-0,3	-0,3	0,3	0,3	0,3	-	-	-
Net deferred tax assets and liabilities	15,1	4,4	6,2	0,0	0,0	0,0	15,1	4,4	6,2

Deferred tax assets amounted to SEK 15,1m, whereof the main part is utilized within 12 months.

Note 11 Intangible assets

	Product development	Trademarks	Other	Total
Acquisition costs				
Opening balance, Jan. 1, 2003	64,5	232,3	-	296,8
Development	60,3	-	-	60,4
Closing balance, Dec. 31, 2003	124,8	232,3	-	357,1
Acquired during the year	-	-	8,0	8,0
Development	51,7	-	-	51,7
Closing balance, Dec. 31, 2004	176,5	232,3	8,0	416,8
Development	56,9	-	-	56,9
Closing balance, Dec. 31, 2005	233,4	232,3	8,0	473,7
Accumulated amortization according to plan*				
Opening balance, Jan. 1, 2003	-	87,1	-	87,1
Amortization for the year	5,1	23,2	-	28,3
Closing balance, Dec 31, 2003	5,1	-	110,3	115,4
Amortization for the year	18,4	23,3	0,4	42,1
Closing balance, Dec. 31, 2004	23,5	133,6	0,4	157,5
Amortization for the year	46,2	23,2	0,8	70,2
Closing balance, Dec. 31, 2005	69,7	156,8	1,2	227,7
Net book value, Dec. 31, 2003	119,7	122,0	-	241,7
Net book value, Dec. 31, 2004	153,0	98,7	7,6	259,3
Net book value, Dec. 31, 2005	163,7	75,5	6,8	246,0

*Amortization for the year are recognized in Cost of goods sold and Selling expenses in the Income statement.

Note 12 Tangible fixed assets

	Land and land improvements	Buildings	Machinery and technical installations	Other equipment	Construction in progress and advances	Total
Acquisition costs						
Opening balance, Jan. 1, 2003	16,0	219,1	906,8	43,3	23,9	1 209,1
Acquired during the year	-	15,0	108,8	4,6	60,5	188,9
Transfer of work in progress and advances	-	-	49,7	-	-49,7	0,0
Sales, scrapping, etc.	-	-	-187,1	-1,7	-	-188,8
Closing balance, Dec. 31, 2003	16,0	234,1	878,2	46,2	34,7	1 209,2
Acquired during the year	1,0	11,5	92,0	6,4	28,4	139,3
Transfer of work in progress and advances	-	-	33,8	-	-33,8	0,0
Sales, scrapping, etc.	-	-	-84,4	-1,0	-	-85,4
Closing balance, Dec. 31, 2004	17,0	245,6	919,6	51,6	29,3	1 263,1
Acquired during the year	0,3	5,6	76,3	1,8	35,8	119,8
Transfer of work in progress and advances	-	-	42,0	-	-42,0	0,0
Sales, scrapping, etc.	-0,7	-	-81,3	-3,1	-	-85,1
Closing balance, Dec. 31, 2005	16,6	251,2	956,6	50,3	23,1	1 297,8
Accumulated depreciation according to plan*						
Opening balance, Jan 1, 2003	4,4	117,8	575,7	25,8	-	723,7
Depreciation for the year	0,3	5,2	130,9	3,2	-	139,6
Sales, scrapping, etc.	-	-	-184,3	-1,5	-	185,8
Closing balance, Dec. 31, 2003	4,7	122,9	522,3	27,5	-	677,4
Depreciation for the year	0,3	5,7	118,7	6,0	-	130,7
Sales, scrapping, etc.	-	-	-82,9	-0,9	-	-83,8
Closing balance, Dec. 31, 2004	5,0	128,6	558,1	32,6	-	724,3
Depreciation for the year	0,3	5,9	131,8	2,6	-	140,6
Sales, scrapping, etc.	-	-0,1	-80,2	-3,1	-	-83,4
Closing balance, Dec. 31, 2005	5,3	134,4	609,7	32,1	-	781,5
Net book value, Dec. 31, 2003	11,3	111,2	355,9	18,7	34,7	531,8
Net book value, Dec. 31, 2004	12,0	117,0	361,5	19,0	29,3	538,8
Net book value, Dec. 31, 2005	11,3	116,7	346,9	18,2	23,1	516,3

*Depreciation for the year are recognized in Cost of goods sold in the Income statement.

Tax assessment value for buildings was SEK 175m (SEK 175m in 2004 and 173m in 2003), and land SEK 38m (SEK 38m in 2004 and 37m in 2003). Undepreciated write-ups on buildings and land were SEK 4m (SEK 5m in 2004 and 5m in 2003).

