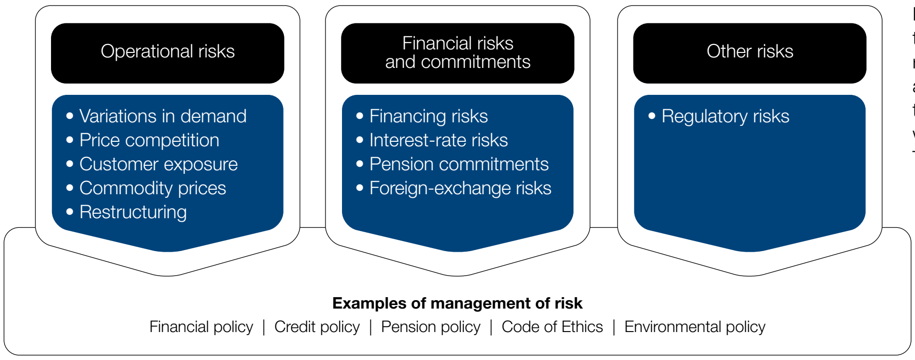
Managing risks

2012 was characterized by yet another year of uncertainty in the market with continued price pressure and fluctuations in currencies and raw-material prices. Electrolux monitors and manages its exposure to various types of risks in a structured and proactive manner.



In general, there are three types of risks: Operational risks, which are normally managed by the Group's operational units; Financial risks, which are managed by Group Treasury; and Other risks.

Electrolux monitors and minimizes key risks in a structured and proactive manner. Capacity has been adjusted in response to weak demand, working capital has undergone structural improvements, the focus on price has intensified and the purchasing process for raw materials has been further streamlined. The major risks and the Group's response in order to manage and minimize them are described below.

Operational risks

The Group's ability to improve profitability and increase shareholder return is based on three elements: innovative products, strong brands and cost-efficient operations. Realizing this potential requires effective and controlled risk management.

Fluctuation in demand

In 2012, demand for appliances declined in the major markets of Electrolux. The North American market contracted by 2% during the year. In Europe, demand in the West declined by 2%, while it grew by 3% in the East. In Latin America, growth remained strong in Brazil throughout the year. In the Asia/Pacific region, demand in Australia was weak, while the Asian markets continued to grow healthily.

Weak demand in earlier years resulted in Electrolux operations being run at an average of 60% capacity. Decisive actions and savings packages throughout the Group have proven that Electrolux can quickly adjust its cost structure when demand for the Group's products declines.

Price competition

A number of the markets served by Electrolux are experiencing strong price competition. This is particularly severe in the low-price segments and in product categories with a great deal of overcapacity. In 2012, pressure on prices continued to be evident in some of the Group's major markets. Sales promotions continued in the North American market albeit to a lesser extent than in previous years, at the same time as prices declined continuously in Europe during the year. To offset the price pressure, Electrolux carried out price increases in North America and Latin America in 2012. Price pressure continued to impact the soft market in Australia.

Sensitivity analysis year-end 2012

Risk	Change	Pre-tax earnings impact, SEKm
Raw materials		
Steel	10%	+/– 800
Plastics	10%	+/– 600
Currencies[1] and interest rates		
USD/SEK	–10%	+650
EUR/SEK	–10%	+590
BRL/SEK	–10%	–380
AUD/SEK	–10%	–220
GBP/SEK	–10%	–180
Interest rate	1 percentage point	+/– 50

1) Includes translation and transaction effects.

Cost structure 2012

Cost item	% of total cost
Personnel	16
Depreciation	3
Fixed costs	**19**
Raw materials and components	43
Sourced products	17
Logistics	7
Product development	2
Brand investments	2
Other[1]	10
Variable costs	**81**
Total	**100**

1) Marketing, IT, energy costs, consultant costs, etc.

Exposure to customers and suppliers

The weak trend in Electrolux major markets in 2012 impacted the Group's customers, who experienced difficult trading conditions, but this did not result in any major increases in credit losses for Electrolux.