Note 13 Financial fixed assets

	2005	2004	2003
Participations in associated companies	2,3	2,3	2,3
Participations in other companies	7,8	-	-
Shares in subsidiaries	125,0	0,9	0,9
Other receivables	0,2	0,2	0,2
Total	135,3	3,4	3,4

A specification of shares and participations is provided in Note 25.

Note 14 Inventories

	2005	2004	2003
Raw materials	251,6	220,6	235,7
Products in progress	11,6	12,5	13,2
Finished products	685,3	581,4	614,2
Advances to suppliers	0,6	-	-
Total	949,1	814,5	863,1

The cost of inventories recognized as expense and included in cost of goods sold amounted to SEK 4 699,1m (SEK 4 070,3m in 2004 and SEK 3 946,6m in 2003). Provisions for obsolescence is included in the value for inventory.

Note 15 Trade receivables

At year-end 2005, accounts receivable, net of provisions for doubtful accounts, amounted to SEK 292,9m (SEK 196m in 2004 and SEK 274m in 2003), 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 1m (SEK 0,4m in 2004 and SEK 2,6m in 2003) and the recognized loss was SEK 0,1m (SEK 1,5m in 2004 and SEK 0,3m in 2003).

Note 16 Financial instruments

Financial instruments are defined in accordance with IAS 32, Financial Instruments: Disclosure and Presentation. The information in this note highlights and describes the principal financial instruments of the Company regarding specific major terms and conditions when applicable, and the exposure to risk and the fair values at year-end.

Net financial indebtedness

At year-end 2005 the Company was free of net debt. The Company's net liquidity amounted to SEK 694m (609m). The table below presents how the Group calculates net financial indebtedness.

	2005	2004	2003
Short-term loans	-	689	690
Short-term loans	-	689	690
Long-term loans	-	-	-
Total interest-bearing liabilities	-	689	690
Cash, bank balances and investments	694	1 298	1 074
Prepaid interest expense/Accrued interest income	-	-	-
Liquidity	694	1 298	1 074
Net liquidity	694	609	384

Liquid funds

Liquid funds consist primarily of cash in the Electrolux cash pool. Such funds are immediately available for use.

Liquidity profile

	2005	2004	2003
Investments with maturities over three months	-	-	-
Investments and deposits with maturities up to three months	694	1 298	1 074
Liquid funds	694	1 298	1 074
% of annualized net sales	10%	23%	20%
Net liquidity	694	609	384
Fixed-interest term, days	1	1	1
Effective yield, % (average per annum)	1,6%	2,0%	3,1%

For 2005, liquid funds amounted to 10% (23%) of annualized net sales. The net liquidity is calculated by deducting short-term loans from liquid funds.

Interest-bearing liabilities

At year-end 2005, the Company did not have any interest-bearing liabilities.

Commercial flows

The table below shows the forecasted transaction flows (imports and exports) for the 12-month period of 2006 and hedges at year-end 2005.

The hedged amounts during 2006 are dependent on the hedging policy for each flow considering the existing risk exposure. Net hedging of flows above 12 months and up to 18 months, not shown in the table, amounts to SEK 363m and this hedging refers to USD/SEK and EUR/SEK.

	EUR	USD	DKK	PLN	CAD	Other	Total
Gross transaction flow	2 768	-414	257	221	216	976	4 024
Hedge	-2 182	234	-180	-131	-125	-593	-2 977
Net transaction flow	586	-180	77	90	91	383	1 047

The effect of hedging on operating income during 2005 amounted to SEK -133m. At year-end 2005, unrealized exchange-rate losses on forward contracts amounted to SEK -51m, all of which will mature in 2006.

Derivative financial instruments

The tables below present the fair value and nominal amounts of the Company's derivative financial instruments for managing of financial risks.

Fair value

	2005		
	Positive MV	Negative MV	Net MV
Interest-rate swaps	-	-	-
Cross currency interest-rate swaps	-	-	-
Forward-rate agreements and futures	66	-122	-56
Foreign-exchange derivatives (Forwards and Options)	-	-	-
Commodity derivatives	-	-	-
Total	66	-122	-56

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.