Electrolux has a comprehensive process for evaluating credits and monitoring the financial situation of customers. Authority for approving and responsibility to manage credit limits are regulated by the Group's credit policy. A global credit insurance program is in place for many countries to reduce credit risk.

Raw materials and components represent the largest cost item

Materials account for a large share of the Group's costs. In 2012, Electrolux purchased raw materials and components for approximately SEK 44 billion, of which approximately SEK 20 billion referred to the former. The Group's exposure to raw materials comprises mainly steel, plastics, copper and aluminum.

Following stable raw-material prices in the first half of 2012, market prices increased towards the end of the year. Electrolux utilizes bilateral contracts to manage risks related to steel prices. Some raw materials are purchased at market prices. The total cost of raw materials in 2012 was approximately SEK 400 million higher than in 2011.

Restructuring for competitive production

A large share of the Group's production has been moved from high-cost to low-cost areas. Restructuring is a complex process that requires managing a number of different activities and risks. Increased costs related to relocation of production can affect income in specific quarters. When relocating, Electrolux is also dependent on the capacity of suppliers for cost-efficient delivery of components and semi-finished goods.

In 2011, additional measures were presented to further adapt capacity in mature markets to lower demand and annual savings were estimated to approximately SEK 1.6 billion as of 2016.

Financial risks and commitments

The Group's financial risks are regulated in accordance with the financial policy that has been adopted by the Electrolux Board of Directors. Management of these risks is centralized to Group Treasury and is mainly based on financial instruments. Additional details regarding accounting principles, risk management and risk exposure are given in Notes 1, 2 and 18.

Financing risk

For long-term borrowings, the Group's goal is to have an average maturity of at least two years, an even spread of maturities and an average fixed-interest period of one year. At year-end 2012, Group borrowings amounted to SEK 13,088m, of which SEK 11,005m referred to long-term loans with an average maturity of 3.1 years. Loans are raised primarily in EUR and SEK. The average interest rate at year-end for the total borrowings was 3.9%. At year-end 2012, the average fixed-interest period for long-term borrowings was 1.4 years. Long-term loans totaling approximately SEK 2,200m will mature in 2013 and 2014. Liquid funds on December 31, 2012, amounted to SEK 7,403m.

In addition, the Group has two unutilized credit facilities. Since 2010, Electrolux has an unused committed multicurrency revolving credit facility of SEK 3,400m maturing in 2017 as well as an unused multicurrency revolving credit facility of EUR 500m maturing in 2016 with an extension option for up to two more years, whereof a one more year extension until 2017 has already been utilized.

On the basis of the volume of loans and the interest-rate periods in 2012, a change of 1 percentage point in interest rates would affect Group income in the amount of +/– SEK 50m. For additional information on loans, see Notes 2 and 18.

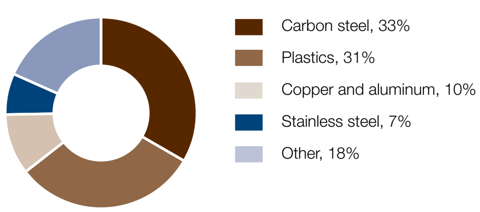
Pension commitments

At year-end 2012, Electrolux had commitments for pensions and benefits that amounted to approximately SEK 25 billion. Through pension funds, the Group manages pension assets of approximately SEK 20 billion. At year-end, approximately 38% of these assets were invested in equities, 44% in bonds, and 18% in other assets. Net provisions for post-employment benefits amounted to SEK –139m.

Yearly changes in the value of assets and commitments depend primarily on developments in the interest-rate market and on stock exchanges. Other factors that affect pension commitments include revised assumptions regarding average life expectancy and health-care costs.

Costs for pensions and benefits are recognized in the income statement for 2012 in the amount of SEK 527m. In the interest of accurate control and cost-effective management, the Group's pension commitments are managed centrally by Group Treasury. Electrolux uses interest-rate derivatives to hedge parts of the risks related to pensions. For additional information, see Note 22.

Raw material exposure 2012



Trend for steel and plastics prices, weighted market prices indexed