Note 17 Share capital and number of shares

	Share capital, SEKm
On December 31, 2005, the share capital comprised 4 950 000 shares, ratio value SEK 100	495
Total	495

Note 18 Untaxed reserves

	Dec. 31, 2005	Appropriations	Dec. 31, 2004	Appropriations	Dec. 31, 2003
Accumulated depreciation in excess of plan on					
Brands	78,4	-22,3	100,7	-21,3	122,0
Machinery and equipment	254,5	-5,6	260,1	-8,4	268,5
Buildings	27,2	-0,6	27,8	-0,6	28,4
Other financial reserves	43,7	8,0	35,7	5,6	30,1
Total	403,8	-20,5	424,3	-24,7	449,0

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

Note 19 Pensions

Pension plans can be defined contribution or defined benefit plans or a combination of both. 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. Contributions are expensed as paid.

A small number of the Company's employees are 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.

According to Swedish accounting principles, defined benefit liabilities are calculated based upon officially provided assumptions. The benefits are secured by contributions to a separate fund or recorded as a liability in the balance sheet. At December 31, 2005, the Company reported a pension liability of SEK 20,4m (16,0 and 15,3 in 2004 and 2003 respectively). During 2005 a payment of SEK 19m has been made to Electroluxkoncernens pensionsstiftelse (Electrolux pension fund).

Note 20 Other provisions

	Provisions for restructuring	Warranty commitments	Other	Total
Opening balance, Jan. 1, 2003	3,1	29,2	13,8	46,1
Provisions made	-	-	2,0	2,0
Provisions used	-	-7,1	-	-7,1
Reclassification	-	-	11,8	11,8
Closing balance, Dec. 31, 2003	3,1	22,1	27,6	52,8
Provisions made	-	-	1,4	1,4
Provisions used	-	-0,7	-5,7	-6,4
Unused amounts reversed	-	-4,2	-2,3	-6,5
Closing balance, Dec. 31, 2004	3,1	17,2	21,0	41,3
Provisions made	-	1,0	17,1	18,1
Provisions used	-	-	-0,8	-0,8
Unused amounts reversed	-3,1	-	-4,3	-7,4
Transfers to other group company	-	-5,1	-	-5,1
Closing balance, Dec. 31, 2005	0,0	13,1	33,0	46,1

Note 21 Accrued expenses and Prepaid income

	2005	2004	2003
Accrued holiday pay	92,7	86,1	80,2
Other accrued payroll costs	25,9	17,3	16,0
Accrued interest expenses	-	0,1	0,1
Other accrued expenses	119,3	102,8	97,5
Total	237,9	206,3	193,8

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

Note 22 Contingent liabilities

	2005	2004	2003
Guarantees and other commitments			
On behalf of subsidiaries	-	-	-
Other	5,1	4,7	4,3
Employee benefits in excess of reported liabilities	0,8	4,0	4,2
Total	5,9	8,7	8,5

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

Note 23 Employees, salaries, remunerations and employer contributions

In 2005, the average number of employees was 2 208 (2 181), of whom 1 692 (1 674) were men and 516 (507) women.

Salaries, other remuneration and employer contributions

	2005		2004		2003	
	Salaries and remuneration	Employer contributions	Salaries and remuneration	Employer contributions	Salaries and remuneration	Employer contributions
Board members and President	3,2	2,3	2,5	1,9	2,4	1,8
(of which pension costs)	-	(1,3)	-	(1,2)	-	(1,1)
Other employees	687,3	282,7	635,4	279,9	632	271,9
(of which pension costs)	-	(64,4)	-	(56,6)	-	(53,9)
	690,5	285,0	637,9	281,8	634,4	273,7

Compensation to the President

SEKm unless otherwise stated	2005				2004				2003			
	Annual fixed salary 1)	Variable salary earned 2005, paid 2006 2)	Pension cost	Total	Annual fixed salary 1)	Variable salary earned 2004, paid 2005	Pension cost	Total	Annual fixed salary 1)	Variable salary earned 2003, paid 2004	Pension cost	Total
President	1 609	1 271	897	3 777	1 580	1 219	802	3 601	1 534	873	768	3 175

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

2) The variable salary is estimated in early 2006, and may differ from the amount.

Bengt Andersson was appointed President of Husqvarna AB at a board meeting on January 12, 2006. The notice period for the Company is 12 months and for the President 6 months. There is no agreement for severance compensation.

The change of President has not resulted in any additional cost. Previous President Bo Andreasson remains an employee in the Company and is part of Group Management as head of Forestry that is included in the business area Professional Products.

Number of people in management

	2005	2004	2003
Men	5	5	5
Women	1	1	1
Total	6	6	6

Employee absence due to illness

	2005	2004	2003
Total absence due to illness, as a percentage of total normal working hours	5,4%	5,3%	5,2%
of which 60 days or more	43,0%	45,4%	45,8%
Absence due to illness, by category¹⁾			
Women	7,2%	7,7%	8,0%
Men	4,8%	4,5%	4,4%
29 years or younger	4,7%	4,4%	3,9%
30–49 years	5,9%	5,8%	4,7%
50 years or older	4,9%	4,9%	5,2%

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

Note 24 Fees to auditors

PricewaterhouseCoopers (PwC) are appointed auditors for the period until the 2010 Annual General Meeting in Huskvarna AB.

Fees to auditors

	2005	2004	2003
PwC			
Audit fees ¹⁾	0,3	0,4	0,6
Audit-related fees ²⁾	0,1	0,1	0,2
Total fees to PwC	0,4	0,5	0,8

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 services²⁾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.

Note 25 Shares and participations

Participation in associated companies

SEKm	Participation, %	Book value		
		2005	2004	2003
Khimki Husqvarna AO, Moscow, Russia	50,0	2,3	2,3	2,3

Subsidiaries		Domicile	Holding, %	Book Value, SEKm	Equity
Major Group companies					
Australia	Husqvarna Holding Australia Pty. Ltd.	Somersby	100	100,7	99,1
Colombia	Husqvarna Colombia S.A.	Bogota	100	0,0	-0,2
Denmark	Husqvarna Holding Danmark A/S	Fredericia	100	16,0	15,7
Estonia	Husqvarna Eesti Osühing	Tallinn	100	0,1	-0,1
Latvija	SIA Husqvarna Latvija	Riga	100	0,0	1,2
Norway	Husqvarna Holding Norge AS	Sarpsborg	100	0,1	31,9
Slovakia	Husqvarna Slovensko s.r.o.	Liptovsky Mikulas	85	0,0	0,0
South Africa	Outdoor Products South Africa (Pty) Ltd	Cascades	100	6,4	9,2
Sweden	Husqvarna Holding AB	Stockholm	100	0,6	-0,3
	Tandsbyns Mekaniska Verkstad HB	Huskvarna	50	0,9	1,2
Venezuela	Husqvarna Venezuela C.A.	Caracas	99	0,2	0,6

All companies, except for Tandsbyn Mekaniska Verkstad HB, have been created by Husqvarna AB during 2005.

Other companies	Holding, %	Book Value, SEKm
Other companies	7	7,8

Proposed distribution of earnings

The Board of Directors and the President propose that net income for the year and retained earnings amounting to SEK 21,025,248 will be carried forward.

The Company has during 2005 paid group contribution to its parent company with an amount of SEK 1,398,630 thousands. The Board of Directors has in accordance with Chapter 18, Section 4 of the Swedish Companies Act made an assessment of the Company's and the Group's need to strengthen its balance sheet, financial position and long term possibilities to meet their commitments as a result of the paid group contribution. The Company's restricted equity is fully covered after the paid group contribution. The Company's equity would have been SEK 39,842 thousands higher if financial instruments, valued at the actual value in accordance with Chapter 4 section 14 a of the Swedish Annual Accounts Act, instead had been valued at the lower of cost or net realizable value. According to the annual report, the Company's financial strength equals 17% and net cash to SEK 693,463 thousands.

The Board of Directors has in its assessment taken into account known circumstances, including contemplated changes in the Company's and the Group's position in connection with the contemplated separation of the Group from Electrolux, that may have an impact on the Company's financial position and which have not been taken into account within the scope of the assessment of the Company's need to strengthen its balance sheet and liquidity. No circumstances have emerged showing that the paid group contribution is not justifiable.

The paid contribution does not jeopardize the Company's ability to make investments or its liquidity requirements.

It is the Board of Directors' assessment that the paid contribution is well-balanced considering the type, scope and risks of the business and the Company's and the Group's capital requirements.

Stockholm February 27, 2006

Lars Westerberg
Chairman of the Board

Peggy Bruzelius

Börje Ekholm

Tom Johnstone

Anders Moberg

Gun Nilsson

Peder Ramel

Malin Björnberg

Annika Ögren

Bengt Andersson
President

Our audit report has been rendered February 27, 2006

PricewaterhouseCoopers AB

Anders Lundin
Authorized Public Accountant
Auditor in charge

Audit report

(translation)

**To the annual meeting of the shareholders of
Husqvarna AB**

Corporate identity number 556000-5331

We have audited the annual accounts, the accounting records and the administration of the board of directors and the managing director of Husqvarna AB for the year 2005. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual 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 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 managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts as well as evaluating the overall presentation of information in the annual 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 managing director. We also examined whether any board member or the managing director 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 have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company'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.

We recommend to the annual meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm March 2006

PricewaterhouseCoopers AB

Anders Lundin.

(Authorized Public Accountant)